CYTOKINETICS INC
Form 10-Q
August 04, 2010

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **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

o **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	**94-3291317**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
280 East Grand Avenue South San Francisco, California	**94080**
(Address of principal executive offices)	**(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 þ No o

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 o No o

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

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

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

CYTOKINETICS, INCORPORATED
TABLE OF CONTENTS FOR FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2010

Table of Contents

PART I. FINANCIAL INFORMATION
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
ASSETS		
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	$ 94,616	$ 122,599
LIABILITIES and STOCKHOLDERS EQUITY		
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	7,364	21,171
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	(336,696)	(311,363)

Total stockholders equity	87,252	101,428
Total liabilities and stockholders equity	$ 94,616	$ 122,599

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

Table of Contents

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 August 5, 1997 (Date of Inception) to June 30, 2010
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	
Revenues:					
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	462	71,930	1,084	75,008	164,583
Operating expenses:					
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	13,616	14,385	26,521	28,306	522,412
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)	$ (13,144)	$ 55,959	$ (25,333)	$ 45,274	$ (336,696)
Net income (loss) per common share:					
Basic	$ (0.21)	$ 0.99	$ (0.40)	$ 0.84	
Diluted	$ (0.21)	$ 0.98	$ (0.40)	$ 0.83	
Weighted-average number of shares used in computing net income (loss) per common share:					
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.

Table of Contents

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

	Six Months Ended		Period from August 5, 1997 (Date of Inception) to June 30, 2010
	June 30, 2010	June 30, 2009	
Cash flows from operating activities:			
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	(25,422)	26,329	(277,055)
Cash flows from investing activities:			
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	20,122	(14,303)	(100,897)
Cash flows from financing activities:			

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	(1,896)	31,187	396,317
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	$ 18,365	$ 85,032	$ 18,365

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

Table of Contents

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.

Table of Contents

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):

	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
Change in unrealized gain (loss) on investments	10	(7)	2	(21)
Comprehensive income (loss)	$ (13,134)	$ 55,952	$ (25,331)	$ 45,253

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.

Table of Contents

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

Table of Contents

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 omecamtiv 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 omecamtiv 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.

Table of Contents

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):

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

	December 31, 2009				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Maturity Dates
Cash equivalents money market funds	$ 23,773			$ 23,773	
Short-term investments U.S. Treasury securities	$ 71,265	$ 1	$	$ 71,266	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.

Table of Contents

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.

Table of Contents

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):

	June 30, 2010			
	Fair Value Measurements Using			Assets
	Level 1	Level 2	Level 3	At Fair Value
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	$ 80,102	$	$ 7,475	$ 87,577
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	$ 80,102	$	$ 7,475	$ 87,577

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):

	December 31, 2009		
	Fair Value Measurements Using		Assets
	Level 1	Level 3	

		Level 2		At Fair Value
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	$ 95,039	$	$ 17,900	$ 112,939
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	$ 95,039	$	$ 17,900	$ 112,939

Table of Contents

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):

	ARS	Investment Put Option Related to ARS Rights
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	$ 6,698	$ 777

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.

Table of Contents

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:

Table of Contents

	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	5,052,148	8,249,765	$ 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	175,145	$ 2.37

Note 9. Interest and Other, Net

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Period from August 5, 1997 (date of inception) to June 30, 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	$ 10	$ (1,586)	$ 104	$ (1,428)	$ 21,283

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.

Table of Contents

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;

Table of Contents

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;

Table of Contents

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.

Table of Contents

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 ispinesib, 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 Ib, 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.

Table of Contents

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 tropon