

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

Commission file number: 000-50633

**CYTOKINETICS, INCORPORATED**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

94-3291317  
(I.R.S. Employer  
Identification Number)

280 East Grand Avenue  
South San Francisco, California  
(Address of principal executive offices)

94080  
(Zip Code)

Registrant's telephone number, including area code: (650) 624-3000

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

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

\* The registrant has not yet been phased into the interactive data requirements.

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

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

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

Number of shares of common stock, \$0.001 par value, outstanding as of July 30, 2010: 64,520,592.

**CYTOKINETICS, INCORPORATED**  
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ITEM 1. FINANCIAL STATEMENTS**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**  
**CONDENSED BALANCE SHEETS**  
(In thousands, except share and per share data)  
(Unaudited)

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,365	\$ 25,561
Short-term investments	61,739	71,266
Investments in auction rate securities	6,698	15,542
Investment put option related to auction rate securities rights	777	2,358
Related party accounts receivable	211	180
Related party notes receivable	—	9
Prepaid and other current assets	2,349	2,005
Total current assets	90,139	116,921
Property and equipment, net	2,953	3,713
Restricted cash	1,233	1,674
Other assets	291	291
Total assets	<u>\$ 94,616</u>	<u>\$ 122,599</u>
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,196	\$ 1,683
Accrued liabilities	4,411	5,935
Short-term portion of equipment financing lines	1,268	1,616
Deferred revenue	—	751
Loan with UBS	—	10,201
Total current liabilities	6,875	20,186
Long-term portion of equipment financing lines	489	985
Total liabilities	<u>7,364</u>	<u>21,171</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value:		
Authorized: 170,000,000 shares; Issued and outstanding: 64,513,092 shares at June 30, 2010 and 61,275,036 shares at December 31, 2009	64	61
Additional paid-in capital	423,881	412,729
Accumulated other comprehensive income	3	1
Deficit accumulated during the development stage	<u>(336,696)</u>	<u>(311,363)</u>
Total stockholders' equity	87,252	101,428
Total liabilities and stockholders' equity	<u>\$ 94,616</u>	<u>\$ 122,599</u>

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

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Six Months Ended		Period from
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	August 5, 1997 (Date of Inception) to June 30, 2010
<b>Revenues:</b>					
Research and development revenues from related parties	\$ 462	\$ 622	\$ 1,084	\$ 641	\$ 48,693
Research and development, grant and other revenues	—	—	—	—	2,955
License revenues from related parties	—	71,308	—	74,367	112,935
Total revenues	<u>462</u>	<u>71,930</u>	<u>1,084</u>	<u>75,008</u>	<u>164,583</u>
<b>Operating expenses:</b>					
Research and development	10,236	10,202	19,304	20,161	396,582
General and administrative	3,380	4,127	7,217	8,147	123,380
Restructuring charges (reversals)	—	56	—	(2)	2,450
Total operating expenses	<u>13,616</u>	<u>14,385</u>	<u>26,521</u>	<u>28,306</u>	<u>522,412</u>
Operating income (loss)	(13,154)	57,545	(25,437)	46,702	(357,829)
Interest and other, net	10	(1,586)	104	(1,428)	21,283
Income (loss) before income taxes	(13,144)	55,959	(25,333)	45,274	(336,546)
Provision for income taxes	—	—	—	—	150
Net income (loss)	<u>\$ (13,144)</u>	<u>\$ 55,959</u>	<u>\$ (25,333)</u>	<u>\$ 45,274</u>	<u>\$ (336,696)</u>
<b>Net income (loss) per common share:</b>					
Basic	\$ (0.21)	\$ 0.99	\$ (0.40)	\$ 0.84	
Diluted	\$ (0.21)	\$ 0.98	\$ (0.40)	\$ 0.83	
<b>Weighted-average number of shares used in computing net income (loss) per common share:</b>					
Basic	63,815	56,455	62,910	54,032	
Diluted	63,815	56,903	62,910	54,450	

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

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	Six Months Ended		Period from
	June 30, 2010	June 30, 2009	August 5, 1997 (Date of Inception) to June 30, 2010
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (25,333)	\$ 45,274	\$ (336,696)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization of property and equipment	966	1,026	26,432
(Gain) loss on disposal of equipment	—	(47)	311
Non-cash impairment charges	—	—	103
Non-cash restructuring expenses, net of reversals	—	33	498
Non-cash interest expense	—	—	504
Non-cash forgiveness of loan to officer	9	10	434
Stock-based compensation	2,006	2,473	27,265
Tax benefit from stock-based compensation	—	—	(20)
Non-cash warrant expense	—	1,585	1,626
Other non-cash expenses	—	—	141
Changes in operating assets and liabilities:			
Related party accounts receivable	(33)	(302)	(564)
Prepaid and other assets	(344)	(20)	(2,668)
Accounts payable	(440)	(325)	1,282
Accrued liabilities	(1,502)	1,104	4,297
Related party payables and accrued liabilities	—	10	—
Deferred revenue	(751)	(24,492)	—
Net cash provided by (used in) operating activities	<u>(25,422)</u>	<u>26,329</u>	<u>(277,055)</u>
<b>Cash flows from investing activities:</b>			
Purchases of investments	(66,543)	(38,814)	(868,113)
Proceeds from sales and maturities of investments	76,073	24,150	786,436
Proceeds from sales of auction rate securities	10,425	50	12,550
Purchases of property and equipment	(274)	(269)	(30,374)
Proceeds from sale of property and equipment	—	62	124
(Increase) decrease in restricted cash	441	518	(1,233)
Issuance of related party notes receivable	—	—	(1,146)
Proceeds from repayments of notes receivable	—	—	859
Net cash provided by (used in) investing activities	<u>20,122</u>	<u>(14,303)</u>	<u>(100,897)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from initial public offering, sale of common stock to related party, and public offerings, net of issuance costs	—	12,930	206,871
Proceeds from draw down of committed equity financing facilities, net of issuance costs	8,930	6,850	47,826
Proceeds from other issuances of common stock	219	206	7,213
Proceeds from issuance of preferred stock, net of issuance costs	—	—	133,172
Repurchase of common stock	—	—	(68)
Proceeds from loan with UBS	—	12,441	12,441
Repayment of loan with UBS	(10,201)	(154)	(12,441)
Proceeds from equipment financing lines	—	—	23,696
Repayment of equipment financing lines	(844)	(1,086)	(22,413)
Tax benefit from stock-based compensation	—	—	20
Net cash provided by (used in) financing activities	<u>(1,896)</u>	<u>31,187</u>	<u>396,317</u>
Net increase (decrease) in cash and cash equivalents	(7,196)	43,213	18,365
Cash and cash equivalents, beginning of period	25,561	41,819	—
Cash and cash equivalents, end of period	<u>\$ 18,365</u>	<u>\$ 85,032</u>	<u>\$ 18,365</u>

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

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**  
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**Note 1. Organization and Summary of Significant Accounting Policies**

***Overview***

Cytokinetics, Incorporated (the “Company”, “we” or “our”) was incorporated under the laws of the state of Delaware on August 5, 1997. The Company is a clinical-stage biopharmaceutical company focused on the discovery and development of novel small molecule therapeutics that modulate muscle function for the potential treatment of serious diseases and medical conditions. The Company is a development stage enterprise and has been primarily engaged in conducting research, developing drug candidates and technologies, and raising capital.

The Company’s registration statement for its initial public offering (“IPO”) was declared effective by the Securities and Exchange Commission (“SEC”) on April 29, 2004. The Company’s common stock commenced trading on the NASDAQ National Market, now the NASDAQ Global Market, on April 29, 2004 under the trading symbol “CYTK”.

The Company’s financial statements contemplate the conduct of the Company’s operations in the normal course of business. The Company has incurred an accumulated deficit since inception and there can be no assurance that the Company will attain profitability. The Company had a net loss of \$25.3 million and net cash used in operations of \$25.4 million for the six months ended June 30, 2010, and an accumulated deficit of \$336.7 million as of June 30, 2010. Cash, cash equivalents and short-term investments decreased to \$87.6 million at June 30, 2010 from \$114.7 million at December 31, 2009. The Company anticipates it will continue to have operating losses and net cash outflows in future periods. If sufficient additional capital is not available on terms acceptable to the Company, its liquidity will be impaired.

The Company has funded its operations primarily through sales of common stock and convertible preferred stock, contract payments under its collaboration agreements, debt financing arrangements, government grants and interest income. Until it achieves profitable operations, the Company intends to continue to fund operations through payments from strategic relationships, additional sales of equity securities, government grants and debt financings. Based on the current status of its development plans, the Company believes that its existing cash, cash equivalents and investments at June 30, 2010 will be sufficient to fund its cash requirements for at least the next 12 months. If, at any time, the Company’s prospects for financing its research and development programs decline, the Company may decide to reduce research and development expenses by delaying, discontinuing or reducing its funding of one or more of its research or development programs. Alternatively, the Company might raise funds through strategic relationships, public or private financings or other arrangements. Such funding, if needed, may not be available on favorable terms, or at all.

***Basis of Presentation***

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements include all adjustments (consisting only of normal recurring adjustments) that management believes are necessary for the fair statement of the balances and results for the periods presented. These interim financial statement results are not necessarily indicative of results to be expected for the full fiscal year or any future interim period.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date. The financial statements and related disclosures have been prepared with the presumption that users of the interim financial statements have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s Form 10-K for the year ended December 31, 2009, as filed with the SEC on March 11, 2010.

Certain reclassifications have been made to the Condensed Financial Statements for the six months ended June 30, 2009 in order to conform to the current year presentation.

### ***Comprehensive Income (Loss)***

Comprehensive income (loss) consists of the net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in stockholders' equity that are excluded from net income (loss). Comprehensive income (loss) and its components for the three and six months ended June 30, 2010 and 2009 were as follows (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Net income (loss)	\$ (13,144)	\$ 55,959	\$ (25,333)	\$ 45,274
Change in unrealized gain (loss) on investments	10	(7)	2	(21)
Comprehensive income (loss)	<u>\$ (13,134)</u>	<u>\$ 55,952</u>	<u>\$ (25,331)</u>	<u>\$ 45,253</u>

### ***Restricted Cash***

In accordance with the terms of the Company's line of credit agreements with General Electric Capital Corporation, the Company is obligated to maintain a certificate of deposit with the lender. The balance of the certificate of deposit was \$1.2 million at June 30, 2010 and \$1.7 million at December 31, 2009, and was classified as restricted cash.

### ***Fair Value of Financial Instruments***

The carrying amount of the Company's cash and cash equivalents, accounts receivable, accounts payable and notes payable approximates fair value due to the short-term nature of these instruments. The Company bases the fair value of its short-term investments, other than its auction rate securities ("ARS") and the investment put option related to the Series C-2 Auction Rate Securities Rights issued to the Company by UBS AG (the "ARS Rights"), on current market prices. The Company determined the fair value of its ARS using a discounted cash flow ("DCF") model and the investment put option related to the ARS Rights using Black-Scholes option pricing models (Note 5). In connection with the failed auctions of the Company's ARS, which were marketed and sold by UBS AG and its affiliates, in October 2008, the Company accepted a settlement with UBS AG pursuant to which UBS AG issued to the Company the ARS Rights. The carrying value of the investment put option related to the ARS Rights represented its fair value, based on the Black-Scholes option pricing model, which approximated the difference in value between the par value and the fair value of the associated ARS. As permitted under fair value accounting for financial instruments, the Company may elect fair value measurement for certain financial assets on a case by case basis. The Company has elected to use fair value measurement permitted under fair value accounting for the investment put option related to the ARS Rights.

The fair value of the Company's equipment financing line debt was \$1.7 million as of June 30, 2010, compared to the carrying value of \$1.8 million. As of December 31, 2009, the fair value of the equipment financing line debt was \$2.4 million, compared to the carrying value of \$2.6 million. The Company determined the fair value of the equipment financing line using a DCF model. The major inputs to the model are the expected cash flows, which equal the contractual payments, and borrowing rates available to the Company for similar debt as of the applicable balance sheet dates.

The fair value of the Company's loan with UBS Bank USA as of December 31, 2009 approximated the loan's carrying value of \$10.2 million, due to the short-term nature of the loan. The Company determined the fair value of the loan with UBS Bank USA using a DCF model. The major inputs to the model were the expected cash flows, borrowing rates available to the Company for similar debt secured by the ARS, and the then-expected maturity date of June 30, 2010. As of June 30, 2010, the Company had repaid the loan in full.

### ***Stock-Based Compensation***

The Company applies the accounting guidance for stock compensation, which establishes accounting for share-based payment awards made to employees and directors, including employee stock options and employee stock purchases. Under this guidance, stock-based compensation cost is measured at the grant date based on the calculated fair value of the award, and is recognized as an expense on a straight-line basis over the employee's requisite service period, generally the vesting period of the award.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan ("ESPP") shares. The key input assumptions used to estimate the fair value of these awards include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term and the Company's expected dividend yield, if any.

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For employee stock options, the fair value of share-based payments was estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted-average assumptions:

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Risk-free interest rate	2.33%	2.48%	2.83%	2.69%
Volatility	73%	75%	73%	76%
Expected term (in years)	6.10	6.10	6.12	6.07
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

For the ESPP, the fair value of share-based payments was estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted-average assumptions:

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Risk-free interest rate	0.58%	0.62%	0.58%	0.62%
Volatility	74%	75%	74%	75%
Expected term (in years)	1.25	1.25	1.25	1.25
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

The risk-free interest rate that the Company uses in the option pricing model is based on the U.S. Treasury zero-coupon issues with remaining terms similar to the expected terms of the options. The Company does not anticipate paying dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option pricing model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Historical data is used to estimate pre-vesting option forfeitures and record stock-based compensation expense only on those awards that are expected to vest.

Since January 1, 2008, the Company has used its own historical exercise activity and extrapolates the life cycle of options outstanding to arrive at its estimated expected term for new option grants. Also since January 1, 2008, the Company has used its own volatility history based on its stock's trading history for the period subsequent to the Company's IPO in April 2004. Prior to the second quarter of 2010, the Company supplemented its own volatility history by using comparable companies' volatility history for the relevant period preceding the Company's IPO. Starting the second quarter of 2010, the Company solely uses its own volatility history because it now has sufficient history to approximate the expected term of options granted.

The Company measures compensation expense for restricted stock awards at fair value on the date of grant and recognizes the expense over the expected vesting period. The fair value for restricted stock awards is based on the closing price of the Company's common stock on the date of grant.

**Note 2. Net Income (Loss) Per Common Share**

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of vested common shares outstanding during the period. Diluted net income (loss) per common share is computed by giving effect to all potentially dilutive common shares, including outstanding stock options, unvested restricted stock, warrants, and shares issuable under the ESPP by applying the treasury stock method. The following is the calculation of basic and diluted net income (loss) per common share (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net income (loss)	\$ (13,144)	\$ 55,959	\$ (25,333)	\$ 45,274
Weighted-average common shares outstanding	63,996	56,848	63,095	54,425
Unvested restricted stock	(181)	(393)	(185)	(393)
Weighted-average shares used in computing net income (loss) per common share — basic	63,815	56,455	62,910	54,032
Dilutive effect of stock options and unvested restricted stock	—	448	—	418
Weighted-average shares used in computing net income (loss) per common share — diluted	63,815	56,903	62,910	54,450
Net income (loss) per common share:				
Basic	\$ (0.21)	\$ 0.99	\$ (0.40)	\$ 0.84
Diluted	\$ (0.21)	\$ 0.98	\$ (0.40)	\$ 0.83



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The following instruments were excluded from the computation of diluted net income (loss) per common share for the periods presented because their effect would have been antidilutive (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Options to purchase common stock	8,250	6,601	8,250	6,133
Unvested restricted common stock	175	—	175	—
Warrants to purchase common stock	4,027	2,075	4,027	1,279
Shares issuable related to the ESPP	45	75	45	75
Total shares	12,497	8,751	12,497	7,487

**Note 3. Supplemental Cash Flow Data**

Supplemental cash flow data was as follows (in thousands):

	Six Months Ended		Period from August 5, 1997 (date of inception) to June 30, 2010
	June 30, 2010	June 30, 2009	
Significant non-cash investing and financing activities:			
Deferred stock-based compensation	\$ —	\$ —	\$ 6,940
Purchases of property and equipment through accounts payable	58	3	58
Purchases of property and equipment through trade in value of disposed property and equipment	—	10	258
Penalty on restructuring of equipment financing lines	—	—	475
Conversion of convertible preferred stock to common stock	—	—	133,172
Warrants issued in registered direct equity financing	—	—	1,585

**Note 4. Related Party Agreements**

*Research and Development Arrangements*

Amgen Inc. (“Amgen”). Pursuant to its collaboration and option agreement with Amgen (the “Amgen Agreement”), in the three months ended June 30, 2010, the Company recognized research and development revenue from Amgen of \$0.5 million, of which \$0.3 million was for reimbursements of its costs of full-time employee equivalents (“FTEs”) supporting the research and development program for omeacamtiv mecarbil and related compounds, and \$0.2 million was for reimbursements of other costs related to that program. These reimbursements were recorded as research and development revenues from related parties. In the three months ended June 30, 2009, the Company recorded total revenue of \$71.9 million from Amgen, including \$0.6 million of research and development revenue and \$71.3 million of license revenue. The research and development revenue from Amgen in the three months ended June 30, 2009 consisted of \$0.5 million for reimbursements of FTE costs and \$0.1 million for reimbursements of other costs. License revenue from Amgen in the three months ended June 30, 2009 consisted of \$50.0 million for Amgen’s non-refundable option exercise fee received in June 2009, and the recognition of deferred license revenue of \$21.3 million related to the 2006 upfront non-exclusive license and technology access fee and stock purchase premium.

In the six months ended June 30, 2010, the Company recognized research and development revenue from Amgen of \$1.1 million, of which \$0.7 million was for reimbursements of its costs of FTEs supporting the research and development program for omeacamtiv mecarbil and related compounds, and \$0.4 million was for reimbursements of other costs related to that program. These reimbursements were recorded as research and development revenues from related parties. In the six months ended June 30, 2009, the Company recognized total revenue from Amgen of \$75.0 million, including \$0.6 million of research and development revenue and \$74.4 million of license revenue. The research and development revenue consisted of \$0.5 million for reimbursements of FTE costs and \$0.1 million for reimbursements of other costs. These reimbursements were recorded as research and development revenues from related parties. License revenue from Amgen in the six months ended June 30, 2009 consisted of \$50.0 million for Amgen’s non-refundable option exercise fee received in June 2009, and the recognition of deferred license revenue of \$24.4 million related to the 2006 upfront non-exclusive license and technology access fee and stock purchase premium.

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Deferred revenue related to Amgen was zero at June 30, 2010 and \$0.8 million at December 31, 2009. The balance at December 31, 2009 consisted of Amgen's prepayment of FTE reimbursements. Related party accounts receivable from Amgen were \$0.2 million at June 30, 2010 and \$0.2 million at December 31, 2009.

GlaxoSmithKline ("GSK"). Pursuant to its collaboration and license agreement with GSK (the "GSK Agreement"), the Company recognized revenue for patent expense reimbursements from GSK of zero and \$22,000 for the three months ended June 30, 2010 and 2009, respectively, and zero and \$26,000 for the six months ended June 30, 2010 and 2009, respectively. These reimbursements were recorded as research and development revenues from related parties. There was no related party accounts receivable balance due from GSK at June 30, 2010 or December 31, 2009.

In December 2009, the Company and GSK agreed to terminate the GSK Agreement, effective February 28, 2010. As a result, all rights for GSK-923295 reverted to the Company at that time, subject to certain royalty obligations to GSK. GSK remains responsible for all activities and costs associated with completing and reporting on the ongoing Phase I clinical trial of GSK-923295.

### *Board Members*

James H. Sabry, M.D., Ph.D. resigned from the Board of Directors in March 2010 and remains a consultant to the Company and a member of its Scientific Advisory Board. The Company incurred consulting fees for services provided by Dr. Sabry of \$5,000 and \$15,000 for the three months ended June 30, 2010 and 2009, respectively, and \$20,000 and \$30,000 for the six months ended June 30, 2010 and 2009, respectively. There was no related party accounts payable balance due to Dr. Sabry at June 30, 2010 or December 31, 2009.

James Spudich, Ph.D. is a member of the Company's Board of Directors and a consultant to the Company. The Company incurred consulting fees for services provided by Dr. Spudich of \$7,000 and \$4,000 for the three months ended June 30, 2010 and 2009, respectively, and \$15,000 and \$14,000 for the six months ended June 30, 2010 and 2009, respectively. There was no related party accounts payable balance due to Dr. Spudich at June 30, 2010 or December 31, 2009.

## **Note 5. Cash Equivalents, Investments and Fair Value Measurements**

### *Cash Equivalents and Available for Sale Investments*

The amortized cost and fair value of cash equivalents and available for sale investments at June 30, 2010 and December 31, 2009 were as follows (in thousands):

	<b>June 30, 2010</b>				<b>Maturity Dates</b>
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	
Cash equivalents — money market funds	<u>\$15,357</u>	<u>—</u>	<u>—</u>	<u>\$15,357</u>	
Cash equivalents — U.S. Treasury securities	<u>\$ 3,006</u>	<u>—</u>	<u>—</u>	<u>\$ 3,006</u>	7/2010
Short-term investments — U.S. Treasury securities	<u>\$61,736</u>	<u>\$ 5</u>	<u>\$ (2)</u>	<u>\$61,739</u>	7/2010-3/2011

  

	<b>December 31, 2009</b>				<b>Maturity Dates</b>
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	
Cash equivalents — money market funds	<u>\$ 23,773</u>	<u>—</u>	<u>—</u>	<u>\$ 23,773</u>	
Short-term investments — U.S. Treasury securities	<u>\$71,265</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$71,266</u>	1/2010-6/2010

As of June 30, 2010, the Company's cash equivalents had no unrealized losses, and its U.S. Treasury securities classified as short-term investments had unrealized losses of approximately \$2,000. The unrealized losses were primarily caused by slight increases in short-term interest rates subsequent to the purchase date of the related securities. The Company collected the contractual cash flows on its U.S. Treasury securities that matured in July 2010 and expects to be able to collect all contractual cash flows on the remaining maturities of its U.S. Treasury securities. As of December 31, 2009, the Company's cash equivalents and short-term investments had no unrealized losses.

Interest income was \$0.1 million for each of the three months ended June 30, 2010 and 2009, \$0.2 million and \$0.4 million for each of the six months ended June 30, 2010 and 2009, respectively, and \$28.3 million for the period August 5, 1997 (date of inception) through June 30, 2010.

