

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

**Form 10-K**

**ANNUAL REPORT UNDER SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2008

or

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

Commission file number: 000-50633

**CYTOKINETICS, INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**Robert I. Blum**  
**President and Chief Executive Officer**  
**280 East Grand Avenue**  
**South San Francisco, CA 94080**  
**(650) 624-3000**

(Address, including zip code, or registrant's principal executive offices and telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.001 par value	The NASDAQ Global Market

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$129.7 million computed by reference to the last sales price of \$3.71 as reported by the NASDAQ Global Market, as of the last business day of the Registrant's most recently completed second fiscal quarter, June 30, 2008. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

The number of shares outstanding of the Registrant's common stock on February 27, 2009 was 53,219,291 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission, are incorporated by reference to Part III of this Annual Report on Form 10-K.

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CYTOKINETICS, INCORPORATED

FORM 10-K  
Year Ended December 31, 2008

INDEX

	<u>Page</u>
<b><u>PART I</u></b>	
<a href="#">Item 1. Business</a>	3
<a href="#">Item 1A. Risk Factors</a>	21
<a href="#">Item 1B. Unresolved Staff Comments</a>	42
<a href="#">Item 2. Properties</a>	43
<a href="#">Item 3. Legal Proceedings</a>	43
<a href="#">Item 4. Submission of Matters to a Vote of Security Holders</a>	43
<b><u>PART II</u></b>	
<a href="#">Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	44
<a href="#">Item 6. Selected Financial Data</a>	46
<a href="#">Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	47
<a href="#">Item 7A. Quantitative and Qualitative Disclosures About Market Risk</a>	67
<a href="#">Item 8. Financial Statements and Supplementary Data</a>	70
<a href="#">Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</a>	109
<a href="#">Item 9A. Controls and Procedures</a>	109
<a href="#">Item 9B. Other Information</a>	109
<b><u>PART III</u></b>	
<a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a>	110
<a href="#">Item 11. Executive Compensation</a>	110
<a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	110
<a href="#">Item 13. Certain Relationships and Related Transactions, and Director Independence</a>	110
<a href="#">Item 14. Principal Accountant Fees and Services</a>	110
<b><u>PART IV</u></b>	
<a href="#">Item 15. Exhibits and Financial Statement Schedules</a>	111
<a href="#">Signatures</a>	116
<a href="#">EX-10.55</a>	
<a href="#">EX-10.62</a>	
<a href="#">EX-10.63</a>	
<a href="#">EX-10.64</a>	
<a href="#">EX-10.65</a>	
<a href="#">EX-10.66</a>	
<a href="#">EX-10.67</a>	
<a href="#">EX-10.68</a>	
<a href="#">EX-23.1</a>	
<a href="#">EX-31.1</a>	
<a href="#">EX-31.2</a>	
<a href="#">EX-32.1</a>	

## PART I

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, and whether such results may result in Amgen Inc. (“Amgen”) exercising its option with respect to CK-1827452;
- the initiation, 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”);
- 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.

## [Table of Contents](#)

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;
- 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;
- 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;
- activities and decisions of, and market conditions affecting, current and future strategic partners;
- 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.

## **Item 1. Business**

### **Overview**

We were incorporated in Delaware in August 1997 as Cytokinetics, Incorporated. 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. Our cardiac muscle contractility program is focused on cardiac muscle myosin, a motor protein that powers cardiac muscle contraction. Our lead drug candidate from this program, CK-1827452, is a novel cardiac muscle myosin activator. CK-1827452 entered Phase IIa clinical trials for the treatment of heart failure in 2007. We have granted Amgen an option for an exclusive license to develop and commercialize CK-1827452 world-wide, except Japan, subject to our development and

[Table of Contents](#)

commercialization participation rights. Further details regarding our strategic alliance with Amgen can be found below in Item 1 of this report under “Muscle Contractility Focus — Cardiac Muscle Contractility Program — Amgen Collaboration and Option Agreement.”

In April 2008, we announced the selection of a potential drug candidate, CK-2017357, an activator of the skeletal muscle sarcomere, the basic unit of skeletal muscle contraction. We believe CK-2017357 may be useful in treating diseases or medical conditions associated with skeletal muscle weakness or wasting. We have also designated a second, structurally distinct skeletal muscle sarcomere activator for development as a backup compound to CK-2017357. Both of these compounds activate the skeletal muscle troponin complex, which is a set of regulatory proteins that modulates the contractility of the skeletal sarcomere.

In January 2009, we announced the selection of a potential drug candidate that modulates smooth muscle contractility. This compound is a direct inhibitor of smooth muscle myosin, the motor protein central to the contraction of smooth muscle, that causes the relaxation of contracted smooth muscle. Specifically intended for inhaled delivery applications, this compound may be developed as a potential treatment for pulmonary arterial hypertension and diseases associated with bronchoconstriction.

Our initial research activities were directed to mitotic kinesins, a family of cytoskeletal motor proteins involved in the process of cell division, or mitosis. This research produced three drug candidates currently in clinical testing for the potential treatment of cancer: ispinesib, SB-743921 and GSK-923295. Ispinesib and SB-743921 are structurally distinct inhibitors of kinesin spindle protein and GSK-923295 is an inhibitor of centromere-associated protein E. We are currently conducting the Phase I portion of a Phase I/II clinical trial of ispinesib as monotherapy as a first-line treatment in chemotherapy-naïve patients with locally advanced or metastatic breast cancer and the Phase I portion of a Phase I/II trial of SB-743921 in patients with non-Hodgkin or Hodgkin lymphoma. Under a strategic alliance established in 2001, GSK is conducting a Phase I clinical trial with GSK-923295. Further details regarding our strategic alliance with GSK can be found below in Item 1 of this report under “Oncology Program: Mitotic Kinesin Inhibitors — GSK Strategic Alliance.”

Following is a summary of the status of our drug candidates and potential drug candidates. All development is being conducted by Cytokinetics, except where otherwise noted:

***Muscle Contractility Programs***

Compound	Mode of Administration	Development Stage	Potential Indication(s)	Planned 2009 Activities
CK-1827452 * (cardiac muscle myosin activator)	oral, intravenous	Phase II	heart failure	<ul style="list-style-type: none"> <li>• initiate a Phase IIa pharmacokinetic clinical trial of a modified release and an immediate release formulation in Q2 2009</li> <li>• initiate 1st Phase IIb clinical trial in mid-2009</li> <li>• continue Phase IIa clinical trial in heart failure patients undergoing cardiac catheterization</li> </ul>
CK-2017357 (skeletal sarcomere activator)	oral	IND-enabling studies	Diseases and conditions associated with muscle weakness or wasting, e.g., amyotrophic lateral sclerosis, sarcopenia, cachexia	<ul style="list-style-type: none"> <li>• submit IND</li> <li>• initiate Phase I clinical trial in healthy volunteers</li> </ul>
smooth muscle myosin inhibitor	inhaled	IND-enabling studies	pulmonary arterial hypertension, asthma, chronic obstructive pulmonary disease	<ul style="list-style-type: none"> <li>• continue IND-enabling studies</li> </ul>

\* CK-1827452 is being developed by Cytokinetics, subject to Amgen’s option to develop and commercialize world-wide, except Japan.

**Oncology Programs**

Compound	Mode of Administration	Development Stage	Potential Indication(s)	Planned 2009 Activities
ispinesib (kinesin spindle protein inhibitor)	intravenous	Phase I	breast cancer	<ul style="list-style-type: none"> <li>continue Phase I of a Phase I/II clinical trial</li> </ul>
SB-743921 (kinesin spindle protein inhibitor)	intravenous	Phase I	Hodgkin and non-Hodgkin lymphomas	<ul style="list-style-type: none"> <li>continue Phase I of a Phase I/II clinical trial</li> </ul>
GSK-923295 ** (centromere-associated protein E inhibitor)	intravenous	Phase I	cancer	<ul style="list-style-type: none"> <li>GSK to continue Phase I clinical trial in patients with advanced, refractory solid tumors</li> <li>GSK anticipated to initiate a Phase II clinical trial</li> </ul>

\*\* GSK-923295 is being developed by GSK under our strategic alliance.

All of our drug candidates and potential drug candidates have grown out of our cytoskeletal research activities. Our focus on the biology of the cytoskeleton distinguishes us from other biopharmaceutical companies, and potentially positions us to discover and develop novel therapeutics that may be useful for the treatment of severe diseases and medical conditions. We believe that this focus and the resulting knowledge and expertise that we have developed, especially with our proprietary technologies that permit us to evaluate the function of cytoskeletal proteins in high information content biological assays, has allowed us to increase the efficiency of our drug discovery activities. Our research and development activities since our inception in 1997 have produced four drug candidates currently in clinical testing and three potential drug candidates currently in preclinical development. Each of has a novel mechanism of action compared to currently marketed drugs, which we believe validates our focus on the cytoskeleton as a robust area for drug discovery. We intend to leverage our experience in muscle contractility in order to expand our current pipeline, and expect to continue to be able to identify additional potential drug candidates that may be suitable for clinical development.

**Our Corporate Strategy**

Our strategy is to discover, develop and commercialize novel drug products that modulate muscle function in ways that may benefit patients with disorders that cause serious diseases or medical conditions, with the goal of establishing a fully integrated biopharmaceutical company. We intend to achieve this by:

- Focusing on drug discovery and development activities relating to the biology of muscle function.* We intend to capitalize on the knowledge and expertise we acquired in each of our cardiac, smooth and skeletal muscle research and development programs. In these programs, we are investigating potential treatments for diseases or medical conditions where dysregulation of the contractile function of muscle plays a key role and may be amenable to treatment by modulation of muscle contractility, such as heart failure and medical conditions associated with skeletal muscle weakness or wasting.
- Leveraging our cytoskeletal expertise and proprietary technologies to increase the speed, efficiency and yield of our drug discovery and development processes.* We believe that our unique understanding of the cytoskeleton and our proprietary research technologies should enable us to discover and potentially to develop drug candidates with novel mechanisms of action that may offer potential benefits not provided by existing drugs. We expect that we may be able to leverage our expertise in muscle contractility to develop programs that relate to other muscle functions and similarly may impact serious medical diseases and conditions. This may facilitate our building a diversified pipeline of drug candidates in a cost-effective way while managing risk.
- Building development and commercialization capabilities directed at concentrated markets.* We focus our drug discovery and development activities on disease areas where there are serious unmet medical needs. In particular, we direct our activities to potential commercial opportunities in concentrated and tractable customer segments, such as hospital specialists, that may be addressed by a smaller, targeted sales force. In

this manner, we believe that a company with limited resources may be able to compete effectively against larger, more established companies with greater financial and commercial resources. For these opportunities, we intend to develop clinical development and sales and marketing capabilities with the goal of becoming a fully-integrated biopharmaceutical company.

- *Establishing select strategic alliances to support our drug development programs while preserving significant development and commercialization rights.* We believe that such alliances may allow us to obtain financial support and to capitalize on the therapeutic area expertise and resources of our partners that can potentially accelerate the development and commercialization of our drug candidates. Where we deem appropriate, we plan to retain certain rights to participate in the development of drug candidates and commercialization of potential drugs arising from our alliances, so that we can expand and capitalize on our internal development capabilities and build our commercialization capabilities.

### **Muscle Contractility Focus**

Our long-standing interest in the cytoskeleton has led us to focus our research and development activities on the biology of muscle function, and in particular, small molecule modulation of muscle contractility. We believe that our expertise in the modulation of the contractility of each of cardiac, skeletal and smooth muscle is an important differentiator for us. Our established preclinical and clinical expertise in muscle contractility may position us to discover and develop additional novel therapies that have the potential to improve the health of patients with severe and debilitating diseases or medical conditions.

Small molecules that affect muscle contractility may have several applications for a variety of serious diseases and medical conditions. For example, heart failure is a disease often characterized by impaired cardiac muscle contractility which may be treated by modulating the contractility of cardiac muscle; certain neuromuscular diseases and medical conditions associated with muscle weakness may be amenable to treatment by enhancing the contractility of skeletal muscle; hypertension is a disease in which elevated blood pressure may be decreased by relaxation of the arterial smooth muscle; and asthma is a disease in which constriction of the airways may be treated by relaxation of the airway smooth muscle.

Because each muscle type may be relevant to multiple diseases or medical conditions, we believe we can leverage our expertise in each of cardiac, skeletal and smooth muscle contractility to more efficiently discover and develop as potential drugs compounds that modulate the applicable muscle type for multiple indications. In addition, muscle has biological functions other than contractility. Accordingly, our knowledge and expertise could also serve as an entry point to the discovery of novel treatments for disorders involving muscle functions other than muscle contractility, such as muscle metabolism and energetics.

We are currently developing four small molecule compounds arising from our muscle contractility programs. CK-1827452, a novel cardiac muscle myosin activator, is currently in Phase IIa clinical trials for the potential treatment of heart failure. CK-2017357 is our lead potential drug candidate from our skeletal muscle contractility program. We are evaluating the potential indications for which this compound may be useful. These may include skeletal muscle weakness associated with neuromuscular diseases and other medical conditions characterized by skeletal muscle weakness or wasting. We plan to submit an investigational new drug application (“IND”) with the FDA to initiate a Phase I clinical trial for CK-2017357 in 2009. We have selected a second potential drug candidate from this program that may serve as a backup compound to CK-2017357. We are also developing an inhaled inhibitor of smooth muscle myosin as a bronchodilator, which is currently in IND-enabling studies. We are continuing to conduct discovery, characterization and lead optimization activities for other compounds with the potential to modulate muscle contractility and other muscle functions.

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

*Overview.* Our cardiac muscle contractility program is focused on the cardiac sarcomere, the basic unit of muscle contraction in the heart. The cardiac sarcomere is a highly ordered cytoskeletal structure composed of cardiac muscle myosin, actin and a set of regulatory proteins. This program is currently directed towards the discovery and development of small molecule cardiac muscle myosin activators with the goal of developing novel drugs to treat acute and chronic heart failure. Cardiac muscle myosin is the cytoskeletal motor protein in the cardiac



muscle cell. It is directly responsible for converting chemical energy into the mechanical force, resulting in cardiac muscle contraction. This program is based on the hypothesis that activators of cardiac muscle myosin may address certain adverse properties of existing positive inotropic agents. Current positive inotropic agents, such as beta-adrenergic receptor agonists or inhibitors of phosphodiesterase activity, increase the concentration of intracellular calcium, thereby increasing cardiac sarcomere contractility. However, the increase in calcium levels increases the velocity of cardiac muscle contraction and shortens systolic ejection time, which has been linked to potentially life-threatening side effects. In contrast, our novel cardiac muscle myosin activators work by a mechanism that directly stimulates the activity of the cardiac muscle myosin motor protein, without increasing the intracellular calcium concentration. They accelerate the rate-limiting step of the myosin enzymatic cycle and shift it in favor of the force-producing state. Rather than increasing the velocity of cardiac contraction, this mechanism instead lengthens the systolic ejection time, which results in increased cardiac muscle contractility and cardiac output in a potentially more oxygen-efficient manner.

*Background on Heart Failure Market.* Heart failure is a widespread and debilitating syndrome affecting millions of people in the United States. The high and rapidly growing prevalence of heart failure translates into significant hospitalization rates and associated societal costs. It is estimated that in 2006, 5.5 million patients in the United States suffered from chronic heart failure. Approximately 4.5 million patients in the United States had a hospital discharge diagnosis of heart failure in 2007, of which over 2.4 million had a primary or secondary diagnosis of heart failure. These numbers are increasing due to the aging of the U.S. population and an increased likelihood of survival following acute myocardial infarctions. The costs to society attributable to the prevalence of heart failure are high, especially as many chronic heart failure patients suffer repeated acute episodes. Despite currently available therapies, readmission rates for heart failure patients over the age of 65 are as high as 42% within one year of hospital discharge. Mortality rates over the five-year period following a diagnosis of heart failure are approximately 60%. The limited effectiveness of current therapies points to the need for therapeutics that offer improved efficacy without increased adverse events, thus decreasing morbidity and mortality rates among this patient population. The annual cost of heart failure to the U.S. health care system is estimated to be \$35 billion dollars. A portion of that cost is attributable to drugs used to treat each of chronic and acute heart failure. Sales of drugs to treat chronic heart failure reached almost \$2.5 billion in 2006 while sales of drugs to treat acute heart failure reached over \$350 million in 2007.

*CK-1827452.* Our lead drug candidate from this program is CK-1827452, a novel cardiac muscle myosin activator. CK-1827452 has been the subject of a clinical trials program, initiated in 2007, comprised of Phase I and Phase IIa clinical trials designed to evaluate the safety, tolerability, pharmacodynamics and pharmacokinetic profile of both intravenous and oral formulations of this drug candidate in a diversity of patients, including patients with stable heart failure and patients with ischemic cardiomyopathy. Our goal is to develop CK-1827452 as a potential treatment across the continuum of care in heart failure both as an intravenous formulation for use in the hospital setting and as an oral formulation for use in the outpatient setting.

In 2006, we reported that in the first-time-in-humans Phase I clinical trial of CK-1827452 administered intravenously in healthy volunteers, CK-1827452 demonstrated statistically significant and concentration-dependent increases in indices of left ventricular function over a range of well-tolerated doses and plasma concentrations. In addition, CK-1827452 exhibited generally linear, dose-proportional pharmacokinetics across the dose range studied. The adverse effects observed at intolerable doses in humans 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 intolerable doses, resulted in an excessive prolongation of the systolic ejection time. However, these effects resolved promptly with discontinuation of the infusions of CK-1827452.

A Phase I oral bioavailability study of CK-1827452 in healthy volunteers conducted in 2006 demonstrated an oral bioavailability of approximately 100%, with no first-pass metabolism by the liver observed. Because the oral formulation of CK-1827452 used in this study was found to be rapidly absorbed, we are pursuing the development of modified release oral formulations of CK-1827452 to achieve a reduced rate of drug absorption without significantly affecting the overall bioavailability.

The following clinical trials of CK-1827452 were conducted or completed during 2008:

CK-1827452 (intravenous)

*Phase IIa stable heart failure (safety and tolerability):* Throughout 2008, we continued to conduct our ongoing Phase IIa clinical trial of CK-1827452 administered intravenously to patients with stable heart failure. The trial's primary objective is to evaluate the safety and tolerability of CK-1827452. Its secondary objectives are to establish a relationship between the plasma concentration and the pharmacodynamic effects of CK-1827452 and to determine its pharmacokinetics in stable heart failure patients. This clinical trial was planned to consist of five cohorts of eight patients with stable heart failure. We have completed treatment of Cohort 5 of this trial. In the first four cohorts, patients underwent four treatment periods, receiving three escalating active doses of CK-1827452, with one placebo treatment randomized into the dose escalation sequence to maintain blinding. In Cohort 5, patients had two treatment periods, receiving an active dose of CK-1827452 in one treatment period and a placebo treatment in the other.

We presented interim data from this trial at several scientific meetings in 2008, most recently at the Scientific Sessions of the American Heart Association in November 2008. The presentation included data from 28 patients (eight patients from each of Cohorts 1, 2 and 3 and four patients from Cohort 4), and showed statistically significant effects in measures of cardiac function. Specifically, these interim analyses demonstrated statistically significant increases in systolic ejection time and fractional shortening at CK-1827452 plasma concentrations greater than 100 ng/mL, and statistically significant increases in stroke volume at CK-1827452 plasma concentrations greater than 200 ng/mL. There were also statistically significant increases in ejection fraction at CK-1827452 plasma concentrations greater than 300 ng/mL when ejection fraction was calculated by a hybrid method in which stroke volume, measured using Doppler technology, was divided by the left ventricular end-diastolic volume, measured using two-dimensional echocardiography. In addition, the data demonstrated statistically significant correlations between increasing CK-1827452 plasma concentration and increases in systolic ejection time, stroke volume, fractional shortening, ejection fraction and cardiac output and between increasing CK-1827452 plasma concentration and decreases in supine and standing heart rate and left ventricular end-systolic volume. In this trial, CK-1827452 was well-tolerated in stable heart failure patients over a range of plasma concentrations during continuous intravenous administration. These data reflect what we believe is the clinically relevant activity of this novel drug candidate. We anticipate presenting final data from this clinical trial at the Annual Meeting of the American College of Cardiology in March 2009.

*Phase IIa stable heart failure (cardiac catheterization):* Preclinical studies have suggested that CK-1827452 increases ventricular performance in the absence of substantial changes in cardiac muscle oxygen consumption, thereby increasing cardiac muscle efficiency. In 2008, we initiated an open-label, non-randomized Phase IIa clinical trial designed to evaluate CK-1827452 administered intravenously to patients with stable heart failure undergoing clinically indicated coronary angiography in order to corroborate this preclinical finding in humans. In September 2008, a poster outlining the design of this clinical trial was presented at the annual Heart Failure Society of America Conference. The first cohort, consisting of six patients, is planned to undergo a dose-escalation phase, beginning with a target plasma concentration of approximately 280 ng/mL. Based on the tolerability and pharmacodynamic effects observed in this initial cohort, the investigators will select a single dosing regimen for the second and final cohort of twelve patients. We are continuing to enroll patients in the first cohort of this trial.

CK-1827452 (oral):

*Phase I drug-drug interaction:* In June 2008 and December 2008, we announced results from a Phase I clinical trial in healthy male subjects evaluating the potential for certain drug-drug interactions mediated by the drug-metabolizing enzymes cytochrome P450 3A4 and cytochrome P450 2D6. Results showed that there were no clinically important differences observed between subjects who were extensive or poor metabolizers with respect to their defined genotype for cytochrome P450 2D6. No clinically meaningful pharmacokinetic drug-drug interactions with either ketoconazole, a potent inhibitor of cytochrome P450 3A4, or diltiazem, a moderate inhibitor of cytochrome P450 3A4, were identified in either extensive metabolizer or poor metabolizer subjects with respect to cytochrome P450 2D6.

*Phase I oral single to multi-dose:* In June 2008, we announced final results from a Phase I clinical trial evaluating CK-1827452 administered as a single oral dose and as multiple oral doses of 10 mg and 30 mg strength capsules. The primary objective of this study was to evaluate the safety and tolerability of CK-1827452 after a single oral dose and after multiple oral doses to steady-state in healthy men and women. The secondary objectives of this study were to evaluate the pharmacokinetics of CK-1827452 after a single oral dose and after multiple oral doses to steady-state and to compare the pharmacokinetic parameters between healthy men and women. CK-1827452 was well-tolerated in the trial, with no drug-related serious adverse events. Dose-proportionality between the 10 mg and 30 mg dose levels was observed in both men and women, both after a single dose and after multiple doses to steady-state, with similar pharmacokinetics observed in men and women.

*Phase I modified release:* In June 2008, we announced results from a Phase I clinical trial evaluating the pharmacokinetics and relative bioavailability of three different oral modified release prototype formulations of CK 1827452, as compared to the immediate release formulation, in healthy male subjects. The single-dose pharmacokinetics of each of these formulations, in both the fasted and fed states, demonstrated that, as compared to the immediate release formulation, they reduced the maximum CK-1827452 plasma concentration and elevated the trough plasma concentration without a substantial effect on overall bioavailability. This resulted in a smaller range of fluctuation in plasma concentrations as compared to oral dosing with the immediate release formulation. We have selected one prototype modified release formulation to proceed forward into further clinical testing.

*CK-1827452 (intravenous-to-oral):*

*Phase IIa ischemic cardiomyopathy and angina (safety and tolerability):* In April 2008 we initiated, and in December 2008 we announced, results from a double-blind, randomized, placebo-controlled Phase IIa clinical trial designed to evaluate an intravenous and an oral formulation of CK-1827452 in patients with ischemic cardiomyopathy and angina. The primary objective of this trial was to assess the effect of intravenous CK-1827452 on symptom-limited treadmill exercise tolerance. The secondary objective of this trial was to assess the tolerability and resulting plasma concentrations of CK-1827452 administered as an oral formulation. The trial was designed to evaluate two cohorts of 45 patients, each with ischemic cardiomyopathy and angina and an ejection fraction of less than or equal to 35 percent. In each cohort, patients whose symptom-limited exercise tolerance during an infusion of double-blind study drug did not deteriorate relative to a baseline treadmill exercise test received either CK-1827452 or placebo administered orally for seven days. CK-1827452 plasma levels were measured during the infusions and before and one hour after the final oral dose. Patients in the first cohort were randomized in a 2-to-1 ratio to CK-1827452 versus placebo, at a dose level intended to target a maximum plasma concentration of 295 ng/ml during the infusion and 184 ng/ml during oral dosing. Patients in the second cohort were randomized in a 2-to-1 ratio to CK-1827452 versus placebo, at a dose level intended to target a plasma concentration of 550 ng/ml during the infusion and 368 ng/ml during oral dosing.

A total of 94 patients were enrolled and treated in this clinical trial; 29 patients received placebo, 31 received CK-1827452 at the lower dose level, and 34 received CK-1827452 at the higher dose level. The primary safety endpoint was defined as stopping an exercise treadmill test during double-blind treatment with CK-1827452 or placebo due to unacceptable angina at an exercise stage earlier than at baseline. This endpoint was observed in one patient receiving placebo and did not occur in any patient receiving CK-1827452 at either dose level. Twenty-one of 27 unique adverse events observed in this trial were reported as mild in severity, 4 were reported as moderate and 2 were reported as severe. Of the 94 patients treated, 19 reported at least one unique adverse event at any time during the trial: 5 patients on placebo; 2 patients on the lower dose level of CK-1827452; and 12 patients on the higher dose level of CK-1827452, who reported a total of 18 unique adverse events (15 of which were reported as mild in severity). The 2 severe adverse events were the only serious adverse events reported. Both occurred in the same patient, who received intravenous CK-1827452 in Cohort 2. Both these events were judged by the investigator to have been unrelated to treatment with CK-1827452. We anticipate that final data from this clinical trial will be presented in 2009.

*Planned Clinical Development.* 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 the safety and tolerability of CK-1827452 in stable heart failure patients, support the progression of CK-1827452 into Phase IIb clinical

development. In mid-2009, we anticipate the initiation of a Phase IIb clinical trial of CK-1827452 in chronic heart failure outpatients at increased risk for death and hospitalization. In the second quarter of 2009, we anticipate initiating an additional Phase IIa clinical trial designed to evaluate the pharmacokinetics of both a modified release and an immediate release formulation of CK-1827452 in patients with heart failure.

*Amgen Collaboration and Option Agreement.* 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 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 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 announced that we believe we completed delivery of this data to Amgen. 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 one or more other partners.

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

*Overview.* Our skeletal muscle contractility program is focused on the activation of the skeletal sarcomere, the basic unit of skeletal muscle contraction. The skeletal sarcomere is a highly ordered cytoskeletal structure composed of skeletal muscle myosin, actin, and a set of regulatory proteins, which include the troponins and tropomyosin. This program leverages our expertise developed in our ongoing discovery and development of cardiac sarcomere activators, including the cardiac muscle myosin activator CK-1827452.

Our skeletal sarcomere activators have demonstrated pharmacological activity that may lead to new therapeutic options for diseases and medical conditions associated with aging, muscle weakness and wasting and neuromuscular dysfunction. The clinical effects of muscle weakness and wasting, fatigue and loss of mobility can range from decreased quality of life to, in some instances, life-threatening complications. By directly improving skeletal muscle function, a small molecule activator of the skeletal sarcomere potentially could enhance functional performance and quality of life in patients suffering from diseases or medical conditions characterized or complicated by muscle weakness or wasting. These could include, but are not limited to, neuromuscular diseases such as amyotrophic lateral sclerosis, also known as ALS or Lou Gehrig's disease, cachexia in connection with heart failure or cancer, claudication, sarcopenia and general frailty associated with aging.

*Potential drug candidates.* In April 2008, we announced that we had selected CK-2017357 as the lead potential drug candidate from this program. We expect to submit an IND with the FDA to initiate a Phase I clinical trial of CK-2017357 in healthy volunteers in 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 the troponin regulatory complex of the skeletal sarcomere. Activation of the

troponin complex 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.

*Ongoing research in skeletal muscle activators.* Our research on the direct activation of skeletal muscle continues in two areas. We are conducting translational research with our existing series of skeletal sarcomere activators to explore the potential applications of this novel approach in preclinical studies. In addition, we have a research program aimed at the discovery and validation of other chemically and pharmacologically distinct mechanisms to activate the skeletal sarcomere.

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

*Overview.* Smooth muscle is a non-striated form of muscle that is found in the circulatory, respiratory, digestive and genitourinary organ systems and is responsible for the contractile properties of these tissues. Because the contractile elements in non-striated muscle are not arranged into sarcomeres, the regulation of smooth muscle is different from that in cardiac and skeletal muscles. Smooth muscle contractility is driven by smooth muscle myosin, a cytoskeletal motor protein that is directly responsible for converting chemical energy into mechanical force. Our smooth muscle contractility program is focused on the discovery and development of small molecule smooth muscle myosin inhibitors, and leverages our expertise in muscle function and its application to drug discovery. Our inhaled smooth muscle myosin inhibitors have demonstrated pharmacological activity in preclinical models of bronchoconstriction and pulmonary vascular constriction and may have application for indications such as pulmonary arterial hypertension, asthma or chronic obstructive pulmonary disease. Our smooth muscle myosin inhibitors, administered orally or intravenously, have demonstrated pharmacological activity in preclinical models of systemic vascular constriction. Smooth muscle myosin inhibitors administered orally may have application in systemic hypertension.

*Potential drug candidate.* 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 protein central to smooth muscle contraction, this compound 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.

*Ongoing research in smooth muscle myosin inhibitors.* We are continuing to conduct early research activities to develop direct smooth muscle myosin inhibitor compounds for systemic administration for potential use in acute or chronic settings. Our research focus is to differentiate our compounds from existing drugs that are vasodilators that act by indirectly causing smooth muscle relaxation, such as commonly used calcium channel blockers. We are particularly interested in potential applications for our compounds where the benefits of currently available treatments are constrained by adverse side effects or limited effectiveness. For example, we are exploring the possible benefits of our smooth muscle inhibitors with respect to end-organ damage in the context of the potential treatment of systemic hypertension.

### **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 were 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 this strategic alliance, we focused primarily on two mitotic kinesins: kinesin spindle protein (“KSP”) and centromere-associated protein E (“CENP-E”).

We are currently conducting a Phase I/II clinical trial for each of ispinesib and SB-743921. Each of these is a structurally distinct small molecule that specifically inhibits KSP, interrupting cancer cell division and causing cell

death. GSK's option to acquire a license to ispinesib and SB-743921 expired at the end of 2008. As a result, we have retained all rights to develop and commercialize ispinesib and SB-743921, subject to certain royalty obligations to GSK. We intend to complete the Phase I portion of our clinical trials for each of ispinesib and SB-743921. We are seeking a strategic partner for the future development and commercialization of these drug candidates.

GSK-923295 specifically inhibits CENP-E, interrupting cancer cell division and causing cell death. GSK is currently conducting a Phase I clinical trial of GSK-923295 in connection with our strategic alliance. We are conducting translational research directed to CENP-E jointly with GSK.

*Background on Anti-Cancer Market.* The market for anti-cancer drugs in the United States in 2006 was estimated to be approximately \$18.1 billion. Within this market, we estimate that sales of drugs that inhibit mitosis, or anti-mitotic drugs, comprise a large portion of the commercial market for anti-cancer drugs. Taxanes, an important subset of anti-mitotic drugs, include paclitaxel from Bristol-Myers Squibb, and docetaxel from Sanofi-Aventis Pharmaceuticals Inc. Sales in the United States of taxanes alone were estimated to be \$2.8 billion in 2006.

*Mitotic Kinesin Inhibitors.* Since their introduction over 40 years ago, anti-mitotic drugs such as taxanes and vinca alkaloids have advanced the treatment of cancer and are commonly used for the treatment of several tumor types. However, these drugs have demonstrated limited treatment benefit against certain cancers. In addition, these drugs target tubulin, a cytoskeletal protein involved not only in mitosis and cell proliferation, but also in other important cellular functions. Inhibition of these other cellular functions produces dose-limiting toxicities such as peripheral neuropathy, an impairment of peripheral nervous system function.

Mitotic kinesins are also essential to mitosis, and, unlike tubulin, are not believed to be present in non-dividing cells. We believe that drugs that inhibit KSP, CENP-E and other mitotic kinesins may represent the next generation of anti-mitotic cancer drugs by arresting mitosis and cell proliferation without impacting unrelated, normal cellular functions, thereby avoiding many of the toxicities commonly experienced by patients treated with existing anti-mitotic drugs. We believe that our anti-cancer drug candidates may be safer and, in certain tumor types, more effective than current anti-mitotic drugs. Preclinical testing of ispinesib, SB-743921 and GSK-923295 and clinical trials of ispinesib and SB-743921 indicate that these drug candidates may have fewer toxicities than many existing anti-cancer drugs. Preclinical studies of ispinesib, SB-743921 and GSK-923295 indicate that the primary toxicities are limited to gastrointestinal side effects and a reduction in bone marrow function. In clinical trials of ispinesib and SB-743921, the major dose-limiting toxicity observed was neutropenia, a decrease in the number of a certain type of white blood cell, which was generally reversible. Limited or no evidence of drug-related toxicities to the nervous system, heart, lung, kidney or liver was observed. We believe that this safety profile could potentially increase the therapeutic value of our mitotic kinesin inhibitors relative to other anti-mitotic drugs, and that a mitotic kinesin inhibitor drug candidate that is shown to have efficacy in one tumor type may also potentially have applications in other tumor types.

*GSK Strategic Alliance.* In 2001, we entered into a collaboration and license agreement with GSK which established a strategic alliance directed to the discovery, development and commercialization of novel small molecule drugs targeting KSP, CENP-E and certain other mitotic kinesins for applications in the treatment of cancer and other diseases. Under the strategic alliance, GSK, in collaboration with the National Cancer Institute ("NCI"), conducted a broad Phase II clinical trials program designed to evaluate ispinesib across multiple tumor types. GSK also conducted a Phase I clinical trial of SB-743921. 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.

GSK is currently conducting a Phase I clinical trial of 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, the royalties to be paid to us 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.

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.

### ***Development Programs***

#### ***Ispinesib***

GSK and the NCI sponsored the initial clinical trials program for ispinesib, which consisted of nine Phase II clinical trials and eight Phase I or Ib clinical trials evaluating ispinesib in a variety of both solid and hematologic cancers. To date, we believe clinical activity for ispinesib has been observed in non-small cell lung, ovarian and breast cancers, with the most 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 on ispinesib indicate that it may have an additive effect when combined with certain existing chemotherapeutic agents. As a result of the expiration of GSK's option relating to ispinesib, we have retained all development and commercialization rights to ispinesib. We are 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 on 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 intend to complete the Phase I portion of this trial. We are seeking a strategic partner for the future development and commercialization of ispinesib.

The following clinical trials for ispinesib were conducted or completed in 2008:

*Breast Cancer:* In December 2007, we initiated an open-label, non-randomized Phase I/II clinical trial designed to evaluate ispinesib as monotherapy administered as a first-line treatment in chemotherapy-naïve patients with locally advanced or metastatic breast cancer. This trial is designed to be a proof-of-concept study to potentially amplify the signals of clinical activity seen in GSK's Phase II monotherapy trial of ispinesib in breast cancer that had failed to respond or progressed after treatment with an anthracycline and a taxane. The primary objectives of the Phase I portion of this clinical trial are to determine the dose-limiting toxicities and maximum tolerated dose, and to assess the safety and tolerability of ispinesib administered as a 1-hour intravenous infusion on days 1 and 15 of a 28-day cycle. The secondary objectives are to characterize the pharmacokinetics of ispinesib on this schedule and to evaluate the effect of ispinesib on biomarkers of cell proliferation in patients with accessible tumors. In September 2008, at the American Society of Clinical Oncology Breast Cancer Symposium, we presented interim results from this trial. These data demonstrated that ispinesib was well-tolerated on this dosing schedule, with the most frequent adverse event being neutropenia. The best responses observed to date were investigator-reported tumor reductions of 30% or greater in the sum of the target lesion diameters, reported in 3 patients. One of these patients had an investigator-reported partial response according to the Response Evaluation Criteria in Solid Tumors. We presented additional data related to ispinesib at the San Antonio Breast Cancer Symposium in December 2008. We continue to enroll and dose-escalate patients in the Phase I portion of this trial.

*Ispinesib with capecitabine:* In June 2008, we announced the results of a Phase Ib clinical trial sponsored by GSK designed to evaluate ispinesib in combination with capecitabine, an oral chemotherapy agent commonly used in the treatment of breast cancer. The investigators in this clinical trial concluded that the combination of ispinesib with capecitabine had an acceptable tolerability profile on the 21-day schedule investigated in the trial. The dose-limiting toxicities in this combination regimen were consistent with the monotherapy toxicities of ispinesib (prolonged neutropenia) and capecitabine (rash). In this trial, the best response observed among the 24 patients treated was a partial response in a patient with advanced breast cancer. In addition, 11 patients had a response of stable disease.

*Pediatric Solid Tumors:* In June 2008, at the American Society of Clinical Oncology annual meeting, the NCI presented final data from a Phase I clinical trial designed to evaluate the safety, tolerability, pharmacodynamics and pharmacokinetic profile of ispinesib as monotherapy administered to pediatric patients with relapsed or refractory solid tumors on days 1, 8 and 15 of a 28-day cycle. The authors concluded that the maximum tolerated

dose on this schedule for this patient population was 9 mg/m<sup>2</sup>. The best response observed was stable disease at 7 courses. Three patients experienced stable disease for longer than 3 courses of therapy. Ispinesib was well-tolerated, with neutropenia and hepatotoxicity representing the most commonly observed dose-limiting toxicities.

#### SB-743921

SB-743921 was studied by GSK in a dose-escalating Phase I clinical trial evaluating its safety, tolerability and pharmacokinetics in advanced cancer patients when administered intravenously on a once every 21-day schedule. The observed toxicities at the recommended Phase II dose were manageable. Dose-limiting toxicities in this clinical trial consisted predominantly of neutropenia and elevations in hepatic enzymes and bilirubin. Disease stabilization, ranging from 9 to 45 weeks, was observed in seven patients; one patient with cholangiocarcinoma had a confirmed partial response at the maximum tolerated dose. As a result of the expiration of GSK's option relating to SB-743921, we have retained all development and commercialization rights to SB-743921. We are conducting a Phase I/II clinical trial evaluating SB-743921 in patients with Hodgkin or non-Hodgkin lymphoma on a more dose-dense schedule than was previously evaluated by GSK. We intend to complete the Phase I portion of this trial. We intend to seek a strategic partner for the future development and commercialization of SB-743921.

*Phase I/II Hodgkin and Non-Hodgkin Lymphoma:* We are continuing to conduct the Phase I portion of a Phase I/II clinical trial of SB-743921. The primary objectives of the Phase I portion of this trial are to determine the dose-limiting toxicities and maximum tolerated dose and to assess the safety and tolerability of SB-743921 administered as a 1-hour intravenous infusion on days 1 and 15 of a 28-day cycle, a more dose-dense schedule than was previously evaluated, first without and then with the prophylactic administration of granulocyte colony-stimulating factor ("G-CSF"). The secondary objectives are to characterize the pharmacokinetics of SB-743921 administered on this schedule and to evaluate the effect of SB-743921 on biomarkers of cell proliferation in patients with accessible tumors. In 2008, we presented interim data from this trial at several scientific conferences, most recently at the December 2008 American Society of Hematology meeting. At this interim analysis point, 51 patients had been treated; all were evaluable for safety and 43 were evaluable for efficacy. The maximum tolerated dose of SB-743921 was 6 mg/m<sup>2</sup> when given days 1 and 15 every 28 days without prophylactic G-CSF support. This represents a greater dose density (0.43 mg/m<sup>2</sup>/day) than was achieved on the previously studied schedule; i.e., 4 mg/m<sup>2</sup> once every 21 days (0.19 mg/m<sup>2</sup>/day). The main dose-limiting toxicity observed without G-CSF was neutropenia; therefore, further dose escalation with empiric, prophylactic G-CSF was initiated and is ongoing. The trial is currently enrolling at 9 mg/m<sup>2</sup> with prophylactic G-CSF support. Grade 3 and 4 toxicities other than neutropenia were uncommon; in particular, no evidence of neuropathy or alopecia greater than Grade 1 have been observed. As of March 2009, three partial responses have been reported at doses at or above 6 mg/m<sup>2</sup>, two in patients with Hodgkin lymphoma and one in a patient with non-Hodgkin lymphoma.

#### GSK-923295

GSK-923295, an inhibitor of CENP-E, is the third drug candidate to arise from our strategic alliance with GSK. CENP-E is directly involved in certain biological processes essential for cancer cells to proliferate. GSK-923295 causes partial and complete shrinkages of human tumors in animal models and has exhibited properties in these studies distinguishing it from ispinesib and SB-743921.

