CYTOKINETICS INC
Form 10-Q
May 07, 2009

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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 March 31, 2009

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 April 30, 2009: 53,591,008.

CYTOKINETICS, INCORPORATED
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FOR THE QUARTER ENDED MARCH 31, 2009

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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)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,489	$ 41,819
Short-term investments	15,607	15,048
Related party accounts receivable	7	221
Related party notes receivable short-term portion	40	40
Prepaid and other current assets	1,189	1,782
Total current assets	65,332	58,910
Investments in auction rate securities	17,306	16,636
Investment in put option	2,719	3,389
Property and equipment, net	4,714	5,087
Assets held-for-sale	283	325
Related party notes receivable long-term portion	9	9
Restricted cash	2,232	2,750
Other assets	327	348
Total assets	$ 92,922	$ 87,454
LIABILITIES and STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,256	$ 1,382
Accrued liabilities	6,569	7,174
Related party payables and accrued liabilities	15	
Short-term portion of equipment financing lines	1,925	2,025
Short-term portion of deferred revenue	12,297	12,296
Total current liabilities	22,062	22,877
Long-term portion of equipment financing lines	2,187	2,615
Long-term portion of deferred revenue	9,122	12,196
Loan with UBS	12,355	
Total liabilities	45,726	37,688
Stockholders equity:		
Common stock, $0.001 par value:		
Authorized: 170,000,000 shares; Issued and outstanding:		

53,560,417 shares at March 31, 2009 and 49,939,069 shares at December 31, 2008	54	50
Additional paid-in capital	393,730	385,605
Accumulated other comprehensive income	4	18
Deficit accumulated during the development stage	(346,592)	(335,907)
Total stockholders equity	47,196	49,766
Total liabilities and stockholders equity	$ 92,922	$ 87,454

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

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

	Three Months Ended		Period from August 5, 1997 (date of inception)
	March 31, 2009	March 31, 2008	to March 31, 2009
Revenues:			
Research and development revenues from related parties	$ 20	$ 11	$ 40,459
Research and development, grant and other revenues			2,955
License revenues from related parties	3,058	3,058	41,626
Total revenues	3,078	3,069	85,040
Operating expenses:			
Research and development (1)	9,959	14,102	347,397
General and administrative (1)	4,020	4,157	104,556
Restructuring charges	(58)		2,416
Total operating expenses	13,921	18,259	454,369
Operating loss	(10,843)	(15,190)	(369,329)
Interest and other, net	158	1,295	22,737
Net loss	$ (10,685)	$ (13,895)	$ (346,592)
Net loss per common share basic and diluted	$ (0.21)	$ (0.28)	
Weighted-average number of shares used in computing net loss per common share basic and diluted	51,582	49,294	

(1) Includes the following stock-based compensation charges:

Research and development	$ 613	$ 865	$ 11,719
General and administrative	636	662	9,883

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

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

	Three Months Ended		Period from August 5, 1997 (date of inception)
	March 31, 2009	March 31, 2008	to March 31, 2009
Cash flows from operating activities:			
Net loss	$ (10,685)	$ (13,895)	$ (346,592)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization of property and equipment	515	639	23,960
(Gain) loss on disposal of property and equipment	(32)		319
Non-cash restructuring expenses and reversal	(37)		439
Non-cash interest expense		23	504
Non-cash forgiveness of loan to officer			415
Stock-based compensation	1,249	1,527	21,602
Other non-cash expenses			182
Changes in operating assets and liabilities:			
Related party accounts receivable	214	29	(358)
Prepaid and other assets	614	291	(1,545)
Accounts payable	8	970	1,396
Accrued liabilities	(575)	(348)	6,407
Related party payables and accrued liabilities	15		15
Deferred revenue	(3,074)	(3,058)	21,419
Net cash used in operating activities	(11,788)	(13,822)	(271,837)
Cash flows from investing activities:			
Purchases of investments	(15,631)	(9,400)	(684,996)
Proceeds from sales and maturities of investments	15,059	12,571	649,452
Purchases of property and equipment	(219)	(379)	(29,769)
Proceeds from sale of property and equipment	24		74
(Increase) decrease in restricted cash	518	1,020	(2,232)
Issuance of related party notes receivable			(1,146)
Proceeds from payments of related party notes receivable			829
Net cash provided by (used in) investing activities	(249)	3,812	(67,788)
Cash flows from financing activities:			
Proceeds from initial public offering, sale of common stock to related party, and public offerings, net of issuance costs			193,934
	6,850		38,896

Proceeds from draw down of Committed Equity Financing Facility, net of issuance costs			
Proceeds from other issuances of common stock	30	22	6,187
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	(86)		(86)
Proceeds from equipment financing lines			23,696
Repayment of equipment financing lines	(528)	(1,036)	(20,058)
Net cash provided by (used in) financing activities	18,707	(1,014)	388,114
Net increase (decrease) in cash and cash equivalents	6,670	(11,024)	48,489
Cash and cash equivalents, beginning of period	41,819	116,564	
Cash and cash equivalents, end of period	$ 48,489	$ 105,540	$ 48,489

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

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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.

On April 26, 2004 the Company effected a one-for-two reverse stock split. All share and per share amounts for all periods presented in the accompanying financial statements have been retroactively adjusted to give effect to the reverse stock split. 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 consolidated financial statements contemplate the conduct of the Company s operations in the normal course of business. The Company has incurred net losses since inception and there can be no assurance that the Company will attain profitability. The Company had a net loss of $10.7 million and net cash outflows from operations of $11.8 million for the quarter ended March 31, 2009 and an accumulated deficit of approximately $346.6 million as of March 31, 2009. Cash, cash equivalents and short-term investments increased from $56.9 million at December 31, 2008 to $64.1 million at March 31, 2009. If the Company s losses and net cash outflows continue, and 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 the additional sale of equity securities, payments from strategic collaborations and debt financing. Based on the current status of its development plans, the Company believes that its existing cash, cash equivalents and short-term investments at March 31, 2009 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 development of one or more of its drug candidates or potential drug candidates. Alternatively, the Company might raise funds through public or private financings, strategic relationships 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 accounting principles generally accepted in the United States of America for interim financial information and with 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, 2008 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, 2008.