***Investments in Auction Rate Securities and Investment Put Option Related to Auction Rate Securities Rights***

The Company's short-term investments in ARS as of June 30, 2010 and December 31, 2009 refer to securities structured with short-term interest reset dates every 28 days but with maturities generally greater than 10 years. At the end of each reset period, investors could attempt to sell the securities through an auction process or continue to hold the securities. On June 30, 2010, the Company exercised its ARS Rights and requested that UBS AG purchase the remaining par value of \$7.5 million of the Company's ARS. The settlement date of this transaction was July 1, 2010. Therefore, the ARS remain on the Company's balance sheet classified as short-term investments as of June 30, 2010. (See Note 11, "Subsequent Events," regarding the sale of the ARS.) The Company also classified its ARS holdings as short-term investments as of December 31, 2009, based on its intention to liquidate the investments on June 30, 2010, the earliest date it could exercise the ARS Rights.

At June 30, 2010, the Company held \$7.5 million in par value, \$6.7 million in carrying value, of ARS classified as short-term investments. The assets underlying these ARS were student loans that were substantially backed by the federal government. In February 2008, auctions began to fail for these securities and each auction since then has failed. Consequently, the ARS were not liquid and the Company was not able to access these funds at that time. Historically, the fair value of the ARS had approximated par value due to the frequent interest rate resets associated with the auction process. However, beginning in February 2008, there ceased to be an active market for ARS, and therefore they did not have a readily determinable market value. Accordingly, the estimated fair value of the ARS no longer approximated par value. The ARS continued to pay interest according to their stated terms.

The fair value of the Company's investments in its ARS as of June 30, 2010 and December 31, 2009 was determined to be \$6.7 million and \$15.5 million, respectively. Other than the sale of ARS, changes in the fair value of the ARS were recognized in current period earnings in Interest and other, net. Accordingly, the Company recognized unrealized gains of \$1.6 million on its ARS in the second quarter of 2010 and unrealized losses of \$2,000 in the second quarter of 2009 to reflect the change in fair value. In the first half of 2010, the Company recognized the sale of \$10.4 million of its ARS at par value and unrealized gains of \$1.6 million on its ARS. In the first half of 2009, the Company recognized unrealized gains of \$0.7 million on its ARS to reflect the change in fair value.

In connection with the failed auctions of the Company's ARS, which were marketed and sold by UBS AG and its affiliates, in October 2008, the Company accepted a settlement with UBS AG pursuant to which UBS AG issued to the Company the ARS Rights. The ARS Rights provided the Company the right to receive the par value of its ARS, i.e., the liquidation preference of the ARS plus accrued but unpaid interest at any time between June 30, 2010 and July 2, 2012. Pursuant to the ARS Rights, on June 30, 2010, the Company exercised its right to require UBS AG to purchase the Company's remaining ARS, which had a par value of \$7.5 million. The transaction settled on July 1, 2010. As consideration for the ARS Rights, the Company agreed to release UBS AG, UBS Securities LLC and UBS Financial Services, Inc., and/or their affiliates, directors, and officers from any claims directly or indirectly relating to the marketing and sale of the ARS, other than for consequential damages.

The ARS Rights represented a firm agreement in accordance with the accounting guidance for derivatives and hedging, which defines a firm agreement as an agreement with an unrelated party, binding on both parties and usually legally enforceable, with the following characteristics: a) the agreement specifies all significant terms, including the quantity to be exchanged, the fixed price and the timing of the transaction; and b) the agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable. The enforceability of the ARS Rights resulted in an investment put option that was recognized as a separate freestanding instrument accounted for separately from the ARS investments. As of June 30, 2010 and December 31, 2009, the Company recorded \$0.8 million and \$2.4 million, respectively, as the fair value of the investment put option related to the ARS Rights, classified as short-term assets on the balance sheet. The investment put option related to the ARS Rights did not meet the definition of a derivative instrument. Therefore, the Company elected to measure the investment put option related to the ARS Rights at fair value, in accordance with the fair value option permitted under fair value accounting guidance for financial instruments, to mitigate volatility in reported earnings due to their linkage to the ARS. Changes in the fair value of the investment put option related to the ARS Rights were recognized in current period earnings in Interest and other, net. Accordingly, the Company recognized an unrealized loss of \$1.6 million on the investment put option related to the ARS Rights in the second quarter of 2010 and an unrealized gain of \$2,000 in the second quarter of 2009. In the first half of 2010 and the first half of 2009, the Company recognized unrealized losses of \$1.6 million and \$0.7 million, respectively, on the investment put option related to the ARS Rights.

The Company valued the investment put option related to the ARS Rights using a Black-Scholes option pricing model that included estimates of interest rates, based on data available.

**Fair Value Measurements**

The Company adopted the fair value accounting guidance to value its financial assets and liabilities. Fair value is defined as the price that would be received for assets when sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that the Company believes market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best information reasonably available. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers the security issuers' and the third-party insurers' credit risk in its assessment of fair value.

The Company classifies the determined fair value based on the observability of those inputs. Fair value accounting guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three defined levels of the fair value hierarchy are as follows:

Level 1 — Observable inputs, such as quoted prices in active markets for identical assets or liabilities;

Level 2 — Inputs, other than the quoted prices in active markets, that are observable either directly or through corroboration with observable market data; and

Level 3 — Unobservable inputs, for which there is little or no market data for the assets or liabilities, such as internally-developed valuation models.

Financial assets measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009 are classified in the table below in one of the three categories described above (in thousands):

	<b>June 30, 2010</b>			
	<b>Fair Value Measurements Using</b>			<b>Assets</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>At Fair Value</b>
Money market funds	\$ 15,357	\$ —	\$ —	\$ 15,357
U.S. Treasury securities	64,745	—	—	64,745
Investments in ARS	—	—	6,698	6,698
Investment put option related to ARS Rights	—	—	777	777
Total	<u>\$ 80,102</u>	<u>\$ —</u>	<u>\$ 7,475</u>	<u>\$ 87,577</u>
Amounts included in:				
Cash and cash equivalents	\$ 18,363	\$ —	\$ —	\$ 18,363
Short-term investments	61,739	—	—	61,739
Investments in ARS	—	—	6,698	6,698
Investment put option related to ARS Rights	—	—	777	777
Total	<u>\$ 80,102</u>	<u>\$ —</u>	<u>\$ 7,475</u>	<u>\$ 87,577</u>

Financial assets measured at fair value on a recurring basis as of December 31, 2009 are classified in the table below in one of the three categories described above (in thousands):

	<b>December 31, 2009</b>			
	<b>Fair Value Measurements Using</b>			<b>Assets</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>At Fair Value</b>
Money market funds	\$ 23,773	\$ —	\$ —	\$ 23,773
U.S. Treasury securities	71,266	—	—	71,266
Investments in ARS	—	—	15,542	15,542
Investment put option related to ARS Rights	—	—	2,358	2,358
Total	<u>\$ 95,039</u>	<u>\$ —</u>	<u>\$ 17,900</u>	<u>\$ 112,939</u>
Amounts included in:				
Cash and cash equivalents	\$ 23,773	\$ —	\$ —	\$ 23,773
Short-term investments	71,266	—	—	71,266
Investments in ARS	—	—	15,542	15,542
Investment put option related to ARS Rights	—	—	2,358	2,358
Total	<u>\$ 95,039</u>	<u>\$ —</u>	<u>\$ 17,900</u>	<u>\$ 112,939</u>

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The valuation technique used to measure fair value for the Company's Level 1 assets is a market approach, using prices and other relevant information generated by market transactions involving identical assets. The valuation technique used to measure fair value for Level 3 assets is an income approach, where, in most cases, the expected future cash flows are discounted back to present value for each asset, except for the investment put option related to the ARS Rights, which is based on the Black-Scholes option pricing model and approximates the difference in value between the par value and the fair value of the associated ARS.

At June 30, 2010 and December 31, 2009, the Company held approximately \$6.7 million and \$15.5 million, respectively, in fair value of ARS classified as short-term investments. The assets underlying the ARS were student loans substantially backed by the federal government. The fair values of these securities as of June 30, 2010 and December 31, 2009 were estimated using a DCF model. The Company classified its ARS in the Level 3 category, as some of the inputs used in the DCF model are unobservable. The valuation of the Company's ARS investment portfolio is subject to uncertainties that are difficult to predict. The assumptions used in preparing the DCF model included estimates of interest rates, timing and amount of cash flows, credit and liquidity premiums and expected holding periods of the ARS, based on data available as of the applicable balance sheet date. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change, which can result in significant changes to the fair value of the ARS. The significant assumptions of the DCF model were discount margins that are based on industry recognized student loan sector indices, an additional liquidity discount and an estimated term to liquidity. Other items that this analysis considers are the collateralization underlying the security investments, the creditworthiness of the counterparty and the timing of expected future cash flows. There were no significant changes to the assumptions or inputs for the DCF model for ARS as of June 30, 2010 compared to December 31, 2009. The Company's ARS were also compared, when possible, to other observable market data for securities with similar characteristics as the ARS.

Due to the change of the fair value of the Company's ARS and the investment put option related to the ARS Rights, unrealized gains of \$1.6 million on the ARS and unrealized losses of \$1.6 million on the investment put option related to the ARS Rights were included in Interest and other, net in the accompanying statement of operations for both the three and six month periods ended June 30, 2010. For the three months ended June 30, 2009, unrealized loss of \$2,000 on the ARS and unrealized gains of \$2,000 on the investment put option related to the ARS Rights were included in Interest and other, net. For the six months ended June 30, 2009, unrealized gains of \$0.7 million on the ARS and unrealized losses of \$0.7 million on the investment put option related to the ARS Rights were included in Interest and other, net.

Changes to estimates and assumptions used in estimating the fair value of the ARS and the investment put option related to the ARS Rights may result in materially different values. In addition, actual market exchanges, if any, may occur at materially different amounts. Other factors that may impact the valuation of the Company's ARS and investment put option related to the ARS Rights include changes to credit ratings of the securities and to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity.

As of June 30, 2010, the Company's financial assets measured at fair value on a recurring basis using significant Level 3 inputs consisted solely of the ARS and the investment put option related to the ARS Rights. The following table provides a reconciliation for all assets measured at fair value using significant Level 3 inputs for the three and six months ended June 30, 2010 (in thousands):

	<u>ARS</u>	<u>Investment Put Option Related to ARS Rights</u>
Balance as of December 31, 2009	\$ 15,542	\$ 2,358
Unrealized gain on ARS, included in Interest and other, net	19	—
Unrealized loss on the investment put option related to ARS Rights, included in Interest and other, net	—	(19)
Sale of ARS	(250)	—
Balance as of March 31, 2010	\$ 15,311	\$ 2,339
Unrealized gain on ARS, included in Interest and other, net	1,562	—
Unrealized loss on the investment put option related to ARS Rights, included in Interest and other, net	—	(1,562)
Sale of ARS	(10,175)	—
Balance as of June 30, 2010	<u>\$ 6,698</u>	<u>\$ 777</u>

The total amount of assets measured using valuation methodologies based on Level 3 inputs represented approximately 9% of the Company's total assets that were measured at fair value as of June 30, 2010.

#### **Note 6. Loan with UBS**

In connection with the settlement with UBS AG relating to the Company's ARS, in October 2008, the Company entered into a loan agreement with UBS Bank USA and UBS Financial Services Inc. On January 5, 2009, the Company borrowed approximately \$12.4 million under the loan agreement, with its ARS held in accounts with UBS Financial Services Inc. as collateral. The loan amount was based on 75% of the fair value of the ARS as assessed by UBS at the time of the loan, and represented the full amount available to the Company under the loan agreement. As of June 30, 2010, the Company had repaid the loan in full.

In general, the interest rate paid under the loan agreement was intended to equal the interest rate the Company would otherwise have received with respect to its ARS. During the three months ended June 30, 2010, the Company paid \$27,000 of interest expense associated with the loan and received \$33,000 in interest income from the ARS. In accordance with the loan agreement, the Company applied the net interest received and the proceeds of \$9.9 million from sales of ARS to the remaining principal of the loan during the period. During the six months ended June 30, 2010, the Company paid \$56,000 of interest expense associated with the loan, received \$140,000 in interest income from the ARS, and applied the net interest received and the proceeds of \$10.1 million from the sales of the ARS to repay the loan in full.

#### **Note 7. Restructuring**

In September 2008, the Company announced a restructuring plan to realign its workforce and operations in line with a strategic reassessment of its research and development activities and corporate objectives. As a result, at the time, the Company focused its research activities to its muscle contractility programs while continuing to advance its then-ongoing clinical trials in heart failure and cancer, and discontinued early research activities directed to oncology. The Company communicated to affected employees a plan of organizational restructuring through involuntary terminations. Pursuant to the accounting guidance for exit or disposal cost obligations, the Company recorded a charge of approximately \$2.5 million in 2008 consisting of \$2.2 million for employee severance and benefit related costs and \$0.3 million related to the impairment of laboratory equipment that was held-for-sale. To implement this plan, the Company reduced its workforce at the time by approximately 29%, or 45 employees. The affected employees were provided with severance and related benefits payments and outplacement assistance. All severance payments were made as of December 31, 2008.

In the three months ended June 30, 2009, the Company recorded restructuring expenses of \$0.1 million, which primarily consisted of the impairment charges for held-for-sale equipment partially offset by the reduction of accrued employee benefit related restructuring costs. In the six months ended June 30, 2009, the Company recorded a decrease in restructuring expenses of \$2,000. The Company did not record any restructuring charges in the three- or six-month periods ended June 30, 2010 because the Company has completed all restructuring activities and recognized all anticipated restructuring charges.

#### **Note 8. Stockholders' Equity**

##### *Common Stock*

During the three months ended June 30, 2010, under the October 2007 committed equity financing facility (the "2007 CEFF") with Kingsbridge Capital Limited ("Kingsbridge"), the Company sold 1,898,119 shares of its common stock to Kingsbridge and received gross proceeds of \$5.6 million, a price equal to 90% of the volume-weighted average price of the Company's stock on each trading day during an eight day pricing period prior to the sale. During the six months ended June 30, 2010, under the 2007 CEFF, the Company sold 3,085,317 shares of its common stock to Kingsbridge and received gross proceeds of \$8.9 million. As of June 30, 2010, 3,097,366 shares remained available to the Company for sale under the 2007 CEFF.

##### *Stock Option Plans*

Stock option activity for the six months ended June 30, 2010 under the 2004 Equity Incentive Plan, as amended, and the 1997 Stock Option/Stock Issuance Plan was as follows:

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	Shares Available for Grant of Options or Awards	Stock Options Outstanding	Weighted Average Exercise Price per Share of Stock Options
Balance at December 31, 2009	4,098,228	6,984,463	\$ 4.58
Increase in authorized shares	2,300,000	—	—
Options granted	(1,829,637)	1,829,637	\$ 3.05
Options exercised	—	(97,263)	\$ 0.99
Options cancelled	467,072	(467,072)	\$ 3.58
Restricted stock awards forfeited	16,485	—	—
Balance at June 30, 2010	<u>5,052,148</u>	<u>8,249,765</u>	\$ 4.34

The weighted average fair value of options granted in the six months ended June 30, 2010 was \$2.03 per share.

Restricted stock award activity for the six months ended June 30, 2010 was as follows:

	Number of Shares	Weighted Average Award Date Fair Value per Share
Unvested restricted stock awards outstanding at December 31, 2009	191,630	\$ 2.37
Awards forfeited	(16,485)	\$ 2.37
Unvested restricted stock awards outstanding at June 30, 2010	<u>175,145</u>	\$ 2.37

**Note 9. Interest and Other, Net**

Components of Interest and other, net were as follows (in thousands):

	Three Months Ended		Six Months Ended		Period from August 5, 1997 (date of inception) to June 30, 2010
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	2010
Unrealized gain (loss) on ARS (Note 5)	\$ 1,562	\$ (2)	\$ 1,581	\$ 668	\$ (777)
Unrealized gain (loss) on investment put option related to ARS Rights (Note 5)	(1,562)	2	(1,581)	(668)	777
Warrant expense	—	(1,585)	—	(1,585)	(1,585)
Interest income and other income	71	110	234	367	28,767
Interest expense and other expense	(61)	(111)	(130)	(210)	(5,899)
Interest and other, net	<u>\$ 10</u>	<u>\$ (1,586)</u>	<u>\$ 104</u>	<u>\$ (1,428)</u>	<u>\$ 21,283</u>

Investments that the Company designates as trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized in earnings and included in Interest and other, net. The Company classified its investments in ARS as trading securities in short-term assets as of June 30, 2010 and December 31, 2009.

The Company elected to measure the investment put option related to the ARS Rights at fair value to mitigate volatility in reported earnings due to its linkage to the ARS. The Company recorded \$0.8 million as the fair value of the investment put option related to the ARS Rights as of June 30, 2010 and \$2.4 million as the fair value of the investment put option related to the ARS Rights as of December 31, 2009, classified as a short-term asset on the balance sheet with a corresponding credit to Interest and other, net. Changes in the fair value of the ARS are also recognized in current period earnings in Interest and other, net.

Warrant expense of \$1.6 million for the three and six month periods ended June 30, 2009 and the period from inception to June 30, 2010, related to the change in the fair value of the warrant liability that was recorded in connection with the Company's registered direct equity offering in May 2009.

Interest income and other income primarily consists of interest income generated from the Company's cash, cash equivalents and investments. Interest expense and other expense primarily consists of interest expense on borrowings under the Company's equipment financing lines and on its loan agreement with UBS Bank USA and UBS Financial Services Inc.

**Note 10. Recent Accounting Pronouncements**

*Recently Adopted Accounting Pronouncements*

The Company has adopted new accounting guidance for improving disclosures about fair value measurements. The new guidance adds a requirement to disclose transfers in and out of Level 3 and fair value measurements, and clarifies existing guidance about the level of disaggregation of fair value measurements and disclosures regarding inputs and valuation techniques. The Company's adoption of the new guidance did not have a material impact on its financial position or results of operations.

*Accounting Pronouncements Not Yet Adopted*

In October 2009, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance for recognizing revenue for multiple-deliverable revenue arrangements. The new guidance amends the existing guidance for separately accounting for individual deliverables in a revenue arrangement with multiple deliverables, and removes the criterion that an entity must use objective and reliable evidence of fair value to separately account for the deliverables. The new guidance also establishes a hierarchy for determining the value of each deliverable and establishes the relative selling price method for allocating consideration when vendor specific objective evidence or third party evidence of value does not exist. The Company must adopt the new guidance prospectively for new revenue arrangements entered into or materially modified beginning in the first quarter of 2011. Earlier adoption is permitted. The Company is currently evaluating the impact that the new guidance will have on its financial statements and the timing of its adoption.

In January 2010, the FASB issued new accounting guidance for improving disclosures about fair value measurements, which requires a gross presentation of Level 3 fair value rollforwards. The guidance is effective for the Company beginning in the first quarter of 2011. The Company does not expect that its adoption of the new fair value guidance will have a material impact on its financial position or results of operations.

In April 2010, the FASB issued new accounting guidance on the milestone method of revenue recognition. The new guidance codifies the milestone method as an acceptable revenue recognition model when a milestone is deemed to be substantive. The guidance is effective for the Company beginning in the first quarter of 2011, and is to be applied prospectively for milestones achieved after the effective date, although early adoption is permitted. Retrospective adoption of the guidance for all prior periods is also allowed. The Company is currently evaluating the timing of its adoption of the new revenue recognition guidance, but does not expect that its adoption of the guidance will have a material impact on its financial position or results of operations.

**Note 11. Subsequent Events**

*Auction Rate Securities (“ARS”)*

On June 30, 2010, the Company exercised its ARS Rights, requiring that UBS AG purchase the Company’s remaining outstanding ARS of \$7.5 million at par value. Accordingly, on the settlement date of July 1, 2010, UBS AG purchased the ARS and deposited the proceeds of \$7.5 million into the Company’s money market account, and the put option related to the ARS rights was extinguished.

*Restricted Cash*

In July 2010, GE Capital approved a \$0.5 million reduction in the amount of the Company’s certificate of deposit that the Company classifies as restricted cash.

In July 2010, the National Institute of Neurological Disorders and Stroke awarded the Company a grant in the amount of \$2.9 million to support research and development of CK-2017357 directed to the potential treatment for myasthenia gravis. The grant was awarded to the Company under the American Recovery and Reinvestment Act of 2009.

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included elsewhere in this report. Operating results are not necessarily indicative of results that may occur in future periods.

This report contains forward-looking statements that are based upon current expectations within the meaning of the Private Securities Litigation Reform Act of 1995. We intend that such statements be protected by the safe harbor created thereby. Forward-looking statements involve risks and uncertainties and our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Examples of such forward-looking statements include, but are not limited to, statements about or relating to:

- guidance concerning revenues, research and development expenses and general and administrative expenses for 2010;
- the sufficiency of existing resources to fund our operations for at least the next 12 months;
- our capital requirements and needs for additional financing;



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- the initiation, design, progress, timing and scope of clinical trials and development activities for our drug candidates and potential drug candidates conducted by ourselves or our partners, such as Amgen, Inc. (“Amgen”), including the anticipated timing for initiation of clinical trials and anticipated dates of data becoming available or being announced from clinical trials;
- the results from the clinical trials and non-clinical studies of our drug candidates and other compounds, and the significance and utility of such results;
- our and our partners’, such as Amgen’s, plans or ability to conduct the continued research and development of our drug candidates and other compounds;
- our expected roles in research, development or commercialization under our strategic alliances, such as with Amgen;
- the properties and potential benefits of, and the potential market opportunities for, our drug candidates and other compounds, including the potential indications for which they may developed;
- the sufficiency of the clinical trials conducted with our drug candidates to demonstrate that they are safe and efficacious;
- our receipt of milestone payments, royalties, reimbursements and other funds from current or future partners under strategic alliances, such as with Amgen;
- our plans to seek strategic alternatives for our oncology program with third parties;
- our ability to continue to identify additional potential drug candidates that may be suitable for clinical development;
- our plans or ability to commercialize drugs with or without a partner, including our intention to develop sales and marketing capabilities;
- the focus, scope and size of our research and development activities and programs;
- the utility of our focus on the cytoskeleton and our ability to leverage our experience in muscle contractility to other muscle functions;
- the issuance of shares of our common stock under our committed equity financing facility entered into with Kingsbridge Capital Limited (“Kingsbridge”) in 2007;
- our ability to protect our intellectual property and to avoid infringing the intellectual property rights of others;
- expected future sources of revenue and capital;
- losses, costs, expenses and expenditures;
- future payments under loan and lease obligations and equipment financing lines;
- potential competitors and competitive products;
- increasing the number of our employees, retaining key personnel and recruiting additional key personnel;
- expected future amortization of employee stock-based compensation; and
- the potential impact of recent accounting pronouncements on our financial position or results of operations.