*Phase I First-Time-in-Humans:* During 2008, GSK continued to enroll patients and dose-escalate in an ongoing Phase I clinical trial of GSK-923295. The primary objective of this dose-escalation and pharmacokinetic Phase I clinical trial is to determine the maximum tolerated dose, dose-limiting toxicities, safety and pharmacokinetics of GSK-923295 in advanced, refractory solid tumors. Interim results from this trial were presented in October 2008 at the EORTC — NCI-AACR International Symposium. GSK-923295 was well-tolerated at doses evaluated to date, ranging from 10 to 105 mg/m<sup>2</sup>. Of the adverse events observed, nausea and fatigue (all less than or equal to Grade 2) were the most frequent non-hematological toxicities. Anemia (all less than or equal to Grade 2) was the most frequent hematological toxicity. In addition, no neurotoxicity was observed. To date, the maximum tolerated dose has not been reached. One reversible dose-limiting toxicity was observed in the form of aspartate aminotransferase elevation. The plasma pharmacokinetics of GSK-923295 were dose-proportional and exhibited low intra-patient and modest inter-patient variability.



*Preclinical:* At the October 2008 EORTC — NCI-AACR International Symposium, GSK presented two posters containing preclinical data relating to GSK-923295. The first poster concluded that positron emission tomography using 2-[18F] fluoro-s-deoxy-d-glucose imaging may provide a means of evaluating pharmacodynamic activity in patients treated with GSK-923295. The second poster concluded that GSK-923295 has dose-dependent pharmacodynamic activity in Colo205 human xenografts.

We anticipate that GSK will initiate a Phase II clinical trial of GSK-923295 in 2009.

### **Research and Development Expense**

Our research and development expense was \$54.0 million, \$53.4 million and \$49.2 million for 2008, 2007 and 2006, respectively, and \$337.4 million for the period from August 5, 1997 (date of inception) through December 31, 2008. Total operating expense was \$71.5 million, \$70.1 million and \$64.5 million for 2008, 2007 and 2006, respectively, and \$440.4 million for the period from date of inception through December 31, 2008.

### **Our Patents and Other Intellectual Property**

Our policy is to seek patent protection for the technologies, inventions and improvements that we develop that we consider important to the advancement of our business. As of December 31, 2008, we had 127 issued U.S. patents and over 200 additional pending U.S. and foreign patent applications. In addition, we have an exclusive license from the University of California and Stanford University to 13 issued U.S. patents and an issued European patent. We also rely on trade secrets, technical know-how and continuing innovation to develop and maintain our competitive position. Our commercial success will depend on obtaining and maintaining patent protection and trade secret protection for our drug candidates and technologies and our successfully defending these patents against third-party challenges. We will only be able to protect our technologies from unauthorized use by third parties to the extent that valid and enforceable patents cover them or we maintain them as trade secrets.

With regard to our oncology drug candidates currently in clinical trials, we have a U.S. patent covering ispinesib that will expire in 2020, unless extended, and a U.S. patent covering SB-743921 will expire in 2023, unless extended. However, both ispinesib and SB-743921 are still in clinical development and have not yet been approved by the FDA. If either of these drug candidates is approved, then pursuant to federal law, we may apply for an extension of the U.S. patent term for a patent covering the approved drug, which extension could extend the term of the applicable patent by up to a maximum of five additional years. We have U.S. and foreign patent applications pending for GSK-923295. At present, it is not known or determinable whether patents will issue from any of these applications or what the expiration dates would be for any patents that do issue.

With regard to our drug candidates directed to muscle biology targets, we have U.S. and foreign patent applications pending for each of our drug candidates and potential drug candidates. We have received a notice of patent allowance from the U.S. Patent and Trademark Office for a patent relating to our cardiac muscle myosin activators. It is not known or determinable whether other patents will issue from any of our other pending applications or what the expiration dates would be for any patents that do issue.

The degree of future protection of our proprietary rights is uncertain because legal means may not adequately protect our rights or permit us to gain or keep our competitive advantage. Due to evolving legal standards relating to the patentability, validity and enforceability of patents covering pharmaceutical inventions and the claim scope of these patents, our ability to enforce our existing patents and to obtain and enforce patents that may issue from any pending or future patent applications is uncertain and involves complex legal, scientific and factual questions. The standards which the U.S. Patent and Trademark Office and its foreign counterparts use to grant patents are not always applied predictably or uniformly and are subject to change. To date, no consistent policy has emerged regarding the breadth of claims allowed in biotechnology and pharmaceutical patents. Thus, we cannot be sure that any patents will issue from any pending or future patent applications owned by or licensed to us. Even if patents do issue, we cannot be sure that the claims of these patents will be held valid or enforceable by a court of law, will

## [Table of Contents](#)

provide us with any significant protection against competitive products, or will afford us a commercial advantage over competitive products. For example:

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

The defense and prosecution of intellectual property infringement suits, interferences, oppositions and related legal and administrative proceedings are costly, time-consuming to pursue and result in diversion of resources. The outcome of these types of proceedings is uncertain and could significantly harm our business.

Our ability to commercialize drugs depends on our ability to use, manufacture and sell those drugs without infringing the patents or other proprietary rights of third parties. U.S. and foreign issued patents and pending patent applications owned by third parties exist that may be relevant to the therapeutic areas and chemical compositions of our drug candidates and potential drug candidates. While we are aware of certain relevant patents and patent applications owned by third parties, there may be issued patents or pending applications of which we are not aware that could cover our drug candidates. Because patent applications are often not published immediately after filing, there may be currently pending applications, unknown to us, which could later result in issued patents that our activities with our drug candidates could infringe.

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

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

The development of our drug candidates and the commercialization of any resulting drugs may be impacted by patents of companies engaged in competitive programs with significantly greater resources. This could result in the expenditure of significant legal fees and management resources.

We also rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are often difficult to protect, especially outside of the United States. While we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, partners and other advisors may unintentionally or willfully disclose our trade secrets to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secrets would be expensive and time-consuming, and the outcome would be unpredictable. Even if we are able to maintain our trade secrets as confidential, our competitors may independently develop information that is equivalent or similar to our trade secrets.

We seek to protect our intellectual property by requiring our employees, consultants, contractors and other advisors to execute nondisclosure and invention assignment agreements upon commencement of their employment or engagement, through which we seek to protect our intellectual property. Agreements with our employees also preclude them from bringing the proprietary information or materials of third parties to us. We also require confidentiality agreements or material transfer agreements from third parties that receive our confidential information or materials.

For further details on the risks relating to our intellectual property, please see the risk factors under Item 1A of this report, including, but not limited to, the risk factors entitled “Our success depends substantially upon our ability to obtain and maintain intellectual property protection relating to our drug candidates and research technologies” and “If we are sued for infringing third party intellectual property rights, it will be costly and time-consuming, and an unfavorable outcome would have a significant adverse effect on our business.”

### **Government Regulation**

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture, marketing and distribution of drugs. These agencies and other federal, state and local entities regulate research and development activities and the testing, manufacture, quality control, labeling, storage, record keeping, approval, advertising and promotion of our drug candidates and drugs.

In the United States, the FDA regulates drugs under the Federal Food, Drug and Cosmetic Act and implementing regulations. The process required by the FDA before our drug candidates may be marketed in the United States generally involves the following:

- completion of extensive preclinical laboratory tests, preclinical animal studies and formulation studies, all performed in accordance with the FDA’s good laboratory practice regulations;
- submission to the FDA of an IND, which must become effective before clinical trials may begin;
- performance of adequate and well-controlled clinical trials to establish the safety and efficacy of the drug candidate for each proposed indication in accordance with good clinical practices;
- submission of a new drug application (“NDA”) to the FDA;
- satisfactory completion of an FDA preapproval inspection of the manufacturing facilities at which the product is produced to assess compliance with current good manufacturing practice (“cGMP”) regulations; and
- FDA review and approval of the NDA prior to any commercial marketing, sale or shipment of the drug.

This testing and approval process requires substantial time, effort and financial resources, and we cannot be certain that any approvals for our drug candidates will be granted on a timely basis, if at all.

Preclinical tests include laboratory evaluation of product chemistry, formulation and stability, and studies to evaluate toxicity in animals. The results of preclinical tests, together with manufacturing information and analytical data, are submitted as part of an IND application to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day period, raises concerns or questions about the conduct of the clinical trial, including concerns that human research subjects may be exposed to unreasonable health risks. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Similar regulatory procedures generally apply in those countries outside of the United States where we conduct

clinical trials. Our submission of an IND or a foreign equivalent, or those of our collaborators, may not result in authorization from the FDA or its foreign equivalent to commence a clinical trial. A separate submission to an existing IND must also be made for each successive clinical trial conducted during product development. Further, an independent institutional review board (“IRB”) or its foreign equivalent for each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial before it commences at that center and it must monitor the clinical trial until completed. The FDA, the IRB or their foreign equivalents, or the clinical trial sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

*Clinical Trials:* For purposes of an NDA submission and approval, clinical trials are typically conducted in the following three sequential phases, which may overlap:

- *Phase I:* These clinical trials are initially conducted in a limited population to test the drug candidate for safety, dose tolerance, absorption, metabolism, distribution and excretion in healthy humans or, on occasion, in patients, such as cancer patients. In some cases, particularly in cancer trials, a sponsor may decide to conduct a “Phase Ib” clinical trial, which is a second, safety-focused Phase I trial typically designed to evaluate the impact of the drug candidate in combination with currently approved drugs.
- *Phase II:* These clinical trials are generally conducted in a limited patient population to identify possible adverse effects and safety risks, to make an initial determination of potential efficacy of the drug candidate for specific targeted indications and to determine dose tolerance and optimal dosage. Multiple Phase II clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase III clinical trials. Phase IIa clinical trials generally are designed to study the pharmacokinetic or pharmacodynamic properties and conduct a preliminary assessment of safety of the drug candidate over a measured dose response range. In some cases, a sponsor may decide to conduct a Phase IIb clinical trial, which is a second, typically larger, confirmatory Phase II trial that could, if positive and accepted by the FDA, serve as a pilot or pivotal clinical trial in the approval of a drug candidate.
- *Phase III:* These clinical trials are commonly referred to as pivotal clinical trials. If the Phase II clinical trials demonstrate that a dose range of the drug candidate is effective and has an acceptable safety profile, Phase III clinical trials are then undertaken in large patient populations to further evaluate dosage, to provide substantial evidence of clinical efficacy and to further test for safety in an expanded and diverse patient population at multiple, geographically dispersed clinical trial sites.

In some cases, the FDA may condition approval of an NDA for a drug candidate on the sponsor’s agreement to conduct additional clinical trials to further assess the drug’s safety and effectiveness after NDA approval, known as Phase IV clinical trials.

The Food and Drug Amendments Act of 2007 generally requires that the clinical trials we conduct for our drug candidates, both before and after approval, and the results of those trials, be included in a clinical trials registry database that is available and accessible to the public via the internet. A failure by us to properly participate in the clinical trial database registry could subject us to significant civil monetary penalties.

Health care providers in the United States, including research institutions from which we or our partners obtain patient information, are subject to privacy rules under the Health Insurance Portability and Accountability Act of 1996 and state and local privacy laws. In the European Union, these entities are subject to the Directive 95/46-EC of the European Parliament on the protection of individuals with regard to the processing of personal data and individual European Union member states implementing additional legislation. Other countries have similar privacy legislation. We could face substantial penalties if we knowingly receive individually identifiable health information from a health care provider that has not satisfied the applicable privacy laws. In addition, certain privacy laws and genetic testing laws may apply directly to our operations and/or those of our partners and may impose restrictions on the use and dissemination of individuals’ health information and use of biological samples.

*New Drug Application.* The results of drug candidate development, preclinical testing and clinical trials are submitted to the FDA as part of an NDA. The NDA also must contain extensive manufacturing information. Once the submission has been accepted for filing, by law the FDA has 180 days to review the application and respond to the applicant. The review process is often significantly extended by FDA requests for additional information or

clarification. The FDA may refer the NDA to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The FDA often, but not always, follows the advisory board's recommendations. The FDA may deny approval of an NDA if the applicable regulatory criteria are not satisfied, or it may require additional clinical data, including data in a pediatric population, or an additional pivotal Phase III clinical trial or impose other conditions that must be met in order to secure final approval for an NDA. Even if such data are submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data from clinical trials are not always conclusive and the FDA may interpret data differently than we or our partners do. Once issued, the FDA may withdraw a drug approval if ongoing regulatory requirements are not met or if safety problems occur after the drug reaches the market. In addition, the FDA may require further testing, including Phase IV clinical trials, and surveillance or restrictive distribution programs to monitor the effect of approved drugs which have been commercialized. The FDA has the power to prevent or limit further marketing of a drug based on the results of these post-marketing programs. Drugs may be marketed only for the approved indications and in accordance with the provisions of the approved label. Further, if there are any modifications to a drug, including changes in indications, labeling or manufacturing processes or facilities, we may be required to submit and obtain prior FDA approval of a new NDA or NDA supplement, which may require us to develop additional data or conduct additional preclinical studies and clinical trials.

Satisfaction of FDA regulations and requirements or similar requirements of state, local and foreign regulatory agencies typically takes several years. The actual time required may vary substantially based upon the type, complexity and novelty of the drug candidate or disease. Typically, if a drug candidate is intended to treat a chronic disease, as is the case with some of our drug candidates, safety and efficacy data must be gathered over an extended period of time. Government regulation may delay or prevent marketing of drug candidates for a considerable period of time and impose costly procedures upon our activities. The FDA or any other regulatory agency may not grant approvals for new indications for our drug candidates on a timely basis, if at all. Even if a drug candidate receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations and dosages or restrictive distribution programs. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a drug may result in restrictions on the drug or even complete withdrawal of the drug from the market. Delays in obtaining, or failures to obtain, regulatory approvals for any of our drug candidates would harm our business. In addition, we cannot predict what future U.S. or foreign governmental regulations may be implemented.

*Other regulatory requirements.* Any drugs manufactured or distributed by us or our partners pursuant to FDA approvals or their foreign counterparts are subject to continuing regulation by the applicable regulatory authority, including recordkeeping requirements and reporting of adverse experiences associated with the drug. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and other applicable regulatory authorities, and are subject to periodic unannounced inspections by these regulatory authorities for compliance with ongoing regulatory requirements, including cGMPs, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. Failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory action, such as warning letters, suspension of manufacturing, seizure of product, injunctive action or possible civil penalties. We cannot be certain that we or our present or future third-party manufacturers or suppliers will be able to comply with the cGMP regulations and other ongoing FDA and other regulatory requirements. If our present or future third-party manufacturers or suppliers are not able to comply with these requirements, the FDA or its foreign counterparts may halt our clinical trials, require us to recall a drug from distribution, or withdraw approval of the NDA for that drug.

For further details on the risks relating to government regulation of our business, please see the risk factors under Item 1A of this report, including, but not limited to, the risk factor entitled "The regulatory approval process is expensive, time-consuming and uncertain and may prevent our partners or us from obtaining approvals to commercialize some or all of our drug candidates."

## **Competition**

We compete in the segments of the pharmaceutical, biotechnology and other related markets that address cardiovascular diseases and other diseases relating to muscle dysfunction and cancer, each of which is highly competitive. We face significant competition from most pharmaceutical companies and biotechnology companies

that are also researching and selling products designed to address cardiovascular diseases, diseases and medical conditions associated with skeletal muscle weakness and wasting, and cancer. Many of our competitors have significantly greater financial, manufacturing, marketing and drug development resources than we do. Large pharmaceutical companies in particular have extensive experience in clinical testing and in obtaining regulatory approvals for drugs. These companies also have significantly greater research capabilities than we do. In addition, many universities and private and public research institutes are active in research of cardiovascular diseases, diseases where there is muscle dysfunction, and cancer, some in direct competition with us.

We believe that our ability to successfully compete will depend on, among other things:

- our drug candidates' efficacy, safety and reliability;
- the speed and cost-effectiveness at which we develop our drug candidates;
- the selection of suitable indications for which to develop our drug candidates;
- the successful completion of clinical development and laboratory testing of our drug candidates;
- the timing and scope of any regulatory approvals we or our partners obtain for our drug candidates;
- our or our partners' ability to manufacture and sell commercial quantities of our approved drugs to meet market demand;
- acceptance of our drugs by physicians and other health care providers;
- the willingness of third party payors to provide reimbursement for the use of our drugs;
- our ability to protect our intellectual property and avoid infringing the intellectual property of others;
- the quality and breadth of our technology;
- our employees' skills and our ability to recruit and retain skilled employees;
- our cash flows under existing and potential future arrangements with licensees, partners and other parties; and
- the availability of substantial capital resources to fund development and commercialization activities.

Our competitors may develop drug candidates and market drugs that are less expensive and more effective than our future drugs or that may render our drugs obsolete. Our current or future competitors may also commercialize competing drugs before we or our partners can launch any drugs developed from our drug candidates. These organizations also compete with us to attract qualified personnel and potential parties for acquisitions, joint ventures or other strategic alliances.

If CK-1827452 is approved for marketing by the FDA for heart failure, that compound would compete against current generically available therapies, such as milrinone, dobutamine or digoxin or newer branded drugs such as nesiritide, and potentially against other drug candidates in development. If approved for marketing by the FDA, depending on the approved clinical indication, our anti-cancer drug candidates such as ispinesib, SB-743921 and GSK-923295 would compete against existing cancer treatments such as paclitaxel (and its generic equivalents), docetaxel, vincristine, vinorelbine, navelbine, ixabepilone and potentially against other anti-cancer drug candidates that are currently in development such as those that are reformulated taxanes, other tubulin binding compounds or epothilones. We are also aware that other companies are conducting research and development focused on KSP and other mitotic kinesins, and other approaches to inhibiting mitosis.

For further details on the risks relating to government regulation of our business, please see the risk factors under Item 1A of this report, including, but not limited to, the risk factor entitled "Our competitors may develop drugs that are less expensive, safer or more effective than ours, which may diminish or eliminate the commercial success of any drugs that we may commercialize."

## **Employees**

As of December 31, 2008, our workforce consisted of 110 full-time employees, 30 of whom hold Ph.D. or M.D. degrees, or both, and 23 of whom hold other advanced degrees. Of our total workforce, 81 are engaged in research and development and 29 are engaged in business development, finance and administration functions.

In September 2008, we announced a restructuring plan to realign our workforce and operations in line with a strategic reassessment of our research and development activities and corporate objectives. As a result, we have focused our research activities to our muscle contractility programs while continuing our ongoing clinical trials in heart failure and cancer and discontinued early research activities directed to oncology. To implement this plan, we reduced our workforce by approximately 29%, or 45 employees, to 112 employees. The affected employees were provided with severance payments and outplacement assistance.

We have no collective bargaining agreements with our employees, and we have not experienced any work stoppages. We believe that our relations with our employees are good.

## **Available Information**

We file electronically with the Securities and Exchange Commission ("SEC"), our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the day of filing with the SEC on our website at <http://www.cytokinetics.com> or by contacting the Investor Relations Department at our corporate offices by calling 650-624-3000.

## **Item 1A. Risk Factors**

*In evaluating our business, you should carefully consider the following risks in addition to the other information in this report. Any of the following risks could materially and adversely affect our business, results of operations, financial condition or your investment in our securities, and many are beyond our control. It is not possible to predict or identify all such factors and, therefore, you should not consider any of these risk factors to be a complete statement of all the potential risks or uncertainties that we face.*

### **Risks Related To Our Business**

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

We have consumed substantial amounts of capital to date, and our operating expenditures will increase over the next several years if we expand our research and development activities. We have funded all of our operations and capital expenditures with proceeds from private and public sales of our equity securities, strategic alliances with GSK, Amgen and others, equipment financings, interest on investments and government grants. We believe that our existing cash and cash equivalents, short-term investments, interest earned on investments, proceeds from our loan with UBS Bank USA and proceeds from our 2007 committed equity financing facility with Kingsbridge should be sufficient to meet our projected operating requirements for at least the next 12 months. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development of our drug candidates and other research and development activities, including risks and uncertainties that could impact the rate of progress of our development activities, we are unable to estimate with certainty the amounts of capital outlays and operating expenditures associated with these activities.

For the foreseeable future, our operations will require significant additional funding, in large part due to our research and development expenses and the absence of any revenues from product sales. Until we can generate a sufficient amount of product revenue, we expect to raise future capital through public or private equity offerings, debt financings and strategic alliance and licensing arrangements. We do not currently have any commitments for future funding other than milestone and royalty payments that we may receive under our collaboration and license agreement with GSK and, if Amgen exercises its option with respect to CK-1827452, option fees and milestone and royalty payments that we may receive under our collaboration and option agreement with Amgen. We may not receive any further funds under either of these agreements. Our ability to raise funds may be adversely impacted by current economic conditions, including the effects of the recent disruptions to the credit and financial markets in the United States and worldwide. In particular, the pool of third-party capital that in the past has been available to development-stage companies such as ours has decreased significantly in recent months, and such decreased availability may continue for a prolonged period. As a result of these and other factors, we do not know whether additional financing will be available when needed, or that, if available, such financing would be on terms favorable to our stockholders or us.

To the extent that we raise additional funds by issuing equity securities, our stockholders will experience additional dilution. To the extent that we raise additional funds through strategic alliance and licensing arrangements, we will likely have to relinquish valuable rights to our technologies, research programs or drug candidates, or grant licenses on terms that may not be favorable to us. To the extent that we raise additional funds through debt financing, the financing may involve covenants that restrict our business activities. In addition, such funding, if needed, may not be available to us on favorable terms, or at all.

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

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

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

***We 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.***

We currently have no drugs for sale and we cannot guarantee that we will ever have marketable drugs. We must demonstrate that our drug candidates satisfy rigorous standards of safety and efficacy to the FDA in the United States and other regulatory authorities abroad. We and our partners will need to conduct significant additional research and preclinical and clinical testing before we or our partners can file applications with the FDA or other regulatory authorities for approval of any of our drug candidates. In addition, to compete effectively, our drugs must be easy to use, cost-effective and economical to manufacture on a commercial scale, compared to other therapies available for the treatment of the same conditions. We may not achieve any of these objectives. CK-1827452, our drug candidate for the potential treatment of heart failure, and ispinosib, SB-743921 and GSK-923295, our drug candidates for the potential treatment of cancer, are currently our only drug candidates in clinical trials. We cannot be certain that the clinical development of these or any future drug candidate will be successful, that they will receive the regulatory approvals required to commercialize them, or that any of our other research programs will yield a drug candidate suitable for clinical testing or commercialization. Our commercial revenues, if any, will be derived from sales of drugs that we do not expect to be commercially marketed for several years, if at all. The



development of any one or all of these drug candidates may be discontinued at any stage of our clinical trials programs and we may not generate revenue from any of these drug candidates.

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

Prior to receiving approval to commercialize any of our drug candidates, we must adequately demonstrate to the FDA and foreign regulatory authorities that the drug candidate is sufficiently safe and effective with substantial evidence from well-controlled clinical trials. In clinical trials we will need to demonstrate efficacy for the treatment of specific indications and monitor safety throughout the clinical development process and possibly following approval. None of our drug candidates have yet been demonstrated to be safe and effective in clinical trials and they may never be. In addition, for each of our current preclinical compounds, we must adequately demonstrate satisfactory chemistry, formulation, stability and toxicity in order to submit an IND to the FDA, or an equivalent application in foreign jurisdictions, that would allow us to advance that compound into clinical trials. If our current or future preclinical studies or clinical trials are unsuccessful, our business will be significantly harmed and our stock price could be negatively affected.

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

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

Administering any of our drug candidates or potential drug candidates may produce undesirable side effects, also known as adverse effects. Toxicities and adverse effects observed in preclinical studies for some compounds in a particular research and development program may also occur in preclinical studies or clinical trials of other compounds from the same program. Potential toxicity issues may arise from the effects of the active pharmaceutical ingredient itself or from impurities or degradants that are present in the active pharmaceutical ingredient or could form over time in the formulated drug candidate or the active pharmaceutical ingredient. These toxicities or adverse effects could delay or prevent the filing of an IND (or a foreign equivalent) with respect to our drug candidates or potential drug candidates or cause us to cease clinical trials with respect to any drug candidate. If these or other adverse effects are severe or frequent enough to outweigh the potential efficacy of a drug candidate, the FDA or other regulatory authorities could deny approval of that drug candidate for any or all targeted indications. The FDA, other regulatory authorities, our partners or we may suspend or terminate clinical trials with our drug candidates at any time. Even if one or more of our drug candidates were approved for sale as drugs, the occurrence of even a limited number of toxicities or adverse effects when used in large populations may cause the FDA to impose restrictions on, or stop, the further marketing of those drugs. Indications of potential adverse effects or toxicities

which do not seem significant during the course of clinical trials may later turn out to actually constitute serious adverse effects or toxicities when a drug is used in large populations or for extended periods of time.

We have observed certain adverse effects in the clinical trials conducted with our drug candidates. For example, in clinical trials of isipinesib, the most commonly observed dose-limiting toxicity was neutropenia, a decrease in the number of a certain type of white blood cell that results in an increase in susceptibility to infection. In a Phase I clinical trial of SB-743921, the dose-limiting toxicities observed were: prolonged neutropenia, with or without fever and with or without infection; elevated transaminases and hyperbilirubinemia, both of which are abnormalities of liver function; and hyponatremia, which is a low concentration of sodium in the blood. In a Phase I clinical trial of CK-1827452, intolerable doses of CK-1827452 were associated with complaints of chest discomfort, palpitations, dizziness and feeling hot, increases in heart rate, declines in blood pressure, electrocardiographic changes consistent with acute myocardial ischemia and transient rises in cardiac troponins I and T, which are markers of possible myocardial injury.

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

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

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

- delays in obtaining, or inability to obtain, regulatory or other approvals to commence and conduct clinical trials in the manner we or our partners deem necessary for the appropriate and timely development of our drug candidates and commercialization of any resulting drugs;
- delays in identifying and reaching agreement, or inability to identify and reach agreement, on acceptable terms, with prospective clinical trial sites;
- delays or additional costs in developing, or inability to develop, appropriate formulations of our drug candidates for clinical trial use, including an appropriate modified release formulation for CK-1827452;
- slower than expected rates of patient recruitment and enrollment, including as a result of competition for patients with other clinical trials; limited numbers of patients that meet the enrollment criteria; patients', investigators' or trial sites' reluctance to agree to the requirements of a protocol; or the introduction of alternative therapies or drugs by others;
- for those drug candidates that are the subject of a strategic alliance, delays in reaching agreement with our partner as to appropriate development strategies;
- an IRB or its foreign equivalent may require changes to a protocol that then require approval from regulatory agencies and other IRBs and their foreign equivalents, or regulatory authorities may require changes to a protocol that then require approval from the IRBs or their foreign equivalents;
- for clinical trials conducted in foreign countries, the time and resources required to identify, interpret and comply with foreign regulatory requirements or changes in those requirements, and political instability or natural disasters occurring in those countries;
- lack of effectiveness of our drug candidates during clinical trials;
- unforeseen safety issues;
- inadequate supply of clinical trial materials;

- uncertain dosing issues;
- introduction of new therapies or changes in standards of practice or regulatory guidance that render our clinical trial endpoints or the targeting of our proposed indications obsolete;
- failure by us, our clinical research organizations, investigators or site personnel to comply with good clinical practices and other applicable laws and regulations;
- inability to monitor patients adequately during or after treatment; and
- inability or unwillingness of medical investigators to follow our clinical protocols.

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

***We have limited capacity to carry out our own clinical trials in connection with the development of our drug candidates and, to the extent we elect to develop a drug candidate without a strategic partner, we will need to expand our development capabilities and will require additional funding.***

The development of drug candidates is complicated and expensive, and we currently have limited financial and operational resources to carry out drug development. In order to expand our capability to conduct clinical development we will need to bring additional skills, technical expertise and resources into our organization, which will require significant additional funding.

Pursuant to our collaboration and option agreement with Amgen, we are responsible for conducting Phase IIa clinical development for our drug candidate CK-1827452. We cannot engage another strategic partner for CK-1827452, except in Japan, until Amgen elects not to exercise its option to conduct later-stage clinical development for CK-1827452 or its option expires, whichever is earlier. We intend to initiate a Phase IIb clinical trial for CK-1827452 regardless of whether Amgen exercises its option, which will require significant operational and financial resources.

We have retained all rights to develop and commercialize ispinesib and SB-743921. We currently do not have a strategic partner for these drug candidates. Currently, we are conducting the Phase I portion of a Phase I/II clinical trial for each of ispinesib in breast cancer and SB-743921 in Hodgkin and non-Hodgkin lymphoma. We intend to complete the Phase I portion of each of these clinical trials. We rely on GSK to conduct preclinical and clinical development for GSK-923295 in cancer. If GSK elects to terminate its development activities with respect to GSK-923295, we currently do not have an alternative strategic partner for this drug candidates.

We intend to seek strategic partners or other third party sources of funding for the future development and commercialization of ispinesib and SB-743921, for CK-1827452 if Amgen does not exercise its option and for GSK-923295 should GSK terminate its development activities. We may be unable to enter into an agreement with a third party that would provide sufficient operational support and funding for the further clinical development of these drug candidates on acceptable terms, or at all. In that case, we would have to curtail or abandon development of one or more of these drug candidates.

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

Our strategy for developing, manufacturing and commercializing our drug candidates and potential drug candidates currently requires us to enter into and successfully maintain strategic alliances with pharmaceutical companies or other industry participants to advance our programs and reduce our expenditures on each program. We currently have strategic alliances with Amgen relating to CK-1827452 and with GSK relating to GSK-923295. Similarly, we expect to rely on one or more strategic partners to advance and develop ispinesib and SB-743921 and our potential drug candidates directed towards skeletal sarcomere and smooth muscle contractility. However, we may not be able to negotiate and enter into such strategic alliances on acceptable terms, if at all. If we are not able to

maintain our existing strategic alliances or establish and maintain additional strategic alliances, we will have to limit the size or scope of, or delay or discontinue, one or more of our drug development programs or research programs, or undertake and fund these programs ourselves. If we elect to continue to conduct any of these drug development programs or research programs on our own, we will need to obtain significant additional capital, which may not be available to us on acceptable terms or at all.

***If Amgen does not exercise its option for CK-1827452, we will have to reduce, delay or discontinue our development of CK-1827452 or increase our expenditures.***

Our collaboration and option agreement with Amgen grants it an option to obtain an exclusive license for the development and commercialization rights for CK-1827452 world-wide, except Japan. Amgen's option is exercisable during a defined period, the ending of which is dependent upon the satisfaction of certain conditions, primarily the 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 reasonably support its progression into Phase IIb clinical development. We believe we have completed delivery of this data to Amgen, which can exercise its option by paying us a specified option fee within the pre-defined option exercise period.

Amgen may elect not to exercise its option, irrespective of the data that we provide, may dispute whether we have provided sufficient information and data to require it to decide whether to exercise its option, or may seek to require us to conduct additional clinical trial activities prior to deciding whether to exercise its option. If Amgen elects not to exercise its option for CK-1827452, we would have to seek an alternative strategic partner for the CK-1827452 development program. However, we may not be able to negotiate and enter into such a strategic alliance on acceptable terms, if at all. Without a strategic partner, we would have to limit the size or scope of, or delay or discontinue, development of CK-1827452 or undertake and fund that development ourselves. If we elect to continue to conduct development on our own, we will need to obtain additional capital, which may not be available to us on acceptable terms, or at all. Further, a decision by Amgen not to exercise its option could negatively affect our stock price.

***We depend on GSK for the conduct, completion and funding of the clinical development and commercialization of GSK-923295.***

Under our strategic alliance, GSK is responsible for the clinical development and obtaining and maintaining regulatory approval of our drug candidate GSK-923295 for cancer and other indications. GSK is responsible for filing applications with the FDA or other regulatory authorities for approval of GSK-923295 and will be the owner of any marketing approvals issued by the FDA or other regulatory authorities for GSK-923295. If the FDA or other regulatory authorities approve GSK-923295, GSK will also be responsible for the marketing and sale of the resulting drug, subject to our right to co-promote GSK-923295 in North America if we exercise our option to co-fund certain later-stage development activities for GSK-923295. However, even if we do exercise our option to co-fund the development of GSK-923295, we cannot control whether GSK will devote sufficient attention and resources to the clinical trials program for GSK-923295 or will proceed in an expeditious manner. Even if the FDA or other regulatory agencies approve GSK-923295, GSK may elect not to proceed with the commercialization of the resulting drug. GSK generally has discretion to elect whether to pursue or abandon the development of GSK-923295 and may terminate our strategic alliance for any reason upon six months prior notice. These decisions are outside our control. We do not control the clinical development being conducted or that may be conducted in the future by GSK, including the timing of initiation, termination or completion of clinical trials, the analysis of data arising out of those clinical trials or the timing of release of data concerning those clinical trials, which may impact our ability to report on GSK's results.

If the initial results of one or more of its early clinical trials do not meet GSK's expectations, GSK may elect to terminate further development of GSK-923295 or certain of the potential clinical trials for GSK-923295, even if the actual number of patients treated at that time is relatively small. If GSK abandons GSK-923295, it would result in a delay in or could prevent us from commercializing GSK-923295, and would delay and could prevent us from obtaining revenues for this drug candidate. Disputes may arise between us and GSK, which may delay or cause the termination of any GSK-923295 clinical trials, result in significant litigation or arbitration, or cause GSK to act in a manner that is not in our best interest. If development of GSK-923295 does not progress for these or any other

reasons, we would not receive further milestone payments or royalties on product sales from GSK with respect to GSK-923295. If GSK abandons development of GSK-923295 prior to regulatory approval or if it elects not to proceed with commercialization of the resulting drug following regulatory approval, we would have to seek a new partner for clinical development or commercialization, curtail or abandon that clinical development or commercialization, or undertake and fund the clinical development of GSK-923295 or commercialization of the resulting drug ourselves. If we seek a new partner but are unable to do so on acceptable terms, or at all, or do not have sufficient funds to conduct the development or commercialization of GSK-923295 ourselves, we would have to curtail or abandon that development or commercialization, which could harm our business.

***The success of our development activities depends in part on the performance of our strategic partners, over which we have little or no control.***

Our ability to commercialize drugs that we develop with our partners and that generate royalties from product sales depends on our partners' abilities to assist us in establishing the safety and efficacy of our drug candidates, obtaining and maintaining regulatory approvals and achieving market acceptance of the drugs once commercialized. Our partners may elect to delay or terminate development of one or more drug candidates, independently develop drugs that could compete with ours or fail to commit sufficient resources to the marketing and distribution of drugs developed through their strategic alliances with us. Our partners may not proceed with the development and commercialization of our drug candidates with the same degree of urgency as we would because of other priorities they face. In particular, we are relying on GSK to conduct clinical development of GSK-923295. GSK may modify its plans to conduct that clinical development or may not proceed diligently with that clinical development. In addition, if Amgen exercises its option with respect to CK-1827452, it will then be responsible for the clinical development of CK-1827452. We do not control the clinical development of GSK-923295 being conducted by GSK or that may be conducted in the future by GSK for GSK-923295 or by Amgen for CK-1827452, including the timing of initiation, termination or completion of clinical trials, the analysis of data arising out of those clinical trials or the timing of release of data concerning those clinical trials, which may impact our ability to report on their results. If our partners fail to perform diligently, our potential for revenue from drugs developed through our strategic alliances, if any, could be dramatically reduced.

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

We utilize contract research organizations ("CROs") for our clinical trials of CK-1827452, ispinosib and SB-743921 within and outside of the United States. We do not have operational control over many aspects of our CROs' activities, and cannot fully control the amount, timing or quality of resources that they devote to our programs. CROs may not assign as high a priority to our programs or pursue them as diligently as we would if we were undertaking these programs ourselves. The activities conducted by our CROs therefore may not be completed on schedule or in a satisfactory manner. CROs may also give higher priority to relationships with our competitors and potential competitors than to their relationships with us. Outside of the United States, we are particularly dependent on our CROs' expertise in communicating with clinical trial sites and regulatory authorities and ensuring that our clinical trials and related activities and regulatory filings comply with applicable local laws. Our CRO's failure to carry out development activities on our behalf according to our requirements and the FDA's or other regulatory agencies' standards and in accordance with applicable laws, or our failure to properly coordinate and manage these activities, could increase the cost of our operations and delay or prevent the development, approval and commercialization of our drug candidates. In addition, if a CRO fails to perform as agreed, our ability to collect damages may be contractually limited.

If we fail to develop the additional skills, technical expertise and resources necessary to carry out the development of our drug candidates or to effectively manage our CROs carrying out this development or if our CROs fail to perform as agreed, the commercialization of our drug candidates will be delayed or prevented.

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

We do not currently operate manufacturing facilities for clinical or commercial production of our drug candidates or potential drug candidates. We have limited experience in drug formulation and manufacturing, and we lack the resources and the capabilities to manufacture any of our drug candidates on a clinical or commercial scale. As a result, we rely on GSK to conduct these activities for the ongoing clinical development of GSK-923295. For CK-1827452, ispinesib and SB-743921, we rely on a limited number of contract manufacturers, and, in particular, we rely on single-source contract manufacturers for the active pharmaceutical ingredient and the drug product supply for our clinical trials. We expect to rely on contract manufacturers to supply all future drug candidates for which we conduct clinical development. If any of our existing or future contract manufacturers fail to perform satisfactorily, it could delay clinical development or regulatory approval of our drug candidates or commercialization of our drugs, producing additional losses and depriving us of potential product revenues. In addition, if a contract manufacturer fails to perform as agreed, our ability to collect damages may be contractually limited.

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

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

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

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

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

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

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

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

We own, or hold exclusive licenses to, a number of U.S. and foreign patents and patent applications directed to our drug candidates and research technologies. Our success depends on our ability to obtain patent protection both in the United States and in other countries for our drug candidates, their methods of manufacture and use, and our technologies. Our ability to protect our drug candidates and technologies from unauthorized or infringing use by third parties depends substantially on our ability to obtain and enforce our patents. If our issued patents and patent applications, if granted, do not adequately describe, enable or otherwise provide coverage of our technologies and drug candidates, including CK-1827452, ispinesib, SB-743921 and GSK-923295, we would not be able to exclude others from developing or commercializing these drug candidates. Furthermore, the degree of future protection of our proprietary rights is uncertain because legal means may not adequately protect our rights or permit us to gain or keep our competitive advantage.

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

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

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

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

Under our license agreement with the University of California and Stanford University, we have obtained an exclusive license to certain issued U.S. and European patents relating to certain of our research activities. If we fail to fulfill our obligations under this license agreement, including certain diligence obligations, this agreement may be terminated, in which case we would no longer have a license to these patents or to future patents that may issue from the pending applications. This may impair our ability to continue to practice the research methods covered by the issued patents, which could harm our business. Alternatively, our license rights may become non-exclusive, which would allow the University of California and Stanford University to grant third parties the right to practice those patents.

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

Changes in either the patent laws or their interpretation in the United States or other countries may diminish the value of our intellectual property or our ability to obtain patents. For example, the U.S. Congress is currently considering bills that could change U.S. law regarding, among other things, post-grant review of issued patents and the calculation of damages once patent infringement has been determined by a court of law. If enacted into law, these provisions could severely weaken patent protection in the United States. In addition, the U.S. Patent and Trademark Office adopted new rules that were to become effective on November 1, 2007, regarding processes for



obtaining patents in the United States. However, a permanent injunction preventing implementation of the new rules has been issued. This decision is now being appealed. The new rules are numerous and complex and, if made effective, generally are expected to make it more difficult for patent applicants to obtain patents, especially with regard to pharmaceutical products and processes. If these rules changes become effective, they would likely make it more difficult for us and others to obtain patent protection in the United States for any future drug candidates.

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

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

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

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

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

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

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

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

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

- infringement and other intellectual property claims that, even if meritless, can be costly and time-consuming to litigate, delay the regulatory approval process and divert management's attention from our core business operations;
- substantial damages for past infringement which we may have to pay if a court determines that our drugs or technologies infringe a competitor's patent or other proprietary rights;
- a court prohibiting us from selling or licensing our drugs or technologies unless the holder licenses the patent or other proprietary rights to us, which it is not required to do; and
- if a license is available from a holder, we may have to pay substantial royalties or grant cross-licenses to our patents or other proprietary rights.

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

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

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

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

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

Even if we are successful in defending against these claims, litigation could result in substantial costs and distract management.

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

We compete with companies that have developed drugs or are developing drug candidates for cardiovascular diseases, cancer and other diseases for which our drug candidates may be useful treatments. For example, if CK-1827452 is approved for marketing by the FDA for heart failure, that drug candidate would compete against other drugs used for the treatment of heart failure. These include generic drugs, such as milrinone, dobutamine or digoxin and newer marketed drugs such as nesiritide. CK-1827452 could also potentially compete against other novel drug candidates in development, such as levosimendan, which is marketed by Abbott Laboratories in a number of countries outside of the United States; istaroxamine, which is being developed by Debiopharm Group; rolofylline, which is being developed by Merck & Co. Inc.; bucindolol, which is being developed by ARCA biopharma, Inc.; BG9928, which is being developed by Biogen Idec Inc.; and CD-NP, which is being developed by Nile Therapeutics, Inc. In addition, there are a number of medical devices being developed for the potential treatment of heart failure.