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Comprehensive Income (Loss)

Comprehensive loss consists of the net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in stockholders equity that are excluded from net loss. Comprehensive loss and its components for the three months ended March 31, 2009 and 2008 were as follows (in thousands):

	Three Months Ended	
	March 31, 2009	March 31, 2008
Net loss	$ (10,685)	$ (13,895)
Change in unrealized gain (loss) on investments	(14)	(947)
Comprehensive loss	$ (10,699)	$ (14,842)

Restricted Cash

In accordance with the terms of the Company s line of credit agreements with General Electric Capital Corporation (GE Capital), the Company is obligated to maintain a certificate of deposit with the lender. The balance of the certificate of deposit was $2.2 million at March 31, 2009 and $2.8 million at December 31, 2008, and was classified as restricted cash.

Fair Value of Financial Instruments

The carrying amount of the Company s cash and cash equivalents, accounts receivable and accounts payable approximates the fair value due to the short-term nature of these instruments. The Company bases the fair value of short-term investments on current market prices and the fair value of noncurrent investments using discounted cash flow models (Note 5). In connection with the failed auctions of the Company s auction rate securities (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 has issued to the Company Series C-2 Auction Rate Securities Rights (the ARS Rights). The carrying value of the put option resulting from the ARS Rights (Note 5) is based on the Black-Scholes option pricing model, which approximates the difference in value between the par value and the fair value of the associated ARS. As permitted under Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159), 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 under SFAS 159 for the put option resulting from the ARS Rights.

Stock-Based Compensation

The Company applies SFAS No. 123R, *Share-Based Payment,* which establishes accounting for share-based payment awards made to employees and directors, including employee stock options and employee stock purchases. Under SFAS No. 123R, 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 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.

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

	March 31, 2009	March 31, 2008
Risk-free interest rate	2.70%	2.90%
Volatility	76%	63%
Expected life (in years)	6.07	6.08
Expected dividend yield	0.00%	0.00%

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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	
	March 31, 2009	March 31, 2008
Risk-free interest rate	2.15%	3.86%
Volatility	68%	77%
Expected life (in years)	1.25	1.25
Expected dividend yield	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.

Under Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payments,* the Company used the simplified method of estimating the expected term for stock-based compensation from January 1, 2006, the date it adopted SFAS No. 123R, through December 31, 2007. Starting January 1, 2008, the Company ceased to use the simplified method, and now uses its own historical exercise activity and extrapolates the life cycle of options outstanding to arrive at its estimated expected term for new option grants.

From January 1, 2006, the date it adopted SFAS No. 123R, through December 31, 2007, the Company estimated the volatility of its common stock by using an average of historical stock price volatility of comparable companies due to the limited length of trading history. Starting 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. Because its outstanding options have an expected term of approximately six years, the Company supplements its own volatility history by using comparable companies volatility history for the relevant period preceding the Company s IPO.

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 Loss Per Common Share

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

	Three Months Ended	
	March 31, 2009	March 31, 2008
Numerator net loss	$ (10,685)	$ (13,895)
Denominator:		
Weighted-average common shares outstanding	51,976	49,294
Less: Restricted stock subject to repurchase	(394)	( )
Weighted-average shares used in computing basic and diluted net loss per common share	51,582	49,294

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

	As of March 31	
	2009	**2008**
Options to purchase common stock	7,544	6,514
Unvested restricted common stock	394	
Warrants to purchase common stock	474	474
Shares issuable related to the ESPP	103	90
Total shares	8,515	7,078

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Note 3. Supplemental Cash Flow Data

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

	Three Months Ended		Period from August 5, 1997 (date of inception)
	March 31, 2009	March 31, 2008	to March 31, 2009
Significant non-cash investing and financing activities:			
Deferred stock-based compensation	$	$	$ 6,940
Purchases of property and equipment through accounts payable	4	92	4
Purchases of property and equipment through trade in value of disposed property and equipment	8		266
Penalty on restructuring of equipment financing lines			475
Conversion of convertible preferred stock to common stock			133,172

Note 4. Related Party Agreements

Research and Development Arrangements

GlaxoSmithKline (GSK). Pursuant to the collaboration and license agreement between the Company and GSK (the GSK Agreement), the Company recognized patent expense reimbursements from GSK of $4,000 and $11,000 for the three months ended March 31, 2009 and 2008, respectively, which were recorded as research and development revenues from related party. Related party receivables from GSK were $5,000 and $0.1 million at March 31, 2009 and December 31, 2008, respectively.

Amgen Inc. (Amgen). Pursuant to the collaboration and option agreement between the Company and Amgen (the Amgen Agreement), the Company recognized license revenue of $3.1 million in each of the three months ended March 31, 2009 and March 31, 2008. The Company also recognized $16,000 of research and development revenues from Amgen in the three months ended March 31, 2009. Deferred revenue related to the Amgen Agreement and the related common stock purchase agreement between the Company and Amgen was $21.4 million at March 31, 2009 and $24.5 million at December 31, 2008.

Board Members

James H. Sabry, M.D., Ph.D. is the Chairman of the Company s Board of Directors and a consultant to the Company. The Company incurred consulting fees earned by Dr. Sabry of $15,000 and zero for the three months ended March 31, 2009 and 2008, respectively. Related party payables and accrued liabilities included $5,000 and zero payable to Dr. Sabry at March 31, 2009 and December 31, 2008, respectively.