Such forward-looking statements involve risks and uncertainties, including, but not limited to, those risks and uncertainties relating to:

- Amgen’s decisions with respect to the timing, design and conduct of development activities for omecamtiv mecarbil, including decisions to postpone or discontinue research or development activities relating to omecamtiv mecarbil;

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- our ability to obtain additional financing;
- our receipt of funds under our current or future strategic alliances;
- difficulties or delays in the development, testing, production or commercialization of our drug candidates;
- difficulties or delays in or slower than anticipated patient enrollment in our or our partners' clinical trials;
- unexpected adverse side effects or inadequate therapeutic efficacy of our drug candidates that could slow or prevent product approval (including the risk that current and past results of preclinical studies or clinical trials may not be indicative of future clinical trials results);
- results from non-clinical studies that may adversely impact the timing or the further development of our drug candidates and potential drug candidates;
- the possibility that the U.S. Food and Drug Administration ("FDA") or foreign regulatory agencies may delay or limit our or our partners' ability to conduct clinical trials or may delay or withhold approvals for the manufacture and sale of our products;
- activities and decisions of, and market conditions affecting, current and future strategic partners;
- our ability to enter into partnership agreements for any of our programs on acceptable terms and conditions or in accordance with our planned timelines;
- the conditions in our 2007 committed equity financing facility with Kingsbridge that must be fulfilled before we can require Kingsbridge to purchase our common stock, including the minimum volume-weighted average share price;
- our ability to maintain the effectiveness of our registration statement permitting resale of securities to be issued to Kingsbridge by us in connection with our 2007 committed equity financing facility;
- the availability of funds under our grant from the National Institute of Neurological Disorders and Stroke in future periods;
- changing standards of care and the introduction of products by competitors or alternative therapies for the treatment of indications we target that may make our drug candidates commercially unviable;
- the uncertainty of protection for our intellectual property, whether in the form of patents, trade secrets or otherwise; and
- potential infringement or misuse by us of the intellectual property rights of third parties.

In addition such statements are subject to the risks and uncertainties discussed in the "Risk Factors" section and elsewhere in this document. Operating results reported are not necessarily indicative of results that may occur in future periods.

When used in this report, unless otherwise indicated, "Cytokinetics," "the Company," "we," "our" and "us" refers to Cytokinetics, Incorporated.

CYTOKINETICS, and our logo used alone and with the mark CYTOKINETICS, are registered service marks and trademarks of Cytokinetics. Other service marks, trademarks and trade names referred to in this report are the property of their respective owners.

## **Overview**

We are a clinical-stage biopharmaceutical company focused on the discovery and development of novel small molecule therapeutics that modulate muscle function for the potential treatment of serious diseases and medical conditions. Our research and development activities relating to the biology of muscle function have evolved from our knowledge and expertise regarding the cytoskeleton, a complex biological infrastructure that plays a fundamental role within every human cell. Our current research and development programs relating to the biology of muscle function are directed to small molecule modulators of the contractility of cardiac, skeletal and smooth muscle. We intend to leverage our experience in muscle contractility in order to expand our current pipeline into new therapeutic areas, and expect to continue to be able to identify additional potential drug candidates that may be suitable for clinical development.

We currently have five drug candidates that have progressed into clinical development: omecamtiv mecarbil for the potential treatment of heart failure; CK-2017357 for the potential treatment of diseases or medical conditions associated with muscle weakness or wasting; and ispinosib, SB-743921, and GSK-923295 for the potential treatment of cancer. We are conducting non-clinical development of a back-up compound to CK-2017357. We are also conducting non-clinical development of compounds that inhibit smooth muscle contractility. These compounds may be useful as potential treatments for diseases and conditions such as systemic hypertension or bronchoconstriction.

## **Muscle Contractility Programs**

### ***Cardiac Muscle Contractility***

Our lead drug candidate from this program is omecamtiv mecarbil, a novel cardiac muscle myosin activator. In December 2006, we entered into a collaboration and option agreement with Amgen to discover, develop and commercialize novel small molecule therapeutics that activate cardiac muscle contractility for potential applications in the treatment of heart failure, including omecamtiv mecarbil. The agreement provided Amgen with a non-exclusive license and access to certain technology. The agreement also granted Amgen an option to obtain an exclusive license worldwide, except Japan, to develop and commercialize omecamtiv mecarbil and other drug candidates arising from the collaboration. In May 2009, Amgen exercised this option and subsequently paid us an exercise fee of \$50.0 million. As a result, Amgen is now responsible for the development and commercialization of omecamtiv mecarbil and related compounds, at its expense worldwide, except Japan, subject to our development and commercialization participation rights. Under the agreement, Amgen will reimburse us for agreed research and development activities we perform. The agreement provides for potential pre-commercialization and commercialization milestone payments of up to \$600.0 million in the aggregate on omecamtiv mecarbil and other potential products arising from research under the collaboration, and royalties that escalate based on increasing levels of annual net sales of products commercialized under the agreement. The agreement also provides for us to receive increased royalties by co-funding Phase III development costs of drug candidates under the collaboration. If we elect to co-fund such costs, we would be entitled to co-promote omecamtiv mecarbil in North America and participate in agreed commercialization activities in institutional care settings, at Amgen's expense.

We have conducted a clinical trials program for omecamtiv mecarbil comprised of multiple Phase I and Phase IIa clinical trials designed to evaluate the safety, tolerability, pharmacodynamics and pharmacokinetic profiles of both intravenous and oral formulations in a diversity of patients, including patients with stable heart failure and patients with ischemic cardiomyopathy. In these trials, omecamtiv mecarbil exhibited generally linear, dose-proportional pharmacokinetics across the dose ranges studied. The adverse effects observed in humans at doses that exceeded the maximum-tolerated dose appeared similar to the adverse findings which occurred in preclinical safety studies at similar plasma concentrations. These effects are believed to be related to the mechanism of action of this drug candidate which, at doses that exceeded the maximum-tolerated dose, resulted in an excessive prolongation of the systolic ejection time. However, these effects resolved promptly with discontinuation of the infusions of omecamtiv mecarbil.

Amgen is now responsible for clinical development of omecamtiv mecarbil following its exercise of its option. We anticipate that in mid-2010, Amgen will initiate an open-label, multiple-dose Phase IIa clinical trial designed to investigate the pharmacokinetics of two formulations of omecamtiv mecarbil administered orally to both male and female patients with stable heart failure. We also anticipate that in the second half of 2010, Amgen will initiate a Phase IIb, multi-center, open-label, single-dose, safety and pharmacokinetic clinical study of a modified-release oral formulation of omecamtiv mecarbil in patients with renal dysfunction.

We also anticipate that by year-end 2010, Amgen will initiate a randomized, double-blind, placebo-controlled, Phase IIb clinical trial of an intravenous formulation of omecamtiv mecarbil in hospitalized acute heart failure patients with left ventricular systolic dysfunction. The trial is anticipated to examine clinical, echocardiographic and pharmacokinetic endpoints at three dose levels of omecamtiv mecarbil and placebo. The primary and secondary endpoints to be assessed in this trial are still under discussion. This development program is expected to proceed alongside the previously announced plans to conduct additional pharmacokinetic studies of the oral formulations of omecamtiv mecarbil.

The clinical trials program for omecamtiv mecarbil may proceed for several years, and we will not be in a position to generate any revenues or material net cash flows from sales of this drug candidate until the program is successfully completed, regulatory approval is achieved, and the drug is commercialized. Omecamtiv mecarbil is at too early a stage of development for us to predict if or when this may occur. We funded all research and development costs associated with this program prior to Amgen's option exercise in May 2009. We recorded research and development expenses for activities relating to our cardiac muscle contractility program of approximately \$1.2 million and \$7.3 million in the six months ended June 30, 2010 and 2009, respectively. We recognized as research and development revenue from Amgen of \$1.1 million and \$0.6 million in the six months ended June 30, 2010 and 2009, respectively, for expense and full-time employee equivalent ("FTE") reimbursements.

We anticipate that our expenditures relating to the research and development of compounds in our cardiac muscle contractility program will increase if we participate in the future advancement of omecamtiv mecarbil through clinical development. Our expenditures will also increase if Amgen terminates development of omecamtiv mecarbil or related compounds and we elect to develop them independently, or if we elect to co-fund later-stage development of omecamtiv mecarbil or other compounds in our cardiac muscle contractility program under our collaboration and option agreement with Amgen.

### ***Skeletal Muscle Contractility***

CK-2017357 is the lead drug candidate from this program. CK-2017357 and its back-up development compound are structurally distinct and selective small molecule activators of the fast skeletal sarcomere. These compounds act on fast skeletal muscle troponin. Activation of troponin increases its sensitivity to calcium, leading to an increase in skeletal muscle contractility. This mechanism of action has demonstrated encouraging pharmacological activity in preclinical models. We are evaluating the potential indications for which CK-2017357 may be useful. In March 2010, CK-2017357 received an orphan drug designation from the FDA for the treatment of amyotrophic lateral sclerosis, also known as ALS or Lou Gehrig's disease.

During the second quarter of 2010, we initiated two "evidence of effect" clinical trials of CK-2017357. Our evidence of effect clinical trials are intended to translate pharmacodynamic assessments demonstrated in healthy volunteers to impaired populations and potentially to establish statistically significant and clinically relevant evidence of pharmacodynamic effects. These trials may then form the basis for larger clinical trials designed to demonstrate proof of concept in which improvements may be seen in the consequences of disease over time.

In April 2010, we initiated dosing in a Phase IIa evidence of effect clinical trial of CK-2017357 in patients with ALS. This clinical trial is a double-blind, randomized, placebo-controlled, three-period crossover, pharmacokinetic and pharmacodynamic study of CK-2017357 in male and female patients with ALS. At least 36 and up to 72 patients may be enrolled in this trial. In each dosing period, patients will receive a single oral dose of placebo or 250 mg or 500 mg of CK-2017357. Over the course of the three dosing periods, each patient will receive, in random order, each one of these three single doses. A wash-out period of at least 6 days (to a maximum of 10 days) will be employed between the individual doses for each patient. The primary objective of this trial is to evaluate the pharmacodynamic effects of single doses of CK-2017357 on measures of skeletal muscle function or fatigability in patients with ALS. Multiple pharmacodynamic assessments will be made without specifying a single primary pharmacodynamic endpoint. These assessments will include various measures of maximum voluntary muscle strength, development of fatigue at maximum and sub-maximum voluntary muscle contraction, and pulmonary function, measured at baseline, and at 3, 6 and 24 hours post-dosing after each of the two single doses of CK-2017357 and placebo. The secondary objectives of this clinical trial are to evaluate the relationship between the plasma concentration of CK-2017357 and its pharmacodynamic effects, to evaluate the safety and tolerability of the two single doses of CK-2017357 administered orally to patients with ALS, and to evaluate the effects of CK-2017357 on patient- and investigator-determined global functional assessments. In July 2010, we conducted an interim review of data from this trial. Results from this review suggested that CK-2017357 appears to be well-tolerated in these patients. To date, no serious adverse events have been reported from this trial. In this review, CK-2017357 exhibited dose-proportional and predictable pharmacokinetics. Based on this review, we have decided to proceed with this trial under the current protocol. We continue to enroll and dose patients in this trial.

In June 2010, we initiated dosing in a Phase IIa evidence of effect clinical trial of CK-2017357 in patients with symptoms of claudication associated with peripheral artery disease. This clinical trial is a double-blind, randomized, placebo-controlled, three-period crossover, pharmacokinetic and pharmacodynamic study of CK-2017357 in patients with peripheral artery disease and claudication. At least 36 and up to 72 patients may be enrolled in this trial. In each dosing period, patients will receive a single oral dose of placebo or 375 mg or 750 mg of CK-2017357. Over the course of the three dosing periods, each patient will receive, in random order, each one of these three single doses. A wash-out period of at least 6 days (to a maximum of 10 days) will be employed between the individual doses for each patient. The primary objective of this clinical trial is to evaluate the pharmacodynamic effects of single doses of CK-2017357 on measures of skeletal muscle function and fatigability in patients with peripheral artery disease and claudication. Multiple assessments of skeletal muscle function and fatigability will be performed without specifying a single primary pharmacodynamic endpoint. The assessments include the number of contractions, time and work to onset of claudication, and to intolerable claudication pain or to maximum calf muscle fatigue during bilateral heel raises. A six-minute walk test will also be performed during each dosing period. The secondary objectives of this trial are to evaluate and characterize the relationship, if any, between the doses and plasma concentrations of CK-2017357 and its pharmacodynamic effects and to evaluate the safety and tolerability of CK-2017357 administered as single oral doses to patients with peripheral artery disease and claudication. We continue to enroll and dose patients in this trial.

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In July 2010, a late-breaking abstract summarizing data from part B of a two-part Phase I clinical trial of CK-2017357 was presented at the International Congress of Neuromuscular Disease. The objective of part B of this trial was to determine the change in the force-frequency profile of the tibialis anterior muscle and its relationship to the CK-2017357 plasma concentration after oral administration of CK-2017357 to healthy male volunteers. The authors concluded that CK-2017357 significantly increased the mean placebo-corrected normalized peak force produced in response to electrical stimulation of the muscle in a dose-, concentration-, and frequency-dependent manner. CK-2017357 was generally well-tolerated in part B of this trial; all adverse events were mild except for one incidence of pharyngitis (inflammation of the throat) of moderate severity, and no serious adverse events were reported. The authors concluded that the mechanism of action of CK-2017357, as described in pre-clinical models, can be translated into statistically significant and potentially clinically important increases in skeletal muscle performance in healthy volunteers.

In July 2010, we announced we had been awarded a grant in the amount of \$2.9 million by the National Institute of Neurological Disorders and Stroke, which is intended to support research and development of CK-2017357 for the potential treatment of myasthenia gravis. The grant was awarded under the American Recovery and Reinvestment Act of 2009.

We also anticipate continuing non-clinical development studies of the back-up potential drug candidate in our skeletal muscle contractility program throughout 2010.

CK-2017357 is at too early a stage of development for us to predict if or when we will be in a position to generate any revenues or material net cash flows from its commercialization. We currently fund all research and development costs associated with this program. We recorded research and development expenses for activities relating to our skeletal muscle contractility program of approximately \$14.6 million and \$5.7 million in the six months ended June 30, 2010 and 2009, respectively. We anticipate that our expenditures relating to the research and development of compounds in our skeletal muscle contractility program will increase significantly if and as we advance CK-2017357, its back-up compound or other compounds from this program into and through development.

### ***Smooth Muscle Contractility***

Our smooth muscle contractility program is focused on the discovery and development of small molecule smooth muscle myosin inhibitors, and leverages our expertise in muscle function and its application to drug discovery. Our inhaled smooth muscle myosin inhibitors have demonstrated pharmacological activity in preclinical models of bronchoconstriction and may have application for indications such as asthma or chronic obstructive pulmonary disease. Our smooth muscle myosin inhibitors, administered orally or intravenously, have demonstrated pharmacological activity in preclinical models of vascular constriction. Smooth muscle myosin inhibitors administered orally may have application in systemic hypertension. In May 2010, a poster summarizing non-clinical data regarding our smooth muscle contractility program was presented at the American Thoracic Society's 2010 International Conference. We anticipate continuing non-clinical development studies of our smooth muscle myosin inhibitors throughout 2010.

Our smooth muscle myosin inhibitors are at too early a stage of development for us to predict if or when we will be in a position to generate any revenues or material net cash flows from their commercialization. We currently fund all research and development costs associated with this program. We recorded research and development expenses for activities relating to our smooth muscle contractility program of approximately \$1.1 million and \$3.1 million in the six months ended June 30, 2010 and 2009, respectively. We anticipate that our expenditures relating to the research and development of compounds in our smooth muscle contractility program will increase significantly if and as we advance compounds from this program into and through development.

### **Oncology Program: Mitotic Kinesin Inhibitors**

We currently have three drug candidates for the potential treatment of cancer: ispinesib, SB-743921 and GSK-923295. All of these arose from our earlier research activities directed to the role of the cytoskeleton in cell division and were progressed under our strategic alliance with GSK. Under this strategic alliance, we focused primarily on two mitotic kinesins: kinesin spindle protein ("KSP") and centromere-associated protein E ("CENP-E"). Inhibition of KSP or CENP-E interrupts cancer cell division, causing cell death. Ispinesib and SB-743921 are structurally distinct small molecules that specifically inhibit KSP. GSK-923295 specifically inhibits CENP-E.

In November 2006, we amended our strategic alliance with GSK and assumed responsibility, at our expense, for the continued research, development and commercialization of inhibitors of KSP, including ispinesib and SB-743921, and other mitotic kinesins, other than CENP-E. GSK retained an option to resume responsibility for the development and commercialization of either or both of ispinesib and SB-743921. This option expired at the end of 2008. As a result, we have retained all rights to develop and commercialize ispinesib and SB-743921, subject to certain royalty obligations to GSK. In December 2009, we agreed with GSK to terminate this

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strategic alliance, effective February 28, 2010. Accordingly, we have retained all rights to develop and commercialize GSK-923295, subject to certain royalty obligations to GSK. We are evaluating strategic alternatives for the future development and commercialization of ispinesib, SB-743921 and GSK-923295 with third parties.

### ***Ispinesib***

We have completed patient treatment in the Phase I portion of our Phase I/II clinical trial evaluating ispinesib as monotherapy administered as a first-line treatment in chemotherapy-naïve patients with locally advanced or metastatic breast cancer and have closed this trial. As a result of the expiration of GSK's option relating to ispinesib, we have retained all development and commercialization rights to ispinesib, subject to certain royalty obligations to GSK. We are evaluating strategic alternatives for the future development and commercialization of ispinesib with third parties.

### ***SB-743921***

We have completed patient treatment in the Phase I portion of our Phase I/II clinical trial of SB-743921 in patients with Hodgkin or non-Hodgkin lymphoma and have closed this trial. As a result of the expiration of GSK's option relating to SB-743921, we have retained all development and commercialization rights to SB-743921, subject to certain royalty obligations to GSK. We are evaluating strategic alternatives for the future development and commercialization of SB-743921 with third parties.

### ***GSK-923295***

GSK has closed enrollment and continues patient treatment in its Phase I clinical trial of GSK-923295. GSK has agreed to complete this clinical trial at its cost. Following the agreed termination of our strategic alliance with GSK in February 2010, we have retained all development and commercialization rights to GSK-923295, subject to certain royalty obligations to GSK. We are evaluating strategic alternatives for the future development and commercialization of GSK-923295 with third parties.

Each of ispinesib, SB-743921 and GSK-923295 is at too early a stage of development for us to predict if or when we will be in a position to generate any revenues or material net cash flows from its commercialization. We currently are responsible for all research and development costs associated with ispinesib and SB-743921. Following GSK's completion of its Phase I clinical trial of GSK-923295, we will be responsible for any further research and development costs associated with GSK-923295. We recorded research and development expenses for activities relating to our mitotic kinesins inhibitors program of approximately \$0.7 million and \$2.4 million in the six months ended June 30, 2010 and 2009, respectively. We received and recognized as revenue reimbursements from GSK of patent expenses related to our mitotic kinesin inhibitors program of zero and \$26,000 for the six months ended June 30, 2010 and 2009, respectively. We have completed the Phase I portion of each of the Phase I/II clinical trials for ispinesib and SB-743921. GSK is completing the current Phase I clinical trial of GSK-923295. We do not currently intend to conduct any further development of these drug candidates ourselves. We are evaluating strategic alternatives to continue the development of ispinesib, SB-743921 and GSK-923295 with third parties. We may not be able to enter into an agreement regarding such an alternative on acceptable terms, if at all.

### **Development Risks**

The successful development of any of our drug candidates is highly uncertain. We cannot estimate with certainty or know the exact nature, timing and costs of the activities necessary to complete the development of any of our drug candidates or the date of completion of these development activities due to numerous risks and uncertainties, including, but not limited to:

- decisions made by Amgen with respect to the development of omecamtiv mecarbil;
- the uncertainty of the timing of the initiation and completion of patient enrollment and treatment in our clinical trials;
- the possibility of delays in the collection of clinical trial data and the uncertainty of the timing of the analyses of our clinical trial data after these trials have been initiated and completed;
- our potential inability to obtain additional funding and resources for our development activities on acceptable terms, if at all, including, but not limited to, our potential inability to obtain or retain partners to assist in the design, management, conduct and funding of clinical trials;

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- delays or additional costs in manufacturing of our drug candidates for clinical trial use, including developing appropriate formulations of our drug candidates;
- the uncertainty of clinical trial results, including variability in patient response;
- the uncertainty of obtaining FDA or other foreign regulatory agency approval required for the clinical investigation of our drug candidates;
- the uncertainty related to the development of commercial scale manufacturing processes and qualification of a commercial scale manufacturing facility; and
- possible delays in the characterization, formulation and manufacture of potential drug candidates.

If we fail to complete the development of any of our drug candidates in a timely manner, it could have a material adverse effect on our operations, financial position and liquidity. In addition, any failure by us or our partners to obtain, or any delay in obtaining, regulatory approvals for our drug candidates could have a material adverse effect on our results of operations. A further discussion of the risks and uncertainties associated with completing our programs on schedule, or at all, and certain consequences of failing to do so are discussed further in the risk factors entitled “We have never generated, and may never generate, revenues from commercial sales of our drugs and we may not have drugs to market for at least several years, if ever,” “Clinical trials may fail to demonstrate the desired safety and efficacy of our drug candidates, which could prevent or significantly delay completion of clinical development and regulatory approval” and “Clinical trials are expensive, time-consuming and subject to delay,” and other risk factors.

## **Revenues**

Our current revenue sources are limited, and we do not expect to generate any revenue from product sales for several years, if at all. We have recognized revenues from our strategic alliances with Amgen and GSK for license fees and agreed research and development activities.

In December 2006, we entered into our collaboration and option agreement with Amgen, under which we received an upfront, non-refundable, non-exclusive license and technology access fee of \$42.0 million. In connection with entering into the agreement, we also entered into a common stock purchase agreement with Amgen. In January 2007, we issued 3,484,806 shares of our common stock to Amgen for net proceeds of \$32.9 million, of which the \$6.9 million purchase premium was recorded as deferred revenue. Through May 2009, we amortized the upfront non-exclusive license and technology access fee and stock purchase premium to license revenue ratably over the maximum term of the non-exclusive license, which was four years. In June 2009, we recognized as revenue the remaining balance of \$21.4 million of the related deferred revenue when Amgen exercised its option, triggering the end of the non-exclusive license period. In June 2009, we received a non-refundable option exercise fee from Amgen of \$50.0 million, which we recognized in revenue as license fees from a related party. We may receive additional payments from Amgen upon achieving certain precommercialization and commercialization milestones. Milestone payments are non-refundable and are recognized as revenue when earned, as evidenced by the achievement of the specified milestones and the absence of ongoing performance obligations.