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

Our competitors may:

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

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

- developing drug candidates;
- undertaking preclinical testing and clinical trials;

- building relationships with key customers and opinion-leading physicians;
- obtaining and maintaining FDA and other regulatory approvals of drug candidates;
- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

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

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

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

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

We currently have no sales, marketing or distribution capabilities. We plan to commercialize drugs that can be effectively marketed and sold in concentrated markets that do not require a large sales force to be competitive. To achieve this goal, we will need to establish our own specialized sales force and marketing organization with technical expertise and with supporting distribution capabilities. Developing such an organization is expensive and time-consuming and could delay a product launch. In addition, we may not be able to develop this capacity efficiently, cost-effectively or at all, which could make us unable to commercialize our drugs. If we determine not to market on our drugs on our own, we will depend on strategic alliances with third parties, such as GSK and Amgen, which have established distribution systems and direct sales forces to commercialize them. If we are unable to enter into such arrangements on acceptable terms, we may not be able to successfully commercialize these drugs. To the extent that we are not successful in commercializing any drugs ourselves or through a strategic alliance, our product revenues and business will suffer and our stock price would decrease.

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

Our business depends on the performance of our senior management and key scientific and technical personnel. The loss of the services of any member of our senior management or key scientific or technical staff may significantly delay or prevent the achievement of drug development and other business objectives by diverting management's attention to transition matters and identifying suitable replacements. We also rely on consultants and advisors to assist us in formulating our research and development strategy. All of our consultants and advisors are either self-employed or employed by other organizations, and they may have conflicts of interest or other commitments, such as consulting or advisory contracts with other organizations, that may affect their ability to contribute to us. In addition, if and as our business grows, we will need to recruit additional executive management

and scientific and technical personnel. There is currently intense competition for skilled executives and employees with relevant scientific and technical expertise, and this competition is likely to continue. Our inability to attract and retain sufficient scientific, technical and managerial personnel could limit or delay our product development activities, which would adversely affect the development of our drug candidates and commercialization of our potential drugs and growth of our business.

***Our workforce reductions in September 2008 and any future workforce and expense reductions may have an adverse impact on our internal programs and our ability to hire and retain skilled personnel.***

In September 2008, we reduced our workforce by approximately 29% in order to reduce expenses and to focus on research activities in our muscle contractility programs and advancing drug candidates in our clinical pipeline. These headcount reductions and the cost control measures we have implemented may negatively affect our productivity and limit our research and development activities. For example, as part of this strategic restructuring, we have discontinued our early research activities in oncology. Our future success will depend in large part upon our ability to attract and retain highly skilled personnel. We may have difficulty retaining and attracting such personnel as a result of a perceived risk of future workforce reductions. In light of our continued need for funding and cost control, we may be required to implement future workforce and expense reductions, which could further limit our research and development activities. In addition, the implementation of any additional workforce or expense reduction programs may divert the efforts of our management team and other key employees, which could adversely affect our business.

**Risks Related To Our Industry**

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

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

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

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

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

Even if we receive regulatory approval to manufacture and sell a drug in a particular regulatory jurisdiction, other jurisdictions' regulatory authorities may not approve that drug for manufacture and sale. If we or our partners

fail to receive and maintain regulatory approval for the sale of any drugs resulting from our drug candidates, it would significantly harm our business and negatively affect our stock price.

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

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

The FDA and foreign regulatory agencies may change their policies and additional government regulations may be enacted that could prevent or delay regulatory approval of our drug candidates. We cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are not able to maintain regulatory compliance, we might not be permitted to market our drugs and our business would suffer.

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

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

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

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

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

Even if one or more of our drugs is approved for sale, the commercial success of our drugs in both domestic and international markets will be substantially dependent on whether third-party coverage and reimbursement is available for our drugs by the medical profession for use by their patients, which is highly uncertain. Medicare, Medicaid, health maintenance organizations and other third-party payors are increasingly attempting to contain

healthcare costs by limiting both coverage and the level of reimbursement of new drugs. As a result, they may not cover or provide adequate payment for our drugs. They may not view our drugs as cost-effective and reimbursement may not be available to consumers or may be insufficient to allow our drugs to be marketed on a competitive basis. If we are unable to obtain adequate coverage and reimbursement for our drugs, our ability to generate revenue will be adversely affected. Likewise, legislative or regulatory efforts to control or reduce healthcare costs or reform government healthcare programs could result in lower prices or rejection of coverage and reimbursement for our potential drugs. Changes in coverage and reimbursement policies or healthcare cost containment initiatives that limit or restrict reimbursement for our drugs would cause our revenue to decline.

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

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

In addition, if we commercially launch drugs based on our drug candidates, we will face even greater exposure to product liability claims. This risk exists even with respect to those drugs that are approved for commercial sale by the FDA and foreign regulatory agencies and manufactured in licensed and regulated facilities. We intend to secure limited product liability insurance coverage, but may not be able to obtain such insurance on acceptable terms with adequate coverage, or at reasonable costs. There is also a risk that third parties that we have agreed to indemnify could incur liability, or that third parties that have agreed to indemnify us do not fulfill their obligations. Even if we are ultimately successful in product liability litigation, the litigation would consume substantial amounts of our financial and managerial resources and may create adverse publicity, all of which would impair our ability to generate sales of the affected product and our other potential drugs. Moreover, product recalls may be issued at our discretion or at the direction of the FDA and foreign regulatory agencies, other governmental agencies or other companies having regulatory control for drug sales. If product recalls occur, they are generally expensive and often have an adverse effect on the reputation of the drugs being recalled and of the drug's developer or manufacturer.

We may be required to indemnify third parties against damages and other liabilities arising out of our development, commercialization and other business activities, which could be costly and time-consuming and distract management.

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

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

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

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

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

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

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

Our research and development processes involve the controlled use of hazardous materials, including chemicals and radioactive and biological materials. Our operations produce hazardous waste products. We cannot eliminate the risk of accidental contamination or discharge and any resultant injury from those materials. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of hazardous materials. We may be sued for any injury or contamination that results from our use or the use by third parties of these materials. Compliance with environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development and production activities.

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

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

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

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

The stock market, particularly in recent months and years, has experienced significant volatility, particularly with respect to pharmaceutical, biotechnology and other life sciences company stocks, which often does not relate



to the operating performance of the companies represented by the stock. Factors that could cause volatility in the market price of our common stock include, but are not limited to:

- results from, delays in, or discontinuation of, any of the clinical trials for our drug candidates, such as CK-1827452 for heart failure, isipinesib for breast cancer, SB-743921 for Hodgkin and non-Hodgkin lymphoma and GSK-923295 for cancer, including delays resulting from slower than expected or suspended patient enrollment or discontinuations resulting from a failure to meet pre-defined clinical end-points;
- announcements concerning our strategic alliances with Amgen, GSK or future strategic alliances, including, but not limited to, announcements concerning Amgen's option relating to CK-1827452;
- announcements concerning clinical trials for our drug candidates;
- failure or delays in entering additional drug candidates into clinical trials;
- failure or discontinuation of any of our research programs;
- issuance of new or changed securities analysts' reports or recommendations;
- failure or delay in establishing new strategic alliances, or the terms of those alliances;
- market conditions in the pharmaceutical, biotechnology and other healthcare-related sectors;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- developments or disputes concerning our intellectual property or other proprietary rights;
- introduction of technological innovations or new products by us or our competitors;
- issues in manufacturing our drug candidates or drugs;
- market acceptance of our drugs;
- third-party healthcare coverage and reimbursement policies;
- FDA or other U.S. or foreign regulatory actions affecting us or our industry;
- litigation or public concern about the safety of our drug candidates or drugs;
- additions or departures of key personnel; or
- volatility in the stock prices of other companies in our industry or in the stock market generally.

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

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

As of February 28, 2009, our executive officers, directors and their affiliates beneficially owned or controlled approximately 25.4% of the outstanding shares of our common stock (after giving effect to the exercise of all outstanding vested and unvested options and warrants). Accordingly, these executive officers, directors and their affiliates, acting as a group, will have substantial influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transactions. These stockholders may also delay or prevent a change of control of us, even if such a change of control would benefit our other stockholders. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

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

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

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

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

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission (“SEC”) regulations and NASDAQ Stock Market LLC rules are creating uncertainty for public companies. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of these costs. For example, compliance with the internal control requirements of Section 404 of the Sarbanes-Oxley Act has to date required the commitment of significant resources to document and test the adequacy of our internal control over financial reporting. Our assessment, testing and evaluation of the design and operating effectiveness of our internal control over financial reporting resulted in our conclusion that, as of December 31, 2008, our internal control over financial reporting was effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures. However, we can provide no assurance as to conclusions of management or by our independent registered public accounting firm with respect to the effectiveness of our internal control over financial reporting in the future. In addition, the SEC has adopted regulations that will require us to file corporate financial statement information in a new interactive data format known as XBRL beginning in 2011. We will incur significant costs and need to invest considerable resources to implement and to remain in compliance with these new requirements.

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

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

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

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

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

In October 2007, we entered into a committed equity financing facility with Kingsbridge. This committed equity financing facility entitles us to sell and obligates Kingsbridge to purchase, from time to time over a period of three years, shares of our common stock for cash consideration up to an aggregate of \$75.0 million, subject to certain conditions and restrictions. Kingsbridge will not be obligated to purchase shares under this committed equity financing facility unless certain conditions are met, which include a minimum volume weighted average price of \$2.00 for our common stock; the accuracy of representations and warranties made to Kingsbridge; compliance with laws; effectiveness of the registration statement registering for resale the shares of common stock to be issued in connection with this committed equity financing facility; and the continued listing of our stock on NASDAQ. In addition, Kingsbridge is permitted to terminate this committed equity financing facility if it determines that a material and adverse event has occurred affecting our business, operations, properties or financial condition and if such condition continues for a period of 10 days from the date Kingsbridge provides us notice of such material and adverse event. If we are unable to access funds through this committed equity financing facility, we may be unable to access capital on reasonable terms or at all.

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

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

***We may be required to record impairment charges in future quarters as a result of the decline in value of our investments in auction rate securities.***

We hold interest-bearing student loan auction rate securities (“ARS”) that represent investments in pools of assets. These ARS were intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par value. The recent uncertainties in the credit markets have affected all of our holdings in ARS and auctions for our investments in these securities have failed to settle on their respective settlement dates. Consequently, these investments are not currently liquid and we will not be able to access these funds until a future auction of these investments is successful, the issuer redeems the outstanding securities, the securities mature or a

buyer is found outside of the auction process. Maturity dates for these ARS range from 2036 to 2045. To date, we have recorded \$3.4 million of unrealized loss in Statement of Operations related to the ARS that we hold in our investment portfolio. However, if the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record additional unrealized losses due to further declines in value in future quarters. This could adversely impact our results of operations and financial condition. Furthermore, in light of auction failures associated with our ARS, we re-classified our ARS as long-term investments due to the uncertainty associated with the timing of our ability to access the funds underlying these investments. We have entered into a settlement agreement with UBS AG relating to the failed auctions of our ARS through which UBS AG and its affiliates may provide us with additional funds based on these ARS. However, if we are unable to access the funds underlying or secured by these investments in a timely manner, we may need to find alternate sources of funding for certain of our operations, which may not be available on favorable terms, or at all, and our business could be adversely affected.

***We may not be able to recover the value of our ARS under our settlement agreement with UBS AG.***

We have entered into a settlement agreement with UBS AG relating to the failed auctions of our ARS through which UBS AG and its affiliates may provide us with additional funds based on these ARS. In accepting the settlement offer, we agreed to give up certain rights and accept certain risks. Under this settlement, UBS AG has issued to us Series C-2 Auction Rate Securities Rights (the "ARS Rights"). The ARS Rights entitle us to require UBS AG to purchase our ARS, through UBS Securities LLC and UBS Financial Services Inc. (the "UBS Entities") as agents for UBS AG, from June 30, 2010 through July 2, 2012 at par value, i.e., at a price equal to the liquidation preference of the ARS plus accrued but unpaid interest, if any. In connection with the ARS Rights, we granted to the UBS Entities the right to sell or otherwise dispose of, and/or enter orders in the auction process with respect to, our ARS on our behalf at its discretion, so long as we receive a payment of par value upon any sale or disposition. 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. If our ARS are sold through the UBS Entities, we will cease to receive interest on these ARS. We may not be able to reinvest the cash proceeds of any sale of these ARS at the same interest rate currently being paid to us with respect to our ARS.

In connection with the settlement, we entered into a loan agreement with UBS Bank USA and UBS Financial Services Inc., and on January 5, 2009 borrowed approximately \$12.4 million under the loan agreement. We have drawn down the full amount available under the loan agreement. The borrowings under the loan agreement are payable upon demand, subject to UBS Financial Services' obligations to arrange alternative financing for us under certain circumstances.

While we entered into the settlement in expectation that UBS AG will fulfill its obligations in connection with the ARS Rights, UBS AG may not have sufficient financial resources to satisfy these obligations. The United States and worldwide financial markets have recently experienced unprecedented volatility, particularly in the financial services sector. UBS AG may not be able to maintain the financial resources necessary to satisfy its obligations with respect to the ARS Rights in a timely manner or at all. UBS AG's obligations in connection with the ARS Rights are not secured by UBS AG's assets or otherwise, nor guaranteed by any other entity. UBS AG is not required to obtain any financing to support its obligations. If UBS AG is unable to perform its obligations in connection with the ARS Rights, we will have no certainty as to the liquidity or value for our ARS. In addition, UBS AG is a Swiss bank and all or a substantial portion of its assets are located outside the United States. As a result, it may be difficult for us to serve legal process on UBS AG or its management or cause any of them to appear in a U.S. court. Judgments based solely on U.S. securities laws may not be enforceable in Switzerland. As a result, if UBS AG fails to fulfill its obligations, we may not be able to effectively seek recourse against it.

In consideration for the ARS Rights, we agreed to release UBS AG, the UBS Entities, and/or their affiliates, directors, and officers from any claims directly or indirectly relating to the marketing and sale of our ARS, other than consequential damages. Even if UBS AG fails to fulfill its obligations in connection with ARS Rights, this release may still be held to be enforceable.

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

Our facilities consist of approximately 81,587 square feet of research and office space. We lease 50,195 square feet located at 280 East Grand Avenue in South San Francisco, California until 2013 with an option to renew that lease over that timeframe. We also lease 31,392 square feet at 256 East Grand Avenue in South San Francisco, California until 2011. We believe that these facilities are suitable and adequate for our current needs.

**Item 3. *Legal Proceedings***

We are not a party to any material legal proceedings.

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

There were no matters submitted to a vote of the security holders during the fourth quarter of 2008.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is quoted on the NASDAQ Global Market under the symbol “CYTK,” and has been quoted on such market since our initial public offering on April 29, 2004. Prior to such date, there was no public market for our common stock. The following table sets forth the high and low closing sales price per share of our common stock as reported on the NASDAQ Global Market for the periods indicated.

	Closing Sale Price	
	High	Low
<b>Fiscal 2007:</b>		
First Quarter	\$ 8.60	\$ 6.56
Second Quarter	\$ 7.38	\$ 5.65
Third Quarter	\$ 5.77	\$ 4.58
Fourth Quarter	\$ 6.25	\$ 4.40
<b>Fiscal 2008:</b>		
First Quarter	\$ 4.73	\$ 3.00
Second Quarter	\$ 4.17	\$ 2.81
Third Quarter	\$ 5.69	\$ 3.61
Fourth Quarter	\$ 4.43	\$ 2.00

On February 27, 2009, the last reported sale price for our common stock on the NASDAQ Global Market was \$1.58 per share. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and have not paid and do not in the foreseeable future anticipate paying any cash dividends. As of February 27, 2009, there were 133 holders of record of our common stock.

On December 29, 2006, in connection with entering into a collaboration and option agreement with Amgen, we contemporaneously entered into a common stock purchase agreement with Amgen, which provided for the sale of 3,484,806 shares of our common stock at a price per share of \$9.47, an aggregate purchase price of approximately \$33.0 million, and a registration rights agreement that provides Amgen with certain registration rights with respect to these shares. The shares were issued to Amgen on January 2, 2007. Pursuant to the common stock purchase agreement, Amgen has agreed to certain trading and other restrictions with respect to our common stock. We relied on the exemption from registration contained in Section 4(2) of the Securities Act in connection with the issuance and sale of the shares to Amgen.

The following table summarizes stock repurchase activity for the quarter ended December 31, 2008:

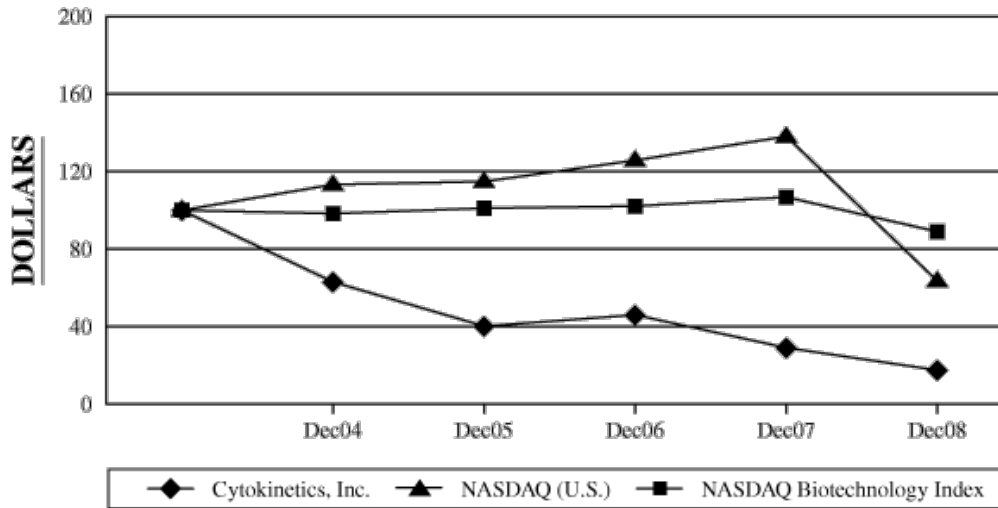
Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2008	—	—	—	—
November 1 to November 30, 2008	—	—	—	—
December 1 to December 31, 2008	1,500	—	—	—
Total	1,500	—	—	—

The shares repurchased were unvested registered common stock that we repurchased from employees upon termination of employment. As December 31, 2008, 396,460 shares of common stock held by employees were subject to repurchase by us.

**Equity Compensation Information**

Information regarding our equity compensation plans and the securities authorized for issuance thereunder is set forth in Part III, Item 12.

**Comparison of Historical Cumulative Total Return Among Cytokinetics, Incorporated, the NASDAQ Stock Market (U.S.) Index and the NASDAQ Biotechnology Index(\*)**



(\*) The above graph shows the cumulative total stockholder return of an investment of \$100 in cash on April 29, 2004, the date our common stock began to trade on the NASDAQ Global Market, through December 31, 2008 for: (i) our common stock; (ii) the NASDAQ Stock Market (U.S.) Index; and (iii) the NASDAQ Biotechnology Index. All values assume reinvestment of the full amount of all dividends. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

	<u>4/29/04</u>	<u>12/31/08</u>
Cytokinetics, Incorporated	\$ 100.00	\$ 17.70
NASDAQ Stock Market (U.S.) Index	\$ 100.00	\$ 65.20
NASDAQ Biotechnology Index	\$ 100.00	\$ 90.49

The information contained under this caption “Comparison of Historical Cumulative Total Return Among Cytokinetics, Incorporated, the NASDAQ Stock Market (U.S.) Index and the NASDAQ Biotechnology Index” shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission (“SEC”), nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into such filing.

**Sales of Unregistered Securities**

None.

**Item 6. Selected Financial Data**

The following selected financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8, “Financial Statements and Supplemental Data” of this report on Form 10-K.

	<b>Year Ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In thousands, except per share amounts)</b>				
<b>Statement of Operations Data:</b>					
Revenues:					
Research and development revenues from related party	\$ 186	\$ 1,388	\$ 1,622	\$ 4,978	\$ 9,338
Research and development, grant and other revenues	—	—	4	1,134	1,304
License revenues from related parties	12,234	12,234	1,501	2,800	2,800
Total revenues	<u>12,420</u>	<u>13,622</u>	<u>3,127</u>	<u>8,912</u>	<u>13,442</u>
Operating expenses:					
Research and development	53,950	53,388	49,225	40,570	39,885
General and administrative	15,076	16,721	15,240	12,975	11,991
Restructuring charges	2,473	—	—	—	—
Total operating expenses	<u>71,499</u>	<u>70,109</u>	<u>64,465</u>	<u>53,545</u>	<u>51,876</u>
Operating loss	(59,079)	(56,487)	(61,338)	(44,633)	(38,434)
Interest and other, net	2,705	7,593	4,223	2,381	1,236
Net loss	<u>\$ (56,374)</u>	<u>\$ (48,894)</u>	<u>\$ (57,115)</u>	<u>\$ (42,252)</u>	<u>\$ (37,198)</u>
Net loss per common share — basic and diluted(2)	<u>\$ (1.14)</u>	<u>\$ (1.03)</u>	<u>\$ (1.56)</u>	<u>\$ (1.48)</u>	<u>\$ (1.88)</u>
Weighted average shares used in computing net loss per common share — basic and diluted(1)(2)					
	<u>49,392</u>	<u>47,590</u>	<u>36,618</u>	<u>28,582</u>	<u>19,779</u>

	<b>As of December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and short- and long-term investments(1)	\$ 73,503	\$ 139,764	\$ 109,542	\$ 76,212	\$ 110,253
Restricted cash	2,750	5,167	6,034	5,172	5,980
Working capital	36,033	95,568	127,228	67,600	98,028
Total assets	87,454	155,370	169,516	91,461	128,101
Long-term portion of equipment financing lines	2,615	4,639	7,144	6,636	8,106
Deficit accumulated during the development stage	(335,907)	(279,533)	(230,639)	(173,524)	(131,272)
Total stockholders’ equity(1)	49,766	99,916	106,313	73,561	107,556

(1) Our initial public offering was declared effective by the SEC and our common stock commenced trading on April 29, 2004. We sold 7,935,000 shares of common stock in the offering for net proceeds of approximately \$94.0 million. In addition, we sold 538,461 shares of our common stock to GlaxoSmithKline (“GSK”)



immediately prior to the closing of the initial public offering for net proceeds of approximately \$7.0 million. Also in conjunction with the initial public offering, all of the outstanding shares of our convertible preferred stock were converted into 17,062,145 shares of our common stock. In December 2005, we sold 887,576 shares of common stock to Kingsbridge Capital Limited (“Kingsbridge”) pursuant to the committed equity financing facility we entered into with Kingsbridge in 2005 for net proceeds of \$5.5 million. In 2006, we sold 10,285,715 shares in two registered direct offerings for net proceeds of approximately \$66.9 million, and sold 2,740,735 shares of common stock to Kingsbridge pursuant to the 2005 committed equity financing facility for net proceeds of \$17.0. In 2007, we sold 2,075,177 shares of common stock to Kingsbridge pursuant to the 2005 committed equity financing facility for net proceeds of \$9.5 million. In January 2007, we issued 3,484,806 shares of Cytokinetics common stock to Amgen for net proceeds of \$32.9 million in connection with a common stock purchase agreement with Amgen.

- (2) All share and per share amounts have been retroactively adjusted to give effect to the 1-for-2 reverse stock split that occurred on April 26, 2004.

#### **Item 7. *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.

##### **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; ispinosib 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 solid tumors. We also have three potential drug candidates currently in preclinical development: CK-2017357, a skeletal sarcomere activator which may be developed for diseases or medical conditions associated with muscle weakness or wasting; 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 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 in 2009.

At the November 2008 Scientific Sessions of the American Heart Association, we reported interim results from a Phase IIa clinical trial evaluating CK-1827452 administered intravenously to patients with stable heart failure. The interim results showed that CK-1827452 demonstrated statistically significant increases in systolic ejection time and fractional shortening at plasma concentrations greater than 100 ng/mL and statistically significant increases in stroke volume at plasma concentrations greater than 200 ng/mL. There were also statistically significant increases in ejection fraction at CK-1827452 plasma concentrations greater than 300 ng/mL when ejection fraction was calculated by a hybrid method in which stroke volume, measured using Doppler technology, was divided by the left ventricular end-diastolic volume, measured using two-dimensional echocardiography. In addition, these data demonstrated statistically significant correlations between increasing CK-1827452 plasma concentration and increases in systolic ejection time, stroke volume, fractional shortening, ejection fraction and cardiac output. The results also showed statistically significant correlations between increasing CK-1827452 concentrations and decreases in supine and standing heart rate and left ventricular end-systolic volume. This trial was planned to consist of 5 cohorts. We recently completed treatment of Cohort 5 of this trial. We anticipate presenting final data from this clinical trial at the Annual Meeting of the American College of Cardiology in March 2009.

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 anticipate the initiation of a Phase IIb clinical trial of CK-1827452 in chronic heart failure outpatients at increased risk for death and hospitalization. In the second quarter of 2009, we anticipate initiating an additional Phase IIa clinical trial designed to evaluate the pharmacokinetics of both a modified release and an immediate release formulation of CK-1827452 in patients with 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 announced that we believe we completed delivery of this data to Amgen. 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 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 \$20.9 million, \$22.4 million and \$18.1 million in the years ended December 31, 2008, 2007 and 2006, 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 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 as the lead potential drug candidate from this program. We expect to submit an investigational new drug application ("IND") with the U.S. Food and Drug Administration ("FDA") to initiate a Phase I clinical trial of CK-2017357 in healthy volunteers in 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 the troponin regulatory complex of the skeletal sarcomere. Activation of the troponin complex 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 \$10.5 million, \$5.9 million and \$2.1 million in the years ended December 31, 2008, 2007 and 2006, 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 \$7.3 million, \$7.0 million and \$7.0 million in the years ended December 31, 2008, 2007 and 2006, 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.

#### ***Ispinesib***

Under our strategic alliance, GSK, in collaboration with the National Cancer Institute, conducted a broad Phase II clinical trials program designed to evaluate ispinesib across multiple tumor types. To date, we believe some clinical activity for ispinesib has been observed in non-small cell lung, ovarian and breast cancers, with the most 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.

As a result of GSK’s option expiring, we have retained all development and commercialization rights to ispinesib. We are 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 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***

SB-743921 was studied by GSK in a dose-escalating Phase I clinical trial evaluating its safety, tolerability and pharmacokinetics in advanced cancer patients when administered intravenously on a once every 21-day schedule. The observed toxicities at the recommended Phase II dose were manageable. As a result of GSK’s option expiring, we have retained all development and commercialization rights to SB-743921. We are conducting a Phase I/II clinical trial evaluating SB-743921 in patients with Hodgkin and non-Hodgkin lymphoma on a more dose-dense schedule than was previously evaluated. 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 is currently conducting a first-time-in-humans Phase I clinical trial of GSK-923295 in patients with advanced, refractory solid tumors. We anticipate that GSK will initiate a Phase II clinical trial of GSK-923295 in 2009. 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 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 kinesins oncology program of approximately \$7.0 million, \$5.8 million and \$6.1 million in the years ended December 31, 2008, 2007 and 2006, respectively. We received and recognized as revenue reimbursements from GSK of FTE and other expenses related to our mitotic kinesins oncology program of \$0.2 million, \$0.4 million and \$1.6 million for the years ended December 31, 2008, 2007 and 2006, respectively,

### **Development Risks**

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

- 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.

Revenues from GSK in 2006 were based on negotiated rates intended to approximate the costs for our full-time employee equivalents ("FTEs") performing research under the strategic alliance and our out-of-pocket expenses, which we recorded as the related expenses were incurred. GSK paid us an upfront licensing fee, which we recognized ratably over the strategic alliance's initial five-year research term, which ended in June 2006. In 2007, we received a \$1.0 million milestone payment from GSK relating to its initiation of a Phase I clinical trial of GSK-923295. We may receive additional payments from GSK upon achieving certain precommercialization 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 record amounts received in advance of performance as deferred revenue. The revenues recognized to date are non-refundable, even if the relevant research effort is not successful. In December 2008, GSK's option to license isipinesib and SB-743291 expired and all rights to these drug candidates remain with us under the collaboration and license agreement, subject to our royalty obligations to GSK. GSK continues to conduct the development of GSK-923295 under the agreement.

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

We expect that our future revenues will most likely be derived from royalties on sales from drugs licensed to GSK or Amgen under our strategic alliances and from those licensed to future partners, and from direct sales of our drugs. If Amgen exercises its option, we will retain a product-by-product option to co-fund certain later-stage development activities under our strategic alliance with Amgen, thereby potentially increasing our royalties and affording us co-promotion rights in North America. For those products being developed by GSK under our strategic alliance, we also retain a product-by-product option to co-fund certain later-stage development activities, thereby potentially increasing our royalties and affording us co-promotion rights in North America. If we exercise our co-promotion rights under either strategic alliance, we are entitled to receive reimbursement for certain sales force costs we incur in support of our commercial activities.

## Research and Development

We incur research and development expenses associated with both partnered and unpartnered research activities. Research and development expenses related to our strategic alliance with GSK consisted primarily of costs related to research and screening, lead optimization and other activities relating to the identification of compounds for development as mitotic kinesin inhibitors for the treatment of cancer. Prior to June 2006, certain of these costs were reimbursed by GSK on an FTE basis. From 2001 through November 2006, GSK funded the majority of the costs related to the clinical development of isipinesib and SB-743291. Under our amended

collaboration and license agreement with GSK, we assumed responsibility for the continued research, development and commercialization of inhibitors of KSP, including ispinesib and SB-743921, and other mitotic kinesins other than CENP-E, at our sole expense. We also have the option to co-fund certain later-stage development activities for GSK-923295. Our conduct of the development of ispinesib and SB-743921 and the potential exercise of our co-funding option for GSK-923295 would result in a significant increase in research and development expenses. We expect to incur research and development expenses in the continued conduct of preclinical studies and clinical trials for: CK-1827452 for the potential treatment of heart failure; CK-2017357 and other skeletal sarcomere activators for the potential treatment of diseases and medical conditions associated with muscle weakness or wasting; our smooth muscle myosin inhibitor potential drug candidate and other smooth muscle myosin inhibitor compounds for the potential treatment of pulmonary arterial hypertension and diseases and medical conditions associated with bronchoconstriction; ispinesib for the potential treatment of breast cancer; SB-743921 for the potential treatment of Hodgkin and non-Hodgkin lymphoma; and in connection with our research programs in other disease areas.

Research and development expenses related to any development and commercialization activities we elect to fund would consist primarily of employee compensation, supplies and materials, costs for consultants and contract research, facilities costs and depreciation of equipment. From our inception through December 31, 2008, we incurred costs of approximately \$119.8 million for research and development activities relating to our cardiac muscle contractility program, \$18.4 million for our skeletal muscle contractility program, \$26.5 million for our smooth muscle contractility program, \$67.2 million for our mitotic kinesin inhibitors, \$52.7 million for our proprietary technologies and \$52.8 million for other research programs.

### **General and Administrative Expenses**

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

### **Restructuring**

In September 2008, we announced a restructuring plan to realign our workforce and operations in line with a strategic reassessment of our research and development activities and corporate objectives. As a result, we have focused our research activities to our muscle contractility programs while continuing our ongoing clinical trials in heart failure and cancer and have discontinued early research activities directed to oncology. To implement this plan, we reduced our workforce by approximately 29%, or 45 employees, to 112 employees. The affected employees were provided with severance payments and outplacement assistance.

We have completed substantially all restructuring activities and recognized all anticipated restructuring charges. All severance payments were made as of December 31, 2008. We expect to record only immaterial charges to the accrued restructuring costs during 2009, primarily related to employee benefits and outplacement services.

As a result of the restructuring plan, in 2008, we recorded total restructuring charges of \$2.2 million for employee severance and benefit related costs and a \$0.3 million charge related to the impairment of lab equipment that is held for sale. We expect to sell the held-for-sale equipment by September 2009.

## Stock Compensation

The following table summarizes stock-based compensation related to employee stock options, restricted stock awards and employee stock purchases for 2008, 2007 and 2006, which was allocated as follows (in thousands):

	Years Ended December 31,		
	2008	2007	2006
Research and development	\$ 2,794	\$ 2,932	\$ 2,532
General and administrative	2,812	2,621	2,111
Stock-based compensation included in operating expenses	<u>\$5,606</u>	<u>\$5,553</u>	<u>\$ 4,643</u>

As of December 31, 2008, there was \$7.9 million of total unrecognized compensation cost related to non-vested stock options compensation arrangements granted under our stock plans. That cost is expected to be recognized over a weighted-average period of 2.4 years. The total unrecognized compensation expense related to restricted stock awards as of December 31, 2008 was \$0.8 million and is expected to be recognized over a weighted-average period of 1.7 years. In addition, through 2008, we continued to amortize deferred stock-based compensation recorded prior to adoption of Statement of Financial Accounting Standards (“SFAS”) No. 123R, “*Accounting for Stock-Based Compensation*,” for stock options granted prior to the initial public offering. The remaining balance became fully amortized in the fourth quarter of 2008 and the balance of deferred stock based compensation was zero at December 31, 2008.

## Income Taxes

We account for income taxes in accordance with SFAS No. 109, “*Accounting for Income Taxes*,” which is the asset and liability method for accounting and reporting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. We have not recorded an income tax provision in the years ended December 31, 2008, 2007 and 2006 because we had a net taxable loss in each of those periods. Given that we have a history of recurring losses, we have recorded a full valuation allowance against our deferred tax assets. We had federal net operating loss carryforwards of approximately \$292.1 million and state net operating loss carryforwards of approximately \$95.4 million at December 31, 2008. If not utilized, the federal and state operating loss carryforwards will expire in various amounts beginning 2018 and 2010, respectively. Due to California state’s temporary suspension of net operating losses in 2008 and 2009, the state carryover period will be extended by two additional years for net operating losses sustained in pre-2008 tax years. The net operating loss carryforwards include deductions for stock options. When utilized, the portion related to stock options deductions will be accounted for as a credit to stockholders’ equity rather than as a reduction of the income tax provision.

We had research credit carryforwards of approximately \$9.2 million and \$10.6 million for federal and state income tax purposes, respectively, at December 31, 2008. If not utilized, the federal carryforwards will expire in various amounts beginning in 2018. The California state credit can be carried forward indefinitely.

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations where equity transactions resulted in a change of ownership as defined by Internal Revenue Code Section 382. During the year ended December 31, 2007, we conducted a study and determined that our use of our federal research credit is subject to such a restriction. Accordingly, we reduced our deferred tax assets and the corresponding valuation allowance by \$0.8 million. As a result, the research credit amount as of December 31, 2007 reflects the restriction on our ability to use the credit.

On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS 109*” (“FIN 48”). The new standard defines the threshold for recognizing the benefits of tax return positions in the financial statements as “more-likely-than-not” to be sustained by the taxing authorities based solely on the technical merits of the position. If the recognition threshold is met, the tax benefit is measured and recognized as the largest amount of tax benefit, in



our judgment, which is greater than 50% likely to be realized. The cumulative effect of adopting FIN 48 on January 1, 2007 resulted in no FIN 48 liability on the Balance Sheet. The total amount of unrecognized tax benefits as of the date of adoption was \$3.1 million. We are currently not subject to income tax examinations. In general, the statute of limitations for tax liabilities for these years remains open for purpose of adjusting the amounts of the losses and credits carried forward from those years.

Interest and penalties were zero for 2008. We account for interest and penalties by classifying both as income tax expense in the Financial Statements. Because we have recorded a full valuation allowance on all our deferred tax assets, FIN 48 has had no impact on our effective tax rate. We do not expect our unrecognized tax benefits to change materially over the next 12 months.

## Results of Operations

### Years ended December 31, 2008, 2007 and 2006

#### Revenues

	Years Ended December 31,			Increase (Decrease)	
	2008	2007	2006	2008	2007
			(In millions)		
Research and development revenues from related party	\$ 0.2	\$ 1.4	\$ 1.6	\$(1.2)	\$ (0.2)
License revenues from related parties	12.2	12.2	1.5	—	10.7
<b>Total revenues</b>	<b>\$ 12.4</b>	<b>\$ 13.6</b>	<b>\$ 3.1</b>	<b>\$(1.2)</b>	<b>\$ 10.5</b>

We recorded total revenues of \$12.4 million, \$13.6 million, and \$3.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Research and development revenues from related party refers to revenues from our partner GSK, which is also a stockholder of Cytokinetics. Research and development revenues from GSK of \$0.2 million in 2008 consisted of patent expense reimbursements. Research and development revenues from GSK of \$1.4 million in 2007 consisted of a \$1.0 milestone payment for GSK's initiation of a Phase I clinical trial of GSK-923295 in patients with solid tumors, and patent expense reimbursements of \$0.4 million. Research and development revenues from GSK of \$1.6 million in 2006 consisted of \$1.4 million for the reimbursement of FTEs and approximately \$0.2 million for patent expense reimbursements. FTE reimbursements from GSK terminated in June 2006 due to the conclusion of the initial five-year research term under the GSK Agreement for all mitotic kinesins except CENP-E. The FTE sponsorship was determined annually by GSK and us in accordance with the annual research plan and contractually predefined FTE support levels. In each of June 2006, 2007, and 2008, the research term of our strategic alliance with GSK was extended for an additional year under an updated research plan focused only on CENP-E without corresponding FTE reimbursement. In December 2008, GSK's option to license each of *ispinesib* and SB-743921 as provided under the parties' collaboration and license agreement expired. Accordingly, we retain all rights to both *ispinesib* and SB-743921, subject to certain royalty obligations to GSK.

License revenues from related parties represents license revenue from our strategic alliances with Amgen and GSK. License revenue from Amgen was \$12.2 million in 2008, \$12.2 million in 2007 and \$0.1 million in 2006, and represented recognition of the upfront license fee and the premium paid on the common stock purchase by Amgen. As of December 31, 2008, our remaining balance of Amgen deferred revenue was \$24.5 million. We are amortizing the Amgen deferred revenue on a straight-line basis over the maximum term of the non-exclusive license granted to Amgen under the collaboration and option agreement, which is four years. License revenue from GSK was zero in each of 2008 and 2007 and \$1.4 million in 2006. The license revenue from GSK was amortized on a straight-line basis over the agreement's initial research term, which ended in June 2006.

*Research and development expenses*

	Years Ended December 31,			Increase (Decrease)	
	2008	2007	2006	2008	2007
	(In millions)				
Research and development expenses	\$ 54.0	\$ 53.4	\$ 49.2	\$ 0.6	\$ 4.2

Research and development expenses increased \$0.6 million in 2008 compared to 2007, and increased \$4.2 million in 2007 compared to 2006. The slight increase in 2008 research and development expenses, compared to 2007, was primarily due to an increase of \$3.7 million related to our cardiac muscle contractility and mitotic kinesin inhibitors clinical trial programs, partially offset by decreases of \$1.7 million in personnel expenses, \$0.8 million in laboratory expense and \$0.5 million in facilities expenses. The increase in 2007 R&D expenses, compared to 2006, was primarily due to increases of \$2.5 million related to our cardiac muscle contractility and mitotic kinesin inhibitors clinical trial programs and preclinical outsourcing costs, \$1.5 million for personnel expenses and \$0.3 million for facility expense.

From a program perspective, the increase in research and development spending in 2008, compared to 2007, was due to increases of \$4.6 million for our skeletal muscle contractility program and \$1.2 million for our mitotic kinesin inhibitors development program, \$0.3 million for our smooth muscle contractility program, partially offset by the decreases in spending for \$1.5 million for our cardiac muscle contractility program, \$3.0 million for our other research programs and \$1.0 million for proprietary technologies. The increase in research and development spending in 2007, compared to 2006, was due to increases of \$4.3 million for our cardiac muscle contractility program and \$3.8 million for our skeletal muscle contractility program, partially offset by decreases of \$0.3 million in spending for our mitotic kinesin inhibitors development program, \$1.9 million for our proprietary technologies and \$1.7 million of our other research programs.

	Years Ended December 31,			Increase (Decrease)	
	2008	2007	2006	2008	2007
	(In millions)				
Cardiac muscle contractility	\$ 20.9	\$ 22.4	\$ 18.1	\$ (1.5)	\$ 4.3
Skeletal muscle contractility	10.5	5.9	2.1	4.6	3.8
Smooth muscle contractility	7.3	7.0	7.0	0.3	—
Mitotic kinesin inhibitors	7.0	5.8	6.1	1.2	(0.3)
Proprietary technologies	2.9	3.9	5.8	(1.0)	(1.9)
All other research programs	5.4	8.4	10.1	(3.0)	(1.7)
Total research and development expenses	\$ 54.0	\$ 53.4	\$ 49.2	\$ 0.6	\$ 4.2

For the years ended December 31, 2008, 2007, and 2006, GSK reimbursed costs of \$0.2 million, \$0.4 million and \$1.6 million, respectively, of research and development activities relating to the discovery of mitotic kinesin inhibitors. We recorded these reimbursements as related party revenue.