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 earned by Dr. Spudich of $10,000 and $13,000 for the three months ended March 31, 2009 and 2008, respectively. Related party payables and accrued liabilities included $10,000 and zero payable to Dr. Spudich at March 31, 2009 and December 31, 2008, respectively.

Note 5. Cash Equivalents, Investments and Fair Value Measurements

Cash Equivalents and Investments

The amortized cost and fair value of cash equivalents, short-term investments, long-term investments and the investment put option at March 31, 2009 and December 31, 2008 was as follows (in thousands):

	March 31, 2009				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Maturity Dates
Cash equivalents money market funds	$ 45,250			$ 45,250	

Cash equivalents U.S. Treasury securities	$ 2,007			2,007		4/2009
Short-term investments U.S. Treasury securities	$ 15,603	$ 4	$	$ 15,607	5/2009	7/2009
Investments in auction rate securities	$ 20,025	$	$ 2,719	$ 17,306	6/2036	8/2045
Investment put option	$	$ 2,719	$	$ 2,719	6/30/2010	7/2/2012

	December 31, 2008					
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Maturity Dates**	
Cash equivalents money market funds	$ 41,224			$ 41,224		
Short-term investments U.S. Treasury securities	$ 15,030	$ 18	$	$ 15,048	1/2009	3/2009
Investments in auction rate securities	$ 20,025	$	$ 3,389	$ 16,636	6/2036	8/2045
Investment put option	$	$ 3,389	$	$ 3,389	6/30/2010	7/2/2012

As of March 31, 2009 and December 31, 2008, the Company s cash equivalents and short-term investments had no unrealized losses.

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Interest income was $0.3 million and $1.4 million for the quarters ended March 31, 2009 and 2008, respectively, and $27.8 million for the period August 5, 1997 (inception) through March 31, 2009.

The Company s long-term investments in ARS as of March 31, 2009 and December 31, 2008 refer to securities that are 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 can attempt to sell the securities through an auction process or continue to hold the securities. The Company has classified its ARS holdings as long-term investments as of March 31, 2009 and December 31, 2008 based on their stated maturity dates.

At March 31, 2009, the Company held approximately $20.0 million in par value of ARS classified as long-term investments. The assets underlying these ARS are student loans that are 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 investments are not currently liquid and the Company will not be able to access these funds until a future auction of these investments is successful, a buyer is found outside of the auction process, they are redeemed by the issuer or the investments mature. Historically, the fair value of ARS investments approximated par value due to the frequent interest rate resets associated with the auction process. However, there is not a current active market for these securities, and therefore they do not have a readily determinable market value. Accordingly, the estimated fair value of the ARS no longer approximates par value. The ARS continue to pay interest according to their stated terms.

In the fourth quarter of 2008, based on valuation models of the individual securities, the Company recognized in the Statement of Operations a loss of approximately $3.4 million on ARS in Interest and Other, net, for which the Company concluded that an other-than-temporary impairment existed. The fair value of the Company s investment in ARS as of March 31, 2009 and December 31, 2008 was determined to be $17.3 million and $16.6 million, respectively. Changes in the fair value of the ARS are recognized in current period earnings in Interest and Other, net. Therefore, the Company recognized $0.7 million of unrealized gain on the ARS in the first quarter of 2009 to record 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 provide 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. Pursuant to the ARS Rights, the Company may require UBS to purchase its ARS at par value at any time between June 30, 2010 and July 2, 2012. In addition, UBS or its affiliates may sell or otherwise dispose of some or all of the ARS at its discretion at any time prior to expiration of the ARS Rights, subject to the obligation to pay the Company the par value of such ARS. The ARS Rights are not transferable, tradable or marginable, and will not be listed or quoted on any securities exchange or any electronic communications network. 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. UBS s obligations in connection with the ARS Rights are not secured by its assets and UBS is not required to obtain any financing to support these obligations. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations in connection with the ARS Rights. If UBS has insufficient funding to buy back the ARS and the auction process continues to fail, the Company may incur further losses on the carrying value of the ARS.

The ARS Rights represent a firm agreement in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), 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 results in a put option that is recognized as a separate freestanding instrument that is accounted for separately from the ARS investment. As of December 31, 2008, the Company recorded $3.4 million as fair value of the put option assets, classified as long-term assets on the Balance Sheet, with a corresponding credit to Interest and Other, net in the Statement of Operations for the year ended December 31, 2008. The put

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option does not meet the definition of a derivative instrument under SFAS 133. Therefore, the Company elected to measure the ARS Rights at fair value under SFAS 159 to mitigate volatility in reported earnings due to their linkage to the ARS. The Company valued the put option using a Black-Scholes option pricing model that included estimates of interest rates, based on data available, and was adjusted for any bearer risk associated with UBS s financial ability to repurchase the ARS beginning June 30, 2010. Any change in these assumptions and market conditions would affect the value of this ARS Rights.

The Company records the ARS Rights in accordance with SFAS 159. Changes in the fair value of the ARS Rights are recognized in current period earnings in Interest and Other, net. Accordingly, the Company recognized $0.7 million of unrealized loss in the first quarter of 2009. The Company anticipates that any future changes in the fair value of the ARS Rights will be offset by the changes in the fair value of the related ARS with no material net impact to the Statement of Operations, subject to UBS s continued performance of its obligations in connection with the ARS Rights. The ARS Rights will continue to be measured at fair value under SFAS 159 until the earlier of the Company s exercise of the ARS Rights, UBS s purchase of the ARS in connection with the ARS Rights, or the maturity of the ARS underlying the ARS Rights.

The Company continues to monitor the market for ARS and consider its impact (if any) on the fair market value of its investments. If the market conditions deteriorate further, the Company may be required to record additional unrealized losses in earnings, offset by corresponding increases in the put option.