We have received reimbursements from Amgen for agreed research and development activities, which we recorded as revenue as the related expenses were incurred. We may be eligible to receive further reimbursements from Amgen for agreed research and development activities, which we will record as revenue if and when the related expenses are incurred. We record amounts received in advance of performance as deferred revenue.

In 2007, we received a \$1.0 million milestone payment from GSK relating to its initiation of a Phase I clinical trial of GSK-923295. Milestone payments are non-refundable and are recognized as revenue when earned, as evidenced by achievement of the specified milestones and the absence of ongoing performance obligations. We record amounts received in advance of performance as deferred revenue. The revenues recognized to date are non-refundable, even if the relevant research effort is not successful. In December 2008, GSK’s option to license ispinosib and SB-743291 expired and all rights to these drug candidates remain with us under the collaboration and license agreement, subject to certain royalty obligations to GSK. In December 2009, we agreed with GSK to terminate this strategic alliance, effective February 28, 2010. Accordingly, we have retained all rights to develop and commercialize GSK-923295, subject to certain royalty obligations to GSK.

Because a substantial portion of our revenues for the foreseeable future will depend on achieving development and other precommercialization milestones under our strategic alliance with Amgen, our results of operations may vary substantially from year to year.

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If one or more of our drug candidates is approved for sale as a drug, we expect that our future revenues will most likely be derived from royalties on sales from drugs licensed to Amgen under our strategic alliance and from those licensed to future partners, and from direct sales of our drugs. We retain a product-by-product option to co-fund certain later-stage development activities under our strategic alliance with Amgen, thereby potentially increasing our royalties and affording us co-promotion rights in North America. If we exercise our co-promotion rights under this strategic alliance, we are entitled to receive reimbursement for certain sales force costs we incur in support of our commercial activities.

### Research and Development

We incur research and development expenses associated with both partnered and unpartnered research activities. We expect to incur research and development expenses for omecamtiv mecarbil for the potential treatment of heart failure in accordance with agreed upon research and development plans with Amgen. We expect to incur research and development expenses for the conduct of preclinical studies and non-clinical and clinical development for CK-2017357 and other skeletal sarcomere activators for the potential treatment of diseases and medical conditions associated with muscle weakness or wasting. We expect to incur research and development expenses for the conduct of non-clinical development of our smooth muscle myosin inhibitor compounds, which may be useful for the potential treatment of diseases and medical conditions associated with bronchoconstriction, vascular constriction, or both, and our research programs in other disease areas.

Research and development expenses related to our strategic alliance with GSK consisted primarily of costs related to research and screening, lead optimization and other activities relating to the identification of compounds for development as mitotic kinesin inhibitors for the treatment of cancer. Prior to June 2006, certain of these costs were reimbursed by GSK on an FTE basis. From 2001 through November 2006, GSK funded the majority of the costs related to the clinical development of ispinesib and SB-743921. Under our amended collaboration and license agreement with GSK, we assumed responsibility for the continued research, development and commercialization of inhibitors of KSP, including ispinesib and SB-743921, and other mitotic kinesins other than CENP-E, at our sole expense. We expect to incur minimal research and development expenses relating to the close-out of the clinical trials for ispinesib and SB-743921.

Research and development expenses related to any development and commercialization activities we elect to fund consist primarily of employee compensation, supplies and materials, costs for consultants and contract research and manufacturing, facilities costs and depreciation of equipment. From our inception through June 30, 2010, we incurred costs of approximately \$136.0 million for research and development activities relating to our cardiac muscle contractility program, \$50.5 million for our skeletal muscle contractility program, \$27.5 million for our smooth muscle contractility program, \$71.6 million for our mitotic kinesin inhibitors program, \$53.7 million for our proprietary technologies and \$57.3 million for other research programs.

### General and Administrative Expenses

General and administrative expenses consist primarily of compensation for employees in executive and administrative functions, including, but not limited to, finance, human resources, legal, business and commercial development and strategic planning. Other significant costs include facilities costs and professional fees for accounting and legal services, including legal services associated with obtaining and maintaining patents and regulatory compliance. We expect that general and administrative expenses will increase in 2010 compared to 2009.

### Stock Compensation

The following table summarizes stock-based compensation related to stock options, restricted stock awards and employee stock purchases for the three and six months ended June 30, 2010 and 2009, respectively (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Research and development	\$ 483	\$ 575	\$ 972	\$ 1,187
General and administrative	530	649	1,034	1,286
Stock-based compensation included in operating expenses	<u>\$ 1,013</u>	<u>\$ 1,224</u>	<u>\$ 2,006</u>	<u>\$ 2,473</u>

As of June 30, 2010, there was \$6.7 million of total unrecognized compensation cost related to non-vested stock options granted under our stock option plans. We expect to recognize that cost over a weighted-average period of 2.6 years. The total unrecognized compensation expense related to restricted stock awards as of June 30, 2010 was \$0.1 million and is expected to be recognized over a weighted-average period of 0.2 years.



## **Income Taxes**

We account for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce the deferred tax assets to the amounts expected to be realized. We did not record an income tax provision in the three or six months ended June 30, 2010 and 2009 because we expected a net taxable loss for the full year in each of those periods.

Based upon the weight of available evidence, which includes our historical operating performance, reported cumulative net losses since inception and difficulty in accurately forecasting our future results, we maintained a full valuation allowance on our net deferred tax assets as of June 30, 2010 and December 31, 2009. The valuation allowance was determined pursuant to the accounting guidance for income taxes, which requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. We intend to maintain a full valuation allowance on our deferred tax assets until sufficient positive evidence exists to support reversal of the valuation allowance.

## **Results of Operations**

### ***Revenues***

We recorded total revenues of \$0.5 million and \$71.9 million for the second quarter of 2010 and 2009, respectively, and \$1.1 million and \$75.0 million for the first half of 2010 and 2009, respectively. The decrease in both periods of 2010 compared to 2009 was primarily due to the recognition in 2009 of license revenue related to our strategic alliance with Amgen.

Research and development revenues from related parties refer to research and development revenues from our strategic alliance with Amgen and, through 2009, our strategic alliance with GSK. Research and development revenues from Amgen were \$0.5 million and \$0.6 million in the second quarter of 2010 and 2009, respectively. Research and development revenues from Amgen for the second quarter of 2010 consisted of \$0.3 million for reimbursements of FTE expenses and \$0.2 million for reimbursements of other research and development expenses. Research and development revenues from Amgen of \$0.6 million for the second quarter of 2009 consisted of reimbursement for FTE costs, out of pocket expenses and clinical trial material. For the first half of 2010, research and development revenues from Amgen consisted of \$0.7 million for reimbursements of FTE expenses and \$0.4 million for reimbursements of other research and development expenses. For the first half of 2009, research and development revenues from Amgen consisted of \$0.6 million for reimbursements for FTE costs, out of pocket expenses and clinical trial material. The FTE reimbursements from Amgen are at negotiated rates that approximate our costs, and which we believe approximate fair value.

License revenues from related parties refer to license revenues from our strategic alliance with Amgen. License revenues were zero and \$71.3 million for the second quarter of 2010 and 2009, respectively and zero and \$74.4 million for the first half of 2010 and 2009, respectively. License revenues for second quarter of 2009 consisted of the May 2009 \$50.0 million option exercise fee received from Amgen and the recognition deferred license revenue of \$21.3 million related to the 2006 upfront non-exclusive license and technology access fee and stock purchase premium from Amgen. License revenues for first half of 2009 consisted of the \$50.0 million option exercise fee received from Amgen and the recognition of deferred license revenue of \$24.4 million related to the 2006 upfront non-exclusive license and technology access fee and stock purchase premium from Amgen.

The deferred revenue balance related to Amgen was zero at June 30, 2010 and \$0.8 million at December 31, 2009. The December 31, 2009 deferred revenue balance consisted of Amgen's prepayment of FTE reimbursements.

### ***Research and Development Expenses***

Research and development expenses were \$10.2 million in each of the second quarters of 2010 and 2009. The research and development expenses for the second quarter of 2010, when compared to the same period in 2009, reflected increases of \$1.0 million in clinical and preclinical outsourcing costs related to our muscle contractility clinical trial programs and \$0.3 million in laboratory expenses, which were offset by a decrease of \$1.2 million in personnel expenses. The \$1.2 million decrease in personnel expenses in the second quarter of 2010, compared to the second quarter of 2009, was primarily due to lower employee bonus expense of \$0.9 million attributable to the 2009 employee special bonus, which was accrued in the second quarter of 2009. The \$0.9 million decrease in research and development expense in first half of 2010, compared to the same period in 2009, was primarily due to a decrease of \$1.4 million in personnel expenses, partially offset by increases of \$0.4 million for laboratory and facility related costs and \$0.2 million in clinical and preclinical outsourcing costs related to our muscle contractility and mitotic kinesin inhibitors clinical trial

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programs. The decrease of \$1.4 million in personnel expenses in the first half of 2010 compared to the first half of 2009 was primarily due to lower employee bonus expense of \$1.0 million, largely attributable to the 2009 employee special bonus.

From a program perspective, the increase in spending of \$5.0 million for our skeletal muscle contractility program in the second quarter of 2010, compared to the second quarter of 2009, was offset by decreased spending of \$2.8 million for our cardiac muscle contractility program, \$0.9 million for our smooth muscle contractility program, \$1.0 million for our mitotic kinesin inhibitors program, \$0.2 million for our proprietary technologies and \$0.1 million for our other research and preclinical programs. The overall decrease in spending for our programs in the first half of 2010, compared to the first half of 2009, was due to decreased spending of \$6.1 million for our cardiac muscle contractility program, \$2.0 million for our smooth muscle contractility program, \$1.7 million for our mitotic kinesin inhibitors program and \$0.4 million for our proprietary technologies, partially offset by increases of \$8.9 million for our skeletal muscle contractility program and \$0.4 million for our other research and preclinical programs.

Research and development expenses incurred related to the following programs (in millions):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Cardiac muscle contractility	\$ 0.7	\$ 3.5	\$ 1.2	\$ 7.3
Skeletal muscle contractility	8.1	3.1	14.6	5.7
Smooth muscle contractility	0.5	1.4	1.1	3.1
Mitotic kinesin inhibitors	0.2	1.2	0.7	2.4
Proprietary technologies	—	0.2	—	0.4
All other research programs	0.7	0.8	1.7	1.3
Total research and development expenses	\$ 10.2	\$ 10.2	\$ 19.3	\$ 20.2

We recognized research and development expense reimbursements from Amgen of \$0.5 million and \$0.6 million for the second quarter of 2010 and 2009, respectively, and \$1.1 million and \$0.6 million for the first half of 2010 and 2009, respectively. These reimbursements were recorded as research and development revenues from related parties.

Clinical development timelines, likelihood of success and total completion costs vary significantly for each drug candidate and are difficult to estimate. We anticipate that we will determine on an on-going basis which research and development programs to pursue and how much funding to direct to each program, taking into account the scientific and clinical success of each drug candidate. The lengthy process of seeking regulatory approvals and subsequent compliance with applicable regulations requires the expenditure of substantial resources. Any failure by us to obtain and maintain, or any delay in obtaining, regulatory approvals could cause our research and development expenditures to increase and, in turn, could have a material adverse effect on our results of operations.

We expect our research and development expenditures to increase in 2010, compared to 2009, for the following reasons: As part of our strategic alliance with Amgen, we expect to continue to participate in the development of our drug candidate omeamtiv mecarbil for the potential treatment of heart failure. We expect to continue development of our drug candidate CK-2017357 for the potential treatment of diseases and medical conditions associated with muscle weakness or wasting. We expect to continue development of our smooth muscle myosin inhibitor compounds, which may be useful for the potential treatment of systemic hypertension and diseases and medical conditions associated with bronchoconstriction. We also expect to continue to incur costs associated with the close-out of each of the clinical trials of our drug candidates ispinesib and SB-743921. We anticipate research and development expenses for 2010 will be in the range of \$42.0 million to \$46.0 million. Non-cash expenses such as stock-based compensation and depreciation of approximately \$3.6 million are included in our estimate of 2010 research and development expenses.

### **General and Administrative Expenses**

General and administrative expenses were \$3.4 million and \$4.1 million in the second quarter of 2010 and 2009, respectively. The decrease in the second quarter of 2010, compared to 2009, was primarily due to a decrease of \$0.8 million in employee bonus expense attributable to the 2009 employee special bonus, which was accrued in the second quarter of 2009. General and administrative expenses were \$7.2 million and \$8.1 million in the first half of 2010 and 2009, respectively. The decrease in the first half of 2010, compared to 2009, was primarily due to a decrease of \$0.9 million in employee bonus expense attributable to the 2009 employee special bonus.

We expect that general and administrative expenses will increase in 2010 from 2009 levels. For the year ending December 31, 2010, we anticipate general and administrative expenses will be in the range of \$16.0 million to \$18.0 million. Non-cash expenses

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such as stock-based compensation and depreciation of approximately \$2.5 million are included in our estimate of 2010 general and administrative expenses.

**Interest and Other, Net**

Components of Interest and other, net were as follows (in millions):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Unrealized gain on auction rate securities (“ARS”)	\$ 1.6	\$ —	\$ 1.6	\$ 0.7
Unrealized loss on investment put option related to auction rate securities rights (the “ARS Rights”)	(1.6)	—	(1.6)	(0.7)
Warrant expense	—	(1.6)	—	(1.6)
Interest income and other income	0.1	0.1	0.2	0.4
Interest expense and other expense	(0.1)	(0.1)	(0.1)	(0.2)
Interest and other, net	\$ —	\$ (1.6)	\$ 0.1	\$ (1.4)

Warrant expense of \$1.6 million for the three and six months ended June 30, 2009 related to the change in the fair value of the warrant liability recorded in connection with our registered direct equity offering in May 2009.

Interest income and other income decreased in the first half of 2010, compared to the first half of 2009, due to lower market interest rates earned on our investments, partially offset by higher average invested balances of cash, cash equivalents and investments.

Interest expense and other expense primarily consisted of interest expense on our equipment financing line of credit and our loan with UBS Bank USA.

**Critical Accounting Policies**

The accounting policies that we consider to be our most critical (i.e., those that are most important to the portrayal of our financial condition and results of operations and that require our most difficult, subjective or complex judgments), the effects of those accounting policies applied and the judgments made in their application are summarized in “*Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates*” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Recent Accounting Pronouncements***Recently Adopted Accounting Pronouncements*

We have adopted new accounting guidance for improving disclosures about fair value measurements. The new guidance adds a requirement to disclose transfers in and out of Level 3 and fair value measurements, and clarifies existing guidance about the level of disaggregation of fair value measurements and disclosures regarding inputs and valuation techniques. Our adoption of the new guidance did not have a material impact on our financial position or results of operations.

*Accounting Pronouncements Not Yet Adopted*

In October 2009, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance for recognizing revenue for multiple-deliverable revenue arrangements. The new guidance amends the existing guidance for separately accounting for individual deliverables in a revenue arrangement with multiple deliverables, and removes the criterion that an entity must use objective and reliable evidence of fair value to separately account for the deliverables. The new guidance also establishes a hierarchy for determining the value of each deliverable and establishes the relative selling price method for allocating consideration when vendor specific objective evidence or third party evidence of value does not exist. We must adopt the new guidance prospectively for new revenue arrangements entered into or materially modified beginning in the first quarter of 2011. Earlier adoption is permitted. We are currently evaluating the impact that the new guidance will have on our financial statements and the timing of its adoption.

In January 2010, the FASB issued new accounting guidance for improving disclosures about fair value measurements, which requires a gross presentation of Level 3 fair value rollforwards. The guidance is effective for us beginning in the first quarter of 2011.

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We do not expect that our adoption of the new fair value guidance will have a material impact on our financial position or results of operations.

In April 2010, the FASB issued new accounting guidance on the milestone method of revenue recognition. The new guidance codifies the milestone method as an acceptable revenue recognition model when a milestone is deemed to be substantive. The guidance is effective for us beginning in the first quarter of 2011, and is to be applied prospectively for milestones achieved after the effective date, although early adoption is permitted. Retrospective adoption of the guidance for all prior periods is also allowed. We are currently evaluating the timing of our adoption of the new revenue recognition guidance, but we do not expect that our adoption of the guidance will have a material impact on our financial position or results of operations.

### **Liquidity and Capital Resources**

From August 5, 1997, our date of inception, through June 30, 2010, we funded our operations through the sale of equity securities, equipment financings, non-equity payments from collaborators, government grants and interest income.

Our cash, cash equivalents and investments (including ARS and the investment put option related to the ARS Rights), excluding restricted cash, totaled \$87.6 million at June 30, 2010, down from \$114.7 million at December 31, 2009. The decrease of \$27.1 million was primarily due to the use of cash to fund operations.

We have received net proceeds from the sale of equity securities of \$345.1 million from August 5, 1997, the date of our inception, through June 30, 2010, excluding sales of equity to GSK and Amgen. Included in these proceeds are \$94.0 million received upon closing of the initial public offering of our common stock in May 2004. In connection with execution of our collaboration and license agreement in 2001, GSK made a \$14.0 million equity investment in Cytokinetics. GSK made additional equity investments in Cytokinetics in 2003 and 2004 of \$3.0 million and \$7.0 million, respectively.

In 2005, we entered into our first committed equity financing facility with Kingsbridge pursuant to which Kingsbridge committed to finance up to \$75.0 million of capital for a three-year period. Subject to certain conditions and limitations, from time to time under this committed equity financing facility, at our election, Kingsbridge purchased newly-issued shares of our common stock at a price between 90% and 94% of the volume-weighted average price on each trading day during an eight-day, forward-looking pricing period.

We received gross proceeds from draw downs and sales of our common stock to Kingsbridge under this facility as follows: 2005 — gross proceeds of \$5.7 million from the sale of 887,576 shares, before offering costs of \$178,000; 2006 — gross proceeds of \$17.0 million from the sale of 2,740,735 shares; and 2007 — gross proceeds of \$9.5 million from the sale of 2,075,177 shares. No further draw downs are available to us under the 2005 Kingsbridge committed equity financing facility.

In October 2007, we entered into a new committed equity financing facility with Kingsbridge, pursuant to which Kingsbridge committed to finance up to \$75.0 million of capital for a three-year period. Subject to certain conditions and limitations, which include a minimum volume-weighted average price of \$2.00 for our common stock, from time to time under this facility, at our election, Kingsbridge is committed to purchase newly-issued shares of our common stock at a price between 90% and 94% of the volume-weighted average price on each trading day during an eight-day, forward-looking pricing period. The maximum number of shares we may issue in any pricing period is the lesser of 2.5% of our market capitalization immediately prior to the commencement of the pricing period or \$15.0 million. As part of this arrangement, we issued a warrant to Kingsbridge to purchase 230,000 shares of our common stock at a price of \$7.99 per share, which represents a premium over the closing price of our common stock on the date we entered into this facility. This warrant became exercisable beginning six months after the October 2007 issuance date and will remain exercisable for a period of three years thereafter. We may sell a maximum of 9,779,411 shares under this facility (exclusive of the shares underlying the warrant). Under the rules of the NASDAQ Stock Market LLC, this is the maximum number of shares we may sell to Kingsbridge without our stockholders' approval. This restriction may further limit the amount of proceeds we are able to obtain from this committed equity financing facility. We are not obligated to sell any of the common stock available under this facility and there are no minimum commitments or minimum use penalties. The committed equity financing facility does not contain any restrictions on our operating activities, any automatic pricing resets or any minimum market volume restrictions. We received gross proceeds from sales of our common stock to Kingsbridge under this facility as follows: 2009 — gross proceeds of \$6.9 million from the sale of 3,596,728 shares, before offering costs of \$0.1 million; first half of 2010 — gross proceeds of \$8.9 million from the sale of 3,085,317 shares. The gross proceeds represent prices equal to 90% of the volume-weighted average price of the Company's stock on each trading day during the eight-day pricing period prior to each sale date. As of August 4, 2010, 3,097,366 shares remain available to the Company for sale under the 2007 committed equity financing facility.

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In January 2006, we entered into a stock purchase agreement with certain institutional investors relating to the issuance and sale of 5,000,000 shares of our common stock at a price of \$6.60 per share, for gross offering proceeds of \$33.0 million. In connection with this offering, we paid an advisory fee to a registered broker-dealer of \$1.0 million. After deducting the advisory fee and the offering costs, we received net proceeds of approximately \$32.0 million from the offering.

In December 2006, we entered into stock purchase agreements with selected institutional investors relating to the issuance and sale of 5,285,715 shares of our common stock at a price of \$7.00 per share, for gross offering proceeds of \$37.0 million. In connection with this offering, we paid placement agent fees to three registered broker-dealers totaling \$1.9 million. After deducting the placement agent fees and the offering costs, we received net proceeds of approximately \$34.9 million from the offering.

In January 2007, we received a \$42.0 million upfront non-exclusive license and technology access fee from Amgen in connection with our entry into our collaboration and option agreement in December 2006. Contemporaneously with entering into this agreement, we entered into a common stock purchase agreement with Amgen under which Amgen purchased 3,484,806 shares of our common stock at a price per share of \$9.47, including a premium of \$1.99 per share, and an aggregate purchase price of approximately \$33.0 million. After deducting the offering costs, we received net proceeds of approximately \$32.9 million. These shares were issued, and the related proceeds received, in January 2007. In June 2009, we received a \$50.0 million option exercise fee from Amgen.

In May 2009, pursuant to a registered direct equity offering, we entered into subscription agreements with selected institutional investors to sell an aggregate of 7,106,600 units for a price of \$1.97 per unit. Each unit consisted of one share of our common stock and one warrant to purchase 0.50 shares of our common stock. Accordingly, a total of 7,106,600 shares of common stock and warrants to purchase 3,553,300 shares of common stock were issued and sold in this offering. The gross proceeds of the offering were \$14.0 million. In connection with the offering, we paid placement agent fees to two registered broker-dealers totaling \$0.8 million. After deducting the placement agent fees and the offering costs, we received net proceeds of approximately \$12.9 million from the offering.

As of June 30, 2010, we have received \$100.2 million in non-equity payments from Amgen and \$54.5 million in non-equity payments from GSK.

Under equipment financing arrangements, we received \$23.7 million from August 5, 1997, the date of our inception, through June 30, 2010. Interest earned on investments, excluding non-cash amortization/accretion of purchase premiums/discounts, was \$0.8 million in the first half of 2010, and \$28.8 million from August 5, 1997, the date of our inception, through June 30, 2010.