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

We expect our research and development expenditures to decrease in 2009, as a result of our restructuring in September 2008. We expect to continue development of our drug candidate CK-1827452 for the potential treatment of heart failure and our potential drug candidates CK-2017357 for the potential treatment of diseases and medical conditions associated with muscle weakness or wasting, and our smooth muscle myosin inhibitor for the potential treatment of pulmonary arterial hypertension and diseases and medical conditions associated with

bronchoconstriction, and our Phase I clinical development of our drug candidates ispienesib and SB-743921 for the potential treatment of cancer. For 2009, we anticipate research and development expenses to be in the range of \$42.5 million to \$46.5 million. Non-cash expenses such as stock-based compensation and depreciation of approximately \$4.5 million are included in the 2009 research and development expenses.

*General and administrative expenses*

	Years Ended December 31,			Increase (Decrease)	
	2008	2007	2006	2008	2007
	(In millions)				
General and administrative expenses	\$ 15.1	\$ 16.7	\$ 15.2	\$ (1.6)	\$ 1.5

General and administrative expenses decreased \$1.6 million in 2008, compared with 2007, and increased \$1.5 million in 2007, compared with 2006. The decrease in general and administrative expenses in 2008, compared to 2007, was primarily due to decreases of \$0.9 million in personnel expenses and \$0.8 million in legal expenses. The increase in general and administrative expenses in 2007, compared to 2006 expenses, was primarily due to increases in personnel expenses of \$1.5 million, outside services, including audit, accounting and tax fees, of \$0.4 million, and facilities costs of \$0.4 million. These increases were partially offset by a \$0.8 million decrease in legal expenses.

We expect that general and administrative expenses will increase in 2009. For 2009, we anticipate general and administrative expenses to be in the range of \$17.0 million to \$18.0 million. Non-cash expenses such as stock-based compensation and depreciation of approximately \$3.0 million are included in the 2009 general and administrative expenses.

*Interest and Other, Net*

Components of interest and other, net are as follows:

	Years Ended December 31,			Increase (Decrease)	
	2008	2007	2006	2008	2007
	(In millions)				
Unrealized gain on put option	\$ 3.4	\$ —	\$ —	\$ 3.4	\$ —
Unrealized loss on trading securities	(3.4)	—	—	(3.4)	—
Interest income and other income	3.2	8.3	4.7	(5.1)	3.6
Interest expense and other expense	(0.5)	(0.7)	(0.5)	0.2	(0.2)
Interest and other, net	\$ 2.7	\$ 7.6	\$ 4.2	\$ (4.9)	\$ 3.4

Investments that we designate 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. We classified our investments in auction rate securities (“ARS”) as trading securities as of December 31, 2008.

In connection with the failed auctions of our ARS, which were marketed and sold by UBS AG and its affiliates, in October 2008, we accepted a settlement with UBS AG pursuant to which UBS AG has issued to us Series C-2 Auction Rate Securities Rights (the “ARS Rights”). The ARS Rights provide us the right to receive the par value of our ARS, i.e., the liquidation preference of the ARS plus accrued but unpaid interest. We elected to measure the ARS Rights at fair value under SFAS No. 159, “*The Fair Value Option for Financial Assets and Liabilities*” (“SFAS 159”) to mitigate volatility in reported earnings due to its linkage to the ARS. As of December 31, 2008, we recorded \$3.4 million as fair value of the put option assets, classified as long-term assets on the Balance Sheet as December 31, 2008, with a corresponding credit to interest and other, net. The ARS Rights are discussed in detail below under the heading “Liquidity and Capital Resources.”

Interest income and other income consists primarily of interest income generated from our cash, cash equivalents and investments. The decrease in interest and other income in 2008, compared to 2007, was due to lower average balances of cash, cash equivalents and investments and lower market interest rates. The increase in interest

and other income in 2007, compared to 2006, was primarily due to higher average balances of cash, cash equivalents and short-term investments.

Interest expense and other expense primarily consists of interest expense on borrowings under our equipment financing lines. The decrease in interest and other expense in 2008, compared to 2007, was due to lower average outstanding balances, partially offset by higher average effective interest rates. The increase in interest and other expense in 2007, compared to 2006, was due to higher average effective interest rates and higher average outstanding balances. The total balance outstanding under our equipment financing lines was \$4.6 million at December 31, 2008 and \$8.7 million at December 31, 2007, respectively.

### **Liquidity and Capital Resources**

From August 5, 1997, our date of inception, through December 31, 2008, we funded our operations through the sale of equity securities, equipment financings, non-equity payments from collaborators, government grants and interest income.

Our cash, cash equivalents and investments, excluding restricted cash, totaled \$73.5 million at December 31, 2008, down \$66.3 million from \$139.8 million at December 31, 2007. The decrease was primarily due to the use of cash to fund operations.

We have received net proceeds from the sale of equity securities of \$315.3 million from August 5, 1997, the date of our inception, through December 31, 2008, excluding sales of equity to GSK and Amgen. Included in these proceeds are \$94.0 million received upon closing of the initial public offering of our common stock in May 2004. In connection with execution of our collaboration and license agreement in 2001, GSK made a \$14.0 million equity investment in Cytokinetics. GSK made additional equity investments in Cytokinetics in 2003 and 2004 of \$3.0 million and \$7.0 million, respectively.

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

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

In October 2007, we entered into a new committed equity financing facility with Kingsbridge, pursuant to which Kingsbridge committed to finance up to \$75.0 million of capital for a three-year period. Subject to certain conditions and limitations, from time to time under this facility, at our election, Kingsbridge is committed to purchase newly-issued shares of our common stock at a price between 90% and 94% of the volume weighted average price on each trading day during an eight day, forward-looking pricing period. The maximum number of shares we may issue in any pricing period is the lesser of 2.5% of our market capitalization immediately prior to the commencement of the pricing period or \$15.0 million. As part of the arrangement, we issued a warrant to Kingsbridge to purchase 230,000 shares of our common stock at a price of \$7.99 per share, which represents a premium over the closing price of our common stock on the date we entered into this facility. This warrant is exercisable beginning six months after the date of grant and for a period of three years thereafter. Under the terms of the 2007 committed equity financing facility, the maximum number of shares we may sell is 9,779,411 (exclusive of the shares underlying the warrant) which, under the rules of the NASDAQ Stock Market LLC, is approximately the maximum number of shares we may sell to Kingsbridge without approval of our stockholders. This limitation may further limit the amount of proceeds we are able to obtain from this committed equity financing facility. We are not obligated to sell any of the \$75.0 million of common stock available under this committed equity financing facility and there are no minimum commitments or minimum use penalties. This committed equity financing facility does not contain any restrictions on our operating activities, any automatic pricing resets or any minimum market volume

restrictions. As of December 31, 2008, we had not made any draw downs under the 2007 Kingsbridge committed equity financing facility. As of March 11, 2009, we have received gross proceeds of \$6.7 million from draw downs and sold 3,439,032 shares of our common stock to Kingsbridge under the 2007 committed equity financing facility. Kingsbridge is not obligated to purchase any further shares under this committed equity financing facility unless certain conditions are met, which include a minimum volume weighted average price of \$2.00 for our common stock.

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

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

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

As of December 31, 2008, we have received \$54.4 million in non-equity payments from GSK and \$42.0 million in non-equity payments from Amgen.

We received zero, \$1.7 million, and \$4.3 million under equipment financing arrangements in 2008, 2007 and 2006, respectively. Under equipment financing arrangements, we received \$23.7 million from August 5, 1997, the date of our inception, through December 31, 2008. Interest earned on investments, excluding non-cash amortization/accretion of purchase premiums/discounts was \$2.9 million, \$4.6 million, and \$2.7 million in 2008, 2007 and 2006, respectively. Interest earned on investments, excluding non-cash amortization/accretion of purchase premiums/discounts was \$26.4 million from August 5, 1997, the date of our inception, through December 31, 2008.

Net cash used by operating activities in 2008 was \$61.3 million and primarily resulted from our net loss of \$56.4 million. Deferred revenue decreased \$12.1 million in 2008 to \$24.5 million at December 31, 2008 from \$36.6 million at December 31, 2007. The decrease was primarily due to the \$12.2 million amortization of deferred Amgen license revenue. Net cash used in operating activities was \$3.0 million in 2007 and primarily resulted from the net loss of \$48.9 million, partially offset by the receipt from Amgen in January 2007 of the \$42.0 million upfront, non-refundable license and technology access fee under the collaboration and option agreement entered into in December 2006. Net cash used in operating activities was \$47.2 million in 2006 and was primarily due to our net loss of \$57.1 million.

Net cash used in investing activities was \$10.0 million in 2008 and primarily represented cash used in purchase of investments, net of proceeds from the maturity of investments, of \$11.9 million. Restricted cash totaled \$2.8 million at December 31, 2008, down from \$5.2 million at December 31, 2007. This decrease was due to the contractual semi-annual reduction in the amount of security deposit required by our lender. Net cash provided by investing activities was \$45.5 million in 2007 and primarily represented proceeds from the maturity of investments, net of investment purchases, of \$47.0 million, partly offset by funds used to purchase property and equipment of \$2.6 million. Net cash used in investing activities was \$13.7 million in 2006 and primarily represented net purchases of investments in addition to property and equipment purchases.

Net cash used by financing activities was \$3.5 million in 2008 and primarily represented principal payments of \$4.1 million on our lines of credit with General Electric Capital Corporation ("GE Capital") to fund certain equipment, partially offset by the proceeds of \$0.5 million from our employee stock purchase plan and \$0.1 million

from the exercise of stock options. In August 2007, we secured a new line of credit with GE Capital of up to \$3.0 million to finance certain potential equipment purchases until September 30, 2008. The August 2007 equipment line of credit expired as of September 30, 2008. No funds were borrowed under this line.

Net cash provided by financing activities was \$34.7 million and \$86.7 million for the years ended December 31, 2007 and 2006, respectively. Net cash provided by financing activities in 2007 primarily represented net proceeds of approximately \$32.9 million from the issuance of common stock to Amgen, less \$6.9 million that was recorded as deferred revenue, and \$9.5 million gross proceeds from the issuance of stock under the 2005 Kingsbridge committed equity financing facility. Net cash provided by financing activities in 2006 was primarily due to net proceeds from our two public offerings of \$66.9 million, proceeds from draw down of the 2005 Kingsbridge committed equity financing facility of \$17.0 million and proceeds from equipment financing lines of \$4.3 million.

*Auction Rate Securities ("ARS").* Our long-term investments at December 31, 2008 included (at par value) \$20.0 million of ARS. These ARS were intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. As of December 31, 2007, there were no ARS in an unrealized loss position, and there were no failed auctions associated with our ARS through that date. Our ARS with auction reset dates prior to February 13, 2008 had successful auctions at which their interest rates were reset. In February 2008, we liquidated \$3.2 million of our ARS at par, which were classified as short-term investments as of December 31, 2007. With the liquidity issues experienced in global credit and capital markets, these ARS have experienced multiple failed auctions since February 2008, as the amount of securities submitted for sale has exceeded the amount of purchase orders. As a result, these affected securities are currently not liquid.

All of our ARS are secured by student loans. Up to approximately 92% of the value of these student loans are backed by the full faith and credit of the federal government. Additionally, all of our ARS had the highest credit rating of AAA as of December 31, 2008. In February 2009, the rating of certain of our ARS with \$4.7 million in par value was reduced to A3. All of these securities continue to pay interest according to their stated terms (generally 120 basis points over the ninety-one day U.S. Treasury bill rate) with interest rates resetting every 28 days. These ARS are scheduled to ultimately mature between 2036 and 2045, although we do not intend to hold them until maturity.

The valuation of our ARS investment portfolio is subject to uncertainties that are difficult to predict. The fair value of these ARS were estimated utilizing a discounted cash flow analysis as of December 31, 2008. The significant assumptions of this valuation model were discount margins ranging from 375 to 410 basis points which are based on industry recognized student loan sector indices, an additional liquidity discount of approximately 150 basis points and an estimated term to liquidity of 2 to 5 years. Other items this analysis considers are the collateralization underlying the ARS, the creditworthiness of the counterparty, and the timing of expected future cash flows. These ARS were also compared, when possible, to other observable market data with similar characteristics as the securities held by us. Although the ARS continue to pay interest according to their stated terms, based on valuation models of the individual securities, we have recognized in the Statement of Operations an unrecognized loss of approximately \$3.4 million in interest and other, net for ARS for which we have concluded that an other-than-temporary impairment exists. The fair value in long-term investments for these ARS at December 31, 2008 was estimated \$16.6 million.

In connection with the failed auctions of our ARS, which were marketed and sold by UBS AG and its affiliates, in October 2008, we accepted a settlement with UBS AG pursuant to which UBS AG has issued to us Series C-2 Auction Rate Securities Rights (the "ARS Rights"). The ARS Rights provide us the right to receive the par value of our ARS, i.e., the liquidation preference of the ARS plus accrued but unpaid interest. Pursuant to the ARS Rights, we may require UBS to purchase our 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 us 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 ARS Rights, we agreed to release UBS AG, UBS Securities LLC and UBS Financial Services, Inc., and/or their affiliates, directors, and officers from any claims

directly or indirectly relating to the marketing and sale of the ARS, other than for consequential damages. 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, we may incur further losses on the carrying value of the ARS.

The ARS Rights represent a firm agreement in accordance with Statement of Financial Accounting Standards ("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, which we recognized as a separate freestanding instrument that is accounted for separately from the ARS investment. As of December 31, 2008, we recorded \$3.4 million as fair value of the put option assets, classified as long-term assets on the Balance Sheet as December 31, 2008, with a corresponding credit to interest and other, net in the Statement of Operations for the year ended December 31, 2008. The put option does not meet the definition of a derivative instrument under SFAS 133. Therefore, we 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. We valued the put option using a Black-Scholes option pricing model that included estimates of interest rates, based on data available as of December 31, 2008, and was adjusted for any bearer risk associated with UBS's financial ability to repurchase the ARS beginning June 30, 2010. Any change in the assumptions on which these estimates are based or market conditions would affect the value of the ARS Rights.

Prior to accepting the UBS settlement offer, we recorded our ARS as investments available-for-sale. We recorded unrealized gains and losses on our available-for-sale debt securities, in accumulated other comprehensive income in the shareholders' equity section of our Balance Sheet. Such an unrealized loss did not reduce net income for the applicable accounting period. Simultaneously, due to the ARS Rights granted by UBS, we made a one-time election to transfer the related ARS holdings from available-for-sale securities to trading securities. As a result of this transfer, we recognized an other-than-temporary loss of approximately \$3.4 million, and reversed the related recognized loss that was previously recorded in other comprehensive loss on the Balance Sheet. The recording of the ARS Rights under SFAS 159 and the recognition of the other-than-temporary impairment loss resulted in no net impact to the Statement of Operations for the year ended December 31, 2008. We anticipate 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 the continued expected performance by the financial institution of its obligations under the agreement. The ARS Rights will continue to be measured at fair value under SFAS 159 until the earlier of our 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.

In connection with the settlement, we entered into a loan agreement with UBS Bank USA and UBS Financial Services Inc. On January 5, 2009, we borrowed approximately \$12.4 million under the loan agreement, with our ARS held in accounts with UBS and its affiliates as collateral. The loan amount was based on 75% of the fair value as assessed by UBS at the time of the loan. We have drawn down the full amount available under the loan agreement. The amount of interest we will pay under the loan agreement is intended to equal the amount of interest we would otherwise receive with respect to our ARS. The borrowings under the loan agreement are payable upon demand. However, UBS Financial Services Inc. or its affiliates will provide to us alternative financing 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 us 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 our ARS will first be applied to repayment of the loan with the balance, if any, for our account.

We continue to monitor the market for ARS and consider its impact (if any) on the fair market value of our investments. If the market conditions deteriorate further, we may be required to record additional unrealized losses in earnings, offset by corresponding increases in the put option. At present, if we need to access the funds that are in an illiquid state, we may not be able to do so without the possible loss of principal until a future auction for these investments is successful, another secondary market evolves for these securities, they are redeemed by the issuer or

they mature. If we are unable to sell these securities in the market or they are not redeemed, we could be required to hold them to maturity. We will continue to monitor and evaluate these investments on an ongoing basis for impairment.

*Shelf Registration Statement.* In November 2008, we filed a shelf registration statement with the SEC, which was declared effective in November 2008. The shelf registration statement allows us to issue shares of our common stock from time to time for an aggregate initial offering price of up to \$100 million. The specific terms of offerings, if any, under the shelf registration statement would be established at the time of such offerings.

In August 2007, we secured a new line of credit with GE Capital of up to \$3.0 million to finance certain equipment until September 30, 2008. The line of credit was subject to the terms of a master security agreement between us and GE Capital, dated February 2001 and as amended on March 24, 2005 and related term sheet. As of December 31, 2008, this line of credit had expired and we had not borrowed any funds under this line.

As of December 31, 2008, future minimum payments under lease obligations and equipment financing lines were as follows (in thousands):

	<u>Within One Year</u>	<u>Two to Three Years</u>	<u>Four to Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Operating leases	\$ 2,984	\$ 5,716	\$ 3,406	\$ —	\$ 12,106
Equipment financing line	2,025	2,463	152	—	4,640
<b>Total</b>	<b>\$ 5,009</b>	<b>\$ 8,179</b>	<b>\$ 3,558</b>	<b>\$ —</b>	<b>\$ 16,746</b>

Our long-term commitments under operating leases relate to payments under our two facility leases in South San Francisco, California, which expire in 2011 and 2013.

Under the provisions of our amended collaboration and facilities agreement with Portola Pharmaceuticals, Inc. (“Portola”), we were obligated to reimburse Portola for certain equipment costs incurred by Portola in connection with research and related services that Portola provided to us. We began to incur these costs when the equipment became available for use in the second quarter of 2006. Our payments to Portola for such equipment costs, totaling \$285,000, were made in eight quarterly installments commencing in the first quarter of 2006 and through the fourth quarter of 2007. No further payments are due under this agreement.

In future periods, we expect to incur substantial costs as we continue to expand our research programs and related research and development activities. We also plan to continue to conduct clinical development of our cardiac muscle myosin activator CK-1827452 for the potential treatment of heart failure, of ispinesib for the potential treatment of breast cancer and of SB-743921 for the potential treatment of Hodgkin and non-Hodgkin lymphoma. We intend to continue to progress our skeletal sarcomere activator CK-2017357 and our smooth muscle myosin inhibitor through IND-enabling studies and to conduct clinical development of these potential drug candidates. We expect to incur significant research and development expenses as we advance the research and development of our other muscle contractility programs through research to candidate selection.

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

- the initiation, progress, timing, scope and completion of preclinical research, development and clinical trials for our drug candidates and potential drug candidates;
- the time and costs involved in obtaining regulatory approvals;
- delays that may be caused by requirements of regulatory agencies;
- Amgen’s decision with respect to its option for CK-1827452, and if Amgen exercises its option, Amgen’s decisions with regard to funding of development and commercialization of CK-1827452 or other cardiac muscle myosin activators for the treatment of heart failure under our collaboration;
- GSK’s decisions with regard to future funding of development of our drug GSK-923295;
- our level of funding for the development of current or future drug candidates;



## [Table of Contents](#)

- the number of drug candidates we pursue;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;
- our ability to establish and maintain selected strategic alliances required for the development and commercialization of our potential drugs;
- our plans or ability to expand our drug development capabilities, including our capabilities to conduct clinical trials for our drug candidates;
- our plans or ability to establish sales, marketing or manufacturing capabilities and to achieve market acceptance for potential drugs;
- expanding and advancing our research programs;
- hiring of additional employees and consultants;
- expanding our facilities;
- the acquisition of technologies, products and other business opportunities that require financial commitments; and
- our revenues, if any, from successful development of our drug candidates and commercialization of potential drugs.

We believe that our existing cash and cash equivalents, short-term investments, interest earned on investments, proceeds from our loan with UBS, and the proceeds from the 2007 Kingsbridge committed equity financing facility will be sufficient to meet our projected operating requirements for at least the next 12 months. While Amgen may choose to exercise its option for an exclusive license to develop and commercialize CK-1827452, there is no certainty this will occur.

If, at any time, our prospects for internally financing our research and development programs decline, we may decide to reduce research and development expenses by delaying, discontinuing or reducing our funding of development of one or more of our drug candidates or potential drug candidates or of other research and development programs. Alternatively, we might raise funds through public or private financings, strategic relationships or other arrangements. There can be no assurance that funding, if needed, will be available on attractive terms, or at all. Furthermore, any additional equity financing may be dilutive to stockholders and debt financing, if available, may involve restrictive covenants. Similarly, financing obtained through future strategic alliances may require us to forego certain commercialization and other rights to our drug candidates. Our failure to raise capital as and when needed could have a negative impact on our financial condition and our ability to pursue our business strategy.

### **Off-balance Sheet Arrangements**

As of December 31, 2008, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. Therefore, we are not materially exposed to financing, liquidity, market or credit risk that could arise if we had engaged in these relationships. We do not have relationships or transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other

assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are described in more detail in the notes to our financial statements included in this Form 10-K, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements.

### ***Investments***

*Available-for-sale and trading investments.* Our investments consist of ARS, municipal and government agency bonds, commercial paper, U.S. government treasury securities, and money market funds. We designated all investments, except for ARS held by UBS, as available-for-sale and are therefore reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. During the fourth quarter of fiscal 2008, we reclassified ARS held by UBS from available-for-sale to trading securities. Investments that we designate as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in earnings. See “Notes to Financial Statements — Note 3 — Cash Equivalents, Investments and Fair Value Measurements” for further detailed discussion. Investments with original maturities greater than approximately three months and remaining maturities less than one year are classified as short-term investments. Investments with remaining maturities greater than one year are classified as long-term investments. In addition, we classify investments as short-term or long-term based upon whether such assets are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.

*Other-than-temporary impairment.* All of our available-for-sale investments are subject to a periodic impairment review. We recognize an impairment charge when a decline in the fair value of our investments below the cost basis is judged to be other-than-temporary. Factors considered by management in assessing whether an other-than-temporary impairment has occurred include: the nature of the investment; whether the decline in fair value is attributable to specific adverse conditions affecting the investment; the financial condition of the investee; the severity and the duration of the impairment; and whether we have the intent and ability to hold the investment to maturity. When we determine that an other-than-temporary impairment has occurred, the investment is written down to its market value at the end of the period in which we determine that an other-than-temporary decline had occurred. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest and other, net.

The par value of our investments in ARS totaled \$20.0 million at December 31, 2008 and \$23.2 million at December 31, 2007. We determined that no impairment of our investments existed at December 31, 2007. Due to the resetting variable rates of these securities, their fair value generally approximated cost until February 2008. There were no realized gains or losses from these investments during the years ended December 31, 2008, 2007 or 2006. There had been no failed auctions on any of our ARS through December 31, 2007 and we deemed that no impairment existed as of that date. The unrealized loss on these investments was zero at December 31, 2007. At December 31, 2007, we classified \$20.0 million of its investment in ARS as long-term due to the uncertainty as to whether such securities will be available for current operations. At December 31, 2008, we classified our investment in ARS as long-term investment trading securities, where unrealized gains and losses are recorded in current period earnings.

### ***Revenue Recognition***

We recognize revenue in accordance with SEC Staff Accounting Bulletin (“SAB”) No. 104, “*Revenue Recognition*.” SAB No. 104 requires that certain criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. Determination of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management’s judgments regarding the fixed nature of the fee charged for research performed and milestones met, and the collectability of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Research and development revenues, which are earned under agreements with third parties for contract research and development activities, may include non-refundable license fees, research and development funding, cost reimbursements and contingent milestones and royalties. Our revenue arrangements with multiple elements are evaluated under Emerging Issues Task Force (“EITF”) Issue No. 00-21, “*Revenue Arrangements with Multiple Deliverables*,” and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Non-refundable license fees are recognized as revenue as we perform under the applicable agreement. Where the level of effort is relatively consistent over the performance period, we recognize total fixed or determined revenue on a straight-line basis over the estimated period of expected performance.

We recognize milestone payments as revenue upon achievement of the milestone, provided the milestone payment is non-refundable, substantive effort and risk is involved in achieving the milestone and the amount of the milestone is reasonable in relation to the effort expended or risk associated with the achievement of the milestone. If these conditions are not met, we defer the milestone payment and recognize it as revenue over the estimated period of performance under the contract as we complete our performance obligations.

Research and development revenues and cost reimbursements are based upon negotiated rates for our FTEs and actual out-of-pocket costs. FTE rates are intended to approximate our anticipated costs. Any amounts received in advance of performance are recorded as deferred revenue. None of the revenues recognized to date are refundable if the relevant research effort is not successful. In revenue arrangements in which both parties make payments to each other, we evaluate the payments in accordance with the provisions of EITF Issue No. 01-9, “*Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)*” to determine whether payments made by us will be recognized as a reduction of revenue or as expense. In accordance with EITF Issue No. 01-9, revenue we recognize may be reduced by payments made to the other party under the arrangement unless we receive a separate and identifiable benefit in exchange for the payments and we can reasonably estimate the fair value of the benefit received. The application of EITF Issue No. 01-9 has not impacted us.

#### ***Preclinical Study and Clinical Trial Accruals***

A substantial portion of our preclinical studies and all of our clinical trials have been performed by third-party contract research organizations (“CROs”), and other vendors. For preclinical studies, the significant factors used in estimating accruals include the percentage of work completed to date and contract milestones achieved. For clinical trial expenses, the significant factors used in estimating accruals include the number of patients enrolled, duration of enrollment and percentage of work completed to date. We monitor patient enrollment levels and related activities to the extent possible through internal reviews, correspondence and status meetings with CROs and review of contractual terms. Our estimates are dependent on the timeliness and accuracy of data provided by our CROs and other vendors. If we have incomplete or inaccurate data, we may under- or overestimate activity levels associated with various studies or clinical trials at a given point in time. In this event, we could record adjustments to research and development expenses in future periods when the actual activity levels become known. No material adjustments to preclinical study and clinical trial expenses have been recognized to date.

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

We apply the provisions of SFAS 123R, “*Accounting for Stock-Based Compensation*,” 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. We elected the modified prospective transition method for awards granted subsequent to April 29, 2004, the date of our initial public offering, and the prospective transition method for awards granted prior to our initial public offering. Prior periods are not revised for comparative purposes under either transition method. Prior to January 1, 2006, we accounted for stock-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25 and related interpretations. We also followed the disclosure requirements of SFAS No. 123, “*Accounting for Stock-Based*

*Compensation,*” and complied with the disclosure requirements of SFAS No. 148, “*Accounting for Stock-Based Compensation — Transition and Disclosure: an Amendment of FASB Statement No. 123.*”

We account for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123R and EITF Issue No. 96-18, “*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods, or Services.*”

As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, from time to time we will likely change the valuation assumptions we use to value stock based awards granted in future periods. The assumptions used in calculating the fair value of share-based payment awards represent management’s best estimates at the time, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if conditions change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period.

#### ***Income taxes***

We record the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the financial statements and operating loss and tax credit carry forwards. We have recorded a full valuation allowance to reduce our deferred tax asset to zero, because we believe that, based upon a number of factors, it is more likely than not that the deferred tax asset will not be realized. If we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase net income in the period such determination was made.

In July 2006, the FASB issued FIN 48. FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. We adopted FIN 48 on January 1, 2007. The cumulative effect of adopting FIN 48 was recorded net in deferred tax assets, which resulted in no FIN 48 liability on the Balance Sheet. The total amount of unrecognized tax benefits as of the date of adoption was \$3.1 million. See “Notes to Financial Statements, Note 11 — Income Taxes” for additional information. As of December 31, 2008, our unrecognized tax benefits were \$4.2 million.

#### **Recent Accounting Pronouncements**

In November 2007, the EITF issued a consensus on EITF Issue No. 07-01, “*Accounting for Collaboration Arrangements Related to the Development and Commercialization of Intellectual Property,*” which is focused on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how shared payments pursuant to a collaboration agreement should be presented in the income statement and certain related disclosure questions. EITF Issue No. 07-01 is to be applied retrospectively for collaboration arrangements in fiscal years beginning after December 15, 2008. We will adopt EITF Issue No. 07-1 in the first quarter of 2009 and currently do not believe the adoption of EITF Issue No. 07-1 will have a material impact on its financial position or results of operations.

We adopted SFAS No. 157, “*Fair Value Measurements*” (“SFAS 157”) and SFAS No. 157-3, “*Determining the Value of a Financial Asset When the Market for That Asset Is Not Active*” (“SFAS 157-3”). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157-3 expanded on the implementation guidance in SFAS 157 for estimating the present value of future cash flows for some hard-to-value financial instruments such as auction rate securities. The adoption of SFAS 157 and SFAS 157-3 did not have a material impact on our results of operations and financial position.

In February 2008, the FASB issued 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 was effective upon initial adoption of SFAS 157. FSP 157-2 delays 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 adoption of SFAS 157 is not expected to have a material impact on our financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis, beginning in the first quarter of 2009.

We adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115.” SFAS 159 permits companies to choose to measure certain financial assets and liabilities at fair value (the “fair value option”). If the fair value option is elected, any upfront costs and fees related to the item, e.g., debt issue costs, must be recognized in earnings and cannot be deferred. The fair value option election is irrevocable and may generally be made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. The adoption of SFAS 159 did not have a material impact on our results of operations and financial position as the fair value option was not elected for any of our financial assets or financial liabilities at the date of adoption, nor for any of our financial assets and liabilities transacted in the year ended December 31, 2008 except the put option resulting from UBS’s ARS right offering. See “Notes to Financial Statements — Note 3, Cash Equivalents, Investments and Fair Value Measurements.”

We adopted EITF Issue No. 07-3, “Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities.” EITF Issue No. 07-3 states that non-refundable advance payments for future research and development activities should be deferred and recognized as an expense as the goods are delivered or the related services are performed. Entities should then continue to evaluate whether they expect the goods to be delivered or services to be rendered. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. The adoption of EITF Issue No. 07-3 did not have a material effect on our results of operations and financial condition.

## **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

### **Interest Rate and Market Risk**

Our exposure to market risk is limited to interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the majority of our investments are in short-term debt securities. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. We are exposed to the impact of interest rate changes and changes in the market values of our investments. Our interest income is sensitive to changes in the general level of U.S. interest rates. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We invest a portion of our excess cash in debt instruments of high-quality issuers and, by policy, limit the amount of credit exposure in any one issuer and investment class. We protect and preserve our invested funds by attempting to limit default, market and reinvestment risk. Investments in both fixed-rate and floating-rate interest-earning instruments carry a degree of interest rate risk. Fixed-rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating-rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates.

To minimize risk, we maintain our portfolio of cash and cash equivalents and short- and long-term investments in a variety of interest-bearing instruments, including U.S. government and agency securities, high grade municipal and U.S. bonds and money market funds. Our investment portfolio of short-term investments is subject to interest rate risk, and will fall in value if market interest rates increase.

At December 31, 2008, we held approximately \$16.6 million of ARS classified as long-term investments, whose underlying assets are student loans which 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 we 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 issuers or the investments mature. As a result, our ability to liquidate our investment and fully recover the carrying value of our investment in the near term may be limited or not exist. As of December 31, 2008, all our ARS were AAA-rated, the highest rating by a rating agency. In February 2009, the rating for certain of our ARS with a par value of \$4.7 million was reduced to A3. At December 31, 2008, our investment advisors provided a valuation for the ARS investments utilizing a discounted cash flow approach to arrive at the valuation of our ARS, which was corroborated by a separate and comparable discounted cash flow analysis we prepared. Based on this Level 3 valuation defined by SFAS 157, we valued the ARS investments at \$16.6 million, which represents a decline in value of \$3.4 million from par. The assumptions used in preparing the discounted cash flow model include estimates of, based on data available as of December 31, 2008, interest rates, timing and amount of cash flows, credit and liquidity premiums, and expected holding periods of the ARS. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change, thereby could result in significant changes to the fair value of our ARS.

In connection with the failed auctions of our ARS, which were marketed and sold by UBS AG and its affiliates, in October 2008, we accepted a settlement with UBS AG pursuant to which UBS AG has issued to us the ARS Rights. The ARS Rights provide us the right to receive the par value of our ARS, i.e., the liquidation preference of the ARS plus accrued but unpaid interest. Pursuant to the ARS Rights, we may require UBS to purchase our 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 us 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 ARS Rights, we agreed to release UBS AG, UBS Securities LLC and UBS Financial Services, Inc., and/or their affiliates, directors, and officers from any claims directly or indirectly relating to the marketing and sale of the ARS, other than for consequential damages. UBS's obligations in connection with the ARS Rights are not secured by its assets and do not require UBS 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 purchase the ARS and the auction process continues to fail, we may incur further losses on the carrying value of the ARS. We valued the put option using a Black-Scholes option pricing model that included estimates of interest rates, based on data available as of December 31, 2008, 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 the ARS Rights. A decline in fair value of the ARS would be largely offset by an increase in fair value of the ARS Rights.

Prior to accepting the UBS offer, we recorded our ARS as investments available-for-sale. We recorded unrealized gains and losses on our available-for-sale debt securities, in accumulated other comprehensive income in the shareholders' equity section of our Balance Sheet. Such an unrealized loss did not reduce net income for the applicable accounting period. Simultaneously, due to the ARS Rights granted by UBS, we made a one-time election to transfer the related ARS holdings from available-for-sale securities to trading securities. As a result of this transfer, we recognized an other-than-temporary loss of approximately \$3.4 million, and reversed the related temporary valuation allowance that was previously recorded in other comprehensive loss on the Balance Sheet. The recording of the ARS Rights under SFAS 159 and the recognition of the other-than-temporary impairment loss resulted in no net impact to the Statement of Operations for the year ended December 31, 2008. We anticipate 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 expected 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 our 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.

Our cash and cash equivalents are invested in highly liquid securities with original maturities of three months or less at the time of purchase. Consequently, we do not consider our cash and cash equivalents to be subject to significant interest rate risk and have therefore excluded them from the table below. On the liability side, our

[Table of Contents](#)

equipment financing lines carry fixed interest rates and therefore also may be subject to changes in fair value if market interest rates fluctuate. We do not have any foreign currency or derivative financial instruments.

The table below presents the principal amounts and weighted average interest rates by year of maturity for our investment portfolio, except ARS, and equipment financing lines (dollars in thousands):

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Beyond 2013</u>	<u>Total</u>	<u>Fair Value at December 31, 2008</u>
<b>Assets:</b>								
Short-term investments	\$15,048	—	—	—	—	—	\$15,048	\$ 15,048
Average interest rate	0.96%	—	—	—	—	—	0.96%	
<b>Liabilities:</b>								
Equipment financing lines	\$ 2,025	\$1,630	\$ 833	\$ 152	—	—	\$ 4,640	\$ 4,205
Average interest rate	6.39%	6.82%	7.31%	7.25%	—	—	6.73%	

ITEM 8. *Financial Statements and Supplementary Data*

CYTOKINETICS, INCORPORATED  
(A Development Stage Enterprise)  
INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	71
<a href="#">Balance Sheets</a>	72
<a href="#">Statements of Operations</a>	73
<a href="#">Statements of Stockholders' Equity (Deficit)</a>	74
<a href="#">Statements of Cash Flows</a>	77
<a href="#">Notes to Financial Statements</a>	78



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Cytokinetics, Incorporated:

In our opinion, the accompanying balance sheets and the related statement of operations, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Cytokinetics, Incorporated (a development stage company) at December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 and cumulatively, for the period from August 5, 1997 (date of inception) to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP  
San Jose, CA  
March 12, 2009

**CYTOKINETICS, INCORPORATED**  
(A Development Stage Enterprise)

**BALANCE SHEETS**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 41,819	\$ 116,564
Short-term investments	15,048	3,175
Related party accounts receivable	221	87
Related party notes receivable — short-term portion	40	127
Prepaid and other current assets	1,782	2,063
Total current assets	58,910	122,016
Investments in auction rate securities	16,636	20,025
Investment put option	3,389	—
Property and equipment, net	5,087	7,728
Assets held for sale	325	—
Related party notes receivable — long-term portion	9	99
Restricted cash	2,750	5,167
Other assets	348	335
Total assets	<u>\$ 87,454</u>	<u>\$ 155,370</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,382	\$ 1,584
Accrued liabilities	7,174	8,558
Related party payables and accrued liabilities	—	22
Short-term portion of equipment financing lines	2,025	4,050
Short-term portion of deferred revenue	12,296	12,234
Total current liabilities	22,877	26,448
Long-term portion of equipment financing lines	2,615	4,639
Long-term portion of deferred revenue	12,196	24,367
Total liabilities	<u>37,688</u>	<u>55,454</u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Convertible preferred stock:		
Authorized: 10,000,000 shares in 2008 and 2007		
Issued and outstanding: zero shares in 2008 and 2007	—	—
Common stock, \$0.001 par value:		
Authorized: 170,000,000 shares in 2008 and 120,000,000 shares in 2007		
Issued and outstanding: 49,939,069 shares in 2008 and 49,282,362 shares in 2007	50	49
Additional paid-in capital	385,605	379,730
Deferred stock-based compensation	—	(329)
Accumulated other comprehensive income (loss)	18	(1)
Deficit accumulated during the development stage	(335,907)	(279,533)
Total stockholders' equity	49,766	99,916
Total liabilities and stockholders' equity	<u>\$ 87,454</u>	<u>\$ 155,370</u>

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

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**STATEMENTS OF OPERATIONS**

	Years Ended December 31,			Period from August 5, 1997 (Date of Inception) to December 31,
	2008	2007	2006	2008
	(In thousands, except per share data)			
<b>Revenues:</b>				
Research and development revenues from related party	\$ 186	\$ 1,388	\$ 1,622	\$ 40,439
Research and development, grant and other revenues	—	—	4	2,955
License revenues from related parties	12,234	12,234	1,501	38,568
Total revenues	<u>12,420</u>	<u>13,622</u>	<u>3,127</u>	<u>81,962</u>
<b>Operating expenses:</b>				
Research and development(1)	53,950	53,388	49,225	337,438
General and administrative(1)	15,076	16,721	15,240	100,537
Restructuring charges	2,473	—	—	2,473
Total operating expenses	<u>71,499</u>	<u>70,109</u>	<u>64,465</u>	<u>440,448</u>
Operating loss	(59,079)	(56,487)	(61,338)	(358,486)
Interest and other, net	2,705	7,593	4,223	22,579
Net loss	<u>\$(56,374)</u>	<u>\$(48,894)</u>	<u>\$(57,115)</u>	<u>\$ (335,907)</u>
Net loss per common share — basic and diluted	<u>\$ (1.14)</u>	<u>\$ (1.03)</u>	<u>\$ (1.56)</u>	
Weighted-average number of shares used in computing net loss per common share — basic and diluted	<u>49,392</u>	<u>47,590</u>	<u>36,618</u>	

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

Research and development	\$ 2,794	\$ 2,932	\$ 2,532	\$ 11,106
General and administrative	2,812	2,621	2,111	9,247

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

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount					
(In thousands, except share and per share data)							
Issuance of common stock upon exercise of stock options for cash at \$0.015 per share	147,625	\$ —	\$ 2	\$ —	\$ —	\$ —	\$ 2
Issuance of common stock to founders at \$0.015 per share in exchange for cash in January 1998	563,054	1	7	—	—	—	8
Net loss	—	—	—	—	—	(2,015)	(2,015)
Balances, December 31, 1998	710,679	1	9	—	—	(2,015)	(2,005)
Issuance of common stock upon exercise of stock options for cash at \$0.015-\$0.58 per share	287,500	—	69	—	—	—	69
Issuance of warrants, valued using Black-Scholes model	—	—	41	—	—	—	41
Deferred stock-based compensation	—	—	237	(237)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	123	—	—	123
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	(8)	—	(8)
Net loss	—	—	—	—	—	(7,341)	(7,341)
Total comprehensive loss	—	—	—	—	—	—	(7,349)
Balances, December 31, 1999	998,179	1	356	(114)	(8)	(9,356)	(9,121)
Issuance of common stock upon exercise of stock options for cash at \$0.015-\$0.58 per share	731,661	1	194	—	—	—	195
Deferred stock-based compensation	—	—	93	(93)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	101	—	—	101
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	86	—	86
Net loss	—	—	—	—	—	(13,079)	(13,079)
Total comprehensive loss	—	—	—	—	—	—	(12,993)
Balances, December 31, 2000	1,729,840	2	643	(106)	78	(22,435)	(21,818)
Issuance of common stock upon exercise of stock options for cash at \$0.015-\$1.20 per share	102,480	—	56	—	—	—	56
Repurchase of common stock	(33,334)	—	(19)	—	—	—	(19)
Compensation expense for acceleration of options	—	—	20	—	—	—	20
Deferred stock-based compensation	—	—	45	(45)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	93	—	—	93
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	190	—	190
Net loss	—	—	—	—	—	(15,874)	(15,874)
Total comprehensive loss	—	—	—	—	—	—	(15,684)
Balances, December 31, 2001	1,798,986	2	745	(58)	268	(38,309)	(37,352)
Issuance of common stock upon exercise of stock options for cash at \$0.015-\$1.20 per share	131,189	—	68	—	—	—	68
Repurchase of common stock	(3,579)	—	(2)	—	—	—	(2)
Deferred stock-based compensation	—	—	(2)	2	—	—	—
Amortization of deferred compensation	—	—	—	6	—	—	6
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	(228)	—	(228)
Net loss	—	—	—	—	—	(23,080)	(23,080)
Total comprehensive loss	—	—	—	—	—	—	(23,308)