Fair Value Measurements

The Company has adopted the methods of fair value described in SFAS No. 157, *Fair Value Measurements* (SFAS 157), to value its financial assets and liabilities. As defined in SFAS 157, fair value is 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. SFAS 157 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 levels of the fair value hierarchy defined by SFAS 157 are as followed:

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 March 31, 2009 are classified in the table below in one of the three categories described above (in thousands):

	Fair Value Measurements Using Level			Assets At Fair Value
	Level 1	2	Level 3	
Money market funds	$ 45,250	$	$	$ 45,250
U.S. Treasury securities	17,614			17,614
Investments in ARS			17,306	17,306
Investment put option related to ARS Rights			2,719	2,719

Total	$ 62,864	$	$ 20,025	$	82,889
Amounts included in:					
Cash and cash equivalents	$ 47,257	$	$	$	47,257
Short-term investments	15,607				15,607
Investments in ARS			17,306		17,306
Investment put option			2,719		2,719
Total	$ 62,864	$	$ 20,025	$	82,889

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Financial assets measured at fair value on a recurring basis as of December 31, 2008 are classified in the table below in one of the three categories described above (in thousands):

	Fair Value Measurements Using			Assets At Fair Value
	Level 1	Level 2	Level 3	
Money market funds	$ 41,224	$	$	$ 41,224
U.S. Treasury securities	15,048			15,048
Investments in ARS			16,636	16,636
Investment put option related to ARS Rights			3,389	3,389
Total	$ 56,272	$	$ 20,025	$ 76,297
Amounts included in:				
Cash and cash equivalents	$ 41,224	$	$	$ 41,224
Short-term investments	15,048			15,048
Investments in ARS			16,636	16,636
Investment put option			3,389	3,389
Total	$ 56,272	$	$ 20,025	$ 76,297

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 or comparable assets. The valuation technique used to measure fair value for Level 3 assets is an income approach, where the expected future cash flows are discounted back to present value for each asset, except for the put option related to the ARS Rights, which is based on Black-Scholes option pricing model and approximates the difference in value between the par value and the fair value of the associated ARS.

At March 31, 2009, the Company held approximately $17.3 million in fair value of ARS classified as long-term investments. The assets underlying the ARS are student loans which are substantially backed by the federal government. The fair values of these securities as of March 31, 2009 were estimated utilizing a discounted cash flow (DCF) analysis. In the first quarter of fiscal year 2008, the Company reclassified its ARS to the Level 3 category, as some of the inputs used in the DCF model include unobservable inputs. 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 include 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 March 31, 2009. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change, which could result in significant changes to the fair value of the ARS. The significant assumptions of the DCF model are 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. The ARS were also compared, when possible, to other observable market data for securities with similar characteristics as the Company s ARS.

Due to the change of the fair value of the Company s ARS and the ARS Rights, unrecognized gains of $0.7 million on the ARS and unrecognized loss of $0.7 million on the put option related to the ARS Rights were included in Interest and Other, net in the accompanying Statements of Operations for three months ended March 31, 2009. The ARS investments continue to pay interest according to their stated terms.

Changes to estimates and assumptions used in estimating the fair value of the ARS and 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 related 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 March 31, 2009, 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 ARS Rights. The following table provides a reconciliation for all assets measured at fair value using significant Level 3 inputs for the three months ended March 31, 2009 (in thousands):

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	ARS	Investment put option
Balance as of December 31, 2008	$ 16,636	$ 3,389
Unrealized gain on ARS, included in Interest and Other, net	670	
Unrealized loss on the ARS Rights, included in Interest and Other, net		(670)
Balance as of March 31, 2009	$ 17,306	$ 2,719

The total amount of assets measured using valuation methodologies based on Level 3 inputs represented approximately 24% of the Company s total assets that were measured at fair value as of March 31, 2009.

Note 6. Loan with UBS

In connection with the settlement with UBS AG relating to the Company s ARS, 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 and its affiliates 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. The Company has drawn down the full amount available under the loan agreement. In general, the amount of interest payable under the loan agreement is intended to equal the amount of interest the Company would otherwise receive with respect to its ARS. During the three months ended March 31, 2009, the interest rate due on the loan with UBS was lower than the interest rate earned from the ARS. In addition, the principal balance of the loan was lower than the par value of the ARS. During the three months ended March 31, 2009, the Company paid $38,000 of interest expense associated with the loan and received $124,000 in interest income from the ARS. In accordance with the loan agreement, the Company applied the net interest received of $86,000 to the principal of the loan.

The borrowings under the loan agreement are payable upon demand. However, upon such demand, UBS Financial Services Inc. or its affiliates will be required to arrange alternative financing for the Company on terms and conditions substantially the same as those under the loan agreement, unless the demand right was exercised as a result of certain specified events or the customer relationship between UBS and the Company is terminated for cause by UBS. If such alternative financing cannot be established, then a UBS affiliate will purchase the pledged ARS at par value. Proceeds of sales of the ARS will first be applied to repayment of the loan with the balance, if any, for the Company s account.

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, the Company has focused its research activities to its muscle contractility programs while continuing to advance its ongoing clinical trials in heart failure and cancer and has discontinued early research activities directed to oncology. The Company communicated to affected employees a plan of organizational restructuring through involuntary terminations. Pursuant to SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* the Company recorded a charge of approximately $2.5 million in 2008. To implement this plan, the Company reduced its workforce by approximately 29%, or 45 employees. The affected employees were provided with severance and related benefits payments and outplacement assistance.

The Company has completed substantially all restructuring activities and recognized all anticipated restructuring charges. All severance payments were made as of December 31, 2008. The Company expects to record only immaterial cash payments associated with the accrued restructuring costs during the remainder of 2009, primarily related to employee benefits and outplacement services.

As a result of the restructuring plan, in the year ended December 31, 2008, the Company recorded restructuring charges of $2.2 million for employee severance and benefit related costs and $0.3 million related to the impairment of lab equipment that is held-for-sale. In the three months ended March 31, 2009, the Company recorded a decrease in restructuring expenses of $0.1 million, which primarily consisted of the reduction of accrued employee benefit related restructuring costs and gain on disposal of held-for-sale equipment. The Company expects to sell the held-for-sale equipment by September 2009.