Net cash used in operating activities was \$25.4 million in the first half of 2010 and primarily resulted from the net loss of \$25.3 million. The balance of deferred revenue decreased to zero as of June 30, 2010, compared to \$0.8 million at December 31, 2009. The deferred revenue balance at December 31, 2009 consisted of Amgen's prepayments of FTE reimbursements. Net cash provided by operating activities in the first half of 2009 was \$26.3 million and primarily resulted from net income of \$45.3 million, partially offset by a \$24.5 million decrease in deferred revenue. Net income in 2009 primarily resulted from the recognition of \$74.4 million of license revenue from Amgen, partially offset by cash operating expenses. Deferred revenue decreased during the first half of 2009 because we recognized as revenue the remaining balance of the Amgen deferred revenue when the non-exclusive license period ended in May 2009.

Net cash provided by investing activities was \$20.1 million in the first half of 2010 and primarily consisted of proceeds from the sale of ARS of \$10.4 million and from the maturity of investments, net of cash used to purchase investments, of \$9.5 million. Restricted cash totaled \$1.2 million at June 30, 2010, down from \$1.7 million at December 31, 2009, with the decrease due to the contractual semi-annual reduction in the amount of security deposit required by our lender. Net cash used in investing activities in the first half of 2009 was \$14.3 million and primarily represented cash used to purchase investments, net of proceeds from the maturity of investments of \$14.7 million.

Net cash used in financing activities was \$1.9 million in the first half of 2010 and primarily consisted of repayments of \$10.2 million on our loan with UBS Bank USA, partially offset by proceeds of \$8.9 million from drawdowns under our 2007 committed equity financing facility with Kingsbridge. Net cash provided by financing activities in the first half of 2009 was \$31.2 million and primarily consisted of net proceeds of \$12.9 million from our May 2009 registered direct equity offering, proceeds of \$12.4 million from our loan with UBS Bank USA, and drawdowns of \$6.9 million, net of issuance costs, under our 2007 committed equity financing facility with Kingsbridge.

*Auction Rate Securities ("ARS").* Our short-term investments at June 30, 2010 included (at par value) \$7.5 million of ARS. These ARS were intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests. With the liquidity

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issues experienced in global credit and capital markets, these ARS experienced multiple failed auctions beginning in February 2008, as the amount of securities submitted for sale exceeded the amount of purchase orders. As a result, the ARS were not liquid.

In connection with the failed auctions of our ARS, which were marketed and sold by UBS AG and its affiliates, in October 2008, we accepted a settlement with UBS AG pursuant to which UBS AG issued to us the ARS Rights. As consideration for ARS Rights, we agreed to release UBS AG, UBS Securities LLC and UBS Financial Services, Inc., and/or their affiliates, directors, and officers from any claims directly or indirectly relating to the marketing and sale of the ARS, other than for consequential damages. The ARS Rights provided us the right to receive the par value of our ARS, i.e., the liquidation preference of the ARS plus accrued but unpaid interest at any time on or after June 30, 2010. Pursuant to the ARS Rights, on June 30, 2010, we exercised our right to require UBS AG to purchase our remaining outstanding ARS of \$7.5 million par value. Accordingly, on July 1, 2010, UBS deposited the resulting proceeds of \$7.5 million into our money market account.

The fair values of the ARS as of June 30, 2010 were estimated utilizing a discounted cash flow analysis. The assumptions used in preparing the discounted cash flow model included estimates of interest rates, timing and amount of cash flows, credit and liquidity premiums and expected holding periods of the ARS, based on data available. The significant assumptions of this discounted cash flow model are discount margins which were based on industry recognized student loan sector indices, an additional liquidity discount and an estimated term to liquidity. Other items this analysis considered were the collateralization underlying the ARS, the creditworthiness of the counterparty and the timing of expected future cash flows. These ARS were also compared, when possible, to other observable market data with similar characteristics as the securities held by us. The fair value of our ARS as of June 30, 2010 and December 31, 2009 was determined to be \$6.7 million and \$15.5 million, respectively. Changes in the fair value of the ARS were recognized in current period earnings in Interest and other, net. The fair value of the ARS also decreased in the first half of 2010 due to the sale of \$10.4 million of our ARS at par value.

The ARS Rights represented a firm agreement in accordance with accounting guidance for derivatives and hedging. The guidance defines a firm agreement as an agreement with an unrelated party, binding on both parties and usually legally enforceable, with the following characteristics: a) the agreement specifies all significant terms, including the quantity to be exchanged, the fixed price and the timing of the transaction; and b) the agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable. The enforceability of the ARS Rights resulted in an investment put option, which we recognized as a separate freestanding instrument that was accounted for separately from the ARS. As of June 30, 2010, we recorded \$0.8 million as the fair value of the investment put option related to the ARS Rights, classified as short-term assets on the balance sheet. The investment put option related to the ARS Rights did not meet the definition of a derivative instrument. Therefore, we elected to measure the investment put option related to the ARS Rights at fair value, as permitted under accounting guidance for the fair value option for financial assets and liabilities, to mitigate volatility in reported earnings due to its linkage to the ARS. We valued the investment put option related to the ARS Rights using a Black-Scholes option pricing model that included estimates of interest rates, based on data available.

In connection with the October 2008 settlement with UBS AG relating to our ARS, we entered into a loan agreement with UBS Bank USA and UBS Financial Services Inc. On January 5, 2009, we borrowed approximately \$12.4 million under the loan agreement, with our ARS held in accounts with UBS Financial Services Inc. as collateral. The loan amount was based on 75% of the fair value as assessed by UBS at the time of the loan, and we drew down the full amount available under the loan agreement. In general, the interest rate under the loan agreement was intended to equal the interest rate we would otherwise receive with respect to our ARS. During the first half of 2010, we paid \$56,000 of interest expense associated with the loan and received \$140,000 in interest income from the ARS. In accordance with the loan agreement, we applied the net interest received, and proceeds of \$10.1 million from the sales of ARS, to the principal of the loan. As of June 30, 2010, we had repaid the loan in full.

*Shelf Registration Statement.* In November 2008, we filed a shelf registration statement with the SEC, which was declared effective in November 2008. The shelf registration statement allows us to issue shares of our common stock from time to time for an aggregate initial offering price of up to \$100 million. As of August 4, 2010, \$76.2 million remains available to us under this shelf registration statement, assuming all outstanding warrants are exercised in cash. The specific terms of offerings, if any, under the shelf registration statement would be established at the time of such offerings.

As of June 30, 2010, future minimum payments under our loan and lease obligations were as follows (in thousands):

	<u>Within One Year</u>	<u>Two to Three Years</u>	<u>Four to Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Operating leases (1)	\$ 3,063	\$ 4,053	\$ 329	\$ —	\$ 7,445
Equipment financing line	1,268	489	—	—	1,757
Total	<u>\$ 4,331</u>	<u>\$ 4,542</u>	<u>\$ 329</u>	<u>\$ —</u>	<u>\$ 9,202</u>

(1) Our commitments under operating leases relate to payments under our two facility leases in South San Francisco, California, which expire in 2011 and 2013.

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In future periods, we expect to incur substantial costs as we continue to expand our research programs and related research and development activities. We plan to continue to support the clinical development of our cardiac muscle myosin activator omecamtiv mecarbil for the potential treatment of heart failure as part of our strategic alliance with Amgen. We plan to continue clinical development of our fast skeletal sarcomere activator CK-2017357 for the potential treatment of diseases and conditions related to muscle weakness or wasting and non-clinical development of our back-up potential drug candidate from our skeletal sarcomere activator program. We plan to progress one or more of our smooth muscle myosin inhibitor compounds through non-clinical and clinical development. We expect to incur development expenses for the close-out of our clinical trials for ispinesib and SB-743921. We expect to incur significant research and development expenses as we advance the research and development of our other compounds from our muscle contractility programs through research to candidate selection.

Our future capital uses and requirements depend on numerous factors. These factors include, but are not limited to, the following:

- the initiation, progress, timing, scope and completion of preclinical research, non-clinical development and clinical trials for our drug candidates and potential drug candidates;
- the time and costs involved in obtaining regulatory approvals;
- delays that may be caused by requirements of regulatory agencies;
- Amgen's decisions with regard to funding of development and commercialization of omecamtiv mecarbil or other compounds for the potential treatment of heart failure under our collaboration;
- our level of funding for the development of current or future drug candidates;
- the number of drug candidates we pursue;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;
- our ability to establish and maintain selected strategic alliances required for the development of drug candidates and commercialization of our potential drugs;
- our plans or ability to expand our drug development capabilities, including our capabilities to conduct clinical trials for our drug candidates;
- our plans or ability to establish sales, marketing or manufacturing capabilities and to achieve market acceptance for potential drugs;
- the expansion and advancement of our research programs;
- the hiring of additional employees and consultants;
- the expansion of our facilities;
- the acquisition of technologies, products and other business opportunities that require financial commitments; and
- our revenues, if any, from successful development of our drug candidates and commercialization of potential drugs.

We believe that our existing cash and cash equivalents, short-term investments, interest earned on investments, proceeds from the sale of our ARS, and proceeds already received from our equity financings will be sufficient to meet our projected operating requirements for at least the next 12 months.

If, at any time, our prospects for internally financing our research and development programs decline, we may decide to reduce research and development expenses by delaying, discontinuing or reducing our funding of development of one or more of our drug

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candidates or potential drug candidates or of other research and development programs. Alternatively, we might raise funds through strategic relationships, public or private financings or other arrangements. There can be no assurance that funding, if needed, will be available on attractive terms, or at all, or in accordance with our planned timelines. Furthermore, financing obtained through future strategic relationships may require us to forego certain commercialization and other rights to our drug candidates. Similarly, any additional equity financing may be dilutive to stockholders and debt financing, if available, may involve restrictive covenants. Our failure to raise capital as and when needed could have a negative impact on our financial condition and our ability to pursue our business strategy.

**Off-balance Sheet Arrangements**

As of June 30, 2010, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. Therefore, we are not materially exposed to financing, liquidity, market or credit risk that could arise if we had engaged in these relationships. We do not have relationships or transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk has not changed materially subsequent to our disclosures in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures

Our management evaluated, with the participation and under the supervision of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded, subject to the limitations described below, that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

(b) Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the controls are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

*In evaluating our business, you should carefully consider the following risks in addition to the other information in this report. Any of the following risks could materially and adversely affect our business, results of operations, financial condition or your investment*



*in our securities, and many are beyond our control. It is not possible to predict or identify all such factors and, therefore, you should not consider any of these risk factors to be a complete statement of all the potential risks or uncertainties that we face.*

## **Risks Related To Our Business**

***We have a history of significant losses and may not achieve or sustain profitability and, as a result, you may lose all or part of your investment.***

We have generally incurred operating losses in each year since our inception in 1997, due to costs incurred in connection with our research and development activities and general and administrative costs associated with our operations. Our drug candidates are in the early stages of clinical testing, and we and our partners must conduct significant additional clinical trials before we and our partners can seek the regulatory approvals necessary to begin commercial sales of our drugs. We expect to incur increasing losses for at least several more years, as we continue our research activities and conduct development of, and seek regulatory approvals for, our drug candidates, and commercialize any approved drugs. If our drug candidates fail or do not gain regulatory approval, or if our drugs do not achieve market acceptance, we will not be profitable. If we fail to become and remain profitable, or if we are unable to fund our continuing losses, you could lose all or part of your investment.

***We will need substantial additional capital in the future to sufficiently fund our operations.***

We have consumed substantial amounts of capital to date, and our operating expenditures will increase over the next several years if we expand our research and development activities. We have funded all of our operations and capital expenditures with proceeds from private and public sales of our equity securities, strategic alliances with Amgen, GSK and others, equipment financings, interest on investments and government grants. We believe that our existing cash and cash equivalents, short-term investments, interest earned on investments, proceeds from the sale of our auction rate securities and proceeds already received from our equity financings should be sufficient to meet our projected operating requirements for at least the next 12 months. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development of our drug candidates and other research and development activities, including risks and uncertainties that could impact the rate of progress of our development activities, we are unable to estimate with certainty the amounts of capital outlays and operating expenditures associated with these activities.

For the foreseeable future, our operations will require significant additional funding, in large part due to our research and development expenses and the absence of any revenues from product sales. Until we can generate a sufficient amount of product revenue, we expect to raise future capital through strategic alliance and licensing arrangements, public or private equity offerings and debt financings. We do not currently have any commitments for future funding other than milestone and royalty payments that we may receive under our collaboration and option agreement with Amgen. We may not receive any further funds under that agreement. Our ability to raise funds may be adversely impacted by current economic conditions, including the effects of the recent disruptions to the credit and financial markets in the United States and worldwide. In particular, the pool of third-party capital that in the past has been available to development-stage companies such as ours has decreased significantly in recent years, and such decreased availability may continue for a prolonged period. As a result of these and other factors, we do not know whether additional financing will be available when needed, or that, if available, such financing would be on terms favorable to our stockholders or us.

To the extent that we raise additional funds through strategic alliances or licensing and other arrangements with third parties, we will likely have to relinquish valuable rights to our technologies, research programs or drug candidates, or grant licenses on terms that may not be favorable to us. To the extent that we raise additional funds by issuing equity securities, our stockholders will experience additional dilution. To the extent that we raise additional funds through debt financing, the financing may involve covenants that restrict our business activities. In addition, funding from any of these sources, if needed, may not be available to us on favorable terms, or at all, or in accordance with our planned timelines.

If we can not raise the funds we need to operate our business, we will need to discontinue certain research and development activities and our stock price likely would be negatively affected.

***We depend on Amgen for the conduct, completion and funding of the clinical development and commercialization of omecamtiv mecarbil (formerly known as CK-1827452).***

In May 2009, Amgen exercised its option to acquire an exclusive license to our drug candidate omecamtiv mecarbil worldwide, except for Japan. As a result, Amgen now is responsible for the clinical development and obtaining and maintaining regulatory approval of omecamtiv mecarbil for the potential treatment of heart failure worldwide, except Japan.

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We do not control the clinical development activities being conducted or that may be conducted in the future by Amgen, including, but not limited to, the timing of initiation, termination or completion of clinical trials, the analysis of data arising out of those clinical trials or the timing of release of data concerning those clinical trials, which may impact our ability to report on Amgen's results. Amgen may conduct these activities more slowly or in a different manner than we would if we controlled the clinical development of omecamtiv mecarbil. For example, following the exercise of its option, Amgen informed us that it wishes to conduct additional pharmacokinetic studies in heart failure patients receiving oral doses of omecamtiv mecarbil before commencing a Phase IIb study with an oral formulation of omecamtiv mecarbil in this patient population. As a result, the start of the first Phase IIb trial for an oral formulation of omecamtiv mecarbil is currently anticipated to occur in 2011. Amgen is responsible for filing future applications with the FDA or other regulatory authorities for approval of omecamtiv mecarbil and will be the owner of any marketing approvals issued by the FDA or other regulatory authorities for omecamtiv mecarbil. If the FDA or other regulatory authorities approve omecamtiv mecarbil, Amgen will also be responsible for the marketing and sale of the resulting drug, subject to our right to co-promote omecamtiv mecarbil in North America if we exercise our option to co-fund Phase III development costs of omecamtiv mecarbil under the collaboration. However, we cannot control whether Amgen will devote sufficient attention and resources to the clinical development of omecamtiv mecarbil or will proceed in an expeditious manner, even if we do exercise our option to co-fund the development of omecamtiv mecarbil. Even if the FDA or other regulatory agencies approve omecamtiv mecarbil, Amgen may elect not to proceed with the commercialization of the resulting drug in one or more countries.

Amgen generally has discretion to elect whether to pursue or abandon the development of omecamtiv mecarbil and may terminate our strategic alliance for any reason upon six months prior notice. If the initial results of one or more clinical trials with omecamtiv mecarbil do not meet Amgen's expectations, Amgen may elect to terminate further development of omecamtiv mecarbil or certain of the potential clinical trials for omecamtiv mecarbil, even if the actual number of patients treated at that time is relatively small. If Amgen abandons omecamtiv mecarbil, it would result in a delay in or could prevent us from commercializing omecamtiv mecarbil, and would delay and could prevent us from obtaining revenues for this drug candidate. Disputes may arise between us and Amgen, which may delay or cause the termination of any omecamtiv mecarbil clinical trials, result in significant litigation or cause Amgen to act in a manner that is not in our best interest. If development of omecamtiv mecarbil does not progress for these or any other reasons, we would not receive further milestone payments or royalties on product sales from Amgen with respect to omecamtiv mecarbil. If Amgen abandons development of omecamtiv mecarbil prior to regulatory approval or if it elects not to proceed with commercialization of the resulting drug following regulatory approval, we would have to seek a new partner for clinical development or commercialization, curtail or abandon that clinical development or commercialization, or undertake and fund the clinical development of omecamtiv mecarbil or commercialization of the resulting drug ourselves. If we seek a new partner but are unable to do so on acceptable terms, or at all, or do not have sufficient funds to conduct the development or commercialization of omecamtiv mecarbil ourselves, we would have to curtail or abandon that development or commercialization, which could harm our business.

***We have never generated, and may never generate, revenues from commercial sales of our drugs and we will not have drugs to market for at least several years, if ever.***

We currently have no drugs for sale and we cannot guarantee that we will ever develop or obtain approval to market any drugs. To receive marketing approval for any drug candidate, we must demonstrate that the drug candidate satisfies rigorous standards of safety and efficacy to the FDA in the United States and other regulatory authorities abroad. We and our partners will need to conduct significant additional research and preclinical and clinical testing before we or our partners can file applications with the FDA or other regulatory authorities for approval of any of our drug candidates. In addition, to compete effectively, our drugs must be easy to use, cost-effective and economical to manufacture on a commercial scale, compared to other therapies available for the treatment of the same conditions. We may not achieve any of these objectives. Currently, our only drug candidates that have progressed into clinical development are: omecamtiv mecarbil, our drug candidate for the potential treatment of heart failure; CK-2017357, our drug candidate for the potential treatment of diseases associated with aging, muscle wasting and neuromuscular dysfunction; and ispinesib, SB-743921 and GSK-923295, our drug candidates for the potential treatment of cancer. We cannot be certain that the clinical development of these or any future drug candidates will be successful, that they will receive the regulatory approvals required to commercialize them, or that any of our other research programs will yield a drug candidate suitable for clinical testing or commercialization. Our commercial revenues, if any, will be derived from sales of drugs that we do not expect to be commercially marketed for at least several years, if at all. The development of any one or all of these drug candidates may be discontinued at any stage of our clinical trials programs and we may not generate revenue from any of these drug candidates.

***Clinical trials may fail to demonstrate the desired safety and efficacy of our drug candidates, which could prevent or significantly delay completion of clinical development and regulatory approval.***

Prior to receiving approval to commercialize any of our drug candidates, we must adequately demonstrate to the FDA and foreign regulatory authorities that the drug candidate is sufficiently safe and effective with substantial evidence from well-controlled clinical trials. In clinical trials we will need to demonstrate efficacy for the treatment of specific indications and monitor safety throughout the clinical development process and following approval. None of our drug candidates have yet been demonstrated to be safe and effective in clinical trials and they may never be. In addition, for each of our current preclinical compounds, we must adequately demonstrate satisfactory chemistry, formulation, stability and toxicity in order to submit an investigational new drug application (IND) to the FDA, or an equivalent application in foreign jurisdictions, that would allow us to advance that compound into clinical trials. Furthermore, we may need to submit separate INDs (or foreign equivalent) to different divisions within the FDA (or foreign regulatory authorities) in order to pursue clinical trials in different therapeutic areas. Each new IND (or foreign equivalent) must be reviewed by the new division before the clinical trial under its jurisdiction can proceed, entailing all the risks of delay inherent to regulatory review. If our current or future preclinical studies or clinical trials are unsuccessful, our business will be significantly harmed and our stock price could be negatively affected.

All of our drug candidates are prone to the risks of failure inherent in drug development. Preclinical studies may not yield results that would adequately support the filing of an IND (or a foreign equivalent) with respect to our potential drug candidates. Even if these applications are or have been filed with respect to our drug candidates, the results of preclinical studies do not necessarily predict the results of clinical trials. For example, although preclinical testing indicated that ispinesib causes tumor regression in a variety of tumor types, to date, Phase II clinical trials of ispinesib have not shown clinical activity in all of these tumor types. Similarly, for any of our drug candidates, the results from Phase I clinical trials in healthy volunteers and clinical results from Phase I and II trials in patients are not necessarily indicative of the results of larger Phase III clinical trials that are necessary to establish whether the drug candidate is safe and effective for the applicable indication. Likewise, interim results from a clinical trial may not be indicative of the final results from that trial.

In addition, while the clinical trials of our drug candidates are designed based on the available relevant information, in view of the uncertainties inherent in drug development, such clinical trials may not be designed with focus on indications, patient populations, dosing regimens, safety or efficacy parameters or other variables that will provide the necessary safety or efficacy data to support regulatory approval to commercialize the resulting drugs. For example, in a number of two-stage Phase II clinical trials designed to evaluate the safety and efficacy of ispinesib as monotherapy in the first- or second-line treatment of patients with different forms of cancer, ispinesib did not satisfy the criteria for advancement to Stage 2. In addition, individual patient responses to the dose administered of a drug may vary in a manner that is difficult to predict. Also, the methods we select to assess particular safety or efficacy parameters may not yield the same statistical precision in estimating our drug candidates' effects as may other alternative methodologies. Even if we believe the data collected from clinical trials of our drug candidates are promising, these data may not be sufficient to support approval by the FDA or foreign regulatory authorities. Preclinical and clinical data can be interpreted in different ways. Accordingly, the FDA or foreign regulatory authorities could interpret these data in different ways than we or our partners do, which could delay, limit or prevent regulatory approval.

Administering any of our drug candidates or potential drug candidates may produce undesirable side effects, also known as adverse effects. Toxicities and adverse effects observed in preclinical studies for some compounds in a particular research and development program may also occur in preclinical studies or clinical trials of other compounds from the same program. Potential toxicity issues may arise from the effects of the active pharmaceutical ingredient itself or from impurities or degradants that are present in the active pharmaceutical ingredient or could form over time in the formulated drug candidate or the active pharmaceutical ingredient. These toxicities or adverse effects could delay or prevent the filing of an IND (or a foreign equivalent) with respect to our drug candidates or potential drug candidates or cause us to modify, suspend or terminate clinical trials with respect to any drug candidate at any time during the development program. The FDA, other regulatory authorities, our partners or we may modify, suspend or terminate clinical trials with our drug candidates at any time. If these or other adverse effects are severe or frequent enough to outweigh the potential efficacy of a drug candidate, the FDA or other regulatory authorities could deny approval of that drug candidate for any or all targeted indications. Even if one or more of our drug candidates were approved for sale as drugs, the occurrence of even a limited number of toxicities or adverse effects when used in large populations may cause the FDA to impose restrictions on, or stop, the further marketing of those drugs. Indications of potential adverse effects or toxicities which do not seem significant during the course of clinical trials may later turn out to actually constitute serious adverse effects or toxicities when a drug is used in large populations or for extended periods of time.