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) —(Continued)**

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount					
(In thousands, except share and per share data)							
Balances, December 31, 2002	1,926,596	2	\$ 809	\$ (50)	\$ 40	\$ (61,389)	\$ (60,588)
Issuance of common stock upon exercise of stock options for cash at \$0.20-\$1.20 per share	380,662	—	310	—	—	—	310
Stock-based compensation	—	—	158	—	—	—	158
Deferred stock-based compensation	—	—	4,369	(4,369)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	768	—	—	768
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	6	—	6
Net loss	—	—	—	—	—	(32,685)	(32,685)
Total comprehensive loss	—	—	—	—	—	—	(32,679)
Balances, December 31, 2003	2,307,258	2	5,646	(3,651)	46	(94,074)	(92,031)
Issuance of common stock upon initial public offering at \$13.00 per share, net of issuance costs of \$9,151	7,935,000	8	93,996	—	—	—	94,004
Issuance of common stock to related party for \$13.00 per share	538,461	1	6,999	—	—	—	7,000
Issuance of common stock to related party	37,482	—	—	—	—	—	—
Conversion of preferred stock to common stock upon initial public offering	17,062,145	17	133,155	—	—	—	133,172
Issuance of common stock upon cashless exercise of warrants	115,358	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options for cash at \$0.20-\$6.50 per share	404,618	—	430	—	—	—	430
Issuance of common stock pursuant to ESPP at \$8.03 per share	69,399	—	557	—	—	—	557
Stock-based compensation	—	—	278	—	—	—	278
Deferred stock-based compensation	—	—	2,198	(2,198)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	1,598	—	—	1,598
Repurchase of unvested stock	(16,548)	—	(20)	—	—	—	(20)
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	(234)	—	(234)
Net loss	—	—	—	—	—	(37,198)	(37,198)
Total comprehensive loss	—	—	—	—	—	—	(37,432)
Balances, December 31, 2004	28,453,173	28	243,239	(4,251)	(188)	(131,272)	107,556
Issuance of common stock upon exercise of stock options for cash at \$0.58-\$7.10 per share	196,703	1	370	—	—	—	371
Issuance of common stock pursuant to ESPP at \$4.43 per share	179,520	—	763	—	—	—	763
Issuance of common stock upon cashless exercise of warrants	14,532	—	—	—	—	—	—
Issuance of common stock upon drawdown of committed equity financing facility at \$6.13-\$7.35 per share, net of issuance costs of \$178	887,576	1	5,546	—	—	—	5,547
Stock-based compensation	—	—	67	—	—	—	67
Amortization of deferred stock-based compensation, net of cancellations	—	—	(439)	1,799	—	—	1,360
Repurchase of unvested stock	(20,609)	—	(25)	—	—	—	(25)
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	174	—	174
Net loss	—	—	—	—	—	(42,252)	(42,252)
Total comprehensive loss	—	—	—	—	—	—	(42,078)

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) — (Continued)**

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount					
(In thousands, except share and per share data)							
Balances, December 31, 2005	29,710,895	\$ 30	\$ 249,521	\$ (2,452)	\$ (14)	\$ (173,524)	\$ 73,561
Issuance of common stock upon exercise of stock options for cash at \$0.20-\$7.10 per share	354,502	—	559	—	—	—	559
Issuance of common stock pursuant to ESPP at a weighted price of \$4.43 per share	193,248	—	856	—	—	—	856
Issuance of common stock pursuant to registered direct offerings at \$6.60 and \$7.00 per share, net of issuance costs of \$3,083	10,285,715	10	66,907	—	—	—	66,917
Issuance of common stock upon drawdown of committed equity financing facility at \$5.53-\$7.02 per share	2,740,735	3	16,954	—	—	—	16,957
Stock-based compensation	—	—	3,421	—	—	—	3,421
Amortization of deferred stock-based compensation, net of cancellations	—	—	(138)	1,358	—	—	1,220
Repurchase of unvested stock	(1,537)	—	(2)	—	—	—	(2)
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	(61)	—	(61)
Net loss	—	—	—	—	—	(57,115)	(57,115)
Total comprehensive loss	—	—	—	—	—	—	(57,176)
Balances, December 31, 2006	43,283,558	43	338,078	(1,094)	(75)	(230,639)	106,313
Issuance of common stock upon exercise of stock options for cash at \$0.58-\$7.10 per share	259,054	1	511	—	—	—	512
Issuance of common stock pursuant to ESPP at a weighted price of \$4.49 per share	179,835	—	807	—	—	—	807
Issuance of common stock upon drawdown of committed equity financing facility at \$4.43-\$4.81 per share	2,075,177	2	9,540	—	—	—	9,542
Issuance of common stock to related party for \$9.47 per share, net of issuance costs of \$57	3,484,806	3	26,006	—	—	—	26,009
Stock-based compensation	—	—	4,833	—	—	—	4,833
Amortization of deferred stock-based compensation, net of cancellations	—	—	(45)	765	—	—	720
Repurchase of unvested stock	(68)	—	—	—	—	—	—
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	74	—	74
Net loss	—	—	—	—	—	(48,894)	(48,894)
Total comprehensive loss	—	—	—	—	—	—	(48,820)
Balances, December 31, 2007	49,282,362	49	379,730	(329)	(1)	(279,533)	99,916
Issuance of common stock upon exercise of stock options for cash at \$0.58-\$3.37 per share	95,796	—	131	—	—	—	131
Issuance of common stock pursuant to ESPP at a weighted price of \$2.85 per share	164,451	—	468	—	—	—	468
Issuance of restricted stock at a price of \$0.001 per share	397,960	1	(1)	—	—	—	—
Cancellation of restricted stock	(1,500)	—	—	—	—	—	—
Stock-based compensation	—	—	5,277	—	—	—	5,277
Amortization of deferred stock-based compensation, net of cancellations	—	—	—	329	—	—	329
Components of comprehensive loss:							
Change in unrealized gain (loss) on investments	—	—	—	—	19	—	19
Net loss	—	—	—	—	—	(56,374)	(56,374)
Total comprehensive loss	—	—	—	—	—	—	(56,355)
Balances, December 31, 2008	49,939,069	\$ 50	\$ 385,605	\$ —	\$ 18	\$ (335,907)	\$ 49,766

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

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,			Period from
	2008	2007	2006	August 5,
	(In thousands)			1997
				(Date of
				Inception) to
				December 31,
				2008
<b>Cash flows from operating activities:</b>				
Net loss	\$ (56,374)	\$ (48,894)	\$ (57,115)	\$ (335,907)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization of property and equipment	2,456	2,829	2,927	23,445
(Gain) loss on disposal of equipment	3	13	(8)	351
Non-cash restructuring expenses	476	—	—	476
Non-cash interest expense	77	92	92	504
Non-cash forgiveness of loan to officer	51	116	107	415
Stock-based compensation	5,606	5,553	4,643	20,353
Other non-cash expenses	7	7	—	182
Changes in operating assets and liabilities:				
Related party accounts receivable	(145)	41,959	(41,515)	(572)
Prepaid and other assets	192	(275)	413	(2,158)
Accounts payable	(6)	(969)	852	1,388
Accrued liabilities	(1,540)	2,005	2,419	6,982
Related party payables and accrued liabilities	(22)	(142)	(485)	—
Deferred revenue	(12,109)	(5,299)	40,500	24,492
Net cash used in operating activities	<u>(61,328)</u>	<u>(3,005)</u>	<u>(47,170)</u>	<u>(260,049)</u>
<b>Cash flows from investing activities:</b>				
Purchases of investments	(24,462)	(51,700)	(143,046)	(669,365)
Proceeds from sales and maturities of investments	12,607	98,729	135,527	634,393
Purchases of property and equipment	(658)	(2,563)	(5,370)	(29,550)
Proceeds from sale of property and equipment	—	—	6	50
(Increase) decrease in restricted cash	2,417	867	(862)	(2,750)
Issuance of related party notes receivable	—	—	—	(1,146)
Proceeds from repayments of notes receivable	130	129	63	829
Net cash provided by (used in) investing activities	<u>(9,966)</u>	<u>45,462</u>	<u>(13,682)</u>	<u>(67,539)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from initial public offering, sale of common stock to related party and public offerings, net of issuance costs	—	26,012	66,917	193,934
Proceeds from draw down of Committed Equity Financing Facility, net of issuance costs	—	9,542	16,957	32,046
Proceeds from other issuances of common stock	599	1,312	1,378	6,157
Proceeds from issuance of preferred stock, net of issuance costs	—	—	—	133,172
Repurchase of common stock	—	—	(2)	(68)
Proceeds from equipment financing lines	—	1,742	4,347	23,696
Repayment of equipment financing lines	(4,050)	(3,888)	(2,873)	(19,530)
Net cash provided by (used in) financing activities	<u>(3,451)</u>	<u>34,720</u>	<u>86,724</u>	<u>369,407</u>
Net increase (decrease) in cash and cash equivalents	<u>(74,745)</u>	<u>77,177</u>	<u>25,872</u>	<u>41,819</u>
Cash and cash equivalents, beginning of period	116,564	39,387	13,515	—
Cash and cash equivalents, end of period	<u>\$ 41,819</u>	<u>\$ 116,564</u>	<u>\$ 39,387</u>	<u>\$ 41,819</u>

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

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 — Organization and Significant Accounting Policies**

***Organization***

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 \$56.4 million and net cash outflows from operations of \$61.3 million for the year ended December 31, 2008 and an accumulated deficit of approximately \$335.9 million as of December 31, 2008. Cash, cash equivalents and short-term investments declined from \$119.7 million at December 31, 2007 to \$56.9 million at December 31, 2008. If the Company’s losses and net cash outflows continue, and sufficient capital is not available, its liquidity may 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, government grant awards and debt financing. Based on the current status of our development plans, the Company believes that its existing cash, cash equivalents and short term investments at December 31, 2008 coupled with the additional capital received in January and February of 2009 (see Note 14) 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 our 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.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Concentration of Credit Risk and Other Risks and Uncertainties***

Financial instruments that potentially subject the Company to concentrations of risk consist principally of cash and cash equivalents, investments and accounts receivable. The Company’s cash, cash equivalents and investments are invested in deposits with four major financial institutions in the U.S. Deposits in these banks may exceed the



**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

amount of insurance provided on such deposits. The Company has not experienced any realized losses on its deposits of cash, cash equivalents or investments.

The recent economic turmoil in the United States, the continuing credit crisis that has affected worldwide financial markets, the extraordinary volatility in the stock markets and other current negative macroeconomic indicators, such as the global recession, could negatively impact the Company's ability to raise the funds necessary to support its business and may materially adversely affect its business, operating results and financial condition.

The Company performs an ongoing credit evaluation of its strategic partners' financial conditions and generally does not require collateral to secure accounts receivable from its strategic partners. The Company's exposure to credit risk associated with non-payment is affected principally by conditions or occurrences within Amgen Inc. ("Amgen") and GlaxoSmithKline ("GSK"), its primary strategic partners. Approximately 99%, 90%, and less than 10% of total revenues for the years ended December 31, 2008, 2007 and 2006, respectively, were derived from Amgen. Accounts receivable due from Amgen was \$130,000 at December 31, 2008 and zero at December 31, 2007, and was included in related party accounts receivable. Approximately 1%, 10% and 97% of revenues for the years ended December 31, 2008, 2007 and 2006, respectively, were derived from GSK. Accounts receivable from GSK totaled \$89,000 at December 31, 2008 and \$19,000 at December 31, 2007 and was included in related party accounts receivable. See also Note 5, "Related Party Transactions," below regarding collaboration agreements with Amgen and GSK.

Drug candidates developed by the Company may require approvals or clearances from the U.S. Food and Drug Administration ("FDA") or international regulatory agencies prior to commercialized sales. There can be no assurance that the Company's drug candidates will receive any of the required approvals or clearances. If the Company were to be denied approval or clearance or any such approval or clearance were to be delayed, it would have a material adverse impact on the Company.

The Company's operations and employees are located in the United States. In the years ended December 31, 2008, 2007 and 2006, all of the Company's revenues were received from entities located in the United States or from United States affiliates of foreign corporations.

***Restricted Cash***

In accordance with the terms of the Company's line of credit agreement 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 \$2.8 million and \$5.2 million at December 31, 2008 and 2007, respectively, and was classified as restricted cash.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

***Investments***

*Available-for-sale and trading investments.* The Company's investments consist of auction rate securities ("ARS"), U.S. municipal and government agency bonds, commercial paper, U.S. government treasury securities, and money market funds. The Company designated all investments, except for ARS held by UBS AG ("UBS"), as available-for-sale and are therefore reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. During the fourth quarter of fiscal 2008, the Company reclassified ARS held by UBS from available-for-sale to trading securities. Investments that the Company designates as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in net loss. See Note 3 for further detailed discussion. Investments with original maturities greater than approximately three months and remaining

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

maturities less than one year are classified as short-term investments. Investments with remaining maturities greater than one year are classified as long-term investments. The Company classifies investments as short-term or long-term based upon whether such assets are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.

*Other-than-temporary impairment.* All of the Company's available-for-sale investments are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. Factors considered by management in assessing whether an other-than-temporary impairment has occurred include: the nature of the investment; whether the decline in fair value is attributable to specific adverse conditions affecting the investment; the financial condition of the investee; the severity and the duration of the impairment; and whether the Company has the intent and ability to hold the investment to maturity. When it is determined that an other-than-temporary impairment has occurred, the investment is written down to its market value at the end of the period in which it is determined that an other-than-temporary decline has occurred. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Recognized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest and other, net.

See Note 3 for additional details on the Company's investment portfolio and events that occurred during 2008 that impacted the classification of ARS in the Company's Balance Sheet.

***Fair Value of Financial Instruments***

The carrying amount of the Company's cash and cash equivalents, accounts receivable and accounts payable approximates 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 3). The carrying value of the put option resulting from UBS's ARS Rights offering (Note 3) 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 UBS's ARS Rights offering.

The fair value of the equipment financing lines is \$4.2 million compared to the book value of \$4.6 million based on borrowing rates currently available to the Company.

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and are depreciated on a straight-line basis over the estimated useful lives of the related assets, which are generally three years for computer equipment and software, five years for laboratory equipment and office equipment, and seven years for furniture and fixtures. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related assets, typically ranging from three to seven years. Upon sale or retirement of assets, the costs and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

***Impairment of Long-lived Assets***

In accordance with the provisions of SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-lived Assets*,” the Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Under SFAS No. 144, an impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. See Note 7, “*Restructuring*” for a discussion of asset impairments recorded in the year ended December 31, 2008.

***Revenue Recognition***

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin (“SAB”) No. 104, “*Revenue Recognition*.” SAB No. 104 requires that certain criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. Determination of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management’s judgments regarding the fixed nature of the fee charged for research performed and milestones met, and the collectability of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Research and development revenues, which are earned under agreements with third parties for contract research and development activities, may include non-refundable license fees, research and development funding, cost reimbursements and contingent milestones and royalties. The Company’s revenue arrangements with multiple elements are evaluated under Emerging Issues Task Force (“EITF”) Issue No. 00-21, “*Revenue Arrangements with Multiple Deliverables*,” and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration the Company receives is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Non-refundable license fees are recognized as revenue as the Company performs under the applicable agreement. Where the level of effort is relatively consistent over the performance period, the Company recognizes total fixed or determined revenue on a straight-line basis over the estimated period of expected performance.

The Company recognizes milestone payments as revenue upon achievement of the milestone provided the milestone payment is non-refundable, substantive effort and risk is involved in achieving the milestone and the amount of the milestone is reasonable in relation to the effort expended or risk associated with the achievement of the milestone. If these conditions are not met, the Company defers the milestone payment and recognizes it as revenue over the estimated period of performance under the contract as the Company completes its performance obligations.

Research and development revenues and cost reimbursements are based upon negotiated rates for the Company’s full time employee equivalents (“FTE”) and actual out-of-pocket costs. FTE rates are intended to approximate the Company’s anticipated costs. Any amounts received in advance of performance are recorded as deferred revenue. None of the revenues recognized to date are refundable if the relevant research effort is not successful. In revenue arrangements in which both parties make payments to each other, the Company will evaluate the payments in accordance with the provisions of EITF Issue No. 01-9, “*Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)*” to determine whether payments made by us will be recognized as a reduction of revenue or as expense. In accordance with EITF Issue No. 01-9, revenue recognized by the Company may be reduced by payments made to the other party under the arrangement unless the

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

Company receives a separate and identifiable benefit in exchange for the payments and the Company can reasonably estimate the fair value of the benefit received. The application of EITF Issue No. 01-9 has had no material impact to the Company.

***Preclinical Studies and Clinical Trial Accruals***

A substantial portion of the Company's preclinical studies and all of the Company's clinical trials have been performed by third-party contract research organizations ("CROs") and other vendors. For preclinical studies, the significant factors used in estimating accruals include the percentage of work completed to date and contract milestones achieved. For clinical trial expenses, the significant factors used in estimating accruals include the number of patients enrolled, duration of enrollment and percentage of work completed to date. The Company monitors patient enrollment levels and related activities to the extent practicable through internal reviews, correspondence and status meetings with CROs, and review of contractual terms. The Company's estimates are dependent on the timeliness and accuracy of data provided by its CROs and other vendors. If the Company has incomplete or inaccurate data, it may under- or overestimate activity levels associated with various studies or trials at a given point in time. In this event, it could record adjustments to research and development expenses in future periods when the actual activity level become known. No material adjustments to preclinical study and clinical trial expenses have been recognized to date.

***Research and Development Expenditures***

Research and development costs are charged to operations as incurred.

***Retirement Plan***

The Company sponsors a 401(k) defined contribution plan covering all employees. There have been no employer contributions to the plan since inception.

***Income Taxes***

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 48 ("FIN 48"), "*Accounting for Uncertainty in Income Taxes*," which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 were effective for the Company beginning January 1, 2007. See Note 11 for additional information, including the effects of adoption on the Company's financial statements.

***Comprehensive Income/(Loss)***

SFAS No. 130, "*Reporting Comprehensive Income*," establishes standards for the reporting and presentation of comprehensive income/(loss) and its components. Comprehensive income/(loss), as defined, includes all changes in stockholders' equity during a period from non-owner sources. Comprehensive income/(loss) for each of the year ended December 31, 2008, 2007 and 2006 was equal to net loss adjusted for unrealized gains and losses on investments.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**Segment Reporting**

The Company has determined that it operates in only one segment.

**Net Loss Per Common Share**

Basic net loss per common share is computed by dividing 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 potential dilutive common shares, including outstanding options, common stock subject to repurchase, warrants and convertible preferred stock unless their inclusion is anti-dilutive. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per common share follows (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Numerator:</b>			
Net loss	\$(56,374)	\$(48,894)	\$(57,115)
<b>Denominator:</b>			
Weighted-average number of common shares outstanding	49,477	47,591	36,634
<b>Less:</b>			
Restricted stock subject to repurchase	(85)	—	—
Weighted-average shares subject to repurchase	—	(1)	(16)
Weighted-average number of common shares used in computing basic and diluted net loss per share	<u>49,392</u>	<u>47,590</u>	<u>36,618</u>

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

	<b>December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Options to purchase common stock	5,975	5,060	4,033
Unvested restricted stock	396	—	—
Common stock subject to repurchase	—	—	3
Warrants to purchase common stock	474	474	244
Shares issuable related to the Employee Stock Purchase Plan ("ESPP")	43	36	43
Total shares	<u>6,888</u>	<u>5,570</u>	<u>4,323</u>

**Stock-based Compensation**

The Company applies the provisions of 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 the provisions of 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 following table summarizes stock-based compensation related to employee stock options and employee stock purchases under

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

SFAS No. 123R, including amortization of deferred compensation recognized under Accounting Principles Board Opinion No. 25 (“APB 25”), “*Accounting for Stock Issued to Employees*” (in thousands):

	Years Ended December 31.		
	2008	2007	2006
Research and development	\$ 2,794	\$ 2,932	\$ 2,532
General and administrative	2,812	2,621	2,111
Stock-based compensation included in operating expenses	\$5,606	\$5,553	\$ 4,643

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan 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.

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:

	Year Ended December 31, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006	
	Employee Stock Options		Employee Stock Options		Employee Stock Options	
	ESPP	ESPP	ESPP	ESPP	ESPP	ESPP
Risk-free interest rate	2.98%	2.15%	4.49%	4.33%	4.68%	4.91%
Volatility	64%	68%	73%	76%	74%	72%
Expected life (in years)	6.08	1.25	6.00	1.25	6.08	1.25
Expected dividend yield	0.00%	0.00%	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.

Under 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 of adopting 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 of approximately four years. Because its outstanding options have an expected term of approximately six years, the Company supplemented its own volatility history by using comparable companies’ volatility history for approximately two years 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.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

As of December 31, 2008, there was \$7.9 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.4 years. As of December 31, 2008, there was \$0.8 million of unrecognized compensation cost related to non-vested restricted stock awards, which is expected to be recognized over a weighted-average period of 1.7 years.

The Company amortized deferred stock-based compensation recorded prior to the adoption of SFAS No. 123R for stock options granted prior to its IPO. The fair value of these awards was calculated at grant date using the intrinsic value method as prescribed in APB 25. At December 31, 2008, the deferred stock based compensation was fully amortized to expense.

On November 10, 2005, the FASB issued FASB Staff Position No. 123R-3, "*Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*" ("FSP FAS 123R-3"). The Company elected to adopt the alternative transition method provided in FSP FAS 123R-3. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based payments, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

***Recent Accounting Pronouncements***

***Recently Adopted Accounting Pronouncements***

The Company adopted SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157") and SFAS No. 157-3, "*Determining the Value of a Financial Asset When the Market for That Asset Is Not Active*" ("SFAS 157-3"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157-3 expanded on the implementation guidance in SFAS 157 for estimating the present value of future cash flows for some hard-to-value financial instruments such as auction rate securities. The adoption of SFAS 157 and SFAS 157-3 did not have a material impact on the Company's results of operations and financial position; however additional disclosure has been added to the financial statements in Note 3 "Cash Equivalents, Investments and Fair Value Measurements."

The Company adopted SFAS 159, which permits companies to choose to measure certain financial assets and liabilities at fair value (the "fair value option"). If the fair value option is elected, any upfront costs and fees related to the item, e.g., debt issue costs, must be recognized in earnings and cannot be deferred. The fair value option election is irrevocable and may generally be made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure at fair value. At the adoption date, unrealized gains and losses on existing items for which the fair value option has been elected are reported as a cumulative adjustment to beginning retained earnings. The adoption of SFAS 159 did not have a material impact on the Company's results of operations and financial position as the fair value option was not elected for any of the Company's financial assets or financial liabilities at the date of adoption, nor for any of its financial assets and liabilities transacted in the year ended December 31, 2008 except the put option resulting from UBS's ARS right offering. See Note 3, "Cash Equivalents, Investments and Fair Value Measurements."

The Company adopted EITF Issue No. 07-3, "*Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*." EITF Issue No. 07-3 states that non-refundable advance payments for future research and development activities should be deferred and recognized as an expense as the goods are delivered or the related services are performed. Entities should then continue to evaluate whether they expect the goods to be delivered or services to be rendered. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. The adoption of EITF Issue No. 07-3 did not have a material effect on the Company's results of operations and financial condition.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*Accounting Pronouncements Not Yet Adopted*

In November 2007, the EITF issued a consensus on EITF Issue No. 07-01, “*Accounting for Collaboration Arrangements Related to the Development and Commercialization of Intellectual Property*”, which is focused on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how shared payments pursuant to a collaboration agreement should be presented in the income statement and certain related disclosure questions. EITF Issue No. 07-01 is to be applied retrospectively for collaboration arrangements in fiscal years beginning after December 15, 2008. The Company will adopt EITF Issue No. 07-1 in the first quarter of 2009 and currently does not believe the adoption of EITF Issue No. 07-1 will have a material impact on its financial position or results of operations.

In February 2008, the Financial Accounting Standards Board (“FASB”) issued 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 was effective upon initial adoption of SFAS 157. FSP 157-2 delays 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 adoption of SFAS 157 is not expected to have a material impact on the Company’s financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis, beginning in the first quarter of 2009.

**Note 2 — Supplementary Cash Flow Data**

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

	<u>Years Ended December 31,</u>			<u>Period from</u>
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>August 5, 1997</u>
				<u>(Date of Inception) to</u>
				<u>December 31, 2008</u>
Cash paid for interest	\$ 412	\$ 594	\$ 439	\$ 3,999
Cash paid for income taxes	1	1	1	10
Significant non-cash investing and financing activities:				
Deferred stock-based compensation	—	—	—	6,940
Purchases of property and equipment through accounts payable	127	359	1,554	127
Purchases of property and equipment through trade in value of disposed property and equipment	—	—	131	258
Penalty on restructuring of equipment financing lines	—	—	—	475
Conversion of convertible preferred stock to common stock	—	—	—	133,172



**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**Note 3 — 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 investment put option at December 31, 2008 and 2007 was as follows (in thousands):

	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

	December 31, 2007				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Maturity Dates
Cash equivalents:					
Money market funds	91,241	—	—	91,241	
Commercial paper	24,901	1	(2)	24,900	1/2008 — 2/2008
Total cash equivalents	\$ 116,142	1	(2)	\$ 116,141	
Short-term investments - student loan auction rate securities	\$ 3,175	\$ —	\$ —	\$ 3,175	1/2008
Long-term investments - student loan auction rate securities	\$ 20,025	\$ —	\$ —	\$ 20,025	6/2036 — 8/2045

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

As of December 31, 2007, the Company's cash equivalents had unrealized losses of \$2,000, and its short-term investments had no unrealized losses. The unrealized losses on the Company's commercial paper classified as cash equivalents at December 31, 2007 were primarily caused by rising interest rates. The Company was able to collect all contractual cash flows related to the commercial paper held at December 31, 2007 and no realized losses were incurred.

Interest income was \$3.2 million, \$8.3 million and \$4.7 million for the years ended December 31, 2008, 2007 and 2006, respectively, and \$27.5 million for the period August 5, 1997 (inception) through December 31, 2008.

The Company's long-term investments in ARS as of December 31, 2008 and 2007 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 at par value. As of December 31, 2007, there were no ARS in an unrealized loss position and there were no failed auctions associated with the Company's ARS through that date. In February 2008, the Company liquidated \$3.2 million of its ARS at par, which were classified as short-term investments as of December 31, 2007.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The Company classified its remaining ARS holdings as long-term investments as of December 31, 2007 based on their stated maturity date.

At December 31, 2008, 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 which 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. Typically, the fair value of ARS investments approximates par value due to the frequent interest rate resets associated with the auction process. Currently, there is not an 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. Although the ARS continue to pay interest according to their stated terms, based on valuation models of the individual securities, the Company has recognized in the Statement of Operations a loss of approximately \$3.4 million on ARS in interest and other, net for which the Company has concluded that an other-than-temporary impairment exists. The fair value of the Company's investment in ARS as of December 31, 2008 was determined to be \$16.6 million.

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 has issued to the Company Series C-2 Auction Rate Securities Rights (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 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 UBS to obtain any financing to support those obligations. UBS has disclaimed any assurance that it will have sufficient 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 and 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 as December 31, 2008, with a corresponding credit to interest and other, net in the Statement of Operations for the year ended December 31, 2008. The put 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 its 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 as of December 31, 2008, and was adjusted for any bearer risk associated with UBS's 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.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

Prior to accepting the UBS offer, the Company recorded its ARS as investments available-for-sale. The Company recorded unrealized gains and losses on its available-for-sale debt securities, in accumulated other comprehensive income/(loss) in the shareholders' equity section of the Balance Sheet. Such an unrealized loss did not impact net loss for the applicable accounting period. Simultaneously, due to the ARS Rights granted by UBS, the Company made a one-time election to transfer the related ARS holdings from available-for-sale securities to trading securities. As a result of this transfer, the Company recognized an other-than-temporary loss of approximately \$3.4 million, and reversed the related unrealized loss that was previously recorded in other comprehensive loss on the Balance Sheet. The recording of the ARS Rights under SFAS 159 and the recognition of the other-than-temporary impairment loss resulted in no net impact to the Statement of Operations for the year ended December 31, 2008. The Company anticipates that any future changes in the fair value of the ARS Rights will be largely 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 expected 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 our 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***

As stated in Note 1, "Organization and Significant Accounting Policies," on January 1, 2008, the Company adopted the methods of fair value described in 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.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

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
	Level 1	Level 2	Level 3	At Fair Value
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	<u>\$56,272</u>	<u>\$ —</u>	<u>\$ 20,025</u>	<u>\$ 76,297</u>
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	<u>\$56,272</u>	<u>\$ —</u>	<u>\$ 20,025</u>	<u>\$ 76,297</u>

The valuation technique used to measure fair value for our 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 our Level 3 assets is an income approach, where the expected future cash flows were 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 December 31, 2008, the Company held approximately \$16.6 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. During the first quarter of fiscal 2008, the Company reclassified its ARS to the Level 3 category. The fair values of these securities were estimated utilizing a discounted cash flow (“DCF”) analysis as of December 31, 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 December 31, 2008. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change, thereby could result in significant changes to the fair value of ARS. The significant assumptions of this valuation model were discount margins ranging from 375 to 410 basis points which are based on industry recognized student loan sector indices, an additional liquidity discount of approximately 150 basis points and an estimated term to liquidity of 2 to 5 years. Other items 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 securities held by the Company. Although the ARS investments continue to pay interest according to their stated terms, based on valuation models of the individual securities, the Company has recognized in the Statement of Operations an unrecognized loss of approximately \$3.4 million in interest and other, net for ARS that the Company has concluded that an other-than-temporary impairment exists.

Unrecognized gains of \$3.4 million on the put option related to the ARS Rights are included in interest and other, net in the accompanying Statements of Operations for the year ended December 31, 2008. Unrealized losses

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

for the year ended December 31, 2008 included losses totaling \$3.4 million that were transferred from accumulated other comprehensive loss as a result of the reclassification of the ARS from available-for-sale to trading securities.

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.

The Company's financial assets measured at fair value on a recurring basis using significant Level 3 inputs as of December 31, 2008 consisted solely of the ARS and the ARS Rights. The following table provides reconciliation for all assets measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2008 (in thousands):

	<u>ARS</u>	<u>Investment put option</u>
Balance as of December 31, 2007	\$ —	\$ —
Transfer to Level 3 hierarchy measurement from Level 1	20,025	
Recognition of the ARS Rights	—	3,389
Unrecognized losses on ARS trading securities included in interest and other, net	(3,389)	—
Balance as of December 31, 2008	<u>\$16,636</u>	<u>\$ 3,389</u>

The total amount of assets measured using Level 3 valuation methodologies represented approximately 23% of our total assets as of December 31, 2008.

Unrecognized gains of \$3.4 million on the put option related to the ARS Rights are included in interest and other, net in the accompanying Statements of Operations for the year ended December 31, 2008. Unrecognized losses for the year ended December 31, 2008 included losses totaling \$3.4 million that were transferred from accumulated other comprehensive loss as a result of the reclassification of the ARS from available-for-sale to trading securities.

**Note 4 — Balance Sheet Components**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Property and equipment, net (in thousands):		
Laboratory equipment	\$ 18,254	\$ 19,081
Computer equipment and software	3,700	3,647
Office equipment, furniture and fixtures	431	365
Leasehold improvements	3,146	3,054
	<u>25,531</u>	<u>26,147</u>
Less: Accumulated depreciation and amortization	(20,444)	(18,419)
	<u>\$ 5,087</u>	<u>\$ 7,728</u>

Property and equipment pledged as collateral against outstanding borrowings under the Company's equipment financing lines totaled \$10.1 million, less accumulated depreciation of \$6.1 million, at December 31, 2008 and

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

\$21.9 million, less accumulated depreciation of \$15.6 million, at December 31, 2007. Depreciation expense was \$2.5 million, \$2.8 million and \$2.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Accrued liabilities (in thousands):		
Clinical and pre-clinical costs	\$5,368	\$ 4,730
Consulting and professional fees	446	448
Bonus	13	1,560
Vacation and other payroll related	959	1,211
Other accrued expenses	388	609
	<u>\$ 7,174</u>	<u>\$8,558</u>

Interest receivable on cash equivalents and short- and long-term investments of \$106,000 and \$117,000 is included in prepaid and other current assets at December 31, 2008 and 2007, respectively.

**Note 5 — Related Party Transactions**

***Research and Development Arrangements***

***GSK***

In 2001, the Company entered into a collaboration and license agreement with GSK, establishing a strategic alliance to discover, develop and commercialize small molecule drugs for the treatment of cancer and other diseases. Under this agreement, GSK paid the Company an upfront licensing fee for rights to certain technologies and milestone payments regarding performance and developments within agreed-upon projects. In conjunction with these projects, GSK agreed to reimburse the Company's costs associated with the strategic alliance. In connection with the agreement, in 2001 GSK made a \$14.0 million equity investment in the Company. In 2001, the Company also received \$14.0 million for the upfront licensing fee, which was recognized ratably over the initial five-year research term of the agreement. In the years ended December 31, 2008, 2007 and 2006, the Company recognized none, \$1.4 million and \$2.8 million, respectively, as license revenue under this agreement. At December 31, 2008 and 2007, no license revenue under this agreement was deferred. The Company received and recognized as revenue \$0.2 million, \$0.4 million and \$1.6 million in FTE and other expense reimbursements for the years ended December 31, 2008, 2007 and 2006, respectively, and \$32.5 million in the period from August 5, 1997 (inception) through December 31, 2008. The Company also received and recognized as revenue \$1.0 million in performance milestone payments under the agreement for the year ended December 31, 2007, and zero in the years ended December 31, 2008 and 2006, respectively, and \$8.0 million in the period from August 5, 1997 (inception) through December 31, 2008 as no ongoing performance obligations existed with respect to this aspect of the agreement.

For those drug candidates that GSK develops under the strategic alliance, the Company can elect to co-fund certain later-stage development activities which would increase its potential royalty rates on sales of resulting drugs and provide the Company with the option to secure co-promotion rights in North America. If the Company exercises its co-promotion option, then it is entitled to receive reimbursement from GSK for certain sales force costs it incurs in support of its commercial activities.

Under the November 2006 amendment to the collaboration and license agreement with GSK, the Company assumed responsibility, at its expense, for the continued research, development and commercialization of inhibitors of kinesin spindle proteins, including ispinesib and SB-743921, and other mitotic kinesins, other than centromere-associated protein E ("CENP-E"). Under the November 2006 amendment, the Company's development of ispinesib

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

and SB-743921 were subject to GSK's option to resume responsibility for the development and commercialization of either or both drug candidates. In December 2008, GSK's option to license ispinosib and SB-743921 expired. Consequently, all rights to these drug candidates remain with the Company, subject to certain royalty obligations to GSK. Accrued liabilities at December 31, 2008 and 2007 included zero and \$20,000, respectively, payable to GSK for outsourced services.

The initial five-year research term of the collaboration and license agreement expired in June 2005, and has been extended for an additional year in each of June 2006, 2007 and 2008. Under these extensions, GSK and the Company are conducting translational research activities focused on CENP-E, each at its own expense. GSK is currently conducting a Phase I clinical trial of the CENP-E inhibitor GSK-923295 at its expense under the agreement.

GSK made additional equity investments in the Company in 2003 and 2004 of \$3.0 million and \$7.0 million, respectively.

*Amgen*

On December 29, 2006, the Company 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. The agreement provides Amgen a non-exclusive license and access to certain technology, and an option to obtain an exclusive license to CK-1827452 world-wide, except Japan. Under the terms of the agreement, the Company received an upfront, non-refundable license and technology access fee of \$42.0 million from Amgen, which the Company is recognizing as revenue ratably over the maximum term of the non-exclusive license, which is four years. Management determined that the obligations under the non-exclusive license did not meet the requirement for separate units of accounting and therefore should be recognized as a single unit of accounting.

The Company is conducting research and development activities at its own expense for CK-1827452 in accordance with an agreed upon plan. Amgen's option is exercisable during a defined period, the ending of which is dependent upon satisfaction of certain conditions, primarily the delivery of Phase I and Phase IIa clinical trials data for CK-1827452 in accordance with an agreed development plan, the results from which may be sufficient to support its progression into Phase IIb clinical development. To exercise its option, Amgen is required to pay a non-refundable fee of \$50.0 million and thereafter would have an exclusive license for development and commercialization of the CK-1827452 world-wide, excluding Japan. On exercise of the option, the Company is required to transfer all data and know-how necessary to enable Amgen to assume responsibility for development and commercialization of CK-1827452 and related compounds, which Amgen will perform at its sole expense. Development services, if any, performed by the Company for Amgen after commencement of the exclusive license term will be reimbursed by Amgen. Under the agreement, the Company may be eligible to receive 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 the annual net sales of products commercialized under the agreement. The agreement also provides for the Company to receive increased royalties by co-funding Phase III development costs of drug candidates under the collaboration. If the Company elects to co-fund such costs, it would be entitled to co-promote products in North America and participate in agreed commercial activities in institutional care settings, at Amgen's expense. If Amgen elects not to exercise its option on CK-1827452, the collaboration would terminate and the Company may then proceed independently to develop CK-1827452 itself or with third parties.

In connection with entering into the collaboration and option agreement, the Company contemporaneously entered into a common stock purchase agreement (the "CSPA") with Amgen, which provided for the sale of 3,484,806 shares of the Company's common stock at a price per share of \$9.47 and an aggregate purchase price of approximately \$33.0 million. On January 2, 2007, the Company issued 3,484,806 shares of common stock to

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

Amgen under the CSPA. After deducting the offering costs, the Company received net proceeds of approximately \$32.9 million in January 2007. The common stock was valued using the closing price of the common stock on December 29, 2006, the last trading day of the common stock prior to issuance. The difference between the price paid by Amgen of \$9.47 per share and the stock price of \$7.48 per share of common stock totaled \$6.9 million. This premium was recorded as deferred revenue in January 2007 and is being recognized as revenue ratably over the maximum term of the non-exclusive license granted to Amgen under the collaboration and option agreement, which is approximately four years.

The Company recognized license revenue under the agreement of \$12.2 million, \$12.2 million and \$0.1 million in 2008, 2007 and 2006, respectively and \$24.6 million in the period August 5, 1997 (inception) through December 31, 2008. The Company also recognized revenue of \$5,000 in 2008 for sales of clinical material to Amgen.

*Other Research and Development Arrangements*

In 1998, the Company entered into a licensing agreement with certain universities where the Company's founding scientists are also affiliated with the universities. The Company agreed to pay technology license fees and milestone payments for technology developed under the licensing agreement. The Company is also obligated to make minimum royalty payments, as specified in the agreement, commencing the year of product market introduction or upon an agreed upon anniversary of the licensing agreement. The Company paid \$51,000, \$74,000 and \$59,000 to the universities under this agreement in 2008, 2007 and 2006, respectively, and \$1.1 million in the period August 5, 1997 (inception) through December 31, 2008.

**Other**

*Portola*

In August 2004, the Company entered into a collaboration and facilities agreement with Portola Pharmaceuticals, Inc. ("Portola"), replacing a verbal agreement entered into in December 2003. Under the agreement, Portola provided research and related services and access to a portion of their facilities to support such services. In the years ended December 31, 2008, 2007 and 2006, the Company incurred expenses of zero, \$164,000 and \$913,000, respectively, for research services provided under this agreement. In March 2005, the agreement was amended to provide for the purchase and use of certain equipment by Portola in connection with Portola providing research and related services to the Company and the Company's reimbursement to Portola of \$285,000 for the equipment in eight quarterly payments from January 2006 through October 2007. The entire equipment reimbursement of \$285,000 was recognized in expenses in 2005. In March 2006, the agreement was amended to extend it through December 31, 2006 and update certain pricing and other terms and conditions. There were no accounts payable or accrued liabilities payable to Portola at December 31, 2008 or 2007 for such services.