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The following table summarizes the accrual balances and utilization by cost type for the restructuring plan (in thousands):

	Employee Severance and Related Benefit	Impairment of Fixed Assets	Total
Restructuring liability at December 31, 2008	$ 193	$	$ 193
Reversals of charges	(33)	(25)	(58)
Cash payments	(124)	21	(103)
Non-cash settlement		4	4
Restructuring liability at March 31, 2009	$ 36	$	$ 36

Note 8. Stockholders Equity

Common Stock

In October 2007, the Company entered into a committed equity financing facility (the 2007 CEFF) with Kingsbridge Capital Limited (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, including a minimum volume-weighted average price of $2.00 for the Company s common stock, from time to time under this facility, at the Company s election, Kingsbridge is committed to purchase newly-issued shares of the Company s 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 the Company may issue in any pricing period is the lesser of 2.5% of its market capitalization immediately prior to the commencement of the pricing period or $15.0 million. As part of the 2007 CEFF arrangement, the Company issued a warrant to Kingsbridge to purchase 230,000 shares of the Company s common stock at a price of $7.99 per share, which represents a premium over the closing price of the common stock on the date the Company entered into this facility. This warrant is exercisable beginning six months after the date of grant and for a period of three years thereafter. The Company may sell a maximum of 9,779,411 shares (exclusive of the shares underlying the warrant) under the 2007 CEFF. Under the rules of the NASDAQ Stock Market LLC, this is approximately the maximum number of shares the Company may sell to Kingsbridge without approval of its stockholders. This limitation may further limit the amount of proceeds the Company is able to obtain from the 2007 CEFF. The Company is not obligated to sell any of the $75.0 million of common stock available under the 2007 CEFF and there are no minimum commitments or minimum use penalties. The 2007 CEFF does not contain any restrictions on the Company s operating activities, any automatic pricing resets or any minimum market volume restrictions. For the three months ended March 31, 2009, under the 2007 CEFF, the Company sold 3,596,728 shares of its common stock to Kingsbridge and received gross proceeds of $6.9 million, before issuance costs of $98,000. 6,182,683 shares remain available to the Company for sale under the 2007 CEFF as of March 31, 2009.

Stock Option Plans

Stock option activity for the three months ended March 31, 2009 under the 2004 Equity Incentive Plan and the 1997 Stock Option/Stock Issuance Plan was as follows:

	Shares Available for Grant of Options	Stock Options	Weighted Average Exercise Price per Share

	or Awards	Outstanding	Stock Options	
Balance at December 31, 2008	3,590,118	5,975,216	$	5.18
Options granted	(1,616,008)	1,616,008	$	1.89
Options exercised		(27,500)	$	1.08
Options forfeited	19,261	(19,261)	$	6.17
Restricted stock awards forfeited	2,880			
Balance at March 31, 2009	1,996,251	7,544,463	$	4.49

The weighted average fair value of options granted in the three months ended March 31, 2009 was $1.28 per share. Restricted stock award activity for the three months ended March 31, 2009 was as follows:

	Shares Available for Grant of Options or Awards	Weighted Average Award Date Fair Value per Share	
Restricted stock awards outstanding at December 31, 2008	396,460	$	2.37
Awards granted			
Awards forfeited	(2,880)	$	2.37
Restricted stock awards outstanding at March 31, 2009	393,580	$	2.37

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Note 9. Interest and Other, net

Components of Interest and Other, net are as follows:

	Three Months Ended		Period from August 5, 1997 (Date of Inception) to March 31,
	March 31, 2009	March 31, 2008	2009
	(In thousands, except per share data)		
Unrealized loss on put option (Note 5)	$ (670)	$	$ 2,719
Unrealized gain on ARS (Note 5)	670		(2,719)
Interest income and other income	258	1,440	28,197
Interest expense and other expense	(100)	(145)	(5,460)
Interest and Other, net	$ 158	$ 1,295	$ 22,737

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 are included in Interest and Other, net. The Company classified its investments in ARS as trading securities as of March 31, 2009.

The Company elected to measure the ARS Rights at fair value under SFAS 159 to mitigate volatility in reported earnings due to its linkage to the ARS. The Company recorded $2.7 million as the fair value of the put option assets as of March 31, 2009, classified as long-term asset on the balance sheet with a corresponding credit to Interest and Other, net. Changes in the fair value of the ARS are recognized in current period earnings in Interest and Other, net.

Interest income and other income consists primarily 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, for the quarter ended March 31, 2009, interest expense on its loan agreement with UBS Bank USA and UBS Financial Services Inc.

Note 10. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

The Company adopted EITF Issue No. 07-01, *Accounting for Collaboration Arrangements Related to the Development and Commercialization of Intellectual Property.* EITF Issue No. 07-01 describes how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties and how shared payments pursuant to a collaboration agreement should be presented in the income statement, and addresses certain related disclosure questions. EITF Issue No. 07-01 is to be applied retrospectively for collaboration arrangements entered into after the adoption date. The Company s adoption of EITF Issue No. 07-1 in the quarter ended March 31, 2009 did not have a material impact on its financial position or results of operations.

The Company adopted FASB Staff Position (FSP) 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FSP 157-2, *Effective Date of FASB Statement No. 157.* FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope, and became effective upon the adoption of SFAS 157. FSP 157-2 delayed the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of 2009. The Company s adoption of SFAS 157 in the quarter ended March 31, 2009, as applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis, did not have a material impact on the Company s financial statements.