We have observed certain adverse effects in the clinical trials conducted with our drug candidates. For example, in clinical trials of omecamtiv mecarbil, doses that exceeded the maximum-tolerated dose were associated with complaints of chest discomfort, palpitations, dizziness and feeling hot, increases in heart rate, declines in blood pressure, electrocardiographic changes consistent with acute myocardial ischemia and transient rises in the MB fraction of creatine kinase and cardiac troponins I and T, which are indicative of myocardial infarction. In clinical trials of ispinesib, the most commonly observed dose-limiting toxicity was neutropenia, a decrease in the number of a certain type of white blood cell that results in an increase in susceptibility to infection. In a Phase I clinical trial of

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SB-743921, the dose-limiting toxicities observed were: prolonged neutropenia, with or without fever and with or without infection; elevated transaminases and hyperbilirubinemia, both of which are abnormalities of liver function; and hyponatremia, which is a low concentration of sodium in the blood. In Phase I clinical trials of CK-2017357, adverse events of dizziness and euphoric mood appeared to increase in frequency with increasing doses of CK-2017357. At a dose that exceeded the maximum-tolerated dose of CK-2017357, moderate dizziness and an episode of syncope (a temporary loss of consciousness) were observed.

In addition, clinical trials of omecamtiv mecarbil, CK-2017357 and our anti-cancer drug candidates will enroll patients who typically suffer from serious diseases which put them at increased risk of death, and they may die while receiving our drug candidates. In such circumstances, it may not be possible to exclude with certainty a causal relationship to our drug candidate, even though the responsible clinical investigator may view such an event as not study drug-related. For example, in a Phase IIa clinical trial designed to evaluate and compare the oral pharmacokinetics of both modified and immediate release formulations of omecamtiv mecarbil in patients with stable heart failure, a patient died suddenly after receiving the immediate release formulation of omecamtiv mecarbil, without having reported any preceding adverse events. The clinical investigator assessed the patient's death as not related to omecamtiv mecarbil. However, the event was reported to the appropriate regulatory authorities as possibly related to omecamtiv mecarbil because the immediate cause of the patient's death could not be determined, and therefore, a relationship to omecamtiv mecarbil could not be excluded definitively.

Any failure or significant delay in completing preclinical studies or clinical trials for our drug candidates, or in receiving and maintaining regulatory approval for the sale of any resulting drugs, may significantly harm our business and negatively affect our stock price.

### ***Clinical trials are expensive, time-consuming and subject to delay.***

Clinical trials are subject to rigorous regulatory requirements and are very expensive, difficult and time-consuming to design and implement. The length of time and number of trial sites and patients required for clinical trials vary substantially based on the type, complexity, novelty, intended use of the drug candidate and safety concerns. We estimate that the clinical trials of our current drug candidates will each continue for several more years. However, the clinical trials for all or any of these drug candidates may take significantly longer to complete. The commencement and completion of our clinical trials could be delayed or prevented by many factors, including, but not limited to:

- delays in obtaining, or inability to obtain, regulatory or other approvals to commence and conduct clinical trials in the manner we or our partners deem necessary for the appropriate and timely development of our drug candidates and commercialization of any resulting drugs;
- delays in identifying and reaching agreement, or inability to identify and reach agreement, on acceptable terms, with prospective clinical trial sites and other entities involved in the conduct of our clinical trials;
- delays or additional costs in developing, or inability to develop, appropriate formulations of our drug candidates for clinical trial use, including an appropriate modified release oral formulation for omecamtiv mecarbil;
- slower than expected rates of patient recruitment and enrollment, including as a result of competition for patients with other clinical trials; limited numbers of patients that meet the enrollment criteria; patients', investigators' or trial sites' reluctance to agree to the requirements of a protocol; or the introduction of alternative therapies or drugs by others;
- for those drug candidates that are the subject of a strategic alliance, delays in reaching agreement with our partner as to appropriate development strategies;
- an IRB or its foreign equivalent may require changes to a protocol that then require approval from regulatory agencies and other IRBs and their foreign equivalents, or regulatory authorities may require changes to a protocol that then require approval from the IRBs or their foreign equivalents;
- for clinical trials conducted in foreign countries, the time and resources required to identify, interpret and comply with foreign regulatory requirements or changes in those requirements, and political instability or natural disasters occurring in those countries;
- lack of effectiveness of our drug candidates during clinical trials;

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- unforeseen safety issues;
- inadequate supply of clinical trial materials;
- uncertain dosing issues;
- failure by us, our partners, or clinical research organizations, investigators or site personnel engaged by us or our partners to comply with good clinical practices and other applicable laws and regulations;
- inability or unwillingness of investigators or their staffs to follow clinical protocols;
- inability to monitor patients adequately during or after treatment;
- introduction of new therapies or changes in standards of practice or regulatory guidance that render our drug candidates or their clinical trial endpoints obsolete; and
- results from non-clinical studies that may adversely impact the timing or further development of our drug candidates.

We do not know whether planned clinical trials will begin on time, or whether planned or currently ongoing clinical trials will need to be restructured or will be completed on schedule, if at all. Significant delays in clinical trials will impede our ability to commercialize our drug candidates and generate revenue and could significantly increase our development costs.

***If we fail to enter into and maintain successful strategic alliances for our drug candidates, potential drug candidates or research and development programs, we will have to reduce, delay or discontinue our advancement of those drug candidates, potential drug candidates and programs or expand our research and development capabilities and increase our expenditures.***

Drug development is complicated and expensive. We currently have limited financial and operational resources to carry out drug development. Our strategy for developing, manufacturing and commercializing our drug candidates and potential drug candidates currently requires us to enter into and successfully maintain strategic alliances with pharmaceutical companies or other industry participants to advance our programs and reduce our expenditures on each program. Accordingly, the success of our development activities depends in large part on our current and future strategic partners' performance, over which we have little or no control.

We have retained all rights to develop and commercialize CK-2017357, ispinesib, SB-743921 and GSK-923295. We currently do not have a strategic partner for these drug candidates. We are relying on GSK to complete its Phase I clinical trial for GSK-923295. We expect to rely on one or more strategic partners or other arrangements with third parties to advance and develop each of CK-2017357 and other compounds from our skeletal muscle contractility program, ispinesib, SB-743921, GSK-923295 and our smooth muscle myosin inhibitors. However, we may not be able to negotiate and enter into such strategic alliances or arrangements on acceptable terms, if at all, or in accordance with our planned timelines.

We rely on Amgen to conduct non-clinical and clinical development for omecamtiv mecarbil for the potential treatment of heart failure. If Amgen elects to terminate its development activities with respect to omecamtiv mecarbil, we currently do not have an alternative strategic partner for this drug candidate.

Our ability to commercialize drugs that we develop with our partners and that generate royalties from product sales depends on our partners' abilities to assist us in establishing the safety and efficacy of our drug candidates, obtaining and maintaining regulatory approvals and achieving market acceptance of the drugs once commercialized. Our partners may elect to delay or terminate development of one or more drug candidates, independently develop drugs that could compete with ours or fail to commit sufficient resources to the marketing and distribution of drugs developed through their strategic alliances with us. Our partners may not proceed with the development and commercialization of our drug candidates with the same degree of urgency as we would because of other priorities they face.

If we are not able to successfully maintain our existing strategic alliances or establish and successfully maintain additional strategic alliances, we will have to limit the size or scope of, or delay or discontinue, one or more of our drug development programs or research programs, or undertake and fund these programs ourselves. Alternatively, if we elect to continue to conduct any of these drug development programs or research programs on our own, we will need to expand our capability to conduct clinical development by bringing additional skills, technical expertise and resources into our organization. This would require significant additional funding, which may not be available to us on acceptable terms, or at all.

***We depend on contract research organizations to conduct our clinical trials and have limited control over their performance.***

We have used and intend to continue to use contract research organizations (“CROs”) within and outside of the United States to conduct clinical trials of our drug candidates, such as CK-2017357. We do not have control over many aspects of our CROs’ activities, and cannot fully control the amount, timing or quality of resources that they devote to our programs. CROs may not assign as high a priority to our programs or pursue them as diligently as we would if we were undertaking these programs ourselves. The activities conducted by our CROs therefore may not be completed on schedule or in a satisfactory manner. CROs may also give higher priority to relationships with our competitors and potential competitors than to their relationships with us. Outside of the United States, we are particularly dependent on our CROs’ expertise in communicating with clinical trial sites and regulatory authorities and ensuring that our clinical trials and related activities and regulatory filings comply with applicable laws. Our CROs’ failure to carry out development activities on our behalf according to our and the FDA’s or other regulatory agencies’ requirements and in accordance with applicable U.S. and foreign laws, or our failure to properly coordinate and manage these activities, could increase the cost of our operations and delay or prevent the development, approval and commercialization of our drug candidates. In addition, if a CRO fails to perform as agreed, our ability to collect damages may be contractually limited. If we fail to effectively manage the CROs carrying out the development of our drug candidates or if our CROs fail to perform as agreed, the commercialization of our drug candidates will be delayed or prevented.

***We have no manufacturing capacity and depend on our strategic partners and contract manufacturers to produce our clinical trial drug supplies for each of our drug candidates and potential drug candidates, and anticipate continued reliance on contract manufacturers for the development and commercialization of our potential drugs.***

We do not currently operate manufacturing facilities for clinical or commercial production of our drug candidates or potential drug candidates. We have limited experience in drug formulation and manufacturing, and we lack the resources and the capabilities to manufacture any of our drug candidates or potential drug candidates on a clinical or commercial scale. Amgen has assumed responsibility to conduct these activities for the ongoing clinical development of omeamtiv mecarbil worldwide, except Japan. We have relied on GSK to conduct these activities for the ongoing clinical development of GSK-923295. For CK-2017357 and our other drug candidates and potential drug candidates, we rely (and for omeamtiv mecarbil, ispinisib and SB-743921, we have relied) on a limited number of contract manufacturers, and, in particular, we rely on single-source contract manufacturers for the active pharmaceutical ingredient and the drug product supply for our clinical trials. We expect to rely on contract manufacturers to supply all future drug candidates for which we conduct clinical development. If any of our existing or future contract manufacturers fail to perform satisfactorily, it could delay clinical development or regulatory approval of our drug candidates or commercialization of our drugs, producing additional losses and depriving us of potential product revenues. In addition, if a contract manufacturer fails to perform as agreed, our ability to collect damages may be contractually limited.

Our drug candidates and potential drug candidates require precise high-quality manufacturing. The failure to achieve and maintain high manufacturing standards, including failure to detect or control anticipated or unanticipated manufacturing errors or the frequent occurrence of such errors, could result in patient injury or death, discontinuance or delay of ongoing or planned clinical trials, delays or failures in product testing or delivery, cost overruns, product recalls or withdrawals and other problems that could seriously hurt our business. Contract drug manufacturers often encounter difficulties involving production yields, quality control and quality assurance and shortages of qualified personnel. These manufacturers are subject to stringent regulatory requirements, including the FDA’s current good manufacturing practices regulations and similar foreign laws and standards. Each contract manufacturer must pass a pre-approval inspection before we can obtain marketing approval for any of our drug candidates and following approval will be subject to ongoing periodic unannounced inspections by the FDA, the U.S. Drug Enforcement Agency and other regulatory agencies, to ensure strict compliance with current good manufacturing practices and other applicable government regulations and corresponding foreign laws and standards. We seek to ensure that our contract manufacturers comply fully with all applicable regulations, laws and standards. However, we do not have control over our contract manufacturers’ compliance with these regulations, laws and standards. If one of our contract manufacturers fails to pass its pre-approval inspection or maintain ongoing compliance at any time, the production of our drug candidates could be interrupted, resulting in delays or discontinuance of our clinical trials, additional costs and potentially lost revenues. In addition, failure of any third party manufacturers or us to comply with applicable regulations, including pre-or post-approval inspections and the current good manufacturing practice requirements of the FDA or other comparable regulatory agencies, could result in sanctions being imposed on us. These sanctions could include fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our products, delay, suspension or withdrawal of approvals, license revocation, product seizures or recalls, operational restrictions and criminal prosecutions, any of which could significantly and adversely affect our business.

In addition, our existing and future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to successfully produce, store and distribute our drug candidates. If a natural disaster, business failure, strike or other difficulty occurs, we may be unable to replace these contract manufacturers in a timely or cost-effective manner and the production of our drug candidates would be interrupted, resulting in delays and additional costs.

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Switching manufacturers or manufacturing sites would be difficult and time-consuming because the number of potential manufacturers is limited. In addition, before a drug from any replacement manufacturer or manufacturing site can be commercialized, the FDA and, in some cases, foreign regulatory agencies, must approve that site. These approvals would require regulatory testing and compliance inspections. A new manufacturer or manufacturing site also would have to be educated in, or develop substantially equivalent processes for, production of our drugs and drug candidates. It may be difficult or impossible to transfer certain elements of a manufacturing process to a new manufacturer or for us to find a replacement manufacturer on acceptable terms quickly, or at all, either of which would delay or prevent our ability to develop drug candidates and commercialize any resulting drugs.

***We may not be able to successfully scale-up manufacturing of our drug candidates in sufficient quality and quantity, which would delay or prevent us from developing our drug candidates and commercializing resulting approved drugs, if any.***

To date, our drug candidates have been manufactured in small quantities for preclinical studies and early-stage clinical trials. In order to conduct larger scale or late-stage clinical trials for a drug candidate and for commercialization of the resulting drug if that drug candidate is approved for sale, we will need to manufacture it in larger quantities. We may not be able to successfully increase the manufacturing capacity for any of our drug candidates, whether in collaboration with third-party manufacturers or on our own, in a timely or cost-effective manner or at all. If a contract manufacturer makes improvements in the manufacturing process for our drug candidates, we may not own, or may have to share, the intellectual property rights to those improvements. Significant scale-up of manufacturing may require additional validation studies, which are costly and which the FDA must review and approve. In addition, quality issues may arise during those scale-up activities because of the inherent properties of a drug candidate itself or of a drug candidate in combination with other components added during the manufacturing and packaging process, or during shipping and storage of the finished product or active pharmaceutical ingredients. If we are unable to successfully scale-up manufacture of any of our drug candidates in sufficient quality and quantity, the development of that drug candidate and regulatory approval or commercial launch for any resulting drugs may be delayed or there may be a shortage in supply, which could significantly harm our business.

***The mechanisms of action of our drug candidates and potential drug candidates are unproven, and we do not know whether we will be able to develop any drug of commercial value.***

We have discovered and are currently developing drug candidates and potential drug candidates that have what we believe are novel mechanisms of action directed against cytoskeletal targets, and intend to continue to do so. Because no currently approved drugs appear to operate via the same biochemical mechanisms as our compounds, we cannot be certain that our drug candidates and potential drug candidates will result in commercially viable drugs that safely and effectively treat the indications for which we intend to develop them. The results we have seen for our compounds in preclinical models may not translate into similar results in humans, and results of early clinical trials in humans may not be predictive of the results of larger clinical trials that may later be conducted with our drug candidates. Even if we are successful in developing and receiving regulatory approval for a drug candidate for the treatment of a particular disease, we cannot be certain that we will also be able to develop and receive regulatory approval for that or other drug candidates for the treatment of other diseases. If we or our partners are unable to successfully develop and commercialize our drug candidates, our business will be materially harmed.

***Our success depends substantially upon our ability to obtain and maintain intellectual property protection relating to our drug candidates and research technologies.***

We own, or hold exclusive licenses to, a number of U.S. and foreign patents and patent applications directed to our drug candidates and research technologies. Our success depends on our ability to obtain patent protection both in the United States and in other countries for our drug candidates, their methods of manufacture and use, and our technologies. Our ability to protect our drug candidates and technologies from unauthorized or infringing use by third parties depends substantially on our ability to obtain and enforce our patents. If our issued patents and patent applications, if granted, do not adequately describe, enable or otherwise provide coverage of our technologies and drug candidates, including omeceamtiv mecarbil, CK-2017357, ispinesib, SB-743921 and GSK-923295, we or our licensees would not be able to exclude others from developing or commercializing these drug candidates. Furthermore, the degree of future protection of our proprietary rights is uncertain because legal means may not adequately protect our rights or permit us to gain or keep our competitive advantage.

Due to evolving legal standards relating to the patentability, validity and enforceability of patents covering pharmaceutical inventions and the claim scope of these patents, our ability to enforce our existing patents and to obtain and enforce patents that may issue from any pending or future patent applications is uncertain and involves complex legal, scientific and factual questions. The standards which the U.S. Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and are subject to change. To date, no consistent policy has emerged regarding the breadth of claims allowed

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in biotechnology and pharmaceutical patents. Thus, we cannot be sure that any patents will issue from any pending or future patent applications owned by or licensed to us. Even if patents do issue, we cannot be sure that the claims of these patents will be held valid or enforceable by a court of law, will provide us with any significant protection against competitive products, or will afford us a commercial advantage over competitive products. In particular:

- we or our licensors might not have been the first to make the inventions covered by each of our pending patent applications and issued patents;
- we or our licensors might not have been the first to file patent applications for the inventions covered by our pending patent applications and issued patents;
- others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights;
- some or all of our or our licensors' pending patent applications may not result in issued patents or the claims that issue may be narrow in scope and not provide us with competitive advantages;
- our and our licensors' issued patents may not provide a basis for commercially viable drugs or therapies or may be challenged and invalidated by third parties;
- our or our licensors' patent applications or patents may be subject to interference, opposition or similar administrative proceedings that may result in a reduction in their scope or their loss altogether;
- we may not develop additional proprietary technologies or drug candidates that are patentable; or
- the patents of others may prevent us or our partners from discovering, developing or commercializing our drug candidates.

Patent protection is afforded on a country-by-country basis. Some foreign jurisdictions do not protect intellectual property rights to the same extent as in the United States. Many companies have encountered significant difficulties in protecting and defending intellectual property rights in foreign jurisdictions. Some of our development efforts are performed in countries outside of the United States through third party contractors. We may not be able to effectively monitor and assess intellectual property developed by these contractors. We therefore may not be able to effectively protect this intellectual property and could lose potentially valuable intellectual property rights. In addition, the legal protection afforded to inventors and owners of intellectual property in countries outside of the United States may not be as protective of intellectual property rights as in the United States. Therefore, we may be unable to acquire and protect intellectual property developed by these contractors to the same extent as if these development activities were being conducted in the United States. If we encounter difficulties in protecting our intellectual property rights in foreign jurisdictions, our business prospects could be substantially harmed.

Under our license agreement with the University of California and Stanford University, we have obtained an exclusive license to certain issued U.S. and European patents relating to certain of our research activities. Since we have not fully met certain of our obligations under this license agreement, including certain diligence obligations, this agreement may be terminated, in which case we would no longer have a license to these patents or to future patents that may issue from the pending applications. This may impair our ability to continue to practice the research methods covered by the issued patents. Alternatively, our license rights may become non-exclusive, which would allow the University of California and Stanford University to grant third parties the right to practice those patents. Our drug candidates and potential drug candidates in development are not covered by the patents subject to this license agreement.

We rely on intellectual property assignment agreements with our corporate partners, employees, consultants, scientific advisors and other collaborators to grant us ownership of new intellectual property that is developed. These agreements may not result in the effective assignment to us of that intellectual property. As a result, our ownership of key intellectual property could be compromised.

Changes in either the patent laws or their interpretation in the United States or other countries may diminish the value of our intellectual property or our ability to obtain patents. For example, the U.S. Congress is currently considering bills that could change U.S. law regarding, among other things, post-grant review of issued patents and the calculation of damages once patent infringement has been determined by a court of law. If enacted into law, these provisions could severely weaken patent protection in the United States.



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If one or more products resulting from our drug candidates is approved for sale by the FDA and we do not have adequate intellectual property protection for those products, competitors could duplicate them for approval and sale in the United States without repeating the extensive testing required of us or our partners to obtain FDA approval. Regardless of any patent protection, under current law, an application for a generic version of a new chemical entity cannot be approved until at least five years after the FDA has approved the original product. When that period expires, or if that period is altered, the FDA could approve a generic version of our product regardless of our patent protection. An applicant for a generic version of our product may only be required to conduct a relatively inexpensive study to show that its product is bioequivalent to our product, and may not have to repeat the lengthy and expensive clinical trials that we or our partners conducted to demonstrate that the product is safe and effective. In the absence of adequate patent protection for our products in other countries, competitors may similarly be able to obtain regulatory approval in those countries of generic versions of our products.

We also rely on trade secrets to protect our technology, particularly where we believe patent protection is not appropriate or obtainable. However, trade secrets are often difficult to protect, especially outside of the United States. While we endeavor to use reasonable efforts to protect our trade secrets, our or our partners' employees, consultants, contractors or scientific and other advisors may unintentionally or willfully disclose our information to competitors. In addition, confidentiality agreements, if any, executed by those individuals may not be enforceable or provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. Pursuing a claim that a third party had illegally obtained and was using our trade secrets would be expensive and time-consuming, and the outcome would be unpredictable. Even if we are able to maintain our trade secrets as confidential, if our competitors independently develop information equivalent or similar to our trade secrets, our business could be harmed.

If we are not able to defend the patent or trade secret protection position of our technologies and drug candidates, then we will not be able to exclude competitors from developing or marketing competing drugs, and we may not generate enough revenue from product sales to justify the cost of development of our drugs or to achieve or maintain profitability.

***If we are sued for infringing third party intellectual property rights, it will be costly and time-consuming, and an unfavorable outcome would have a significant adverse effect on our business.***

Our ability to commercialize drugs depends on our ability to use, manufacture and sell those drugs without infringing the patents or other proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications owned by third parties exist in the therapeutic areas in which we are developing drug candidates and seeking new potential drug candidates. In addition, because patent applications can take several years to issue, there may be currently pending applications, unknown to us, which could later result in issued patents that our activities with our drug candidates could infringe. There may also be existing patents, unknown to us, that our activities with our drug candidates could infringe.