In August 2006, the Company entered into an agreement with Portola whereby Portola sub-leased approximately 2,500 square feet of office space from the Company at a monthly rate of \$1.75 per square foot. The term of the agreement commenced on August 22, 2006 and continued until October 31, 2006, with the option to extend on a month-to-month basis thereafter. Sublease income from this agreement offset rent expense. Portola terminated the sublease agreement effective April 30, 2007.

*Related Party Notes Receivable*

In 2001 and 2002, the Company extended loans for \$200,000 and \$100,000, respectively, to certain officers of the Company. The loans accrue interest at 5.18% and 5.75% and are scheduled to mature on November 12, 2010 and July 12, 2008, respectively. In 2002 the Company extended loans totaling \$650,000 to various certain officers and employees of the Company. The loans accrue interest at rates ranging from 4.88% to 5.80% and have scheduled



**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

maturities on various dates between 2005 and 2011. Certain of the loans are collateralized by the common stock of the Company owned by the officers and by stock options and were repaid in full within eighteen months after the Company's IPO date of April 29, 2004. Certain of the loans will be forgiven if the officers remain with the Company through the maturation of their respective loans. The Company did not extend any loans to officers or employees of the Company subsequent to 2002. Principal repayments totaled \$130,000 and \$129,000 and principal forgiven totaled \$47,000 and \$97,000 in 2008 and 2007, respectively. A total of \$48,000 and \$226,000 was outstanding on these loans at December 31, 2008 and 2007, respectively, and was classified as related party notes receivable. Interest receivable on these loans totaled \$1,000 at December 31, 2008 and \$3,000 at December 31, 2007 and was included in related party accounts receivable.

Effective March 31, 2008, James Sabry voluntarily resigned from his position as Executive Chairman of the Board of Directors of the Company, and on April 1, 2008, he assumed his new role as the non-employee Chairman of the Board of Directors, Chairman of the Company's Scientific Advisory Board and a consultant to the Company. In accordance with the terms of Dr. Sabry's promissory note payable to the Company, the outstanding balance of the note of \$100,000 became due, and was repaid in full, on April 30, 2008.

*Board Members*

The Company incurred consulting fees earned by Dr. Sabry of \$120,000 for the year ended December 31, 2008. Dr. Sabry did not earn any consulting fees during 2007.

James Spudich 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 \$38,000 and \$50,000 in the years ended December 31, 2008 and 2007, respectively.

Charles Homcy, M.D., is the President and CEO of Portola. Dr. Homcy was a member of the Company's Board of Directors through July 1, 2008 and continues as a consultant to the Company. The Company incurred consulting fees to Dr. Homcy of \$15,000, \$23,000 and \$25,000 in 2008, 2007 and 2006, respectively. Accrued liabilities at December 31, 2008 and 2007 included zero and \$3,000, respectively, payable to Dr. Homcy for consulting fees.

**Note 6 — Equipment Financing Line**

In July 2002, the Company entered into an equipment financing agreement with GE Capital under which the Company could borrow up to \$7.5 million through a financing line of credit, which was subsequently refinanced. In 2002, 2003 and 2004 the Company executed draws on this line of credit totaling approximately \$7.5 million with effective interest rates ranging from 4.25% to 8.77%. This financing line of credit expired on January 1, 2004 and no additional borrowings are available to the Company under it. As of December 31, 2008, the balance of equipment loans outstanding under this line was approximately \$170,000.

In January 2004, the Company entered into an equipment financing agreement with GE Capital under which the Company could borrow up to \$4.5 million under a financing line of credit expiring December 31, 2006. The Company executed draws aggregating \$2.0 million, \$1.3 million and \$0.9 million during 2006, 2005 and 2004, respectively at interest rates ranging from 4.56% to 7.44%. In October 2006, the Company was informed by GE Capital that the amounts available under this equipment line had been reduced by approximately \$0.3 million. As of December 31, 2008, the balance of equipment loans outstanding under this line was \$1.8 million, and no additional borrowings are available to the Company under it.

In April 2006, the Company obtained a line of credit with GE Capital of up to \$4.6 million to finance certain equipment until April 28, 2007. In 2007 and 2006, the Company executed draws on this line of credit totaling approximately \$4.1 million at interest rates ranging from 7.24% to 7.68%. As of December 31, 2008, the balance of equipment loans outstanding under this line was \$2.7 million and no additional borrowings are available to the Company under it.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

In August 2007, the Company secured a new line of credit with GE Capital of up to \$3.0 million to finance certain equipment until September 30, 2008. As of December 31, 2008, this credit line had expired. The Company had not borrowed any funds under this line and no future borrowings are available to the Company under it.

Borrowings under the equipment lines have financing terms ranging from 48 to 60 months. All lines are subject to the master security agreement between the Company and GE Capital and their respective term sheets, and are collateralized by property and equipment of the Company purchased by such borrowed funds and other collateral as agreed to be the Company. In connection with the lines of credit with GE Capital, the Company is obligated to maintain a certificate of deposit with the lender (see Note 1 “Organization and Significant Accounting Policies — *Restricted Cash*”).

As of December 31, 2008, future minimum lease payments under equipment lease lines were as follows (in thousands):

2009	\$2,025
2010	1,630
2011	833
2012	152
Total	<u>\$ 4,640</u>

Interest expense was \$0.5 million, \$0.7 million and \$0.5 million for the years ended December 31, 2008, 2007, and 2006, respectively, and \$4.8 million for the period from August 5, 1997 (date of inception) through December 31, 2008.

**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 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 changes to the accrued restructuring costs during 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. The Company expects to sell the held-for-sale equipment by September 2009.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

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

	<u>Employee Severance and Related Benefit</u>	<u>Impairment of Fixed Assets</u>	<u>Total</u>
Restructuring liability at December 31, 2007	\$ —	\$ —	\$ —
2008 charges	2,190	283	2,473
Cash payments	(1,997)	—	(1,997)
Non-cash settlement	—	(283)	(283)
Restructuring liability at December 31, 2008	<u>\$ 193</u>	<u>\$ —</u>	<u>\$ 193</u>

**Note 8 — Commitments and Contingencies**

*Leases*

The Company leases office space and equipment under two non-cancelable operating leases with expiration dates in 2011 and 2013. Rent expense net of sublease income was \$3.0 million, \$3.2 million and \$3.0 million, for the years ended December 31, 2008, 2007 and 2006, respectively, and was \$21.3 million for the period from August 5, 1997 (inception) through December 31, 2008. The terms of both facility leases provide for rental payments on a graduated scale and the Company's payment of certain operating expenses. The Company recognizes rent expense on a straight-line basis over the lease period. In 2006, the Company entered into a sublease agreement with Portola, which resulted in zero, \$18,000 and \$22,000 of sublease income offsetting rent expense in 2008, 2007 and 2006, respectively, and \$40,000 for the period August 5, 1997 (inception) through December 31, 2008. The sublease agreement with Portola terminated on April 30, 2007.

As of December 31, 2008, future minimum lease payments under noncancelable operating leases were as follows (in thousands):

2009	\$ 2,984
2010	3,092
2011	2,624
2012	2,076
2013	1,330
Thereafter	—
Total	<u>\$12,106</u>

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by or on behalf of the Company, or from intellectual property infringement claims made by third-parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and certain of its officers and employees, and former officers and directors in certain circumstances. The Company maintains product liability insurance and comprehensive general liability insurance, which may cover certain liabilities arising from its indemnification obligations. It is not possible to determine the maximum potential amount of exposure under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

circumstances involved in each particular indemnification obligation. Such indemnification obligations may not be subject to maximum loss clauses.

**Note 9 — Convertible Preferred Stock**

Effective upon the closing of the initial public offering on April 29, 2004, all outstanding shares of the Company's convertible preferred stock converted into 17,062,145 shares of common stock. In January 2004, the Board of Directors approved an amendment to the Company's amended and restated certificate of incorporation changing the authorized number of shares of preferred stock to 10,000,000, effective upon the closing of the initial public offering. As of December 31, 2008 and 2007, there were 10,000,000 shares of convertible preferred stock authorized and no shares outstanding.

**Note 10 — Stockholders' Equity (Deficit)**

***Common Stock***

The Company's Registration Statement (SEC File No. 333-112261) for its initial public offering was declared effective by the SEC on April 29, 2004 and the Company's common stock commenced trading on the NASDAQ National Market, now the NASDAQ Global Market, on that date under the trading symbol "CYTK." The Company sold 7,935,000 shares of common stock in the offering, including shares that were issued upon the full exercise by the underwriters of their over-allotment option, at \$13.00 per share for aggregate gross proceeds of \$103.2 million. In connection with this offering, the Company paid underwriters' commissions of \$7.2 million and incurred offering expenses of \$2.0 million. After deducting the underwriters' commissions and the offering expenses, the Company received net proceeds of approximately \$94.0 million from the offering. In addition, pursuant to an agreement with an affiliate of GSK, the Company sold 538,461 shares of its common stock to GSK immediately prior to the closing of the initial public offering at a purchase price of \$13.00 per share, for a total of approximately \$7.0 million in net proceeds.

In October 2005, the Company entered into a committed equity financing facility ("CEFF") with Kingsbridge Capital Ltd. ("Kingsbridge"), pursuant to which Kingsbridge committed to purchase, subject to certain conditions of the CEFF, up to \$75.0 million of the Company's newly-issued common stock during the next three years. Subject to certain conditions and limitations, from time to time under the CEFF, the Company could require Kingsbridge 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 could issue in any pricing period is the lesser of 2.5% of the Company's market capitalization immediately prior to the commencement of the pricing period or \$15.0 million. The minimum acceptable volume weighted average price for determining the purchase price at which the Company's stock could be sold in any pricing period was the greater of \$3.50 or 85% of the closing price for the Company's common stock on the day prior to the commencement of the pricing period. In 2007, the Company received gross proceeds of \$9.5 million from the drawdown of 2,075,177 shares of common stock pursuant to our CEFF. In 2006, the Company received gross proceeds of \$17.0 million from the drawdown of 2,740,735 shares of common stock pursuant to our CEFF. In 2005, the Company received gross proceeds of \$5.7 million from the draw down and sale of 887,576 shares of common stock before offering costs of \$178,000. No further draw downs are available to the Company under the 2005 CEFF with Kingsbridge.

In January 2006, the Company entered into a stock purchase agreement with certain institutional investors relating to the issuance and sale of 5,000,000 shares of its common stock at a price of \$6.60 per share, for gross offering proceeds of \$33.0 million. In connection with this offering, the Company paid an advisory fee to a registered broker-dealer of \$1.0 million. After deducting the advisory fee and the offering costs, the Company received net proceeds of approximately \$32.0 million from the offering. The offering was made pursuant to the Company's shelf registration statement on Form S-3 (SEC File No. 333-125786) filed on June 14, 2005.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

In December 2006, the Company entered into stock purchase agreements with selected institutional investors relating to the issuance and sale of 5,285,715 shares of our common stock at a price of \$7.00 per share, for gross offering proceeds of \$37.0 million. In connection with this offering, the Company paid placement agent fees to three registered broker-dealers totaling \$1.85 million. After deducting the placement agent fees and the offering costs, the Company received net proceeds of approximately \$34.9 million from the offering. The offering was made pursuant to the Company's shelf registration statements on Form S-3 (SEC File No. 333-125786) filed on June 14, 2005 and October 31, 2006 (SEC File No. 333-138306).

In connection with entering into the collaboration and option agreement, the Company also entered into a CSPA with Amgen, which provided for the sale of 3,484,806 shares of the Company's common stock at a price per share of \$9.47 and an aggregate purchase price of approximately \$33.0 million. On January 2, 2007, the Company issued 3,484,806 shares of common stock to Amgen under the CSPA. After deducting the offering costs, the Company received net proceeds of approximately \$32.9 million in January 2007. The common stock was valued using the closing price of the common stock on December 29, 2006, the last trading day of the common stock prior to issuance. The difference between the price paid by Amgen of \$9.47 per share and the stock price of \$7.48 per share of common stock totaled \$6.9 million. This premium was recorded as deferred revenue in January 2007 and is being recognized as revenue ratably over the maximum term of the non-exclusive license granted to Amgen under the collaboration and option agreement, which is approximately four years.

In October 2007, the Company entered into a new committed equity financing facility with Kingsbridge (the "2007 CEFF"), pursuant to which Kingsbridge committed to finance up to \$75.0 million of capital over a three-year period. Subject to certain conditions and limitations, from time to time under the 2007 CEFF, 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 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 its common stock on the date it entered into the 2007 CEFF. This warrant is exercisable beginning six months after the date of grant and for a period of three years thereafter. Under the terms of the 2007 CEFF, the maximum number of shares the Company may sell is 9,779,411 (exclusive of the shares underlying the warrant) which, under the rules of the NASDAQ Stock Market LLC, is approximately the maximum number of shares it may sell to Kingsbridge without approval of the Company's 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. As of December 31, 2008, the Company had not made any draw downs under the 2007 CEFF.

***Warrants***

In connection with its building lease, the Company issued warrants to purchase 100,000 shares of common stock for \$0.58 per share in July 1999. The fair value of the warrants, calculated using the Black-Scholes pricing model, was capitalized in other assets and amortized over the life of the building lease, which expired in August 2000. The amount charged to rent expense was \$11,000 from August 5, 1997 (date of inception) through August 2000. The warrants were fully exercised in 2004 in a cashless exercise.

The Company has issued warrants to purchase convertible preferred stock, which became exercisable for common stock upon the conversion of the outstanding shares of preferred stock into common stock in conjunction with the Company's initial public offering. In September 1998, in connection with an equipment line of credit

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

financing, the Company issued warrants to the lender. The Company valued the warrants by using the Black-Scholes pricing model in fiscal 1999 when the line was drawn, and the fair value of \$30,000 was recorded as a discount to the debt and amortized to interest expense over the life of the equipment line. In August 2005, these warrants were exercised by the lender in a cashless exercise, yielding 13,199 shares of common stock on a net basis. In connection with a convertible preferred stock financing in August 1999, the Company issued warrants to the preferred stockholders. The warrants were valued at \$467,000 using the Black-Scholes pricing model and the value was recorded as issuance cost as an offset to convertible preferred stock. These warrants expired unexercised on August 30, 2006. In connection with an equipment line of credit, the Company issued warrants to the lender in December 1999. The value of the warrants was calculated using the Black-Scholes pricing model and was deemed insignificant. In August 2005, these warrants were exercised by the lender in a cashless exercise, yielding 1,333 shares of common stock on a net basis.

The Company issued warrants to purchase 244,000 of common stock to Kingsbridge in connection with the CEFF that was entered into in October 2005. The warrants are exercisable at a price of \$9.13 per share beginning six months after the date of grant and for a period of five years thereafter. The warrants were valued at \$920,000 using the Black-Scholes pricing model and the following assumptions: a contractual term of five years, risk-free interest rate of 4.3%, volatility of 67%, and the fair value of our stock price on the date of performance commitment, October 28, 2005, of \$7.02. The warrant value was recorded as an issuance cost in additional paid-in capital on the initial draw down of the CEFF in December 2005. These warrants are vested and fully exercisable as of December 31, 2008.

The Company issued warrants to purchase 230,000 shares of common stock to Kingsbridge in connection with the 2007 CEFF. The warrants are exercisable at a price of \$7.99 per share beginning six months after the date of grant and for a period of three years thereafter. The warrants were valued at \$594,000 using the Black-Scholes pricing model and the following assumptions: a contractual term of three years, risk-free interest rate of 4.275%, volatility of 73%, and the fair value of the Company's stock price on the date of performance commitment, October 15, 2007, of \$6.00. The warrant value will be recorded as an issuance cost in additional paid-in capital on the initial draw down of the 2007 CEFF. These warrants are vested and fully exercisable as of December 31, 2008.

Outstanding warrants were as follows at December 31, 2008:

Number of Shares	Exercise Price	Expiration Date
244,000	\$ 9.13	04/28/11
230,000	\$ 7.99	04/15/11

### ***Stock Option Plans***

#### ***2004 Plan***

In January 2004, the Board of Directors adopted the 2004 Equity Incentive Plan (the "2004 Plan"), which was approved by the stockholders in February 2004. The 2004 Plan provides for the granting of incentive stock options, nonstatutory stock options, restricted stock, stock appreciation rights, stock performance units and stock performance shares to employees, directors and consultants. Under the 2004 Plan, options may be granted at prices not lower than 85% and 100% of the fair market value of the common stock on the date of grant for nonstatutory stock options and incentive stock options, respectively. Options granted to new employees generally vest 25% after one year and monthly thereafter over a period of four years. Options granted to existing employees generally vest monthly over a period of four years. On January 1, 2008, the number of authorized shares automatically increased by a number of shares equal to the lesser of (i) 1,500,000 shares, (ii) 3.5% of the outstanding shares on such date, or (iii) an amount determined by the Board of Directors. Accordingly, on January 1, 2008, the number of shares of common stock authorized for issuance under the 2004 Plan was increased to a total of 2,997,296 shares. At the May

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

2008 Annual Stockholder Meeting, the number of shares of common stock authorized for issuance under the 2004 Plan was increased by 2,000,000. The stockholders also approved an amended and restated 2004 Plan that eliminated the automatic increase provision. As of December 31, 2008, 8,491,935 shares of common stock were authorized for issuance under the 2004 Plan.

*1997 Plan*

In 1997, the Company adopted the 1997 Stock Option/Stock Issuance Plan (the “1997 Plan”). The Plan provides for the granting of stock options to employees and consultants of the Company. Options granted under the 1997 Plan may be either incentive stock options or nonstatutory stock options. Incentive stock options may be granted only to Company employees (including officers and directors who are also employees). Nonstatutory stock options may be granted to Company employees and consultants. Options under the Plan may be granted for terms of up to ten years from the date of grant as determined by the Board of Directors, provided, however, that (i) the exercise price of an incentive stock option and nonstatutory shall not be less than 100% and 85% of the estimated fair market value of the shares on the date of grant, respectively, and (ii) with respect to any 10% shareholder, the exercise price of an incentive stock option or nonstatutory stock option shall not be less than 110% of the estimated fair market value of the shares on the date of grant and the term of the grant shall not exceed five years. Options may be exercisable immediately and are subject to repurchase options held by the Company which lapse over a maximum period of ten years at such times and under such conditions as determined by the Board of Directors. To date, options granted generally vest over four or five years (generally 25% after one year and monthly thereafter). As of December 31, 2008, the Company had reserved 1,073,399 shares of common stock for issuance related to options outstanding under the 1997 Plan, and there were no shares available for future grants under the 1997 Plan.

Activity under the two stock option plans was as follows:

	Shares Available for Grant of Option or Award	Stock Options Outstanding	Weighted Average Exercise Price per Share Stock Options
Options authorized	1,000,000	—	\$ —
Options granted	(833,194)	833,194	0.20
Options exercised	—	(147,625)	0.20
Options forfeited	—	—	—
Balance at December 31, 1998	166,806	685,569	0.12
Increase in authorized shares	461,945	—	—
Options granted	(582,750)	582,750	0.39
Options exercised	—	(287,500)	0.24
Options forfeited	50,625	(50,625)	0.20
Balance at December 31, 1999	96,626	930,194	0.25
Increase in authorized shares	1,704,227	—	—
Options granted	(967,500)	967,500	0.58
Options exercised	—	(731,661)	0.27
Options forfeited	68,845	(68,845)	0.30
Balance at December 31, 2000	902,198	1,097,188	0.52
Options granted	(525,954)	525,954	1.12
Options exercised	—	(102,480)	0.55
Options forfeited	109,158	(109,158)	0.67

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

	Shares Available for Grant of Option or Award	Stock Options Outstanding	Weighted Average Exercise Price per Share Stock Options
Balance at December 31, 2001	485,402	1,411,504	0.73
Increase in authorized shares	1,250,000	—	—
Options granted	(932,612)	932,612	1.20
Options exercised	—	(131,189)	0.64
Options forfeited	152,326	(152,326)	0.78
Balance at December 31, 2002	955,116	2,060,601	0.95
Options granted	(613,764)	613,764	1.39
Options exercised	—	(380,662)	1.02
Options forfeited	49,325	(49,325)	0.89
Balance at December 31, 2003	390,677	2,244,378	1.06
Increase in authorized shares	1,600,000	—	—
Options granted	(863,460)	863,460	7.52
Options exercised	—	(404,618)	1.12
Options forfeited	74,025	(58,441)	3.64
Options retired	(36,128)	—	—
Balance at December 31, 2004	1,165,114	2,644,779	3.10
Increase in authorized shares	995,861	—	—
Options granted	(996,115)	996,115	7.23
Options exercised	—	(196,703)	1.48
Options forfeited	182,567	(161,958)	5.89
Balance at December 31, 2005	1,347,427	3,282,233	4.31
Increase in authorized shares	1,039,881	—	—
Options granted	(1,250,286)	1,250,286	7.04
Options exercised	—	(354,502)	1.47
Options forfeited	146,854	(145,317)	7.16
Balance at December 31, 2006	1,283,876	4,032,700	5.31
Increase in authorized shares	1,500,000	—	—
Options granted	(1,647,570)	1,647,570	6.65
Options exercised	—	(259,054)	1.95
Options forfeited	360,990	(360,922)	6.94
Balance at December 31, 2007	1,497,296	5,060,294	5.80
Increase in authorized shares	3,500,000	—	—
Options granted	(1,731,594)	1,731,594	3.41
Restricted stock awards granted	(397,960)	—	—
Options exercised	—	(95,796)	1.36
Options forfeited	720,876	(720,876)	5.79
Restricted stock awards forfeited	1,500	—	—
Balance at December 31, 2008	3,590,118	5,975,216	5.18



**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The options outstanding and currently exercisable by exercise price at December 31, 2008 were as follows:

Range of Exercise Price	Options Outstanding			Vested and Exercisable	
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Exercise Price
\$0.20 — \$1.00	276,175	\$ 0.59	1.57	276,175	\$ 0.59
\$1.20	603,184	\$ 1.20	3.76	603,184	\$ 1.20
\$2.00 — \$3.33	293,892	\$ 2.95	8.05	82,092	\$ 2.00
\$3.37	1,146,101	\$ 3.37	9.12	240,497	\$ 3.37
\$3.45 — \$6.50	674,255	\$ 5.33	7.28	444,254	\$ 5.82
\$6.55 — \$6.78	342,000	\$ 6.59	6.83	308,924	\$ 6.59
\$6.81	1,029,407	\$ 6.81	8.16	451,913	\$ 6.81
\$6.88 — \$7.15	1,104,269	\$ 7.09	6.97	800,593	\$ 7.09
\$7.29 — \$9.95	498,433	\$ 9.14	6.25	461,101	\$ 9.24
\$10.12	7,500	\$ 10.12	5.67	7,500	\$ 10.12
	<u>5,975,216</u>	\$ 5.18	7.03	<u>3,676,233</u>	\$ 5.32

The weighted-average grant-date fair value of options granted during the year ended December 31, 2008 was \$2.06 per share. The total intrinsic value of options exercised during the year ended December 31, 2008 was \$0.2 million. The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2008 was \$1.7 million and \$1.7 million, respectively. The intrinsic value is calculated as the difference between the market value as of December 31, 2008 and the exercise price of shares. The market value as of December 31, 2008 was \$2.85 as reported by NASDAQ. As of December 31, 2008 the total number of options vested and expected to vest was 5,893,517 with a weighted average exercise price of \$5.19 per share, aggregate intrinsic value of \$1.7 million and weighted average remaining contractual life of 7.01 years.

As of December 31, 2007, there were 2,897,840 options outstanding, exercisable and vested at a weighted average exercise price of \$5.03 per share. As of December 31, 2006, there were 2,240,233 options outstanding, exercisable and vested at a weighted average exercise price of \$4.00 per share. The weighted average grant date fair value of options granted in the years ended December 31, 2008, 2007, and 2006 was \$2.06, \$4.50 and \$4.88, respectively.

Restricted stock award activity was as follows:

	Number of Shares	Weighted Average Award Date Fair Value per Share
Restricted stock awards outstanding at December 31, 2007	—	\$ —
Awards granted	397,960	2.37
Options forfeited	<u>(1,500)</u>	2.37
Restricted stock awards outstanding at December 31, 2008	<u>396,460</u>	2.37
Vested restricted stock awards at December 31, 2008	<u>—</u>	—

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. Unvested restricted stock awards are subject to repurchase at no cost to the Company. All the outstanding restricted stock awards vest annually over an

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

approximately two-year period. As of December 31, 2008, there was \$0.8 million of unrecognized compensation cost related to non-vested restricted stock awards, which is expected to be recognized over a weighted-average period of 1.7 years.

***Stock-based Compensation***

***Deferred Employee Stock-Based Compensation***

In anticipation of its 2004 IPO, the Company determined that, for financial reporting purposes, the estimated value of its common stock was in excess of the exercise prices of its stock options. Accordingly, for stock options issued to employees prior to its IPO, the Company recorded deferred stock-based compensation and is amortizing the related expense on a straight line basis over the service period, which is generally four years. The Company recorded deferred employee stock compensation of \$6.2 million for the period from August 5, 1997 (date of inception) through December 31, 2007. For the years ended December 31, 2008, 2007 and 2006, the Company recorded no deferred stock compensation. For the years ended December 31, 2008, 2007 and 2006, the Company recorded amortization of deferred stock-based compensation of \$0.3 million, \$0.7 million, and \$1.2 million, respectively, in connection with options granted to employees. As of December 31, 2008, the deferred compensation was fully amortized.

***Non-employee Stock-Based Compensation***

The Company accounts for stock option grants to non-employees in accordance with the EITF Consensus No. 96-18, “*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services,*” which requires that these equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to adjustment as the underlying equity instruments vest.

There were no stock option grants to non-employees in the years ended December 31, 2008, 2007 or 2006. When terminating employees continue to provide service to the Company as consultants, the expense associated with the continued vesting of the related stock options is classified as non-employee stock compensation expense after the status change.

In connection with services rendered by non-employees, the Company recorded stock-based compensation expense of \$27,000, \$14,000 and \$27,000 in 2008, 2007, and 2006, respectively, and \$1.4 million for the period from August 5, 1997 (date of inception) through December 31, 2008.

***Employee Stock Purchase Plan (“ESPP”)***

In January 2004, the Board of Directors adopted the ESPP, which was approved by the stockholders in February 2004. Under the ESPP, statutory employees may purchase common stock of the Company up to a specified maximum amount through payroll deductions. The stock is purchased semi-annually at a price equal to 85% of the fair market value at certain plan-defined dates. The Company issued 164,451, 179,835 and 193,248 shares of common stock during 2008, 2007 and 2006, respectively, pursuant to the ESPP at an average price of \$2.85 per share, \$4.49 per share and \$4.43 per share, in 2008, 2007, and 2006, respectively. At December 31, 2008 the Company had 713,547 shares of common stock reserved for issuance under the ESPP.

**Note 11 — Income Taxes**

The Company did not record an income tax provision in the years ended December 31, 2008, 2007 and 2006 because the Company had a net taxable loss in each of those periods.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	As of December 31,	
	2008	2007
Deferred tax assets:		
Depreciation and amortization	\$ 11,855	\$ 10,213
Reserves and accruals	11,343	973
Net operating losses	104,891	95,706
Tax credits	16,511	13,761
Total deferred tax assets	144,600	120,653
Less: Valuation allowance	(144,600)	(120,653)
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

Following is a reconciliation of the statutory federal income tax rate to the Company's effective tax rate:

	For The Years Ended December 31,		
	2008	2007	2006
Tax at federal statutory tax rate	(34)%	(34)%	(34)%
State income tax, net of federal tax benefit	(6)%	(6)%	(6)%
Research and development credits	(5)%	(5)%	(5)%
Adjustment to prior year research and development credits due to results of research and development credit study	—	2%	—
Adjustment due to Section 383 limitation	—	2%	—
Deferred tax assets not benefited	43%	38%	43%
Stock based compensation	2%	3%	2%
Total	<u>\$ 0%</u>	<u>\$ 0%</u>	<u>\$ 0%</u>

Management believes that, based upon a number of factors, it is more likely than not that the deferred tax assets will not be realized; therefore a full valuation allowance has been recorded. The valuation allowance increased by \$23.9 million in 2008, \$18.3 million in 2007 and \$26.1 million in 2006.

The Company had federal net operating loss carryforwards of approximately \$292.1 million and state net operating loss carryforwards of approximately \$95.4 million at December 31, 2008. If not utilized, the federal and state operating loss carryforwards will begin to expire in various amounts beginning 2018 and 2010, respectively. Due to California state's temporary suspension of net operating losses in 2008 and 2009, the state carryover period will be extended by two additional years for an net operating losses sustained in pre-2008 tax years. The net operating loss carryforwards include deductions for stock options. When utilized, the portion related to stock options deductions will be accounted for as a credit to stockholders' equity rather than as a reduction of the income tax provision.

The Company had research credit carryforwards of approximately \$9.2 million and \$10.6 million for federal and state income tax purposes, respectively, at December 31, 2008. If not utilized, the federal carryforwards will expire in various amounts beginning in 2018. The California state credit can be carried forward indefinitely.

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations where equity transactions resulted in a change of ownership as defined by Internal Revenue Code Section 382. During the year ended December 31, 2007, the Company conducted a study and determined that the Company's use of its federal research credit is subject to such a restriction. Accordingly, the Company reduced its deferred tax assets and the corresponding valuation allowance by \$0.8 million. As a result, the research credit amount as of December 31, 2007 reflects the restriction on the Company's ability to use the credit.

In July 2006, the FASB issued FIN 48 which prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. FIN 48 is effective for fiscal years beginning after December 15, 2006.

This statement became effective for the Company on January 1, 2007. The cumulative effect of adopting FIN 48 on January 1, 2007 resulted in no FIN 48 liability on the balance sheet. The total amount of unrecognized tax benefits as of the date of adoption was \$3.1 million. The Company is currently not subject to income tax examinations. In general, the statute of limitations for tax liabilities for these years remains open for purpose of adjusting the amounts of the losses and credits carried forward from those years.

Interest and penalties were zero for 2008, and the Company's policy to account for interest and penalties is to classify both as income tax expense in the financial statements. Because the Company has recorded a full valuation allowance on all its deferred tax assets, FIN 48 has had no impact on the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change materially over the next 12 months.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits ("UTBs") for the year ended December 31, 2008 (in thousands):

	<b>Federal and State Tax</b>	<b>Federal Tax Benefit of State Income Tax UTBs</b>	<b>Unrecognized Income Tax Benefits- Net of Federal Benefit of State UTBs</b>
Unrecognized tax benefits balance at January 1, 2007	\$ 3,129	\$ 566	\$ 2,563
Reduction for tax positions of prior years	(232)	96	(328)
Addition for tax positions related to the current year	644	130	514
Unrecognized tax benefits balance at December 31, 2007	<u>\$ 3,541</u>	<u>\$ 792</u>	<u>\$ 2,749</u>
Reduction for tax positions of prior years	—	—	—
Addition for tax positions related to the current year	694	137	557
Unrecognized tax benefits balance at December 31, 2008	<u>\$ 4,235</u>	<u>\$ 929</u>	<u>\$ 3,306</u>

**CYTOKINETICS, INCORPORATED**  
(A Development Stage Enterprise)

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**Note 12 — Interest and Other, Net**

Components of interest and other, net are as follows:

	Years Ended December 31,			Period from August 5, 1997 (Date of Inception) to December 31,
	2008	2007	2006	2008
	(In thousands, except per share data)			
Unrealized gain on put option (Note 3)	\$ 3,389	\$ —	\$ —	\$ 3,389
Unrealized loss on trading securities (Note 3)	(3,389)	—	—	(3,389)
Interest income and other income	3,196	8,292	4,746	27,939
Interest expense and other expense	(491)	(699)	(523)	(5,360)
Interest and other, net	<u>\$ 2,705</u>	<u>\$7,593</u>	<u>\$4,223</u>	<u>\$ 22,579</u>

Investments that the Company designates as trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized in earnings and are included in interest and other, net. The Company classified its investments in ARS as trading securities as of December 31, 2008.

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. As of December 31, 2008, the Company recorded \$3.4 million as fair value of the put option assets, classified as long-term asset on the Balance Sheet as December 31, 2008, with a corresponding credit to interest and other, net.

Interest income and other income consists primarily of interest income generated from our cash, cash equivalents and investments. Interest expense and other expense primarily consists of interest expense on borrowings under the Company's equipment financing lines.

**Note 13 — Quarterly Financial Data (Unaudited)**

Quarterly results were as follows (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2008</b>				
Total revenues	\$ 3,069	\$ 3,074	\$ 3,125	\$ 3,151
Net loss	(13,895)	(15,364)	(16,259)	(10,856)
Net loss per share — basic and diluted	\$ (0.28)	\$ (0.31)	\$ (0.33)	\$ (0.22)
<b>2007</b>				
Total revenues	\$ 3,205	\$ 3,177	\$ 4,130	\$ 3,109
Net loss	(11,692)	(12,628)	(11,321)	(13,253)
Net loss per share — basic and diluted	\$ (0.25)	\$ (0.27)	\$ (0.24)	\$ (0.27)

**Note 14 — Subsequent Events**

In January 2009, GE Capital approved a reduction in the amount of our certificate of deposit of \$0.5 million (See Note 8 "Equipment Financing Line" and Note 1 "Organization and Significant Accounting Policies — Restricted Cash.")

*UBS "no net cost" loan.* In October 2008, The Company accepted an offer of settlement with UBS AG relating to certain ARS marketed and sold by UBS AG and its affiliates. Pursuant to the settlement, UBS AG has

**CYTOKINETICS, INCORPORATED**  
**(A Development Stage Enterprise)**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

issued to the Company the ARS Rights, which 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.

In connection with the settlement, 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 the Company's ARS held in accounts with UBS and its affiliates as collateral. The loan amount was based on 75% of the fair value as assessed by UBS at the time of the loan. The Company has drawn down the full amount available under the loan agreement. 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. The borrowings under the loan agreement are payable upon demand. However, UBS Financial Services Inc. or its affiliates will provide to the Company alternative financing 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.

*Kingsbridge draw down.* As of March 11, 2009, we have received gross proceeds of \$6.7 million from draw downs and sold 3,439,032 shares of our common stock to Kingsbridge under the 2007 CEFF. Kingsbridge is not obligated to purchase any further shares under this committed equity financing facility unless certain conditions are met, which include a minimum volume weighted average price of \$2.00 for our common stock.

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

None.

**Item 9A. Controls and Procedures**

*Evaluation of disclosure controls and procedures.* Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

*Management's Report on Internal Control over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Our management has concluded that, as of December 31, 2008, our internal control over financial reporting is effective based on these criteria.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2008, as stated in their report, which is included herein.

*Changes in internal control over financial reporting.* There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

In September 2008, David J. Morgans, Jr., Ph.D., our Executive Vice President, Preclinical Research and Development, established a stock trading plan that provides for the exercise of options to purchase up to 185,361 shares of our common stock and the sale of up to 269,861 shares of our common stock on pre-determined dates from November 1, 2008 through May 31, 2010.

In February 2009, Robert I. Blum, our President and Chief Executive Officer, established a stock trading plan that provides for the exercise of options to purchase up to 75,000 shares of our common stock and the sale of up to 75,000 shares of our common stock on pre-determined dates from March 16, 2009 through February 18, 2010.

On February 19, 2009, the Board of Directors of the Company appointed Dr. John T. Henderson as a new Class III director of the Company. Dr. Henderson is expected to be appointed to serve on the Company's Nominating and Governance Committee and Compensation and Talent Committee. Also on February 19, 2009, Stephen Dow was appointed as the Lead Outside Director of the Board of Directors.

On February 25, 2009, we announced that we believe we completed the delivery to Amgen of the Phase I and Phase IIa clinical trials data for CK-1827452 required to define the date by which Amgen's option to acquire an exclusive license to CK-1827452 will expire if not exercised.

In March 2009, we entered into an Amendment No. 1 to our Amended and Restated Executive Employment Agreement with each of Robert I. Blum, David J. Morgans, Jr., Sharon Barbari, Michael Rabson, Andrew A. Wolff and David W. Cragg, each in substantially the form filed as Exhibit 10.68 to this report. These amendments were entered into in order to comply with Section 409A of the Internal Revenue Code and its regulations.

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance***

The information regarding our directors and executive officers, our director nominating process and our audit committee is incorporated by reference from our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders, where it appears under the headings “Board of Directors” and “Executive Officers.”

**Section 16(a) Beneficial Ownership Reporting Compliance**

The information regarding our Section 16 beneficial ownership reporting compliance is incorporated by reference from our definitive Proxy Statement described above, where it appears under the headings “Section 16(a) Beneficial Ownership Reporting Compliance.”

**Code of Ethics**

We have adopted a Code of Ethics that applies to all directors, officers and employees of the Company. We publicize the Code of Ethics through posting the policy on our website, <http://www.cytokinetics.com>. We will disclose on our website any waivers of, or amendments to, our Code of Ethics.

**Item 11. *Executive Compensation***

The information required by this Item is incorporated by reference from our definitive Proxy Statement referred to in Item 10 above, where it appears under the headings “Executive Compensation” and “Compensation Committee Interlocks and Insider Participation.”

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

The information required by this Item regarding security ownership of certain beneficial owners and management is incorporated by reference from our definitive Proxy Statement referred to in Item 10 above, where it appears under the heading “Security Ownership of Certain Beneficial Owners and Management.”

The following table summarizes the securities authorized for issuance under our equity compensation plans as of December 31, 2008:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by stockholders	5,975,216	\$ 5.18	3,590,118
Equity compensation plans not approved by stockholders	—	—	—
Total	5,975,216	\$ 5.18	3,590,118

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item is incorporated by reference from our definitive Proxy Statement referred to in Item 10 above where it appears under the headings “Certain Business Relationships and Related Party Transactions” and “Board of Directors.”

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

The information required by this Item is incorporated by reference from our definitive Proxy Statement referred to in Item 10 above, where it appears under the heading “Principal Accountant Fees and Services.”