Accounting Pronouncements Not Yet Adopted

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP FAS 157-4 provides additional guidance on determining fair values when there is no active market or where the price inputs represent distressed sales. It reaffirms

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the guidance in FAS 157 that fair value is the amount for which an asset would be sold in an orderly transaction (as opposed to a forced liquidation or distressed sale) at the date of the financial statements under current market conditions. FSP FAS 157-4 amends the disclosure provisions of FAS 157 to require entities to disclose the valuation inputs and techniques in interim and annual financial statements, and to disclose FAS 157 hierarchies and the Level 3 rollforward by major security types. The Company will adopt FSP FAS 157-4 in the second quarter of 2009, and does not expect that the adoption will have a material impact on its financial position or results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments.* FSP FAS 107-1 and APB 28-1 amends FAS 107, *Disclosure about Fair Value of Financial Instruments*, to require public companies to provide disclosures about the fair value of financial instruments in interim and annual financial statements. The Company will adopt FSP FAS 107-1 and APB 28-1 in the second quarter of 2009, and does not expect that the adoption will have a material impact on its financial position or results of operations.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments.* This FSP provides additional guidance for determining the credit and non-credit components of other-than-temporary impairments of debt securities. It also increases and clarifies the disclosure requirements of FAS 115, and extends the disclosure frequency to interim and annual periods. The Company will adopt FSP FAS 115-2 and FAS 124-2 in the second quarter of 2009, and is currently evaluating the impact that this FSP may have on its financial statements.

Note 11. Subsequent Events

ESPP share issuance

On May 1, 2009, the Company issued 75,531 shares of common stock pursuant to the ESPP at an average price of $1.66 per share.

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 2009;
- the sufficiency of existing resources to fund our operations for at least the next 12 months;
- our capital requirements and needs for additional financing;
- the results from the clinical trials that we have conducted with CK-1827452, the significance of such results and whether such results may result in Amgen Inc. (Amgen) exercising its option with respect to CK-1827452;
- the initiation, design, progress, timing and scope of clinical trials and development activities for our drug candidates and potential drug candidates by ourselves or our partners, including the anticipated timing for initiation of clinical trials and anticipated dates of data becoming available or being announced from clinical trials;
- the advancement of potential drug candidates into preclinical studies and clinical trials;

our and our partners plans or ability for the continued research and development of our drug candidates and potential drug candidates, such as CK-1827452, ispinesib, SB-743921, GSK-923295 and CK-2017357;

our expected roles in research, development or commercialization under our strategic alliances, such as with Amgen and GlaxoSmithKline (GSK);

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the properties and potential benefits of, and the potential market opportunities for, our drug candidates and potential drug candidates;

the focus, scope and size of our research and development activities and programs;

the sufficiency of the clinical trials conducted with our drug candidates to demonstrate that they are safe and efficacious;

our plans or ability to commercialize drugs with or without a partner, including our intention to develop sales and marketing capabilities;

our receipt of milestone payments, royalties and other funds from our partners under strategic alliances, such as with Amgen and GSK;

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 lease obligations and equipment financing lines;

potential competitors and competitive products;

increasing the number of our employees and recruiting additional key personnel;

expected future amortization of employee stock-based compensation; and

our ability to sell equipment held for sale and the timing of such sales.

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

our ability to obtain additional financing;

our receipt of funds under our strategic alliances, including those funds dependent upon Amgen s potential exercise of its option with respect to CK-1827452;

Amgen s decision as to whether to exercise its option to CK-1827452 and, if it does exercise its option, its decisions with respect to the timing, design and conduct of development activities for CK-1827452;

difficulties or delays in the development, testing, production or commercialization of our drug candidates, including decisions by GSK to postpone or discontinue research or development activities relating to GSK-923295;

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);

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;

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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 under, and in connection with, our 2007 committed equity financing facility;

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 by us of the intellectual property rights or trade secrets 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 are founded on our knowledge and expertise regarding the cytoskeleton, a complex biological infrastructure that plays a fundamental role within every human cell. These activities initially focused on inhibitors of cell division, and are now directed to the biology of muscle function, and in particular, to small molecule modulators of the contractility of cardiac, smooth and skeletal 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 have four drug candidates currently in human clinical trials: CK-1827452 is in Phase IIa clinical trials for the potential treatment of heart failure; ispinesib is the subject of a Phase I/II clinical trial in breast cancer patients; SB-743921 is the subject of a Phase I/II clinical trial in patients with Hodgkin or non-Hodgkin lymphoma; and GSK-923295 is the subject of Phase I clinical trial in patients with advanced, refractory solid tumors. In mid-2009, we plan to initiate a Phase I, first-in-humans clinical trial of CK-2017357, a fast skeletal muscle troponin activator, which may be developed for diseases or medical conditions associated with muscle weakness or wasting. We also have two potential drug candidates currently in preclinical development: a back-up development compound for CK-2017357 and an inhibitor of smooth muscle myosin intended for inhaled delivery that may be useful as a potential treatment of diseases such as pulmonary arterial hypertension, asthma or chronic obstructive pulmonary disease.

Muscle Contractility Programs

Cardiac Muscle Contractility

Our lead drug candidate, CK-1827452, a novel cardiac muscle myosin activator for the potential treatment of heart failure, is currently in Phase IIa clinical development to evaluate the safety, tolerability, pharmacodynamics and pharmacokinetic profile of this drug candidate in both an intravenous and oral formulation.

In March 2009, at the 2009 Annual American College of Cardiology Meeting, we presented final data from our Phase IIa clinical trial evaluating CK-1827452 administered intravenously to patients with stable heart failure. The final results showed that CK-1827452 increased systolic ejection time, stroke volume, cardiac output, fractional

shortening and ejection fraction in a concentration dependent manner. In addition, these results demonstrated that CK-1827452 decreased left ventricular end-systolic volume and left ventricular end-diastolic volume in a concentration dependent manner. Decreases in ventricular volumes observed in response to treatment with other therapies have been associated with improved outcomes in heart failure. Increases in indices of ventricular

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systolic function and decreases in ventricular volumes observed with CK-1827452 in this trial were associated with decreases in heart rate. CK-1827452 appeared to be generally well-tolerated in stable heart failure patients over a range of plasma concentrations during continuous intravenous administration. We anticipate presenting data from this clinical trial as a Late-Breaking Clinical Trial at the 2009 Heart Failure Congress of the European Society of Cardiology to be held May 30 through June 2, 2009.