Currently, we are aware of an issued U.S. patent and at least one pending U.S. patent application assigned to Curis, Inc., relating to certain compounds in the quinazolinone class. Ispinesib falls into this class of compounds. The Curis U.S. patent claims a method of inhibiting signaling by what is called the hedgehog pathway using certain quinazolinone compounds. Curis also has pending applications in Europe, Japan, Australia and Canada with claims covering certain quinazolinone compounds, compositions thereof and methods of their use. Two of the Australian applications have been allowed and two of the European applications have been granted. We have opposed the granting of certain of these patents to Curis in Europe and in Australia. Curis has withdrawn one of the Australian applications. One of the European patents that we opposed was recently revoked and is no longer valid in Europe. Curis has appealed this decision.

Curis or a third party may assert that the manufacture, use, importation or sale of isspinesib may infringe one or more of its patents. We believe that we have valid defenses against the issued U.S. patent owned by Curis if it were to be asserted against us. However, we cannot guarantee that a court would find these defenses valid or that any additional defenses would be successful. We have not attempted to obtain a license to these patents. If we decide to seek a license to these patents, we cannot guarantee that such a license would be available on acceptable terms, if at all.

Other future products of ours may be impacted by patents of companies engaged in competitive programs with significantly greater resources (such as Bayer AG, Merck & Co., Inc., Merck GmbH, Eli Lilly and Company, Bristol-Myers Squibb Company and AstraZeneca AB). Further development of these products could be impacted by these patents and result in significant legal fees.

If a third party claims that our actions infringe its patents or other proprietary rights, we could face a number of issues that could seriously harm our competitive position, including, but not limited to:

- infringement and other intellectual property claims that, even if meritless, can be costly and time-consuming to litigate, delay the regulatory approval process and divert management's attention from our core business operations;

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- substantial damages for past infringement which we may have to pay if a court determines that our drugs or technologies infringe a third party's patent or other proprietary rights;
- a court prohibiting us from selling or licensing our drugs or technologies unless the holder licenses the patent or other proprietary rights to us, which it is not required to do; and
- if a license is available from a holder, we may have to pay substantial royalties or grant cross-licenses to our patents or other proprietary rights.

If any of these events occur, it could significantly harm our business and negatively affect our stock price.

***We may undertake infringement or other legal proceedings against third parties, causing us to spend substantial resources on litigation and exposing our own intellectual property portfolio to challenge.***

Third parties may infringe our patents. To prevent infringement or unauthorized use, we may need to file infringement suits, which are expensive and time-consuming. In an infringement proceeding, a court may decide that one or more of our patents is invalid, unenforceable, or both. In this case, third parties may be able to use our technology without paying licensing fees or royalties. Even if the validity of our patents is upheld, a court may refuse to stop the other party from using the technology at issue on the ground that the other party's activities are not covered by our patents. Policing unauthorized use of our intellectual property is difficult, and we may not be able to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States. In addition, third parties may affirmatively challenge our rights to, or the scope or validity of, our patent rights.

***We may become involved in disputes with our strategic partners over intellectual property ownership, and publications by our research collaborators and clinical investigators could impair our ability to obtain patent protection or protect our proprietary information, either of which would have a significant impact on our business.***

Inventions discovered under our current or future strategic alliance agreements may become jointly owned by our strategic partners and us in some cases, and the exclusive property of one of us in other cases. Under some circumstances, it may be difficult to determine who owns a particular invention or whether it is jointly owned, and disputes could arise regarding ownership or use of those inventions. These disputes could be costly and time-consuming, and an unfavorable outcome could have a significant adverse effect on our business if we were not able to protect or license rights to these inventions. In addition, our research collaborators and clinical investigators generally have contractual rights to publish data arising from their work. Publications by our research collaborators and clinical investigators relating to our research and development programs, either with or without our consent, could benefit our current or potential competitors and may impair our ability to obtain patent protection or protect our proprietary information, which could significantly harm our business.

***We may be subject to claims that we or our employees have wrongfully used or disclosed trade secrets of their former employers.***

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending these claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain potential drugs, which could significantly harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and distract management.

***Our competitors may develop drugs that are less expensive, safer or more effective than ours, which may diminish or eliminate the commercial success of any drugs that we may commercialize.***

We compete with companies that have developed drugs or are developing drug candidates for cardiovascular diseases, cancer and other diseases for which our drug candidates may be useful treatments. For example, if omecamtiv mecarbil is approved for marketing by the FDA for heart failure, that drug candidate would compete against other drugs used for the treatment of heart failure. These include generic drugs, such as milrinone, dobutamine or digoxin and newer marketed drugs such as nesiritide. Omecamtiv mecarbil could also potentially compete against other novel drug candidates in development, such as istaroxamine, which is being developed by Debiopharm Group; bucindolol, which is being developed by ARCA biopharma, Inc.; relaxin, which is being developed by Novartis; and CD-NP, which is being developed by Nile Therapeutics, Inc. In addition, there are a number of medical devices being developed for the potential treatment of heart failure.

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With respect to CK-2017357 and other compounds that may arise from our skeletal muscle contractility program, potential competitors include Ligand Pharmaceuticals, Inc., which is developing LGD-4033, a selective androgen receptor modulator, for muscle wasting; GTx, Inc., which is developing ostarine, a selective androgen receptor modulator, for cancer cachexia; and Amgen, which is investigating AMG 745, a myostatin inhibitor, for its utility in inhibiting muscle loss associated with a variety of diseases and conditions. Acceleron Pharma, Inc. is conducting clinical development with ACE-031, a myostatin inhibitor, and related compounds to evaluate their ability to treat diseases involving the loss of muscle mass, strength and function. We are aware that other companies are developing potential new therapies for amyotrophic lateral sclerosis, such as Knopp Neurosciences, Inc., Mitsubishi Tanabe Pharma Corporation, Eisai Inc., Trophos SA, Teva Pharmaceutical Industries Ltd., Isis Pharmaceuticals, Inc. and Sangamo BioSciences, Inc. If CK-2017357 or other of our skeletal muscle sarcomere activators are approved for the treatment of claudication associated with peripheral artery disease, they will compete with currently approved therapies for the treatment of peripheral artery disease. We are also aware that a number of companies are developing potential new treatments for peripheral artery disease or associated symptoms of claudication.

If approved for marketing by the FDA, depending on the approved clinical indication, our anti-cancer drug candidates ispinesib, SB-743921 and GSK-923295 would compete against existing cancer treatments such as paclitaxel, docetaxel, vincristine, vinorelbine, navelbine, ixabepilone and potentially against other novel anti-cancer drug candidates that are currently in development. These include compounds that are reformulated taxanes, other tubulin binding compounds or epothilones. We are also aware that Merck & Co., Inc., Eli Lilly and Company, Bristol-Myers Squibb Company, AstraZeneca AB, Array Biopharma Inc., ArQule, Inc., Alnylam, Inc. and others are conducting research and development focused on KSP and other mitotic kinesins. In addition, Bristol-Myers Squibb Company, Merck & Co., Inc., Novartis, Genentech, Hoffman-La Roche Ltd., Eisai, Inc., Seattle Genetics, Inc. and other pharmaceutical and biopharmaceutical companies are developing other approaches to treating cancer.

Our competitors may:

- develop drug candidates and market drugs that are less expensive or more effective than our future drugs;
- commercialize competing drugs before we or our partners can launch any drugs developed from our drug candidates;
- hold or obtain proprietary rights that could prevent us from commercializing our products;
- initiate or withstand substantial price competition more successfully than we can;
- more successfully recruit skilled scientific workers and management from the limited pool of available talent;
- more effectively negotiate third-party licenses and strategic alliances;
- take advantage of acquisition or other opportunities more readily than we can;
- develop drug candidates and market drugs that increase the levels of safety or efficacy that our drug candidates will need to show in order to obtain regulatory approval; or
- introduce therapies or market drugs that render the market opportunity for our potential drugs obsolete.

We will compete for market share against large pharmaceutical and biotechnology companies and smaller companies that are collaborating with larger pharmaceutical companies, new companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors, either alone or together with their partners, may develop new drug candidates that will compete with ours. These competitors may, and in certain cases do, operate larger research and development programs or have substantially greater financial resources than we do. Our competitors may also have significantly greater experience in:

- developing drug candidates;
- undertaking preclinical testing and clinical trials;
- building relationships with key customers and opinion-leading physicians;
- obtaining and maintaining FDA and other regulatory approvals of drug candidates;

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- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

If our competitors market drugs that are less expensive, safer or more efficacious than our potential drugs, or that reach the market sooner than our potential drugs, we may not achieve commercial success. In addition, the life sciences industry is characterized by rapid technological change. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Our competitors may render our technologies obsolete by improving existing technological approaches or developing new or different approaches, potentially eliminating the advantages in our drug discovery process that we believe we derive from our research approach and proprietary technologies.

***We may expand our development and clinical research capabilities and, as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.***

We may have growth in our expenditures, the number of our employees and the scope of our operations, in particular with respect to those drug candidates that we elect to develop or commercialize independently or together with a partner. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The physical expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

***Our failure to attract and retain skilled personnel could impair our drug development and commercialization activities.***

Our business depends on the performance of our senior management and key scientific and technical personnel. The loss of the services of any member of our senior management or key scientific or technical staff may significantly delay or prevent the achievement of drug development and other business objectives by diverting management's attention to transition matters and identifying suitable replacements. We also rely on consultants and advisors to assist us in formulating our research and development strategy. All of our consultants and advisors are either self-employed or employed by other organizations, and they may have conflicts of interest or other commitments, such as consulting or advisory contracts with other organizations, that may affect their ability to contribute to us. In addition, if and as our business grows, we will need to recruit additional executive management and scientific and technical personnel. There is currently intense competition for skilled executives and employees with relevant scientific and technical expertise, and this competition is likely to continue. Our inability to attract and retain sufficient scientific, technical and managerial personnel could limit or delay our product development activities, which would adversely affect the development of our drug candidates and commercialization of our potential drugs and growth of our business.

***Any future workforce and expense reductions may have an adverse impact on our internal programs and our ability to hire and retain skilled personnel.***

In light of our continued need for funding and cost control, we may be required to implement future workforce and expense reductions, which may negatively affect our productivity and limit our research and development activities. For example, as part of our strategic restructuring and workforce reduction in 2008, we discontinued our early research activities in oncology. Our future success will depend in large part upon our ability to attract and retain highly skilled personnel. We may have difficulty retaining and attracting such personnel as a result of a perceived risk of future workforce reductions. In addition, the implementation of workforce or expense reduction programs may divert the efforts of our management team and other key employees, which could adversely affect our business.

***We currently have no sales or marketing staff and, if we are unable to enter into or maintain strategic alliances with marketing partners or to develop our own sales and marketing capabilities, we may not be successful in commercializing our potential drugs.***

We currently have no sales, marketing or distribution capabilities. We plan to commercialize drugs that can be effectively marketed and sold in concentrated markets that do not require a large sales force to be competitive. To achieve this goal, we will need to establish our own specialized sales force and marketing organization with technical expertise and supporting distribution capabilities. Developing such an organization is expensive and time-consuming and could delay a product launch. In addition, we may not be able to develop this capacity efficiently, cost-effectively or at all, which could make us unable to commercialize our drugs. If we determine not to market on our drugs on our own, we will depend on strategic alliances with third parties, such as Amgen, which

have established distribution systems and direct sales forces to commercialize them. If we are unable to enter into such arrangements on acceptable terms, we may not be able to successfully commercialize these drugs. To the extent that we are not successful in commercializing any drugs ourselves or through a strategic alliance, our product revenues and business will suffer and our stock price would decrease.

## Risks Related To Our Industry

***The regulatory approval process is expensive, time-consuming and uncertain and may prevent our partners or us from obtaining approvals to commercialize some or all of our drug candidates.***

The research, testing, manufacturing, selling and marketing of drugs are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. Neither we nor our partners are permitted to market our potential drugs in the United States until we receive approval of a new drug application (“NDA”) from the FDA. Neither we nor our partners have received marketing approval for any of Cytokinetics’ drug candidates.

Obtaining NDA approval is a lengthy, expensive and uncertain process. In addition, failure to comply with FDA and other applicable foreign and U.S. regulatory requirements may subject us to administrative or judicially imposed sanctions. These include warning letters, civil and criminal penalties, injunctions, product seizure or detention, product recalls, total or partial suspension of production, and refusal to approve pending NDAs or supplements to approved NDAs.

Regulatory approval of an NDA or NDA supplement is never guaranteed, and the approval process typically takes several years and is extremely expensive. The FDA and foreign regulatory agencies also have substantial discretion in the drug approval process. Despite the time and efforts exerted, failure can occur at any stage, and we could encounter problems that cause us to abandon clinical trials or to repeat or perform additional preclinical testing and clinical trials. The number and focus of preclinical studies and clinical trials that will be required for approval by the FDA and foreign regulatory agencies varies depending on the drug candidate, the disease or condition that the drug candidate is designed to address, and the regulations applicable to any particular drug candidate. The FDA and foreign regulatory agencies can delay, limit or deny approval of a drug candidate for many reasons, including, but not limited to:

- they might determine that a drug candidate is not safe or effective;
- they might not find the data from preclinical testing and clinical trials sufficient and could request that additional trials be performed;
- they might not approve our, our partner’s or the contract manufacturer’s processes or facilities; or
- they might change their approval policies or adopt new regulations.

Even if we receive regulatory approval to manufacture and sell a drug in a particular regulatory jurisdiction, other jurisdictions’ regulatory authorities may not approve that drug for manufacture and sale. If we or our partners fail to receive and maintain regulatory approval for the sale of any drugs resulting from our drug candidates, it would significantly harm our business and negatively affect our stock price.

***If we or our partners receive regulatory approval for our drug candidates, we or they will be subject to ongoing obligations to and continued regulatory review by the FDA and foreign regulatory agencies, and may be subject to additional post-marketing obligations, all of which may result in significant expense and limit commercialization of our potential drugs.***

Any regulatory approvals that we or our partners receive for our drug candidates may be subject to limitations on the indicated uses for which the drug may be marketed or require potentially costly post-marketing follow-up studies. In addition, if the FDA or foreign regulatory agencies approves any of our drug candidates, the labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping for the drug will be subject to extensive regulatory requirements. The subsequent discovery of previously unknown problems with the drug, including adverse events of unanticipated severity or frequency, or the discovery that adverse effects or toxicities observed in preclinical research or clinical trials that were believed to be minor actually constitute much more serious problems, may result in restrictions on the marketing of the drug or withdrawal of the drug from the market.

The FDA and foreign regulatory agencies may change their policies and additional government regulations may be enacted that could prevent or delay regulatory approval of our drug candidates. We cannot predict the likelihood, nature or extent of adverse

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government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are not able to maintain regulatory compliance, we might not be permitted to market our drugs and our business would suffer.

***If physicians and patients do not accept our drugs, we may be unable to generate significant revenue, if any.***

Even if our drug candidates obtain regulatory approval, the resulting drugs, if any, may not gain market acceptance among physicians, healthcare payors, patients and the medical community. Even if the clinical safety and efficacy of drugs developed from our drug candidates are established for purposes of approval, physicians may elect not to recommend these drugs for a variety of reasons including, but not limited to:

- introduction of competitive drugs to the market;
- clinical safety and efficacy of alternative drugs or treatments;
- cost-effectiveness;
- availability of coverage and reimbursement from health maintenance organizations and other third-party payors;
- convenience and ease of administration;
- prevalence and severity of adverse side effects;
- other potential disadvantages relative to alternative treatment methods; or
- insufficient marketing and distribution support.

If our drugs fail to achieve market acceptance, we may not be able to generate significant revenue and our business would suffer.

***The coverage and reimbursement status of newly approved drugs is uncertain and failure to obtain adequate coverage and reimbursement could limit our ability to market any drugs we may develop and decrease our ability to generate revenue.***

Even if one or more of our drugs is approved for sale, the commercial success of our drugs in both domestic and international markets will be substantially dependent on whether third-party coverage and reimbursement is available for our drugs by the medical profession for use by their patients, which is highly uncertain. Medicare, Medicaid, health maintenance organizations and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new drugs. As a result, they may not cover or provide adequate payment for our drugs. They may not view our drugs as cost-effective and reimbursement may not be available to consumers or may be insufficient to allow our drugs to be marketed on a competitive basis. If we are unable to obtain adequate coverage and reimbursement for our drugs, our ability to generate revenue will be adversely affected. Likewise, current and future legislative or regulatory efforts to control or reduce healthcare costs or reform government healthcare programs could result in lower prices or rejection of coverage and reimbursement for our potential drugs. Changes in coverage and reimbursement policies or healthcare cost containment initiatives that limit or restrict reimbursement for our drugs would cause our revenue to decline.

***We may be subject to costly product liability or other liability claims and may not be able to obtain adequate insurance.***

The use of our drug candidates in clinical trials may result in adverse effects. We cannot predict all the possible harms or adverse effects that may result from our clinical trials. We currently maintain limited product liability insurance. We may not have sufficient resources to pay for any liabilities resulting from a personal injury or other claim excluded from, or beyond the limit of, our insurance coverage. Our insurance does not cover third parties' negligence or malpractice, and our clinical investigators and sites may have inadequate insurance or none at all. In addition, in order to conduct clinical trials or otherwise carry out our business, we may have to contractually assume liabilities for which we may not be insured. If we are unable to look to our own or a third party's insurance to pay claims against us, we may have to pay any arising costs and damages ourselves, which may be substantial.

In addition, if we commercially launch drugs based on our drug candidates, we will face even greater exposure to product liability claims. This risk exists even with respect to those drugs that are approved for commercial sale by the FDA and foreign regulatory agencies and manufactured in licensed and regulated facilities. We intend to secure additional limited product liability insurance coverage for drugs that we commercialize, but may not be able to obtain such insurance on acceptable terms with adequate coverage,

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or at reasonable costs. Even if we are ultimately successful in product liability litigation, the litigation would consume substantial amounts of our financial and managerial resources and may create adverse publicity, all of which would impair our ability to generate sales of the affected product and our other potential drugs. Moreover, product recalls may be issued at our discretion or at the direction of the FDA and foreign regulatory agencies, other governmental agencies or other companies having regulatory control for drug sales. Product recalls are generally expensive and often have an adverse effect on the reputation of the drugs being recalled and of the drug's developer or manufacturer.

We may be required to indemnify third parties against damages and other liabilities arising out of our development, commercialization and other business activities, which could be costly and time-consuming and distract management. If third parties that have agreed to indemnify us against damages and other liabilities arising from their activities do not fulfill their obligations, then we may be held responsible for those damages and other liabilities.

***To the extent we elect to fund the development of a drug candidate or the commercialization of a drug at our expense, we will need substantial additional funding.***

The discovery, development and commercialization of new drugs is costly. As a result, to the extent we elect to fund the development of a drug candidate or the commercialization of a drug, we will need to raise additional capital to:

- expand our research and development capabilities;
- fund clinical trials and seek regulatory approvals;
- build or access manufacturing and commercialization capabilities;
- implement additional internal systems and infrastructure;
- maintain, defend and expand the scope of our intellectual property; and
- hire and support additional management and scientific personnel.

Our future funding requirements will depend on many factors, including, but not limited to:

- the rate of progress and costs of our clinical trials and other research and development activities;
- the costs and timing of seeking and obtaining regulatory approvals;
- the costs associated with establishing manufacturing and commercialization capabilities;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the costs of acquiring or investing in businesses, products and technologies;
- the effect of competing technological and market developments; and
- the payment and other terms and timing of any strategic alliance, licensing or other arrangements that we may establish.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to continue to finance our future cash needs primarily through strategic alliances, public or private equity offerings and debt financings. We cannot be certain that additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials or research and development programs or future commercialization initiatives.

***Responding to any claims relating to improper handling, storage or disposal of the hazardous chemicals and radioactive and biological materials we use in our business could be time-consuming and costly.***

Our research and development processes involve the controlled use of hazardous materials, including chemicals and radioactive and biological materials. Our operations produce hazardous waste products. We cannot eliminate the risk of accidental contamination

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or discharge and any resultant injury from those materials. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of hazardous materials. We may be sued for any injury or contamination that results from our or third parties' use of these materials. Compliance with environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development and production activities.

***Our facilities in California are located near an earthquake fault, and an earthquake or other types of natural disasters, catastrophic events or resource shortages could disrupt our operations and adversely affect our results.***

All of our facilities and our important documents and records, such as hard copies of our laboratory books and records for our drug candidates and compounds and our electronic business records, are located in our corporate headquarters at a single location in South San Francisco, California near active earthquake zones. If a natural disaster, such as an earthquake or flood, a catastrophic event such as a disease pandemic or terrorist attack, or a localized extended outage of critical utilities or transportation systems occurs, we could experience a significant business interruption. Our partners and other third parties on which we rely may also be subject to business interruptions from such events. In addition, California from time to time has experienced shortages of water, electric power and natural gas. Future shortages and conservation measures could disrupt our operations and cause expense, thus adversely affecting our business and financial results.

### **Risks Related To an Investment in Our Securities**

***We expect that our stock price will fluctuate significantly, and you may not be able to resell your shares at or at or above your investment price.***

The stock market, particularly in recent months and years, has experienced significant volatility, particularly with respect to pharmaceutical, biotechnology and other life sciences company stocks, which often does not relate to the operating performance of the companies represented by the stock. Factors that could cause volatility in the market price of our common stock include, but are not limited to:

- announcements concerning any of the clinical trials for our drug candidates, such as omecantiv mecarbil for heart failure; CK- 2017357 for the potential treatment of diseases associated with aging, muscle wasting and neuromuscular dysfunction; and ispinesib, SB-743921 or GSK-923295 for cancer (including, but not limited to, the timing of initiation or completion of such trials and the results of such trials, and delays or discontinuations of such trials, including delays resulting from slower than expected or suspended patient enrollment or discontinuations resulting from a failure to meet pre-defined clinical end-points);
- announcements concerning our strategic alliance with Amgen or future strategic alliances;
- failure or delays in entering additional drug candidates into clinical trials;
- failure or discontinuation of any of our research programs;
- issuance of new or changed securities analysts' reports or recommendations;
- failure or delay in establishing new strategic alliances, or the terms of those alliances;
- market conditions in the pharmaceutical, biotechnology and other healthcare-related sectors;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- developments or disputes concerning our intellectual property or other proprietary rights;
- introduction of technological innovations or new products by us or our competitors;
- issues in manufacturing our drug candidates or drugs;
- market acceptance of our drugs;
- third-party healthcare coverage and reimbursement policies;



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- FDA or other U.S. or foreign regulatory actions affecting us or our industry;
- litigation or public concern about the safety of our drug candidates or drugs;
- additions or departures of key personnel; or
- volatility in the stock prices of other companies in our industry or in the stock market generally.

These and other external factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert our management's time and attention.