**PART IV**

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

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements (included in Part II of this report):

- Report of Independent Registered Public Accounting Firm
- Balance Sheets
- Statements of Operations
- Statements of Stockholders' Equity (Deficit)
- Statements of Cash Flows
- Notes to Financial Statements

(2) Financial Statement Schedules:

**Schedule II — Valuation and Qualifying Accounts  
(in thousands)**

	<u>Balance at Beginning of Period</u>	<u>Charged to Expenses</u>	<u>Charged to other accounts</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
<b>Year Ended December 31, 2006</b>					
Deferred tax valuation allowance	\$ 76,209	26,105	—	—	\$ 102,314
<b>Year Ended December 31, 2007</b>					
Deferred tax valuation allowance	\$ 102,314	18,339	—	—	\$ 120,653
<b>Year Ended December 31, 2008</b>					
Deferred tax valuation allowance	\$ 120,653	23,947	—	—	\$ 144,600

(3) Exhibits:

**Exhibit**

**Number**

- 3.1 Amended and Restated Certificate of Incorporation.(1)
- 3.2 Amended and Restated Bylaws.(1)
- 4.1 Specimen Common Stock Certificate.(2)
- 4.2 Fourth Amended and Restated Investors Rights Agreement, dated March 21, 2003, by and among the Company and certain stockholders of the Registrant.(1)
- 4.3 Master Security Agreement, dated February 2, 2001, by and between the Company and General Electric Capital Corporation.(1)
- 4.4 Cross-Collateral and Cross-Default Agreement by and between the Company and General Electric Capital Corporation.(1)
- 4.5 Warrant for the purchase of shares of common stock, dated October 28, 2005, issued by the Company to Kingsbridge Capital Limited.(3)
- 4.6 Registration Rights Agreement, dated October 28, 2005, by and between the Company and Kingsbridge Capital Limited.(3)
- 4.7 Registration Rights Agreement, dated as of December 29, 2006, by and between the Company and Amgen Inc.(4)

[Table of Contents](#)

Exhibit Number	
4.8	Warrant for the purchase of shares of common stock, dated October 15, 2007, issued by the Company to Kingsbridge Capital Limited.(5)
4.9	Registration Rights Agreement, dated October 15, 2007, by and between the Company and Kingsbridge Capital Limited.(5)
10.1	1997 Stock Option/Stock Issuance Plan.(1)
10.2	2004 Equity Incentive Plan (as amended and restated of May 22, 2008).(6)
10.3	2004 Employee Stock Purchase Plan.(1)
10.4	Build-to-Suit Lease, dated May 27, 1997, by and between Britannia Pointe Grand Limited Partnership and Metaxen, LLC.(1)
10.5	First Amendment to Lease, dated April 13, 1998, by and between Britannia Pointe Grand Limited Partnership and Metaxen, LLC.(1)
10.6	Sublease Agreement, dated May 1, 1998, by and between the Company and Metaxen, LLC.(1)
10.7	Sublease Agreement, dated March 1, 1999, by and between Metaxen, LLC and Exelixis Pharmaceuticals, Inc.(1)
10.8	Assignment and Assumption Agreement and Consent, dated July 11, 1999, by and among Exelixis Pharmaceuticals, Metaxen, LLC, Xenova Group PLC and Britannia Pointe Grande Limited Partnership.(1)
10.9	Second Amendment to Lease, dated July 11, 1999, by and between Britannia Pointe Grand Limited Partnership and Exelixis Pharmaceuticals, Inc.(1)
10.10	First Amendment to Sublease Agreement, dated July 20, 1999, by and between the Company and Metaxen, LLC.(1)
10.11	Agreement and Consent, dated July 20, 1999, by and among Exelixis Pharmaceuticals, Inc., the Company and Britannia Pointe Grand Limited Partnership.(1)
10.12	Amendment to Agreement and Consent, dated July 31, 2000, by and between the Company, Exelixis, Inc., and Britannia Pointe Grande Limited Partnership.(1)
10.13	Assignment and Assumption of Lease, dated September 28, 2000, by and between the Company and Exelixis, Inc.(1)
10.14	Sublease Agreement, dated September 28, 2000, by and between the Company and Exelixis, Inc.(1)
10.15	Sublease Agreement, dated December 29, 1999, by and between the Company and COR Therapeutics, Inc.(1)
*10.16	Exclusive License Agreement between The Board of Trustees of the Leland Stanford Junior University, The Regents of the University of California, and the Company dated April 21, 1998.(1)
10.17	Modification Agreement between The Regents of the University of California, The Board of Trustees of the Leland Stanford Junior University and the Company, dated September 1, 2000.(1)
10.18	Series D Preferred Stock Purchase Agreement, dated June 20, 2001, by and between the Company and Glaxo Wellcome International B.V.(1)
10.19	Amendment No. 1 to Series D Preferred Stock Purchase Agreement, dated April 2, 2003, by and among the Company, Glaxo Wellcome International B.V. and Glaxo Group Limited.(1)
*10.20	Collaboration and License Agreement, dated June 20, 2001, by and between the Company and Glaxo Group Limited.(1)
*10.21	Memorandum, dated June 20, 2001, by and between the Company and Glaxo Group Limited.(1)
*10.22	Letter Amendment, dated October 28, 2002, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.23	Letter Amendment, dated November 5, 2002, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.24	Letter Amendment, dated December 13, 2002, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)

## Table of Contents

<b>Exhibit Number</b>	
*10.25	Letter Amendment, dated July 11, 2003, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.26	Letter Amendment, dated July 28, 2003, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.27	Letter Amendment, dated July 28, 2003, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.28	Letter Amendment, dated July 28, 2003, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
10.29	Common Stock Purchase Agreement, dated March 10, 2004, by and between the Company and Glaxo Group Limited.(1)
10.30	David J. Morgans and Sandra Morgans Promissory Note, dated October 18, 2000.(1)
10.31	James H. Sabry and Sandra J. Spence Promissory Note, dated November 12, 2001.(1)
10.32	David J. Morgans and Sandra Morgans Promissory Note, dated May 20, 2002.(1)
10.33	Robert I. Blum Cash Bonus Agreement, dated September 1, 2002.(1)
10.34	David J. Morgans Cash Bonus Agreement, dated September 1, 2002.(1)
10.35	Robert I. Blum Amended and Restated Cash Bonus Agreement, dated December 1, 2003.(1)
10.36	David J. Morgans Amended and Restated Cash Bonus Agreement, dated December 1, 2003.(1)
*10.37	Collaboration and Facilities Agreement, dated August 19, 2004, by and between the Company and Portola Pharmaceuticals, Inc.(7)
*10.38	First Amendment, dated March 24, 2005, to the Collaboration and Facilities Agreement by and between the Company and Portola Pharmaceuticals, Inc.(8)
*10.39	Amendment, dated September 21, 2005, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(9)
10.40	Common Stock Purchase Agreement, dated October 28, 2005, by and between the Company and Kingsbridge Capital Limited.(3)
10.41	Sublease, dated November 29, 2005, by and between the Company and Millennium Pharmaceuticals, Inc.(10)
10.42	Stock Purchase Agreement dated January 18, 2006, by and among the Company, Federated Kaufmann Fund and Red Abbey Venture Partners, LLC.(11)
10.43	Letter Agreement dated January 17, 2006, by and between the Company and Pacific Growth Equities LLC.(11)
10.44	Loan Proposal, executed January 18, 2006, by and between the Company and General Electric Capital Corporation.(3)
10.45	Loan Proposal, executed March 16, 2006, by and between the Company and General Electric Capital Corporation.(12)
*10.46	Second Amendment, dated March 17, 2006, to the Collaboration and Facilities Agreement by and between the Company and Portola Pharmaceuticals, Inc.(12)
*10.47	Letter Amendment, dated June 16, 2006, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(13)
10.48	Sub-Sublease Agreement, dated August 4, 2006, by and between the Company and Portola Pharmaceuticals, Inc.(14)
*10.49	Amendment, dated November 27, 2006, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(15)
10.50	Common Stock Purchase Agreement, dated as of December 29, 2006, by and between the Company and Amgen Inc.(4)
*10.51	Collaboration and Option Agreement, dated as of December 29, 2006, by and between the Company and Amgen Inc.(16)

## Table of Contents

<b>Exhibit Number</b>	
*10.52	Letter Amendment, dated June 18, 2007, to Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(17)
10.53	Loan Proposal, executed August 28, 2007, by and between the Company and General Electric Capital Corporation.(18)
10.54	Common Stock Purchase Agreement, dated October 15, 2007, by and between the Company and Kingsbridge Capital Limited.(5)
*10.55	Letter Amendment, dated March 11, 2008, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.
*10.56	Letter Amendment, dated June 18, 2008, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(19)
10.57	Form of Indemnification Agreement between the Company and each of its directors and executive officers.(6)
*10.58	Scientific Advisory Board Consulting Agreement, dated April 1, 2008, by and between the Company and James. H. Sabry.(20)
10.59	Executive Employment Agreement, dated March 31, 2008, by and between the Company and Michael Rabson.(20)
10.60	Amended and Restated Executive Employment Agreement, dated May 21, 2007, by and between the Company and Robert Blum.(6)
10.61	Form of Executive Employment Agreement between the Company and its executive officers.(6)
*10.62	Amendment No. 1, dated June 17, 2008, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
*10.63	Amendment No. 2, dated September 30, 2008, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
10.64	Acceptance of UBS AG Settlement Offer Relating to Auction Rate Securities dated October 27, 2008.
*10.65	Amendment No. 3, dated October 31, 2008, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
10.66	Credit Line Agreement, effective December 30, 2008, by and among the Company, UBS Bank USA and UBS Financial Services Inc.
*10.67	Amendment No. 4, dated February 20, 2009, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
10.68	Form of Amendment No. 1 to Amended and Restated Executive Employment Agreements.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (see page 116).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Principal Executive Officer and the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

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

[Table of Contents](#)

- (6) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 5, 2008
- (7) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 12, 2004, as amended February 16, 2005.
- (8) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 12, 2005.
- (9) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 10, 2005.
- (10) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 5, 2005, as amended on December 13, 2005.
- (11) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 18, 2006.
- (12) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 22, 2006.
- (13) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 19, 2006.
- (14) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 8, 2006.
- (15) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 27, 2006.
- (16) Incorporated by reference from our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 12, 2007.
- (17) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 19, 2007.
- (18) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 29, 2007.
- (19) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 20, 2008, as amended June 20, 2008.
- (20) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 2, 2008.

\* Pursuant to a request for confidential treatment, portions of this Exhibit have been redacted from the publicly filed document and have been furnished separately to the Securities and Exchange Commission as required by Rule 406 under the Securities Act of 1933 or Rule 24b-2 under the Securities Exchange Act of 1934, as applicable.

(b) Exhibits

The exhibits listed under Item 15(a)(3) hereof are filed as part of this Form 10-K, other than Exhibit 32.1 which shall be deemed furnished.

(c) Financial Statement Schedules

Schedule II — Valuation and Qualifying Accounts

All other financial statement schedules are omitted because the information is inapplicable or presented in the notes to the financial statements.



## Table of Contents

<b>Exhibit Number</b>	
3.1	Amended and Restated Certificate of Incorporation.(1)
3.2	Amended and Restated Bylaws.(1)
4.1	Specimen Common Stock Certificate.(2)
4.2	Fourth Amended and Restated Investors Rights Agreement, dated March 21, 2003, by and among the Company and certain stockholders of the Registrant.(1)
4.3	Master Security Agreement, dated February 2, 2001, by and between the Company and General Electric Capital Corporation.(1)
4.4	Cross-Collateral and Cross-Default Agreement by and between the Company and General Electric Capital Corporation.(1)
4.5	Warrant for the purchase of shares of common stock, dated October 28, 2005, issued by the Company to Kingsbridge Capital Limited.(3)
4.6	Registration Rights Agreement, dated October 28, 2005, by and between the Company and Kingsbridge Capital Limited.(3)
4.7	Registration Rights Agreement, dated as of December 29, 2006, by and between the Company and Amgen Inc.(4)
4.8	Warrant for the purchase of shares of common stock, dated October 15, 2007, issued by the Company to Kingsbridge Capital Limited.(5)
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10.1	1997 Stock Option/Stock Issuance Plan.(1)
10.2	2004 Equity Incentive Plan (as amended and restated of May 22, 2008).(6)
10.3	2004 Employee Stock Purchase Plan.(1)
10.4	Build-to-Suit Lease, dated May 27, 1997, by and between Britannia Pointe Grand Limited Partnership and Metaxen, LLC.(1)
10.5	First Amendment to Lease, dated April 13, 1998, by and between Britannia Pointe Grand Limited Partnership and Metaxen, LLC.(1)
10.6	Sublease Agreement, dated May 1, 1998, by and between the Company and Metaxen, LLC.(1)
10.7	Sublease Agreement, dated March 1, 1999, by and between Metaxen, LLC and Exelixis Pharmaceuticals, Inc.(1)
10.8	Assignment and Assumption Agreement and Consent, dated July 11, 1999, by and among Exelixis Pharmaceuticals, Metaxen, LLC, Xenova Group PLC and Britannia Pointe Grande Limited Partnership.(1)
10.9	Second Amendment to Lease, dated July 11, 1999, by and between Britannia Pointe Grand Limited Partnership and Exelixis Pharmaceuticals, Inc.(1)
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10.15	Sublease Agreement, dated December 29, 1999, by and between the Company and COR Therapeutics, Inc.(1)
*10.16	Exclusive License Agreement between The Board of Trustees of the Leland Stanford Junior University, The Regents of the University of California, and the Company dated April 21, 1998.(1)
10.17	Modification Agreement between The Regents of the University of California, The Board of Trustees of the Leland Stanford Junior University and the Company, dated September 1, 2000.(1)

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## Table of Contents

<b>Exhibit Number</b>	
10.18	Series D Preferred Stock Purchase Agreement, dated June 20, 2001, by and between the Company and Glaxo Wellcome International B.V.(1)
10.19	Amendment No. 1 to Series D Preferred Stock Purchase Agreement, dated April 2, 2003, by and among the Company, Glaxo Wellcome International B.V. and Glaxo Group Limited.(1)
*10.20	Collaboration and License Agreement, dated June 20, 2001, by and between the Company and Glaxo Group Limited.(1)
*10.21	Memorandum, dated June 20, 2001, by and between the Company and Glaxo Group Limited.(1)
*10.22	Letter Amendment, dated October 28, 2002, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.23	Letter Amendment, dated November 5, 2002, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.24	Letter Amendment, dated December 13, 2002, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.25	Letter Amendment, dated July 11, 2003, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
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*10.27	Letter Amendment, dated July 28, 2003, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
*10.28	Letter Amendment, dated July 28, 2003, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(1)
10.29	Common Stock Purchase Agreement, dated March 10, 2004, by and between the Company and Glaxo Group Limited.(1)
10.30	David J. Morgans and Sandra Morgans Promissory Note, dated October 18, 2000.(1)
10.31	James H. Sabry and Sandra J. Spence Promissory Note, dated November 12, 2001.(1)
10.32	David J. Morgans and Sandra Morgans Promissory Note, dated May 20, 2002.(1)
10.33	Robert I. Blum Cash Bonus Agreement, dated September 1, 2002.(1)
10.34	David J. Morgans Cash Bonus Agreement, dated September 1, 2002.(1)
10.35	Robert I. Blum Amended and Restated Cash Bonus Agreement, dated December 1, 2003.(1)
10.36	David J. Morgans Amended and Restated Cash Bonus Agreement, dated December 1, 2003.(1)
*10.37	Collaboration and Facilities Agreement, dated August 19, 2004, by and between the Company and Portola Pharmaceuticals, Inc.(7)
*10.38	First Amendment, dated March 24, 2005, to the Collaboration and Facilities Agreement by and between the Company and Portola Pharmaceuticals, Inc.(8)
*10.39	Amendment, dated September 21, 2005, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(9)
10.40	Common Stock Purchase Agreement, dated October 28, 2005, by and between the Company and Kingsbridge Capital Limited.(3)
10.41	Sublease, dated November 29, 2005, by and between the Company and Millennium Pharmaceuticals, Inc.(10)
10.42	Stock Purchase Agreement dated January 18, 2006, by and among the Company, Federated Kaufmann Fund and Red Abbey Venture Partners, LLC.(11)
10.43	Letter Agreement dated January 17, 2006, by and between the Company and Pacific Growth Equities LLC.(11)
10.44	Loan Proposal, executed January 18, 2006, by and between the Company and General Electric Capital Corporation.(3)
10.45	Loan Proposal, executed March 16, 2006, by and between the Company and General Electric Capital Corporation.(12)
*10.46	Second Amendment, dated March 17, 2006, to the Collaboration and Facilities Agreement by and between the Company and Portola Pharmaceuticals, Inc.(12)

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## Table of Contents

<b>Exhibit Number</b>	
*10.47	Letter Amendment, dated June 16, 2006, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(13)
10.48	Sub-Sublease Agreement, dated August 4, 2006, by and between the Company and Portola Pharmaceuticals, Inc.(14)
*10.49	Amendment, dated November 27, 2006, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(15)
10.50	Common Stock Purchase Agreement, dated as of December 29, 2006, by and between the Company and Amgen Inc.(4)
*10.51	Collaboration and Option Agreement, dated as of December 29, 2006, by and between the Company and Amgen Inc.(16)
*10.52	Letter Amendment, dated June 18, 2007, to Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(17)
10.53	Loan Proposal, executed August 28, 2007, by and between the Company and General Electric Capital Corporation.(18)
10.54	Common Stock Purchase Agreement, dated October 15, 2007, by and between the Company and Kingsbridge Capital Limited.(5)
*10.55	Letter Amendment, dated March 11, 2008, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.
*10.56	Letter Amendment, dated June 18, 2008, to the Collaboration and License Agreement by and between the Company and Glaxo Group Limited.(19)
10.57	Form of Indemnification Agreement between the Company and each of its directors and executive officers.(6)
*10.58	Scientific Advisory Board Consulting Agreement, dated April 1, 2008, by and between the Company and James. H. Sabry.(20)
10.59	Executive Employment Agreement, dated March 31, 2008, by and between the Company and Michael Rabson.(20)
10.60	Amended and Restated Executive Employment Agreement, dated May 21, 2007, by and between the Company and Robert Blum.(6)
10.61	Form of Executive Employment Agreement between the Company and its executive officers.(6)
*10.62	Amendment No. 1, dated June 17, 2008, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
*10.63	Amendment No. 2, dated September 30, 2008, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
10.64	Acceptance of UBS AG Settlement Offer Relating to Auction Rate Securities dated October 27, 2008.
*10.65	Amendment No. 3, dated October 31, 2008, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
10.66	Credit Line Agreement, effective December 30, 2008, by and among the Company, UBS Bank USA and UBS Financial Services Inc.
*10.67	Amendment No. 4, dated February 20, 2009, to the Collaboration and Option Agreement by and between the Company and Amgen Inc.
10.68	Form of Amendment No. 1 to Amended and Restated Executive Employment Agreements.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (see page 116).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Principal Executive Officer and the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

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(1) Incorporated by reference from our registration statement on Form S-1, registration number 333-112261, declared effective by the Securities and Exchange Commission on April 29, 2004.

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## [Table of Contents](#)

- (2) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 9, 2007.
- (3) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 20, 2006.
- (4) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 3, 2007.
- (5) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 15, 2007.
- (6) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 5, 2008
- (7) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 12, 2004, as amended February 16, 2005.
- (8) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 12, 2005.
- (9) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 10, 2005.
- (10) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 5, 2005, as amended on December 13, 2005.
- (11) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 18, 2006.
- (12) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 22, 2006.
- (13) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 19, 2006.
- (14) Incorporated by reference from our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 8, 2006.
- (15) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 27, 2006.
- (16) Incorporated by reference from our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 12, 2007.
- (17) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 19, 2007.
- (18) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 29, 2007.
- (19) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 20, 2008, as amended June 20, 2008.
- (20) Incorporated by reference from our Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 2, 2008.

\* Pursuant to a request for confidential treatment, portions of this Exhibit have been redacted from the publicly filed document and have been furnished separately to the Securities and Exchange Commission as required by Rule 406 under the Securities Act of 1933 or Rule 24b-2 under the Securities Exchange Act of 1934, as applicable.

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

CONFIDENTIAL

280 East Grand Avenue  
South San Francisco, CA 94080  
Tel (650) 624-3000 Fax (650) 624-3010

March 11, 2008

Vinod Ramachandran, Ph.D.  
Alliance Management  
Worldwide Business Development  
2301 Renaissance Blvd.  
Mailstop: RN0420  
King of Prussia, PA 19406

**Re: Amendment to Collaboration and License Agreement; [\*\*\*]**

Dear Dr. Ramachandran:

As you know, Glaxo Group Limited ("GSK") and Cytokinetics, Inc. ("CK") are parties to that certain Collaboration and License Agreement dated June 20, 2001, as amended (the "Collaboration Agreement").

The Parties agree that the last sentence of Section 8.2.1 of the Collaboration Agreement is hereby amended in its entirety to read as follows:

"Subject always to the foregoing, [\*\*\*] will be responsible at the expense of [\*\*\*] for drafting, filing, prosecuting and maintaining any jointly owned Patent directed primarily to Compounds [\*\*\*], including, but not limited to, processes for making Compounds [\*\*\*], methods of use of Compounds [\*\*\*] or intermediates of such; provided that [\*\*\*] may elect to request that [\*\*\*] be responsible for drafting, filing, prosecuting and maintaining any such Patent, subject to [\*\*\*] in connection therewith."

Except as specifically modified hereby, the Collaboration Agreement shall remain in full force and effect. Capitalized terms used herein and not otherwise defined have the meaning ascribed in the Collaboration Agreement.

Please have this letter countersigned by an authorized representative of GSK if you agree to the foregoing terms.

Sincerely,

Agreed and accepted:

/s/ Robert I. Blum

GLAXO GROUP LIMITED

Robert I. Blum  
President and Chief Executive Officer  
Cytokinetics, Inc.

By: /s/ Paul Williamson  
Name: Paul Williamson  
Title: for and on behalf of Edinburgh Pharmaceutical Industries,  
Limited, Corporate Director  
Date: 20 March 2008

cc: Lisa A. DeMarco, Esq., Vice President  
and Associate General Counsel,  
R&D Legal Operations, GlaxoSmithKline  
Laura Madden, Esq., Patent Counsel, GlaxoSmithKline

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\*\*\* Certain information on the page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.



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**Exhibit A**  
**Schedule 10.2.1**  
**Development Activities**  
**[attached]**

Amgen Contract No. 200625165-001

2

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**Confidential**

**SCHEDULE 10.2.1**  
**(amended June 17, 2008)**

**Development Activities**

**[\*\*\*]**

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**\*\*\* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.**

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September 30, 2008

Mr. Robert I. Blum, President and CEO  
Cytokinetics, Incorporated  
280 East Grand Avenue  
South San Francisco, California 94080

**Re: Amendment Number Two to Collaboration and Option Agreement Amgen Reference Number: 200625165**

Dear Robert:

I am writing to memorialize Amgen Inc.'s ("Amgen") and Cytokinetics, Incorporated's ("CK") agreement with respect to certain research and/or development activities to be conducted by or on behalf of Amgen (the "R&D") as part of the parties' collaboration under that certain Collaboration and Option Agreement, Amgen contract number 200625165 effective December 29, 2006, which was subsequently amended effective June 27, 2008 by Amgen contract number 200625165-001, (collectively the "Option Agreement"). If you are in agreement, please sign and return this letter agreement to Richard Person at One Amgen Center Drive, Thousand Oaks, CA 91230, MS 28-2-C. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed in the Option Agreement.

1. Except as expressly set forth in this letter agreement, the terms and conditions of the Option Agreement shall apply to the R&D and all information, documents and materials provided hereunder.
2. CK shall provide Amgen with (a) those materials requested by Amgen to conduct the R&D in accordance with the Research and Development Plan attached hereto as Exhibit A (the "Plan"), including chemical and biological materials (to the extent that CK may do so without violating any Law or contractual obligation), in amounts not to exceed those specified in the Plan; and (b) any available material safety data sheets for such materials and other documents requested by Amgen to conduct the R&D in accordance with the Plan ((a) and (b) collectively, the "CK Materials"). Amgen shall not use any Amgen Affiliate or Third Party to conduct any work in connection with the R&D, except as expressly stated in the Plan or as otherwise expressly agreed in writing by CK. Amgen shall not, unless CK expressly agrees otherwise in writing: (i) perform or have performed any preclinical safety study with any CK Materials, or (ii) perform or have performed any pharmacokinetics or drug metabolism study (regardless of whether such study is

**Confidential**

Contract #200625165-002

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described in the Plan) with any CK Materials, except pursuant to a study protocol that CK has approved in writing in advance.

3. Except as set forth in this Section 3, each Party shall be responsible for its own costs and expenses incurred in connection with the R&D, i.e., the provision of the CK Materials with respect to CK, and the remaining costs of conducting the R&D with respect to Amgen, and neither Party shall have any obligation to reimburse the other's costs in connection with the R&D. Notwithstanding the foregoing, [\*\*\*] with respect to the [\*\*\*] as referenced in the Plan. In addition, the Parties may agree in writing as to additional amounts of specified Materials to be provided by CK for Amgen's use in conducting the R&D hereunder, for which [\*\*\*]. Amgen shall be solely responsible for the costs of any third parties engaged by Amgen in connection with the R&D.
4. Amgen shall conduct the R&D in accordance with the Plan and shall provide to CK [\*\*\*], and shall provide to CK [\*\*\*] described in the Plan. As used herein, [\*\*\*] means (a) [\*\*\*] and (b) all other [\*\*\*] reasonably sufficient to [\*\*\*] each item described in subsection (a), in each case, relating to and arising out of or in connection [\*\*\*]. [\*\*\*] is and shall remain the sole owner of the [\*\*\*], and [\*\*\*] shall use the [\*\*\*] solely in the conduct of the R&D in accordance with the Plan. Amgen shall maintain full and accurate written records, but not in excess of Amgen's normal practices, pertaining to its use of the CK Materials [\*\*\*]. For purposes of Section 14 of the Option Agreement, the [\*\*\*] shall be deemed to be confidential and proprietary information of [\*\*\*] pursuant to the Option Agreement, subject to the exclusions set forth in Sections 14.1.1 through 14.1.5 of the Option Agreement as may be applicable.
5. As used herein, "Intellectual Property" means technology, patent rights, trade secrets, algorithms and other intellectual property, whether patentable or not. Except as provided in Section 6 below, all right, title and interest in and to all Intellectual Property that specifically relates to: (a) [\*\*\*]; (b) [\*\*\*] (c) [\*\*\*] be solely and exclusively owned by [\*\*\*] (the "[\*\*\*] Intellectual Property"). [\*\*\*] hereby irrevocably assigns, and automatically shall be deemed to have irrevocably assigned, to [\*\*\*] all right, title and interest in and to all [\*\*\*] Intellectual Property. [\*\*\*] shall execute such documents and take such actions as [\*\*\*] may reasonably request to allow [\*\*\*] to document, obtain, enforce and defend such rights. [\*\*\*] shall promptly inform [\*\*\*] in writing of all Intellectual Property that is conceived, reduced to practice and/or otherwise made or developed by or on behalf of [\*\*\*], whether solely or jointly with others, to the extent that such Intellectual Property (i) has not been previously disclosed to [\*\*\*] pursuant to [\*\*\*], and (ii) could reasonably be expected to have commercial value to [\*\*\*].
6. [\*\*\*] Intellectual Property shall not include Intellectual Property created by or on behalf of [\*\*\*] that does not specifically relate to [\*\*\*], above (the "[\*\*\*] Intellectual Property"). [\*\*\*] hereby grants to [\*\*\*] a royalty-free, irrevocable, perpetual, world-wide, paid-up, exclusive (even as to [\*\*\*]) right and license, with the right to grant and authorize sublicenses, to utilize the [\*\*\*] Intellectual Property in connection with making, having made, using, selling, offering for sale, importing or otherwise exploiting [\*\*\*].

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Contract #200625165-002

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\*\*\* Certain information on the page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

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\*\*\* retains all rights to the \*\*\* Intellectual Property for any purpose other than making, having made, using, selling, offering for sale, importing or otherwise exploiting \*\*\*.

7. \*\*\* shall not file any patent application, without the prior written consent of \*\*\*, which: (a) discloses or contains any (i) \*\*\* or (ii) any data or information related to \*\*\* or generated by or on behalf of \*\*\*; or (b) contains any claim that, if issued, would specifically cover the manufacture, use, sale, offer for sale and/or import of any \*\*\* and/or any formulation containing any \*\*\* and/or any method of making or using any \*\*\*.
8. Amgen shall not use in connection with the R&D, without CK's express prior written consent, any \*\*\*, in each case, that is \*\*\*. If Amgen uses any such \*\*\* in connection with the R&D \*\*\*, then such \*\*\* shall be deemed \*\*\*.
9. Amgen's right to conduct the R&D under this letter agreement shall terminate simultaneously with the expiration of the Amgen Option. All other rights and obligations under this letter agreement shall survive any completion or termination of the R&D. Following the termination of the R&D, upon CK's written request, Amgen shall return all unused CK Materials or, at Amgen's discretion, destroy them and provide CK with a certificate of destruction. If the Amgen Option expires unexercised, then Amgen shall promptly (a) provide CK with \*\*\* in whatever condition \*\*\*, to the extent not previously \*\*\*, and (b) return to CK all copies of the CK Materials \*\*\*.
10. This letter agreement constitutes the entire understanding and agreement of the parties with respect to the subject matter hereof. This letter agreement may not be amended or supplemented in any way except by a written document signed by an authorized representative of each party. This letter agreement is intended to supplement the Option Agreement and is not intended to modify the Option Agreement except as expressly set forth herein.

Sincerely,

/s/ Terry Rosen

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Terry Rosen  
Vice President, Research

ACKNOWLEDGED AND AGREED

**CYTOKINETICS, INCORPORATED**

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Contract #200625165-002

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\*\*\* Certain information on the page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

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Cytokinetics, Incorporated  
September 30, 2008  
Page 4 of 14

/s/ Robert I. Blum

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Robert I. Blum  
President and CEO

**Confidential**  
Contract #200625165-002

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**Exhibit A**  
**Research and Development Plan**

**General plan for using the CK Materials requested from Cytokinetics:**

[\*\*\*]

**Confidential**

Contract #200625165-002

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\*\*\* Certain information on this page and the remainder of this document has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.



UBS Financial Services Inc.

**Please complete and sign this form.**

**We must receive it by November 14, 2008.**

**Acceptance of UBS's offer relating to auction rate securities**

By signing below and returning this form, I accept UBS's offer of Rights relating to my Eligible ARS in the account listed below. I understand and acknowledge the following:

- All Eligible ARS **must remain** in my UBS account listed below until I exercise my Rights to sell my Eligible ARS to UBS or they are redeemed by the issuer or purchased or sold on my behalf by UBS;
- I will instruct my UBS Financial Advisor or Branch Manager if and when I want to exercise my Rights and sell my Eligible ARS to UBS during the period of June 30, 2010, through July 2, 2012;
- The acceptance of UBS's offer constitutes consent (to the extent legally required) for UBS, acting as principal, to purchase my Eligible ARS or to sell them on my behalf at any time in its sole discretion and without other prior notice to me, from the date that I accept this offer through July 2, 2012;
- If UBS purchases, sells or otherwise disposes of my Eligible ARS, it will deposit the par value in my account within one business day of settlement of the transaction;
- I release UBS and its employees/agents from all claims except claims for consequential damages directly or indirectly relating to its marketing and sale of ARS and expressly agree that I will not seek any damages or costs (punitive damages, attorney fees, etc.) other than consequential damages. I also will not serve as a class representative or receive benefits under any class action settlement or investor fund;
- If the account named below is in the name of a corporation, partnership, trust or other entity, I represent and warrant that I have the power and authority to accept this offer on behalf of that entity.

**Please complete and sign this form.  
We must receive it by November 14, 2008.**

CYTOKINETICS, INC.  
ATTN: SHARON SURREY-BARBARI  
280 EAST GRAND AVENUE  
SO SAN FRANCISCO CA 94080-4808

**Mail** UBS Financial Services Inc.  
ATTN: ARS Group  
1000 Harbor Boulevard  
Weehawken, NJ 07086

Account Number: CP 70764

**Fax** +1-201-422-7766



Account owner signature

/s/ Sharon A. BARBARI

Date 10/27/08

Additional party signature

SVP Finance and CFO

Date \_\_\_\_\_

Daytime telephone number

(650) 624-3009

**Approved  
Legal**

If you have questions, please contact your UBS Financial Advisor or Branch Manager at +1-312-525-4500. Clients outside the U.S. may call +1-201-352-0105 collect.

**We kindly request that you do not include comments or questions on this form as it could delay processing of your**

**instructions.**

UBS AG has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you make an investment decision, you should read the prospectus in that registration statement and other documents that UBS has filed with the SEC for more complete information about UBS and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov) or by calling UBS's ARS Client Service Center at +1-800-253-1974.

UBS Financial Services Inc. serves as the clearing firm for UBS International Inc. Accordingly, the information and terms contained in this letter and the accompanying materials are directed to clients of both UBS Financial Services Inc and UBS International Inc.

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**1C-ARSO**



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CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") PURSUANT TO RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

October 31, 2008

Mr. Robert I. Blum, President and CEO  
Cytokinetics, Incorporated  
280 East Grand Avenue  
South San Francisco, California 94080

**Re: Amendment Number Three to Collaboration and Option Agreement  
Amgen Reference Number: 200625165**

Dear Robert:

As you know, Amgen Inc. ("Amgen") and Cytokinetics, Incorporated ("CK") are parties to that certain Collaboration and Option Agreement, Amgen contract number 200625165, dated December 29, 2006, as amended (the "Option Agreement"). Pursuant to Amendment Number Two to the Collaboration and Option Agreement, Amgen contract number 200625165-002, dated September 30, 2008 ("Amendment No. 2"), Amgen is conducting certain research and development activities. By this letter (this "Letter Agreement"), the Parties wish to expand the scope of these activities. Capitalized terms used herein and not otherwise defined will have the meaning ascribed in the Option Agreement and Amendment No. 2.

1. This Letter Agreement is deemed effective as of September 30, 2008.
2. The Plan is hereby amended to include the activities set forth in Exhibit A hereto.
3. As requested by Amgen, CK will provide Amgen with an additional [\*\*\*] of [\*\*\*] CK- 1827452, [\*\*\*].
4. For clarity, the Parties agree that (a) the purification by Amgen (or by [\*\*\*] on behalf of Amgen) of the [\*\*\*] CK-1827452 provided to Amgen by CK under this Letter Agreement and under Amendment No. 2 is covered by the Plan; and (b) the data sets provided to Amgen by CK relating to the clinical trials of CK-1827452 are CK Materials.
5. Except as expressly set forth herein, all terms and conditions of the Option Agreement and Amendment No. 2 remain in full force and effect.

Please confirm CK's agreement to the foregoing by having an authorized representative of CK countersign this Letter Agreement where indicated below. Please return a fully executed copy of this Letter Agreement to Richard V. Person, Sr. Counsel, at Amgen.

Sincerely,

**ACKNOWLEDGED AND AGREED**

**CYTOKINETICS, INCORPORATED**

/s/ Terry Rosen

/s/ Michael Rabson

Terry Rosen  
Vice President, Research

Michael Rabson  
Sr. Vice President, Business Development  
and Legal Affairs, and General Counsel

\*\*\* Certain information on the page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

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Contract #200625165-003





**EXHIBIT A**  
**Additional R&D Activities Under Plan**

[\*\*\*]

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**\*\*\* Certain information on the page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.**

**Confidential**

Contract #200625165-003



# Credit Line Account Application and Agreement for Organizations and Businesses

## UBS Bank USA

Variable Credit Line Account Number: <i>(if applicable)</i>		
SV	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN		Internal Use Only

HB

### For Internal Use Only

Variable Credit Line Account at UBS Bank USA

Cytokinetics, Inc. SV 62006 CP

Fixed Credit Line Account at UBS Bank USA

SF

### Collateral Account(s) at UBS Financial Services Inc.

Insert the information below for each UBS Financial Services Inc. account to be pledged to secure the Borrower's credit line.

Full Collateral (Securities) Account Title	Branch	Account Number	FA#
1) Cytokinetics, Inc.	CP	14862	CPW4
2)			
3)			
4)			
5)			
6)			

### Credit Line Account

Select the type of credit line account:

- Variable Credit Line Account  
 Fixed Credit Line Account  
 Both

If you do not indicate your preference you will be deemed to have selected the "Both" option.

### Account Ownership

Is this entity / organization a business that provides commercial goods or services (i.e., an operating entity)?

- Yes  No

**Any changes or corrections to the information on this application must be initialed by you.**

Select the Organization/Business Structure:

- |  |   |  |
|--|---|--|
| <input checked="" type="checkbox"/> Corporation                        | <input type="checkbox"/> Fed Charter-Credit Union   | <input type="checkbox"/> Fed Charter-Trust Co. |
| <input type="checkbox"/> Corp- Subchapter 'S'                          | <input type="checkbox"/> Foundation-not for profit  | <input type="checkbox"/> Govt Agency-Federal   |
| <input type="checkbox"/> Limited Liability Company (LLC)               | <input type="checkbox"/> Endowment-not for profit   | <input type="checkbox"/> Govt Agency-Local Ent |
| <input type="checkbox"/> Limited Liability Partnership (LLP)           | <input type="checkbox"/> State Charter-S&L Bank     | <input type="checkbox"/> Govt Agency-State     |
| <input type="checkbox"/> Limited Liability-Limited Partnership (LLLPP) | <input type="checkbox"/> State Charter-Savings Bank |  |
| <input type="checkbox"/> Sole Proprietorship                           | <input type="checkbox"/> State Charter-Comm Bank    |  |
| <input type="checkbox"/> Partnership-General                           | <input type="checkbox"/> State Charter-Trust Co.    |  |
| <input type="checkbox"/> Partnership-Limited                           | <input type="checkbox"/> State Charter-Credit Union |  |
| <input type="checkbox"/> Association                                   | <input type="checkbox"/> State Charter-Indus Loan   |  |
| <input type="checkbox"/> Partnership-Invest Club                       | <input type="checkbox"/> Fed Charter-Savings Assoc  |  |
| <input type="checkbox"/> Invest Club Membership                        | <input type="checkbox"/> Fed Charter-Nat'l Bank     |  |

### Borrower Information

This section should be completed by the **Organization/Business**.

#### Borrower

Organization / Business Name Cytokinetics, Inc.

Organization/Business is (please complete each item that applies):

- 1)  Incorporated  Unincorporated  
 2)  For Profit  Not For Profit

Industry Group (e.g., Construction, Service, etc.):

Other

Is the Organization/Business publicly listed?  No  Yes; specify:

Exchange (NYSE, AMEX, or NASDAQ) Ticker Symbol

Place of Formation / Incorporation

- USA (if formed/incorporated, specify Delaware State):  
 Other (specify) \_\_\_\_\_

TIN: \_\_\_\_\_ Date of Incorporation / Establishment: \_\_\_\_\_

Location of Address

- Business - Primary  Other ( please specify )

Street Address (If a P.O. Box, complete the Additional Address Information on page 4.):

280 EAST GRAND AVENUE

City: SO SAN FRANCISCO State: CA ZIP: 94080-4808

USA  
 Business Telephone Number: \_\_\_\_\_









**UBS Bank USA**

Variable Credit Line Account Number: <i>(if applicable)</i>		
SV	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN		
Internal Use Only		

**Borrower Financial and Ownership Information**

Annual Income: \_\_\_\_\_ Liquid Assets: \_\_\_\_\_

Net Worth \_\_\_\_\_ Fiscal Year End (indicate month) \_\_\_\_\_

Do you receive a substantial amount of your revenue/wealth (over 50%) (trade/export) from a country outside of the United States?  
 Yes  No If yes specify: \_\_\_\_\_

Country(ies): \_\_\_\_\_

Does the Borrower own 10% or more of the shares of any publicly traded company?  
 Yes  No If yes, please specify company and %: \_\_\_\_\_ %

Are any of the Borrowers, business owners or directors/principal officers a control person of UBS AG or its subsidiaries or affiliates?\*

 Yes  No If yes, please specify company and %: \_\_\_\_\_ %

Is the Borrower an officer or member of the board of directors of UBS AG, its subsidiaries or affiliates?\*

 Yes  No If yes, please specify: \_\_\_\_\_

Subsidiary or Affiliate \_\_\_\_\_ Employee Name and SS# \_\_\_\_\_

Is the Borrower an immediate family member of an executive officer or member of the board of directors of UBS AG? *Immediate family member means a spouse or any other relative residing in the Borrower's household to whom the Borrower lends financial support.*  
 Yes  No If yes, please specify: \_\_\_\_\_

Subsidiary or Affiliate \_\_\_\_\_ Employee Name and SS# \_\_\_\_\_

Will any of the loan proceeds be used to repay any debt or obligation owed to, or purchase an asset from, UBS AG or its subsidiaries or affiliates?  
 Yes  No If yes, please specify: \_\_\_\_\_

Subsidiary or Affiliate \_\_\_\_\_

*\*For purposes these questions, "control" means a person or entity that either (a) owns, controls or has the power to vote 25% or more of any class of voting securities, (b) has the ability to control the election of the majority of the directors of a company, or (c) has the power to exercise a controlling influence over management policies. A person or entity is presumed to have control of a company if the person or entity owns, controls or has the power to vote 10% or more of any class of voting securities of the company and (i) the person is an executive officer or director of the company or (ii) no other person has a greater percentage of that class of voting securities.*

**Principal Officer/Beneficial Owner**

Complete this section for the Principal Officer(s) of the borrower, or beneficial owner for an LLC. To include additional principal officers please photocopy this page and submit it with the application.

Principal Officer Name \_\_\_\_\_ SS# \_\_\_\_\_  
 Sharon A. Barbari

Country of Citizenship: \_\_\_\_\_ Date of Birth \_\_\_\_\_  
 USA  Other (specify) \_\_\_\_\_

Passport/CEDULA and Green Card#: (If non-U.S. and no SS# specified) \_\_\_\_\_ / \_\_\_\_\_

Passport/CEDULA Country of Issuance: \_\_\_\_\_  
 USA

Street Address: \_\_\_\_\_  
 280 East Grand Ave.

City: \_\_\_\_\_ State: \_\_\_\_\_ ZIP \_\_\_\_\_  
 San Francisco CA 94080-4808

Telephone Number: \_\_\_\_\_ USA

Principal Officer Name \_\_\_\_\_ SS# \_\_\_\_\_  
 ROBERT BLUM

Country of Citizenship: \_\_\_\_\_ Date of Birth \_\_\_\_\_  
 USA  Other (specify) \_\_\_\_\_

Passport/CEDULA and Green Card#: (If non-U.S. and no SS# specified) \_\_\_\_\_ / \_\_\_\_\_

Passport/CEDULA Country of Issuance: \_\_\_\_\_  
 USA

Street Address: \_\_\_\_\_  
 280 EAST GRAND AVENUE

City: \_\_\_\_\_ State: \_\_\_\_\_ ZIP \_\_\_\_\_  
 SO SAN FRANCISCO CA 94080-4808

Telephone Number: \_\_\_\_\_ USA









**UBS Bank USA**

Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
5F		
SS# / TIN		
Internal Use Only		

**Credit Line Account Features**

**Check Writing**

If you would like to receive Credit Line checks for your credit line account, please enroll below:

Check here if you would like Credit Line checks.

Checks will be in the name of the Borrower.

Please print the address that you would like to appear on your checks.