In April 2009, we initiated an additional Phase IIa clinical trial of CK-1827452. This clinical trial is an open-label, multi-center, multiple-dose trial designed to evaluate and compare the oral pharmacokinetics of a modified release and an immediate release formulation of CK-1827452 under fed conditions in patients with stable heart failure. The clinical trial is currently planned to enroll at least three cohorts of between 6 and 12 patients.

In December 2008, we announced top-line results from a Phase IIa clinical trial evaluating the safety of CK-1827452 in patients with ischemic cardiomyopathy and angina. The primary safety endpoint was defined as stopping an exercise test during double-blind treatment with CK-1827452 or placebo due to unacceptable angina at an earlier exercise stage than at baseline. This endpoint was observed in one patient receiving placebo and did not occur in any patient receiving CK-1827452. We anticipate presenting final data from this clinical trial at the 2009 Heart Failure Congress of the European Society of Cardiology.

We are continuing to conduct an open-label, non-randomized Phase IIa clinical trial designed to evaluate an intravenous formulation of CK-1827452 administered to patients with stable heart failure undergoing clinically indicated coronary angiography. In addition, we have conducted five Phase I clinical trials of CK-1827452 in healthy subjects: a first-time-in-humans study evaluating an intravenous formulation, an oral bioavailability study evaluating both intravenous and oral formulations, and three studies of oral formulations: a drug-drug interaction study, a dose-proportionality study and a study evaluating modified-release formulations.

We believe the safety data from our Phase IIa clinical trial evaluating the safety and tolerability of CK-1827452 in patients with ischemic cardiomyopathy and angina, together with the improvements in systolic function observed in our Phase IIa clinical trial evaluating CK-1827452 in stable heart failure patients, support the progression of CK-1827452 into Phase IIb clinical development. In mid-2009, we plan to initiate a Phase IIb clinical trial of CK-1827452 in chronic heart failure outpatients at increased risk for death and rehospitalization for heart failure.

In December 2006, we entered into a collaboration and option agreement with Amgen Inc. to discover, develop and commercialize novel small-molecule therapeutics that activate cardiac muscle contractility for potential applications in the treatment of heart failure, including CK-1827452. The agreement provides Amgen with a non-exclusive license and access to certain technology. The agreement also granted Amgen an option to obtain an exclusive license world-wide, except Japan, to develop and commercialize CK-1827452 and other drug candidates arising from the collaboration. Amgen s option is exercisable during a defined period, the ending of which is dependent upon the satisfaction of certain conditions, primarily our delivery of certain Phase I and Phase IIa clinical trials data for CK-1827452 in accordance with an agreed development plan, the results of which may reasonably support its progression into Phase IIb clinical development. In February 2009, we believe we delivered to Amgen the contractually defined data package to inform its option decision with respect to CK-1827452. Prior to the exercise or expiration of Amgen s option, we are responsible for conducting all development activities for CK-1827452, at our own expense.

To exercise its option, Amgen would pay an exercise fee of $50.0 million and thereafter would be responsible for the development and commercialization of CK-1827452 and related compounds, at its expense, subject to Cytokinetics development and commercialization participation rights. Following exercise of the option, the agreement provides for potential pre-commercialization and commercialization milestone payments of up to $600.0 million in the aggregate on CK-1827452 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 CK-1827452 in North America and participate in agreed commercialization activities in institutional care settings, at Amgen s expense. If Amgen elects not to exercise its option to CK-1827452, we may then independently proceed to develop and commercialize CK-1827452, ourselves or with another partner.

The clinical trials program for CK-1827452 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 a drug is commercialized. CK-1827452 is at too early a stage of development for us to predict when or if this may occur. We currently fund all research and development costs associated with this program. We recorded research and development expenses for activities relating to our cardiac muscle contractility program of approximately $3.8 million and $5.3 million in the quarters ended March 31, 2009 and 2008, respectively. We anticipate that our expenditures relating to the research and development of compounds in our cardiac muscle contractility program will increase significantly as we advance CK-1827452 through clinical

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development. Our expenditures will also increase if Amgen does not exercise its option and we elect to develop CK-1827452 or related compounds independently, or if we elect to co-fund later-stage development of CK-1827452 or other compounds in our cardiac muscle contractility program under our collaboration and option agreement with Amgen following Amgen s exercise of its option.

Skeletal Muscle Contractility

In April 2008, we announced that we had selected CK-2017357, a fast skeletal muscle troponin activator, as the lead potential drug candidate from this program. We intend to initiate a Phase I, first-in-humans clinical trial of CK-2017357 in healthy volunteers under an U.S. investigational new drug application (IND) in mid-2009. In January 2009, we announced that we had selected another compound from this program as a backup development compound to CK-2017357. CK-2017357 and its backup development compound are structurally distinct small molecule activators of the skeletal sarcomere. These potential drug candidates 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. These may include diseases and medical conditions associated with skeletal muscle weakness or wasting, such as amyotrophic lateral sclerosis, also known as ALS or Lou Gehrig s disease, cachexia in connection with heart failure or cancer, sarcopenia and general frailty associated with aging.

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 $2.6 million and $1.9 million in the quarters ended March 31, 2009 and 2008, 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 through clinical development.