***If the ownership of our common stock continues to be highly concentrated, it may prevent you and other stockholders from influencing significant corporate decisions and may result in conflicts of interest that could cause our stock price to decline.***

As of July 30, 2010, our executive officers, directors and their affiliates beneficially owned or controlled approximately 22.2% of the outstanding shares of our common stock (after giving effect to the exercise of all outstanding vested and unvested options and warrants). Accordingly, these executive officers, directors and their affiliates, acting as a group, will have substantial influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transactions. These stockholders may also delay or prevent a change of control of us, even if such a change of control would benefit our other stockholders. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

***Volatility in the stock prices of other companies may contribute to volatility in our stock price.***

The stock market in general, and The NASDAQ Global Market ("NASDAQ") and the market for technology companies in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, there has been particular volatility in the market prices of securities of early stage and development stage life sciences companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources, and could harm our reputation and business.

***Our common stock is thinly traded and there may not be an active, liquid trading market for our common stock.***

There is no guarantee that an active trading market for our common stock will be maintained on NASDAQ, or that the volume of trading will be sufficient to allow for timely trades. Investors may not be able to sell their shares quickly or at the latest market price if trading in our stock is not active or if trading volume is limited. In addition, if trading volume in our common stock is limited, trades of relatively small numbers of shares may have a disproportionate effect on the market price of our common stock.

***Evolving regulation of corporate governance and public disclosure may result in additional expenses, use of resources and continuing uncertainty.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission ("SEC") regulations and NASDAQ Stock Market LLC rules are creating uncertainty for public companies. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of these costs. For example, compliance with the internal control requirements of Section 404 of the Sarbanes-Oxley Act has to date required the commitment of significant resources to document and test the adequacy of our internal control over financial reporting. Our assessment, testing and evaluation of the design and operating effectiveness of our internal control over financial reporting resulted in our conclusion that, as of December 31, 2009, our internal control over financial reporting was effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures. However, we can provide no assurance as to conclusions of management or

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by our independent registered public accounting firm with respect to the effectiveness of our internal control over financial reporting in the future. In addition, the SEC has adopted regulations that will require us to file corporate financial statement information in a new interactive data format known as XBRL beginning in 2011. We will incur significant costs and need to invest considerable resources to implement and to remain in compliance with these new requirements.

These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to maintain high standards of corporate governance and public disclosure. As a result, we intend to invest the resources necessary to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, due to ambiguities related to practice or otherwise, regulatory authorities may initiate legal proceedings against us, which could be costly and time-consuming, and our reputation and business may be harmed.

***We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.***

We have paid no cash dividends on any of our classes of capital stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our businesses. In addition, the terms of existing or any future debts may preclude us from paying these dividends.

### **Risks Related To Our Financing Vehicles and Investments**

***Our committed equity financing facility with Kingsbridge may not be available to us if we elect to make a draw down, may require us to make additional "blackout" or other payments to Kingsbridge, and may result in dilution to our stockholders.***

In October 2007, we entered into a committed equity financing facility with Kingsbridge. This committed equity financing facility entitles us to sell and obligates Kingsbridge to purchase, from time to time over a period of three years, shares of our common stock for cash consideration up to an aggregate of \$75.0 million, subject to certain conditions and restrictions. To date, we have received \$15.9 million in gross proceeds under this committed equity financing facility. Under this committed equity financing facility, we have sold 6,682,045 shares and may sell up to a maximum total of 9,779,411 shares. This is the maximum number of shares we may sell to Kingsbridge without our stockholders' approval under the rules of the NASDAQ Stock Market LLC. This limitation may further limit the amount of proceeds we are able to obtain from this committed equity financing facility.

Kingsbridge will not be obligated to purchase shares under this committed equity financing facility unless certain conditions are met, which include a minimum volume-weighted average price of \$2.00 for our common stock; the accuracy of representations and warranties made to Kingsbridge; compliance with laws; effectiveness of the registration statement registering for resale the shares of common stock to be issued in connection with this committed equity financing facility; and the continued listing of our stock on NASDAQ. In addition, Kingsbridge may terminate this committed equity financing facility if it determines that a material adverse event has occurred affecting our business, operations, properties or financial condition and if such condition continues for a period of 10 days from the date Kingsbridge provides us notice of such material adverse event. If we are unable to access funds through this committed equity financing facility, we may be unable to access additional capital on reasonable terms or at all.

We are entitled, in certain circumstances, to deliver a blackout notice to Kingsbridge to suspend the use of the resale registration statement and prohibit Kingsbridge from selling shares under the resale registration statement. If we deliver a blackout notice in the 15 trading days following the settlement of a stock sale, or if the registration statement is not effective in circumstances not permitted by the agreement, then we must make a payment to Kingsbridge, or issue Kingsbridge additional shares in lieu of this payment. This payment or issuance of shares is calculated based on the number of shares actually held by Kingsbridge pursuant to the most recent sale of stock under the committed equity financing facility and the change in the market price of our common stock during the period in which the use of the registration statement is suspended. If the trading price of our common stock declines during a suspension of the registration statement, the blackout payment or issuance of shares could be significant.

When we choose to sell shares to Kingsbridge under this committed equity financing facility, or issue shares in lieu of a blackout payment, it will have a dilutive effect on our current stockholders' holdings, and may result in downward pressure on the price of our common stock. The share price for sales of stock to Kingsbridge under this committed equity financing facility is discounted by up to 10% from the volume-weighted average price of our common stock. If we sell stock under this committed equity financing facility when our share price is decreasing, we will need to issue more shares to raise the same amount of cash than if our stock price was higher. Issuances of stock in the face of a declining share price will have an even greater dilutive effect than if our share price were stable or increasing, and may further decrease our share price.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<b>Exhibit Number</b>	<b>Exhibit Description</b>
3.1(1)	Amended and Restated Certificate of Incorporation.
3.2(1)	Amended and Restated Bylaws.
4.1(2)	Specimen Common Stock Certificate.
4.2(3)	Warrant for the purchase of shares of common stock, dated October 28, 2005, issued by the Company to Kingsbridge Capital Limited.
4.3(3)	Registration Rights Agreement, dated October 28, 2005, by and between the Company and Kingsbridge Capital Limited.
4.4(4)	Registration Rights Agreement, dated as of December 29, 2006, by and between the Company and Amgen Inc.
4.5(5)	Warrant for the purchase of shares of common stock, dated October 15, 2007, issued by the Company to Kingsbridge Capital Limited.
4.6(5)	Registration Rights Agreement, dated October 15, 2007, by and between the Company and Kingsbridge Capital Limited.
10.2	2004 Equity Incentive Plan, as amended.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

- 
- (1) Incorporated by reference from our registration statement on Form S-1, registration number 333-112261, declared effective by the Securities and Exchange Commission on April 29, 2004.
  - (2) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Security and Exchange Commission on May 9, 2007.
  - (3) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 20, 2006.
  - (4) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 3, 2007.
  - (5) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 15, 2007.

**SIGNATURES**

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

Dated: August 4, 2010

CYTOKINETICS, INCORPORATED  
(Registrant)

/s/ Robert I. Blum

Robert I. Blum  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Sharon A. Barbari

Sharon A. Barbari  
Executive Vice President, Finance and Chief Financial Officer  
(Principal Financial Officer)

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**CYTOKINETICS, INCORPORATED**  
**2004 EQUITY INCENTIVE PLAN, AS AMENDED**

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

- (a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.
  - (b) "Affiliated SAR" means an SAR that is granted in connection with a related Option, and which automatically will be deemed to be exercised at the same time that the related Option is exercised.
  - (c) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.
  - (d) "Approval Authority" means an authority, governmental or otherwise, that regulates pre-market approval of goods and services.
  - (e) "Award" means, individually or collectively, a grant under the Plan of Options, SARs, Restricted Stock, Performance Units or Performance Shares.
  - (f) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.
  - (g) "Board" means the Board of Directors of the Company.
  - (h) "Cash Position" means the Company's or a business unit's level of cash, cash equivalents, and available for sale marketable securities.
  - (i) "Change in Control" means the occurrence of any of the following events:
    - (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or
    - (ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;
    - (iii) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or
    - (iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.
  - (j) "Clinical Progression" means, for any Performance Period, a Product's entry into or completion of a phase of clinical development, such as when a Product enters into or completes a Phase 1, Phase 2, Phase 3 or other clinical study.
  - (k) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.
  - (l) "Collaboration Arrangement" means, for any Performance Period, entry into an agreement or arrangement with a third party for the development, commercialization, marketing or distribution of a Product or for the conducting of a research program to discover or develop a Product or technologies.
  - (m) "Collaboration Progression" means, for any Performance Period, an event that triggers an obligation or payment right to
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accrue under a Collaboration Agreement.

- (n) “Committee” means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.
  - (o) “Common Stock” means the common stock of the Company.
  - (p) “Company” means Cytokinetics, Incorporated, a Delaware corporation, or any successor thereto.
  - (q) “Consultant” means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.
  - (r) “Determination Date” means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as “performance-based compensation” under Section 162(m) of the Code.
  - (s) “Director” means a member of the Board.
  - (t) “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.
  - (u) “Earnings Per Share” means as to any Performance Period, the Company’s or a business unit’s Net Income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding, determined in accordance with generally accepted accounting principles.
  - (v) “Employee” means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director’s fee by the Company will be sufficient to constitute “employment” by the Company.
  - (w) “Exchange Act” means the Securities Exchange Act of 1934, as amended.
  - (x) “Exchange Program” means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion, subject to the provisions of Section 4(c).
  - (y) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:
    - (i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Market, the Nasdaq Global Select Market or the Nasdaq Capital Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;
    - (ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or
    - (iii) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.
  - (z) “Financing Event” means, for any Performance Period, the closing of any financing event for capital raising purposes.
  - (aa) “Fiscal Year” means the fiscal year of the Company.
  - (bb) “Freestanding SAR” means an SAR that is granted independently of any Option.
  - (cc) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
  - (dd) “Net Income” means as to any Performance Period, the income after taxes of the Company or a business unit for the Performance Period determined in accordance with generally accepted accounting principles.
  - (ee) “Nonstatutory Stock Option” means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.
  - (ff) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
  - (gg) “Operating Cash Flow” means the Company’s or a business unit’s sum of Net Income plus depreciation and amortization less capital expenditures plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses, determined in accordance with generally acceptable accounting principles.
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(hh) “Operating Expenses” means the sum of the Company’s or a business unit’s research and development expenses and selling and general and administrative expenses during a Performance Period.

(ii) “Operating Income” means the Company’s or a business unit’s income from operations determined in accordance with generally accepted accounting principles.

(jj) “Option” means a stock option granted pursuant to the Plan.

(kk) “Outside Director” means a Director who is not an Employee.

(ll) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(mm) “Participant” means the holder of an outstanding Award.

(nn) “Performance Period” means any Fiscal Year or such other period as determined by the Administrator in its sole discretion.

(oo) “Performance Share” means an Award granted to a Participant pursuant to Section 9.

(pp) “Performance Unit” means an Award granted to a Participant pursuant to Section 9.

(qq) “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(rr) “Plan” means this 2004 Equity Incentive Plan.

(ss) “Product” means any drug candidate or product candidate requiring pre-market approval by an Approval Authority.

(tt) “Product Approval” means the approval by any Approval Authority of the right to market or sell a Product.

(uu) “Product Revenues” means as to any Performance Period, the Company’s or a business unit’s sales, royalties, license fees, milestones and related-party revenues, determined in accordance with generally accepted accounting principles.

(vv) “Profit After Tax” means as to any Performance Period, the Company’s or a business unit’s income after taxes, determined in accordance with generally accepted accounting principles.

(ww) “Projects in Development” refers to one or more projects at any or all stages of development from conception, discovery, and/or initial research through Product Approval, including, but not limited to, pre-clinical studies, filing of an investigational new drug application (IND) or foreign equivalent, Phase 1, Phase 2, and Phase 3 clinical trials and submission and approval of a new drug application (NDA) or foreign equivalent.

(xx) “Regulatory Filings” means as to any Performance Period, filings submitted to an Approval Authority with respect to a Product for which the Company is pursuing Product Approval.

(yy) “Restricted Stock” means shares of Common Stock issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(zz) “Return on Assets” means as to any Performance Period, the percentage equal to the Company’s or a business unit’s Operating Income before incentive compensation, divided by average net Company or business unit, as applicable, assets, determined in accordance with generally accepted accounting principles.

(aaa) “Return on Equity” means as to any Performance Period, the percentage equal to the Company’s Profit After Tax divided by average stockholder’s equity, determined in accordance with generally accepted accounting principles.

(bbb) “Revenue Growth” means as to any Performance Period, the Company’s or a business unit’s net sales determined in accordance with generally accepted accounting principles, compared to the net sales of the immediately preceding quarter.

(ccc) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ddd) “Section 16(b)” means Section 16(b) of the Exchange Act.

(eee) “Service Provider” means an Employee, Director or Consultant.

(fff) “Share” means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ggg) “Stock Appreciation Right” or “SAR” means an Award, granted alone or in connection with an Option, that pursuant to Section 8 is designated as a SAR.

(hhh) “Subsidiary” means a “subsidiary corporation”, whether now or hereafter existing, as defined in Section 424(f) of the Code.

(iii) “Tandem SAR” means an SAR that is granted in connection with a related Option, the exercise of which will require forfeiture of the right to purchase an equal number of Shares under the related Option (and when a Share is purchased under the Option, the SAR will be canceled to the same extent).

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(jii) “Total Stockholder Return” means the total return (change in share price plus reinvestment of any dividends) of a share of Common Stock.

### 3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be optioned and sold under the Plan is (A) 12,735,948 Shares plus (B) any Shares returned on or after February 28, 2010 to the 1997 Stock Option/Stock Issuance Plan as a result of termination of options or repurchase of Shares issued under such plan up to a maximum of 644,066 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Full Value Awards. Any Shares subject to Awards granted with an exercise price less than the Fair Market Value on the date of grant of such Awards will be counted against the numerical limits of this Section 3 as two Shares for every one Share subject thereto. Further, if Shares acquired pursuant to any such Award are forfeited or repurchased by the Company and would otherwise return to the Plan pursuant to Section 3(c), two times the number of Shares so forfeited or repurchased will return to the Plan and will again become available for issuance.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Performance Shares or Performance Units, is forfeited to or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a Stock Appreciation Right settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. If the exercise price of an Option is paid by tender to the Company, or by attestation to the ownership of Shares owned by the Participant, the number of Shares available for issuance under the Plan will be reduced by the gross number of Shares for which the Option is exercised. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if unvested Shares of Restricted Stock, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the tax and exercise price of an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing provisions of this Section 3(c), subject to adjustment provided in Section 13, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

### 4. Administration of the Plan.

#### (a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions of any, and with the approval of the Company’s stockholders, to institute an Exchange Program;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

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(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 18(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan;

(x) to allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Award that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld (the Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined and all elections by a Participant to have Shares withheld for this purpose will be made in such form and under such conditions as the Administrator may deem necessary or advisable);

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Prohibition Against Repricing. Subject to adjustments made pursuant to Section 13, in no event shall the Administrator have the right to amend the terms of any Award to reduce the exercise price of such outstanding Award or cancel an outstanding Award in exchange for cash or other Awards with an exercise price that is less than the exercise price of the original Award without stockholder approval.

(d) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Restricted Stock, Stock Appreciation Rights, Performance Units and Performance Shares may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

#### 6. Stock Options.

##### (a) Limitations.

(i) Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(ii) The following limitations will apply to grants of Options:

(1) No Service Provider will be granted, in any Fiscal Year, Options to purchase more than 1,500,000 Shares.

(2) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 1,500,000 Shares, which will not count against the limit set forth in Section 6(a)(ii)(1) above.

(3) The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 13.

(4) If an Option is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 13), the cancelled Option will be counted against the limits set forth in subsections (1) and (2) above.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

##### (c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

a) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no

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less than 110% of the Fair Market Value per Share on the date of grant.

b) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant.

c) Notwithstanding the foregoing, Incentive Stock Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note; (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option will be exercised and provided that accepting such Shares, in the sole discretion of the Administrator, shall not result in any adverse accounting consequences to the Company; (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; (6) a reduction in the amount of any Company liability to the Participant, including any liability attributable to the Participant's participation in any Company-sponsored deferred compensation program or arrangement; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form

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acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

#### 7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, for Restricted Stock intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, during any Fiscal Year no Participant will receive more than an aggregate of 1,000,000 Shares of Restricted Stock. Notwithstanding the foregoing limitation, in connection with his or her initial service as an Employee, for Restricted Stock intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, an Employee may be granted an aggregate of up to an additional 1,000,000 Shares of Restricted Stock. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

(i) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as "performance-based compensation" under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

#### 8. Stock Appreciation Rights.

(a) Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion. The Administrator may grant Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination thereof.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of SARs granted to any Service Provider; provided, however, no Service Provider will be granted, in any Fiscal Year, SARs covering more than 1,500,000 Shares. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service a Service Provider may be granted SARs covering up to an additional 1,500,000 Shares. The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 13. In addition, if a SAR is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 13), the cancelled SAR will be counted against the numerical share limits set forth above.

(c) Exercise Price and Other Terms. The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of SARs granted under the Plan; provided, however, that the per Share exercise price of a SAR will be no less than 100% of the Fair Market Value per Share on the date of grant. However, the exercise price of Tandem or Affiliated SARs will equal the exercise price of the related Option.

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(d) Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. With respect to a Tandem SAR granted in connection with an Incentive Stock Option: (a) the Tandem SAR will expire no later than the expiration of the underlying Incentive Stock Option; (b) the value of the payout with respect to the Tandem SAR will be for no more than one hundred percent (100%) of the difference between the exercise price of the underlying Incentive Stock Option and the Fair Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (c) the Tandem SAR will be exercisable only when the Fair Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

(e) Exercise of Affiliated SARs. An Affiliated SAR will be deemed to be exercised upon the exercise of the related Option. The deemed exercise of an Affiliated SAR will not necessitate a reduction in the number of Shares subject to the related Option.

(f) Exercise of Freestanding SARs. Freestanding SARs will be exercisable on such terms and conditions as the Administrator, in its sole discretion, will determine.

(g) SAR Agreement. Each SAR grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(h) Maximum Term/Expiration of SARs. An SAR granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(b) relating to the maximum term and Section 6(d) relating to exercise also will apply to SARs.

(i) Payment of SAR Amount. Upon exercise of an SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

- (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
- (ii) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Administrator, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

#### 9. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant provided that during any Fiscal Year, for Performance Units or Performance Shares intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, (i) no Participant will receive Performance Units having an initial value greater than \$4,000,000, and (ii) no Participant will receive more than 1,000,000 Performance Shares. Notwithstanding the foregoing limitation, for Performance Shares intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, in connection with his or her initial service, a Service Provider may be granted up to an additional 1,000,000 Performance Shares.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, or individual goals, applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

(g) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Performance Units/Shares as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the

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achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

10. Performance Goals. The granting and/or vesting of Awards of Restricted Stock, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement (“Performance Goals”) including: (i) Cash Position, (ii) Clinical Progression, (iii) Collaboration Arrangement, (iv) Collaboration Progression, (v) Earnings Per Share, (vi) Financing Event, (vii) Net Income, (viii) Operating Cash Flow, (ix) Operating Expenses, (x) Operating Income, (xi) Product Approval, (xii) Product Revenues, (xiii) Profit After Tax, (xiv) Projects in Development, (xv) Regulatory Filings, (xvi) Return on Assets, (xvii) Return on Equity, (xviii) Revenue Growth, and (xix) Total Stockholder Return. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. Any Performance Goals may be used to measure the performance of the Company as a whole or a business unit of the Company and may be measured relative to a peer group or index. With respect to any Award, Performance Goals may be used alone or in combination. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. In all other respects, Performance Goals will be calculated in accordance with the Company’s financial statements, generally accepted accounting principles, or under a methodology established by the Administrator prior to the issuance of an Award, which is consistently applied and identified in the financial statements, including footnotes, or the management discussion and analysis section of the Company’s annual report. In determining the amounts earned by a Participant pursuant to an Award intended to qualified as “performance-based compensation” under Section 162(m) of the Code, the Administrator will have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period. A Participant will be eligible to receive payment pursuant to an Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code for a Performance Period only if the Performance Goals for such period are achieved.

11. Leaves of Absence. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six months and a day following the 1st day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate; provided, however, that the Administrator may only make an Award transferable to one or more of the following: (i) the Participant’s spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents, siblings or any “Family Member” (as defined pursuant to Rule 701 of the Securities Act of 1933, as amended) of the Participant; (ii) a trust for the benefit of one or more of the Participant or the persons referred to in clause (i); (iii) a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (i) are the only partners, members or stockholders; or (iv) charitable donations.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall appropriately adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, the numerical Share limits in Sections 3, 6, 7, 8, and 9 of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a Change in Control, each outstanding Award will be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock shall lapse, and, with respect to Performance Shares and Performance Units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted for in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be fully vested and exercisable for a

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period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant not at the request of the successor, then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares subject to the Award, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock shall lapse, and, with respect to Performance Shares and Performance Units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the case of a Stock Appreciation Right upon the exercise of which the Administrator determines to pay cash or a Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Performance Share or Performance Unit, for each Share subject to such Award (or in the case of Performance Units, the number of implied shares determined by dividing the value of the Performance Units by the per share consideration received by holders of Common Stock in the Change in Control), to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

#### 14. Tax Withholding

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the amount required to be withheld, (iii) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld, or (iv) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

15. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. Term of Plan. Subject to Section 21 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect for a term of ten (10) years unless terminated earlier under Section 18 of the Plan.

#### 18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

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(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

21. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.



CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Robert I. Blum, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cytokinetics, Incorporated;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements and other financial information included in this 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 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 the Exchange Act Rules 13a(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 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 this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (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 that 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.

Dated: August 4, 2010

By: /s/ Robert I. Blum  
Robert I. Blum  
President and Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 (a) OF THE SARBANES-OXLEY ACT OF 2002

I, Sharon A. Barbari, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cytokinetics, Incorporated;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements and other financial information included in this 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 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 the Exchange Act Rules 13a(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 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 this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (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 that 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.

Dated: August 4, 2010

By: /s/ Sharon A. Barbari  
Sharon A. Barbari  
Executive Vice President, Finance and  
Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18. U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Cytokinetics, Incorporated on Form 10-Q for the quarterly period ended June 30, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Cytokinetics, Incorporated.

Dated: August 4, 2010

/s/ Robert I. Blum

Robert I. Blum  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Sharon A. Barbari

Sharon A. Barbari  
Executive Vice President, Finance and  
Chief Financial Officer  
(Principal Financial Officer)