Smooth Muscle Contractility

In January 2009, we announced that we had selected a lead potential drug candidate from this program for advancement. This compound is a small molecule direct inhibitor of smooth muscle myosin. By inhibiting the function of the myosin motor central to the contraction of smooth muscle, this small molecule directly leads to the relaxation of contracted smooth muscle. Specifically intended for inhaled delivery applications, this potential drug candidate has demonstrated encouraging pharmacological activity in preclinical models as a novel mechanism vasodilator and bronchodilator. This data suggests that it may be useful as a potential treatment of diseases such as pulmonary arterial hypertension, asthma or chronic obstructive pulmonary disease. This potential drug candidate is currently in IND-enabling studies. This potential drug candidate 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 smooth muscle contractility program of approximately $1.7 million and $2.4 million in the quarters ended March 31, 2009 and 2008, 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 this smooth muscle myosin inhibitor or other compounds from this program through clinical development.

Oncology Program: Mitotic Kinesin Inhibitors

We currently have three drug candidates in clinical trials 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 have been progressed under our strategic alliance with GSK. This strategic alliance was established in 2001 to discover, develop and commercialize novel small molecule therapeutics targeting mitotic kinesins for applications in the treatment of cancer and other diseases. Mitotic kinesins are a family of cytoskeletal motor proteins involved in the process of cell division, or mitosis. Under that strategic alliance, we have focused primarily on two mitotic kinesins: kinesin spindle protein (KSP) and centromere-associated protein E (CENP-E). In November 2006, we amended the agreement 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. Accordingly, we retain all rights to both ispinesib and SB-743921, subject to certain royalty obligations to GSK. In each of June 2006, 2007 and 2008, we amended the agreement to extend the research term of the GSK strategic alliance for an additional year to continue joint translational research directed to CENP-E.

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Ispinesib

A broad Phase II clinical trials program has been conducted for ispinesib across multiple tumor types. To date, we believe clinical activity for ispinesib has been observed in non-small cell lung, ovarian and breast cancers, with the most robust clinical activity observed in a Phase II clinical trial evaluating ispinesib in the treatment of patients with locally advanced or metastatic breast cancer that had failed treatment with taxanes and anthracyclines. In addition, preclinical and Phase Ib clinical data relating to ispinesib indicate that it may have an additive effect when combined with certain existing chemotherapeutic agents.

We are now conducting a Phase I/II clinical trial for ispinesib to further define its clinical activity profile in chemotherapy-naïve locally advanced or metastatic breast cancer patients. This clinical trial is using a more dose-dense schedule than was previously evaluated to determine if the overall response to ispinesib can be increased while maintaining its existing safety profile. We anticipate presenting data from the Phase I portion of this clinical trial in May 2009 at the annual meeting of the American Society of Clinical Oncology. We intend to complete the Phase I portion of this trial and to seek a strategic partner for the future development and commercialization of ispinesib.

SB-743921

We continue to enroll and dose-escalate patients in the Phase I portion of a Phase I/II clinical trial evaluating SB-743921 s safety, tolerability and pharmacokinetics in patients with Hodgkin or non-Hodgkin lymphoma. This clinical trial is using a more dose-dense schedule than was previously evaluated to determine if the overall response to SB-743921 can be increased while maintaining its existing safety profile. We anticipate presenting data from the Phase I portion of this clinical trial in May 2009 at the annual meeting of the American Society of Clinical Oncology. We intend to complete the Phase I portion of this trial and to seek a strategic partner for the future development and commercialization of SB-743921.

GSK-923295

Under our strategic alliance, GSK is responsible, at its expense, for the development of and commercialization of GSK-923295. GSK continues to enroll and dose-escalate patients in a Phase I first-in-humans clinical trial evaluating GSK-923295 in patients with advanced, refractory solid tumors. We anticipate that GSK will present data from this clinical trial in May 2009 at the annual meeting of the American Society of Clinical Oncology. We anticipate that GSK will initiate a Phase II clinical trial of GSK-923295 in 2010.

In April 2009, at the American Association of Cancer Research Annual Meeting, GSK presented two abstracts containing non-clinical data relating to GSK-923295.

We will receive royalties from GSK s sales of any drugs developed under the strategic alliance. For those drug candidates that GSK develops under the strategic alliance, we can elect to co-fund certain later-stage development activities which would increase our potential royalty rates on sales of resulting drugs and provide us with the option to secure co-promotion rights in North America. If we elect to co-fund later-stage development, we expect that the royalties to be paid on future sales of GSK-923295 could potentially increase based on increasing product sales and our anticipated level of co-funding. If we exercise our co-promotion option, then we are entitled to receive reimbursement from GSK for certain sales force costs we incur in support of our commercialization activities.

The clinical trials program for each of ispinesib, SB-743921 and GSK-923295 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 any of these drug candidates until its clinical trials program is successfully completed, regulatory approval is achieved and a drug is commercialized. Each of these drug candidates is at too early a stage of development for us to predict when or if this may occur. We currently fund all research and development costs associated with ispinesib and SB-743921. If we continue to conduct our Phase I/II clinical trials for either or both of ispinesib and SB-743921, our expenditures relating to research and development of these drug candidate will increase significantly. We recorded research and development expenses for activities relating to our mitotic kinesin inhibitors program of approximately $1.2 million and $2.0 million for the three months ended March 31, 2009 and 2008, respectively. We received and recognized as revenue reimbursements from GSK of FTE and other expenses related to our mitotic kinesin inhibitors program of $4,000 and $11,000 for the quarters ended March 31, 2009 and 2008, respectively.

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Development Risks

Whether any of our drug candidates will successfully complete development and be approved for commercial sale is highly uncertain. Moreover, 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:

- 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;
- 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;
- 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, synthesis or optimization 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 contract research activities.

Under our collaboration and option agreement with Amgen, we received an upfront, non-refundable 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. We are amortizing the upfront fee and stock premium to license revenue ratably over the maximum term of the non-exclusive license, which is four years. 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 achievement of the specified milestones and the absence of ongoing performance obligations.

We may also be eligible to receive reimbursement for contract development activities subsequent to Amgen s option exercise, 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.