\_\_\_\_\_  
\_\_\_\_\_

**Alternate Mailing Address for Checks**

Print the mailing address for the delivery of checks if different from the address on the checks:

\_\_\_\_\_

**Wire Instructions for Loan Payment:** *(In US Dollars)*

**Bank Name:** UBS AG

**Wire System Address:** ABA 026007993

**For Further Credit to the Account of:** UBS Bank USA

**Account Number:** 101-WA-792479-000

**For the Benefit of:** Full Name

**Account Number:** 5[F or V] 00000

**Alternate Mailing Address for Checks**

Print the mailing address for the delivery of checks if different from the address on the checks:

\_\_\_\_\_

**UBS Credit Corp Wire Instructions are as follows:**

**UBS AG**

**ABA # 026007993**

**A/C # 101-wa-258661-000**

**A/C Name: UBS Credit Corp**

**Senior Political Affiliation**

Are you, any authorized signatories, beneficial owners, trustees, powers of attorney or other individuals with authority to effect transactions, or any of their immediate family members or close associates a:

I) Current U.S. political official (as defined in section B below)?  No  Yes; complete:

A) Political Official's Name: \_\_\_\_\_

- B) Current Position:
- |  |   |  |
|--|---|--|
| <input type="checkbox"/> President                               | <input type="checkbox"/> Vice President | <input type="checkbox"/> US Cabinet Member     |
| <input type="checkbox"/> Speaker of the House of Representatives |   | <input type="checkbox"/> Supreme Court Justice |
| <input type="checkbox"/> Chairman of the Joint Chiefs of Staff   |   | <input type="checkbox"/> Ambassador            |
- C) Relationship to Client(s):
- |  |  |  |
|--|--|--|
| <input type="checkbox"/> Self                              | <input type="checkbox"/> Immediate family member | <input type="checkbox"/> Close associate |
| <input type="checkbox"/> Associated with business or trust |  |  |

II) Current or former Senior non-U.S. political official, non-U.S. Religious Group/Organization, or Senior/Influential representative of a non-U.S. Religious Group/Organization?  No  Yes; complete:

Political Official's Name: \_\_\_\_\_

Current or Former Position: \_\_\_\_\_

- Relationship to Client(s):
- |  |  |  |
|--|--|--|
| <input type="checkbox"/> Self                              | <input type="checkbox"/> Immediate family member | <input type="checkbox"/> Close associate |
| <input type="checkbox"/> Associated with business or trust |  |  |







**UBS Bank USA**

Variable Credit Line Account Number: <i>(if applicable)</i>		
SV	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
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**Duplicate Party Addendum**

Complete this section for each Duplicate Party to receive a duplicate credit line account statement.

Name: \_\_\_\_\_

Street Address: \_\_\_\_\_

Internal Location Code (UBS Financial Services Inc. Use Only)

Country of Citizenship:  
 USA  Other (specify): \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ ZIP: \_\_\_\_\_

**Additional Address Information**

If the Borrower's mailing address is a P.O. Box please provide a legal residence address below.

First Name: \_\_\_\_\_ Last Name: \_\_\_\_\_

Location of Address:  
 Business - Primary  
 Business - Secondary  
 Other (Specify): \_\_\_\_\_

Street Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ ZIP: \_\_\_\_\_





Credit Line Agreement

**Borrower Agreement**

UBS Bank USA		
Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
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**BY SIGNING BELOW, THE BORROWER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT:**

- A** The Borrower has received and read a copy of this Borrower Agreement, the attached Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) and the Loan Disclosure Statement explaining the risk factors that the Borrower should consider before obtaining a loan secured by the Borrower's securities account. The Borrower agrees to be bound by the terms and conditions contained in the Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) (which terms and conditions are incorporated by reference). Capitalized terms used in this Borrower Agreement have the meanings set forth in the Credit Line Agreement.
- B THE BORROWER UNDERSTANDS AND AGREES THAT UBS BANK USA MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE OPTION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION. THE BORROWER UNDERSTANDS AND AGREES THAT ALL ADVANCES ARE SUBJECT TO COLLATERAL MAINTENANCE REQUIREMENTS. THE BORROWER UNDERSTANDS THAT UBS BANK USA MAY, AT ANY TIME, IN ITS DISCRETION, TERMINATE AND CANCEL THE CREDIT LINE REGARDLESS OF WHETHER OR NOT AN EVENT HAS OCCURRED.**
- C UNLESS DISCLOSED IN WRITING TO UBS BANK USA AT THE TIME OF THIS AGREEMENT, AND APPROVED BY UBS BANK USA, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF UBS BANK USA. THE BORROWER WILL BE DEEMED TO REPEAT THIS AGREEMENT EACH TIME THE BORROWER REQUESTS AN ADVANCE.**
- D THE BORROWER UNDERSTANDS THAT BORROWING USING SECURITIES AS COLLATERAL ENTAILS RISKS. SHOULD THE VALUE OF THE SECURITIES IN THE COLLATERAL ACCOUNT DECLINE BELOW THE REQUIRED COLLATERAL MAINTENANCE REQUIREMENTS, UBS BANK USA MAY REQUIRE THAT THE BORROWER POST ADDITIONAL COLLATERAL, REPAY PART OR ALL OF THE BORROWER'S LOAN AND/OR SELL THE BORROWER'S SECURITIES. ANY REQUIRED LIQUIDATIONS MAY INTERRUPT THE BORROWER'S LONG-TERM INVESTMENT STRATEGIES AND MAY RESULT IN ADVERSE TAX CONSEQUENCES.**
- E Neither UBS Bank USA nor UBS Financial Services Inc. provides legal or tax advice and nothing herein shall be construed as providing legal or tax advice.**
- F** Upon execution of this Credit Line Account Application and Agreement, the Borrower declares that all of the information requested in the Application and supplied by the Borrower is true and accurate and further agrees to promptly notify UBS Bank USA in writing of any material changes to any or all of the information contained in the Application including information relating to the Borrower's financial situation.
- G** Subject to any applicable financial privacy laws and regulations, data regarding the Borrower and the Borrower's securities accounts may be shared with UBS Bank USA affiliates. Subject to any applicable financial privacy laws and regulations, the Borrower requests that UBS Bank USA share such personal financial data with non-affiliates of UBS Bank USA as is necessary or advisable to effect, administer or enforce, or to service, process or maintain, all transactions and accounts contemplated by this Agreement.

- H** The Borrower authorizes UBS Bank USA and UBS Financial Services Inc. to obtain a credit report or other credit references concerning the Borrower (including making verbal or written inquiries concerning credit history) or to otherwise verify or update credit information given to UBS Bank USA at any time. The Borrower authorizes the release of this credit report or other credit information to UBS Bank USA affiliates as it deems necessary or advisable to effect, administer or enforce, or to service, process or maintain all transactions and accounts contemplated by this Agreement, and for the purpose of offering additional products, from time to time, to the Borrower. The Borrower authorizes UBS Bank USA to exchange Borrower information with any party it reasonably believes is conducting a legitimate credit inquiry in accordance with the Fair Credit Reporting Act. UBS Bank USA may also share credit or other transactional experience with the Borrower's designated UBS Financial Services Inc. Financial Advisor or other parties designated by the Borrower.
- I** UBS Bank USA is subject to examination by various federal, state and self-regulatory organizations and the books and records maintained by UBS Bank USA are subject to inspection and subpoena by these regulators and by federal, state, and local law enforcement officials. The Borrower also acknowledges that such regulators and officials may, pursuant to treaty or other arrangements, in turn disclose such information to the officials or regulators of other countries, and that U.S. courts may be required to compel UBS Bank USA to disclose such information to the officials or regulators of other countries. The Borrower agrees that UBS Bank USA may disclose to such regulators and officials information about the Borrower and transactions in the credit line account or other accounts at UBS Bank USA without notice to the Borrower. In addition, UBS Bank USA may in the context of a private dispute be required by subpoena or other judicial process to disclose information or produce documentation related to the Borrower, the credit line account or other accounts at UBS Bank USA. The Borrower acknowledges and agrees that UBS Bank USA reserves the right, in its sole discretion, to respond to subpoenas and judicial process as it deems appropriate.
- J** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When the Borrower opens an account with UBS Bank USA, UBS Bank USA will ask for the Borrower's name, address, and other information that will allow UBS Bank USA to identify the Borrower. UBS Bank USA may also ask to see other identifying documents. UBS Financial Services Inc. and UBS Bank USA are firmly committed to compliance with all applicable laws, rules and regulations, including those related to combating money laundering. The Borrower understands and agrees that the Borrower must take all necessary steps to comply with the anti-money laundering laws, rules and regulations of the Borrower's country of origin, country of residence and the situs of the Borrower's transaction.
- K** UBS Bank USA and its affiliates will act as creditors and, accordingly, their interests may be inconsistent with, and potentially adverse to, the Borrower's interests. As a lender and consistent with normal lending practice, UBS Bank USA may take any steps necessary to perfect its interest in the Credit Line, issue a call for additional collateral or force the sale of the Borrower's securities if the Borrower's actions or inactions call the Borrower's creditworthiness into question. Neither UBS Bank USA nor UBS Financial Services Inc. will act as Client's investment advisor with respect to any liquidation. In fact UBS Bank USA will act as a creditor and UBS Financial Services Inc. will act as a securities intermediary.
- L** The Borrower understands that, if the Collateral Account is a managed account with UBS Financial Services Inc., (i) in addition to any fees payable to UBS Financial Services Inc. in connection with the Borrower's managed account, interest will be payable to the Bank on an amount advanced to the Borrower in connection with the Credit Line Account, and (ii) the performance of the managed account might not exceed the managed account fees and the interest expense payable to the Bank in which case the Borrower's overall rate of return will be less than the costs associated with the managed account.
- M** UBS Bank USA may provide copies of all credit line account statements to UBS Financial Services Inc. and to any Guarantor. The Borrower acknowledges and agrees that UBS Bank USA may share any and all information regarding the Borrower and the Borrower's accounts at UBS Bank USA with UBS Financial Services Inc. UBS Financial Services Inc. may provide copies of all statements and confirmations concerning each Collateral Account to UBS Bank USA at such times and in such manner as UBS Bank USA may request and may share with UBS Bank USA any and all information regarding the Borrower and the Borrower's accounts with UBS Financial Services Inc.

IN WITNESS WHEREOF, the undersigned ("Borrower") has signed this Agreement, or has caused this Agreement to be signed in its name by its duly authorized representatives, as of the date indicated below.

DATE: \_\_\_\_\_

**Name of Borrower:** Cytokinetics, Inc.

By: \_\_\_\_\_ Title: Chief Financial Officer/CFO  
(Signature of Authorized Signatory of Borrower)\* Sharon A. Barbari (Title of Authorized Signatory of Borrower)

By: \_\_\_\_\_ Title: Chief Executive Officer/CEO  
(Signature of Authorized Signatory of Borrower)\* ROBERT BLUM (Title of Authorized Signatory of Borrower)

**The authorized signatory of the Borrower must be one of the Authorized Persons designated on the applicable UBS Bank USA supplemental form executed by the Borrower (e.g., the Supplemental Corporate Resolution Form (HP Form)).**





## Credit Line Agreement

UBS Bank USA		
Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
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### Credit Line Agreement — Demand Facility

THIS CREDIT LINE AGREEMENT (as it may be amended, supplemented or otherwise modified from time to time, this “Agreement”) is made by and between the party or parties signing as the Borrower on the Application to which this Agreement is attached (together and individually, the “Borrower”) and UBS Bank USA (the “Bank”) and, together with the Application, establishes the terms and conditions that will govern the uncommitted demand loan facility made available to the Borrower by the Bank. This Agreement becomes effective upon the earlier of (i) notice from the Bank (which notice may be oral or written) to the Borrower that the Credit Line has been approved and (ii) the Bank making an Advance to the Borrower.

#### 1) Definitions

- “Advance” means any Fixed Rate Advance or Variable Rate Advance made by the Bank pursuant to this Agreement.
- “Advance Advice” means a written or electronic notice by the Bank, sent to the Borrower, the Borrower’s financial advisor at UBS Financial Services Inc. or any other party designated by the Borrower to receive the notice, confirming that a requested Advance will be a Fixed Rate Advance and specifying the amount, fixed rate of interest and Interest Period for the Fixed Rate Advance.
- “Application” means the Credit Line Account Application and Agreement that the Borrower has completed and submitted to the Bank and into which this Agreement is incorporated by reference.
- “Approved Amount” means the maximum principal amount of Advances that is permitted to be outstanding under the Credit Line at any time, as specified in writing by the Bank.
- “Breakage Costs” and “Breakage Fee” have the meanings specified in Section 6(b).
- “Business Day” means a day on which both of the Bank and UBS Financial Services Inc. are open for business. For notices and determinations of LIBOR, Business Day must also be a day for trading by and between banks in U.S. dollar deposits in the London interbank market.
- “Collateral” has the meaning specified in Section 8(a).
- “Collateral Account” means, individually and collectively, each account of the Borrower or Pledgor at UBS Financial Services Inc. or UBS International Inc., as applicable, that is either identified as a Collateral Account on the Application to which this Agreement is attached or subsequently identified as a Collateral Account by the Borrower or Pledgor, either directly or indirectly through the Borrower’s or Pledgor’s UBS Financial Services Inc. financial advisor, together with all successors to those identified accounts, irrespective of whether the successor account bears a different name or account number.
- “Credit Line” has the meaning specified in Section 2(a).
- “Credit Line Account” means each Fixed Rate Account and each Variable Rate Account of the Borrower that is established by the Bank in connection with this Agreement and either identified on the Application or subsequently identified as a Credit Line Account by the Bank by notice to the Borrower, together with all successors to those identified accounts, irrespective of whether any successor account bears a different name or account number.
- “Credit Line Obligations” means, at any time of determination, the aggregate of the outstanding principal amounts of all Advances, together with all accrued but unpaid interest on the outstanding principal amounts, any and all fees or other charges payable in connection with the Advances and any costs of collection (including reasonable attorneys’ fees) and

other amounts payable by the Borrower under this Agreement, and any and all other present or future obligations of the Borrower and the other respective Loan Parties under this Agreement and the related agreements, whether absolute or contingent, whether or not due or mature.

- "Event" means any of the events listed in Section 10.
  - "Fixed Rate Advance" means any advance made under the Credit Line that accrues interest at a fixed rate.
  - "Guarantor" means any party who guaranties the payment and performance of the Credit Line Obligations.
  - "Guaranty Agreement" means an agreement pursuant to which a Guarantor agrees to guaranty payment of the Credit Line Obligations.
  - "Interest Period" means, for a Fixed Rate Advance, the number of days, weeks or months requested by the Borrower and confirmed in the Advance Advice relating to the Fixed Rate Advance, commencing on the date of (i) the extension of the Fixed Rate Advance or (ii) any renewal of the Fixed Rate Advance and, in each case, ending on the last day of the period. If the last day is not a Business Day, then the Interest Period will end on the immediately succeeding Business Day. If the last Business Day would fall in the next calendar month, the Interest Period will end on the immediately preceding Business Day. Each monthly or longer Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) will end on the last Business Day of the appropriate calendar month.
  - "Joint Borrower" has the meaning specified in Section 7(a).
  - "LIBOR" means, as of any date of determination:
    - (i) for Variable Rate Advances, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity of 30 days as published in The Wall Street Journal "Money Rates" Table on the date of the Advance; and
    - (ii) for Fixed Rate Advances of one (1) year or less, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity corresponding to the length of the Interest Period applicable to the Advance as quoted by the Bloomberg service at 4:00 a.m. Eastern Standard Time on the date of the Advance.
- If the rate ceases to be regularly published by The Wall Street Journal or stated by the Bloomberg Service, as applicable, LIBOR will be determined by the Bank in its sole and absolute discretion. For any day that is not a Business Day, LIBOR will be the applicable LIBOR in effect immediately prior to that day.
- "Loan Party" means each Borrower, Guarantor and Pledgor, each in their respective capacities under this Agreement or any related agreement.
  - "Person" means any natural person, company, corporation, firm, partnership, joint venture, limited liability company or limited liability partnership, association, organization or any other legal entity.
  - "Pledgor" means each Person who pledges to the Bank any Collateral to secure the Credit Line Obligations (or to secure the



UBS Bank USA		
Variable Credit Line Account Number: <i>(if applicable)</i>		
SV	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN	Internal Use Only	

## Credit Line Agreement

obligations of any Guarantor with respect to the guaranty of the Credit Line Obligations). Pledgors will include (i) each Borrower who pledges Collateral to secure the Credit Line Obligations, (ii) each Guarantor who has pledged collateral to secure the Credit Line Obligations or its obligations under a Guaranty Agreement, (iii) any spouse of a Borrower who executes a spouse's pledge and consent agreement with respect to a jointly held collateral account, (iv) any other joint account holder who executes a joint account holder pledge and consent agreement with respect to a jointly held collateral account, and (v) any other Person who executes a pledge agreement with respect to the Credit Line.

- "Premier Credit Line" means any Credit Line with an Approved Amount equal to or greater than \$250,000.
- "Prime Credit Line" means any Credit Line with an Approved Amount less than \$250,000.
- "Prime Rate" means the floating "Prime Rate" as published in The Wall Street Journal "Money Rates" Table from time to time. The Prime Rate will change as and when the Prime Rate as published in The Wall Street Journal changes. In the event that The Wall Street Journal does not publish a Prime Rate, the Prime Rate will be the rate as determined by the Bank in its sole and absolute discretion.
- "Securities Intermediary" has the meaning specified in Section 9.
- "UBS Bank USA Fixed Funding Rate" means, as of any date of determination for Fixed Rate Advances of greater than one (1) year, an internally computed rate established from time-to-time by the Bank, in its sole discretion, based upon the LIBOR swap curve for a corresponding period as well as the Bank's assessment of other lending rates charged in the financial markets.
- "UBS Financial Services Inc." means UBS Financial Services Inc. and its successors.
- "UBS-I" means UBS International Inc. and its successors.
- "Variable Rate Advance" means any advance made under the Credit Line that accrues interest at a variable rate."

## 2) Establishment of Credit Line; Termination

- a) Upon the effectiveness of this Agreement, the Bank establishes an **UNCOMMITTED, DEMAND** revolving line of credit (the "Credit Line") in an amount up to the Approved Amount. The Bank may, from time to time upon request of the Borrower, without obligation and in its sole and absolute discretion, authorize and make one or more Advances to the Borrower. The Borrower acknowledges that the Bank has no obligation to make any Advances to the Borrower. The Bank may carry each Variable Rate Advance in a Variable Rate Account and may carry each Fixed Rate Advance in a Fixed Rate Account, but all Advances will constitute extensions of credit pursuant to a single Credit Line. The Approved Amount will be determined, and may be adjusted from time to time, by the Bank in its sole and absolute discretion.
- b) **THE BORROWER AND EACH OTHER LOAN PARTY UNDERSTAND AND AGREE THAT THE BANK MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE AND ABSOLUTE DISCRETION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION.**
- c) **UNLESS DISCLOSED IN WRITING TO THE BANK AT THE TIME OF THE APPLICATION, AND APPROVED BY THE BANK, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF THE BANK. THE BORROWER WILL BE DEEMED TO REPEAT THE AGREEMENT IN THIS SECTION 2(C) EACH TIME IT REQUESTS AN ADVANCE.**

- d) Prior to the first Advance under the Credit Line, the Borrower must sign and deliver to the Bank a Federal Reserve Form U-1 and all other documentation as the Bank may require. The Borrower acknowledges that neither the Bank nor any of its affiliates has advised the Borrower in any manner regarding the purposes for which the Credit Line will be used.
- e) The Borrower consents and agrees that, in connection with establishing the Credit Line Account, approving any Advances to the Borrower or for any other purpose associated with the Credit Line, the Bank may obtain a consumer or other credit report from a credit reporting agency relating to the Borrower's credit history. Upon request by the Borrower, the Bank will inform the Borrower: (i) whether or not a consumer or other credit report was requested; and (ii) if so, the name and address of the consumer or other credit reporting agency that furnished the report.
- f) The Borrower understands that the Bank will, directly or indirectly, pay a portion of the interest that it receives to the Borrower's financial advisor at UBS Financial Services Inc. or one of its affiliates. To the extent permitted by applicable law, the Bank may also charge the Borrower fees for establishing and servicing the Credit Line Account.
- g) Following each month in which there is activity in the Borrower's Credit Line Account in amounts greater than \$1, the Borrower will receive an account statement showing the new balance, the amount of any new Advances, year to date interest charges, payments and other charges and credits that have been registered or posted to the Credit Line Account.
- h) Each of the Loan Parties understands and agrees that the Bank may, at any time, in its sole and absolute discretion, terminate and cancel the Credit Line regardless of whether or not an Event has occurred. In the event the Bank terminates and cancels the Credit Line the Credit Line Obligations shall be immediately due and payable in full. If the Credit Line Obligations are not paid in full, the Bank shall have the right, at its option, to exercise any or all of its remedies described in Section 10 of this Agreement.

### 3) Terms of Advances

- a) Advances made under this Agreement will be available to the Borrower in the form, and pursuant to procedures, as are established from time to time by the Bank in its sole and absolute discretion. The Borrower and each Loan Party agree to promptly provide all documents, financial or other information in connection with any Advance as the Bank may request. Advances will be made by wire transfer of funds to an account as specified in writing by the Borrower or by any other method agreed upon by the Bank and the Borrower. The Borrower acknowledges and agrees that the Bank will not make any Advance to the Borrower unless the collateral maintenance requirements that are established by the Bank in its sole and absolute discretion have been satisfied.
- b) Each Advance made under a Premier Credit Line will be a Variable Rate Advance unless otherwise designated as a Fixed Rate Advance in an Advance Advice sent by the Bank to the Borrower. The Bank will not designate any Advance as a Fixed Rate Advance unless it has been requested to do so by the Borrower (acting directly or indirectly



UBS Bank USA		
Variable Credit Line Account Number: (if applicable)		
5V	62006	CP
Fixed Credit Line Account Number: (if applicable)		
5F		
SS# / TIN	Internal Use Only	

## Credit Line Agreement

through the Borrower's UBS Financial Services Inc. financial advisor or other agent designated by the Borrower and acceptable to the Bank). Each Advance Advice will be conclusive and binding upon the Borrower, absent manifest error, unless the Borrower otherwise notifies the Bank in writing no later than the close of business, New York time, on the third Business Day after the Advance Advice is received by the Borrower.

- c) Each Advance made under a Prime Credit Line will be a Variable Advance.
- d) Unless otherwise agreed by the Bank: (i) all Fixed Rate Advances must be in an amount of at least \$100,000; and (ii) all Variable Rate Advances taken by wire transfer must be in an amount of at least \$2,500. If the Borrower is a natural person, the initial Variable Rate Advance under the Credit Line must be in an amount equal to at least \$25,001 (the "Initial Advance Requirement"). If the initial Advance requested by the Borrower is made in the form of a check drawn on the Credit Line that does not satisfy the Initial Advance Requirement, then, in addition to and not in limitation of the Bank's rights, remedies, powers or privileges under this Agreement or applicable law, the Bank may, in its sole and absolute discretion:
  - (i) pay the check drawn by the Borrower if, prior to paying that check, the Bank makes another Advance to the Borrower, which Advance shall be in an amount not less than \$25,001; or
  - (ii) pay the check drawn by the Borrower; or
  - (iii) decline to pay (bounce) the check.

If the Bank elects option (ii), no interest shall accrue on the amount of the Advance made by paying the check, and the amount of that Advance shall be due and payable to the Bank immediately (with or without demand by the Bank).

## 4) Interest

- a) Each Fixed Rate Advance will bear interest at a fixed rate and for the Interest Period each as specified in the related Advance Advice. The rate of interest payable on each Fixed Rate Advance will be determined by adding a percentage rate to (i) LIBOR, if the Fixed Rate Advance is for a period of one (1) year or less or (ii) the UBS Bank USA Fixed Funding Rate, if the Fixed Rate Advance is for a period of greater than one (1) year, as of the date that the fixed rate is determined.
- b) Each Variable Rate Advance under a Premier Credit Line will bear interest at a variable rate equal to LIBOR, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on Schedule I below for the Approved Amount of the Credit Line. For Premier Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in LIBOR and in the Approved Amount. On each day that LIBOR changes or the Approved Amount crosses one of the thresholds that is indicated on Schedule I (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.
- c) Each Variable Rate Advance under a Prime Credit Line will bear interest at a variable rate equal to the Prime Rate, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on the attached Schedule II and that corresponds to the aggregate principal amount outstanding under the Prime Credit Line on that day. For Prime Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in the Prime Rate and in the aggregate amount outstanding under the Prime Credit Line. On each date that the Prime Rate changes or the aggregate principal amount outstanding under the Prime Credit Line crosses one of the thresholds that is indicated on Schedule II (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.

## 5) Payments

- a) **Each Fixed Rate Advance will be due and payable in full ON DEMAND or, if not earlier demanded by the Bank, on the last day of the applicable Interest Period.** Any Fixed Rate Advance as to which the Bank has not made a demand for payment and that is not paid in full or renewed, which renewal is in the sole and absolute discretion of the Bank, (pursuant to procedures as may be established by the Bank) as another Fixed Rate Advance on or before the last day of its Interest Period, will be automatically renewed on that date as a U.S. dollar denominated, Variable Rate Advance in an amount (based, in the case of any conversion of a non-U.S. dollar denominated Fixed Rate Advance, upon the applicable, spot currency exchange rate as of the maturity date, as determined by the Bank) equal to the unpaid principal balance of the Fixed Rate Advance plus any accrued but unpaid interest on the Fixed Rate Advance, which Variable Rate Advance will then accrue additional interest at a variable rate as provided in this Agreement.
- b) **Each Variable Rate Advance will be due and payable ON DEMAND.**
- c) The Borrower promises to pay the outstanding principal amount of each Advance, together with all accrued but unpaid interest on each Advance, any and all fees or other charges payable in connection with each Advance, on the date the principal amount becomes due (whether by reason of demand, the occurrence of a stated maturity date, by reason of acceleration or otherwise). The Borrower further promises to pay interest in respect of the unpaid principal balance of each Advance from the date the Advance is made until it is paid in full. All interest will be computed on the basis of the number of days elapsed and a 360-day year. Interest on each Advance will be payable in arrears as follows:
- (i) for Fixed Rate Advances — on the last day of the Interest Period (or if the Interest Period is longer than three months on the last day of each three month period following the date of the Advance) and on each date that all or any portion of the principal amount of the Fixed Rate Advance becomes due or is paid; and
  - (ii) for Variable Rate Advances — on the twenty-second day of each month other than December, and on the thirty-first day of December, and on each date that all or any portion of the principal amount of the Variable Rate Advance becomes due or is paid.

To the extent permitted by law, and without limiting any of the Bank's other rights and remedies under the Agreement, interest charges on any Advance that are not paid when due will be treated as principal and will accrue interest at a variable rate from the date the payment of interest was due until it is repaid in full.

- d) All payments of principal, interest or other amounts payable under this Agreement will be made in immediately available funds and in the same currency in which the Advance was made, which unless otherwise agreed by the Bank, will be U.S. dollars. UBS Financial Services Inc. or UBS International Inc., as applicable, may act as collecting and servicing agent for the Bank for the Advances. All payments will be made by wire transfer of funds to an account specified by the Bank or by another method agreed upon by the Bank and the Borrower. Upon receipt of all payments, the Bank will credit the same to the Credit Line Account. The Bank shall apply



UBS Bank USA		
Variable Credit Line Account Number: (if applicable)		
5V	62006	CP
Fixed Credit Line Account Number: (if applicable)		
5F		
SS# / TIN	Internal Use Only	

## Credit Line Agreement

the proceeds of any payments in the following order; first to any Breakage Costs, Breakage Fee, other fees, costs of collection and expenses, second to the outstanding principal amount of the related Advance and third to accrued interest.

- e) All payments must be made to the Bank free and clear of any and all present and future taxes (including withholding taxes), levies, imposts, duties, deductions, fees, liabilities and similar charges other than those imposed on the overall net income of the Bank. If so requested by the Bank, the Borrower will deliver to the Bank the original or a certified copy of each receipt evidencing payment of any taxes or, if no taxes are payable in respect of any payment under this Agreement, a certificate from each appropriate taxing authority, or an opinion of counsel in form and substance and from counsel acceptable to the Bank in its sole and absolute discretion, in either case stating that the payment is exempt from or not subject to taxes. If any taxes or other charges are required to be withheld or deducted from any amount payable by the Borrower under this Agreement, the amount payable will be increased to the amount which, after deduction from the increased amount of all taxes and other charges required to be withheld or deducted from the amount payable, will yield to the Bank the amount stated to be payable under this Agreement. If any of the taxes or charges are paid by the Bank, the Borrower will reimburse the Bank on demand for the payments, together with all interest and penalties that may be imposed by any governmental agency. None of the Bank, UBS Financial Services Inc., UBS-I or their respective employees has provided or will provide legal advice to the Borrower or any Loan Party regarding compliance with (or the implications of the Credit Line and the related guaranties and pledges under) the laws (including tax laws) of the jurisdiction of the Borrower or any Loan Party or any other jurisdiction. The Borrower and each Loan Party are and shall be solely responsible for, and the Bank shall have no responsibility for, the compliance by the Loan Parties with any and all reporting and other requirements arising under any applicable laws.
- f) In no event will the total interest and fees, if any, charged under this Agreement exceed the maximum interest rate or total fees permitted by law. In the event any excess interest or fees are collected, the same will be refunded or credited to the Borrower. If the amount of interest payable by the Borrower for any period is reduced pursuant to this Section 5(f), the amount of interest payable for each succeeding period will be increased to the maximum rate permitted by law until the amount of the reduction has been received by the Bank.

## 6) Prepayments; Breakage Charges

- a) The Borrower may repay any Variable Rate Advance at any time, in whole or in part, without penalty.
- b) The Borrower may repay any Fixed Rate Advance, in whole or in part. The Borrower agrees to reimburse the Bank, immediately upon demand, for any loss or cost ("Breakage Costs") that the Bank notifies the Borrower has been incurred by the Bank as a result of (i) any payment of the principal of a Fixed Rate Advance before the expiration of the Interest Period for the Fixed Rate Advance (whether voluntarily, as a result of acceleration, demand or otherwise), or (ii) the Customer's failure to take any Fixed Rate Advance on the date agreed upon, including any loss or cost (including loss of profit or margin) connected with the Bank's re-employment of the amount so prepaid or of those funds acquired by the Bank to fund the Advance not taken on the agreed upon date.

Breakage Costs will be calculated by determining the differential between the stated rate of interest (as determined in accordance with Section 4(a) of the Agreement) for the Fixed Rate Advance and prevailing LIBOR and multiplying the differential by the sum of the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) multiplied by the actual number of days remaining in the Interest Period for the Fixed Rate Advance (based upon a 360-day year). The Borrower also agrees to promptly pay to the Bank an administrative fee ("Breakage Fee") in connection with any permitted or required prepayment. The Breakage Fee will be calculated by multiplying the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed

Rate Advance not taken by the Borrower) by two basis points (0.02%) (with a minimum Breakage Fee of \$100.00). Any written notice from the Bank as to the amount of the loss or cost will be conclusive absent manifest error.

**7) Joint Credit Line Account Agreement; Suspension and Cancellation**

- a) If more than one Person is signing this Agreement as the "Borrower", each party (a "Joint Borrower") will be jointly and severally liable for the Credit Line Obligations, regardless of any change in business relations, divorce, legal separation, or other legal proceedings or in any agreement that may affect liabilities between the parties. Except as provided below for the reinstatement of a suspended or cancelled Credit Line, and unless otherwise agreed by the Bank in writing, the Bank may rely on, and each Joint Borrower will be responsible for, requests for Advances, directions, instructions and other information provided to the Bank by any Joint Borrower.
- b) Any Joint Borrower may request the Bank to suspend or cancel the Credit Line by sending the Bank a written notice of the request addressed to the Bank at the address shown on the Borrower's periodic Credit Line Account statements. Any notice will become effective three Business Days after the date that the Bank receives it, and each Joint Borrower will continue to be responsible for paying: (i) the Credit Line Obligations as of the effective date of the notice, and (ii) all Advances that any Joint Borrower has requested but that have not yet become part of the Credit Line Obligations as of the effective date of the notice. No notice will release or in any other way affect the Bank's interest in the Collateral. All subsequent requests to reinstate credit privileges must be signed by all Joint Borrowers comprising the Borrower, including the Joint Borrower requesting the suspension of credit privileges. Any reinstatement will be granted or denied in the sole and absolute discretion of the Bank.
- c) All Credit Line Obligations will become immediately due and payable in full as of the effective date of any suspension or cancellation of the Credit Line. The borrower will be responsible for the payment of all charges incurred on the Advances after the effective date. The Bank will not release any Loan Party from any of the obligations under this Agreement or any related agreement until the Credit Line Obligations have been paid in full and this Agreement has been terminated.

**8) Collateral; Grant of Security Interest; Set-off**

- a) To secure payment or performance of the Credit Line Obligations, the Borrower assigns, transfers and pledges to the Bank, and grants to the Bank a first priority lien and security interest in the following assets and rights of the Borrower, wherever located and whether owned now or acquired or arising in the future: (i) each Collateral Account; (ii) any and all money, credit balances, certificated and uncertificated securities, security entitlements, commodity contracts, certificates of deposit, instruments, documents, partnership interests, general intangibles, financial assets and other investment property now or in the future credited to or carried, held or maintained in any Collateral Account; (iii) any and all over-the-counter options, futures, foreign exchange, swap or similar contracts between the Borrower and either UBS Financial Services Inc. or any of its affiliates; (iv) any and all accounts of the Borrower at the Bank or any of its affiliates; (v) any and all supporting obligations and other





UBS Bank USA		
Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN	Internal Use Only	

## Credit Line Agreement

rights ancillary or attributable to, or arising in any way in connection with, any of the foregoing; and (vi) any and all interest, dividends, distributions and other proceeds of any of the foregoing, including proceeds of proceeds (collectively, the "Collateral").

- b) The Borrower and if applicable, any Pledgor on the Collateral Account, will take all actions reasonably requested by the Bank to evidence, maintain and perfect the Bank's first priority security interest in, and to enable the Bank to obtain control over, the Collateral and any additional collateral pledged by the Pledgors, including but not limited to making, executing, recording and delivering to the Bank (and authorizes the Bank to file, without the signature of the Borrower and any Pledgor where permitted by applicable law) financing statements and amendments thereto, control agreements, notices, assignments, listings, powers, consents and other documents regarding the Collateral and the Bank's security interest in the Collateral in such jurisdiction and in a form as the Bank reasonably may require. Each Loan Party irrevocably authorizes and appoints each of the Bank and UBS Financial Services Inc., as collateral agent, to act as their agent and attorney-in-fact to file any documents or to execute any documents in their name, with or without designation of authority. Each Loan Party acknowledges that it will be obligated in respect of the documentation as if it had executed the documentation itself.
- c) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to maintain in a Collateral Account, at all times, Collateral having an aggregate lending value as specified by the Bank from time to time.
- d) The Bank's sole duty for the custody, safe keeping and physical preservation of any Collateral in its possession will be to deal with the Collateral in the same manner as the Bank deals with similar property for its own account. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will have no responsibility to act on any notice of corporate actions or events provided to holders of securities or other investment property included in the Collateral. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to (i) notify the Bank promptly upon receipt of any communication to holders of the investment property disclosing or proposing any stock split, stock dividend, extraordinary cash dividend, spin-off or other corporate action or event as a result of which the Borrower or Pledgor would receive securities, cash (other than ordinary cash dividends) or other assets in respect of the investment property, and (ii) immediately upon receipt by the Borrower or Pledgor of any of these assets, cause them to be credited to a Collateral Account or deliver them to or as directed by the Bank as additional Collateral.
- e) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that all principal, interest, dividends, distributions, premiums or other income and other payments received by the Bank or credited to the Collateral Account in respect of any Collateral may be held by the Bank as additional Collateral or applied by the Bank to the Credit Line Obligations. The Bank may create a security interest in any of the Collateral and may, at any time and at its option, transfer any securities or other investment property constituting Collateral to a securities account maintained in its name or cause any Collateral Account to be redesignated or renamed in the name of the Bank.
- f) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that if a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account.
- g) If the Collateral Account permits cash withdrawals in the form of check writing, access card charges, bill payment and/ or electronic funds transfer services (for example, Resource Management Account<sup>®</sup>, Business Services Account BSA<sup>®</sup>, certain Basic Investment Accounts and certain accounts enrolled in UBS Financial Services Inc. Investment Consulting Services programs), the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the "Withdrawal Limit" for the Collateral Account, as described in the documentation governing the account will be reduced on

an ongoing basis so that the aggregate lending value of the Collateral remaining in the Collateral Account following the withdrawal may not be less than the amount required pursuant to Section 8(c).

- h) In addition to the Bank's security interest, the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will at all times have a right to set off any or all of the Credit Line Obligations at or after the time at which they become due, whether upon demand, at a stated maturity date, by acceleration or otherwise, against all securities, cash, deposits or other property in the possession of or at any time in any account maintained with the Bank or any of its affiliates by or for the benefit of the Borrower, whether carried individually or jointly with others. This right is in addition to, and not in limitation of, any right the Bank may have at law or otherwise.
- i) The Bank reserves the right to disapprove any Collateral and to require the Borrower at any time to deposit into the Borrower's Collateral Account additional Collateral in the amount as the Bank requests or to substitute new or additional Collateral for any Collateral that has previously been deposited in the Collateral Account.

## 9) Control

For the purpose of giving the Bank control over each Collateral Account and in order to perfect the Bank's security interests in the Collateral, the Borrower and each Pledgor on the applicable Collateral Account consents to compliance by UBS Financial Services Inc., UBS-I or any other securities intermediary (in any case, the "Securities Intermediary") maintaining a Collateral Account with entitlement orders and instructions from the Bank (or from any assignee or successor of the Bank) regarding the Collateral Account and any financial assets or other property held therein without the further consent of the Borrower or any other Pledgor on the applicable Collateral Account. Without limiting the foregoing, the Borrower and each Pledgor on the Collateral Account acknowledges, consents and agrees that, pursuant to a control agreement entered into between the Bank and the Securities Intermediary:

- a) The Securities Intermediary will comply with entitlement orders originated by the Bank regarding any Collateral Account without further consent from the Borrower or any Pledgor. The Securities Intermediary will treat all assets credited to a Collateral Account, including money and credit balances, as financial assets for purposes of Article 8 of the Uniform Commercial Code.
- b) In order to enable the Borrower and any Pledgor on the applicable Collateral Account to trade financial assets that are from time to time credited to a Collateral Account, the Securities Intermediary may comply with entitlement orders originated by the Borrower or any Pledgor on the applicable Collateral Account (or if so agreed by the Bank, by an investment adviser designated by the Borrower or any Pledgor on the applicable Collateral Account and acceptable to the Bank and the Securities Intermediary) regarding the Collateral Account, but only until the time that the Bank notifies the Securities Intermediary, that the Bank is asserting exclusive control over the Collateral Account. After the Securities Intermediary has received a notice of exclusive control and has had a reasonable opportunity to comply, it will no longer comply with entitlement orders originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor)



UBS Bank USA		
Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN	Internal Use Only	

## Credit Line Agreement

concerning the Collateral Account. Notwithstanding the foregoing, however, and irrespective of whether it has received any notice of exclusive control, the Securities Intermediary will not comply with any entitlement order originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) to withdraw any financial assets from a Collateral Account or to pay any money, free credit balance or other amount owing on a Collateral Account (other than cash withdrawals and payments not exceeding the "Withdrawal Limit" as contemplated in Section 8 (g)) without the prior consent of the Bank.

## 10) Remedies

- a) If any of the following events (each, an "Event") occurs:
- (i) the Borrower fails to pay any amount due under this Agreement;
  - (ii) the Borrower and/or any other relevant Loan Party fails to maintain sufficient Collateral in a Collateral Account as required by the Bank or any Guarantor fails to maintain collateral as required by the Bank under its Guaranty Agreement;
  - (iii) the Borrower or any other Loan Party breaches or fails to perform any other covenant, agreement, term or condition that is applicable to it under this Agreement or any related agreement, or any representation or other statement of the Borrower (or any Loan Party) in this Agreement or in any related agreement is incorrect in any material respect when made or deemed made;
  - (iv) the Borrower or any other Loan Party dies or is declared (by appropriate authority) incompetent or of unsound mind or is indicted or convicted of any crime or, if not an individual, ceases to exist;
  - (v) any voluntary or involuntary proceeding for bankruptcy, reorganization, dissolution or liquidation or similar action is commenced by or against the Borrower or any other Loan Party, or a trustee in bankruptcy, receiver, conservator or rehabilitator is appointed, or an assignment for the benefit of creditors is made, with respect to the Borrower or any other Loan Party or its property;
  - (vi) the Borrower or any Loan Party is insolvent, unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, begins negotiations or takes any proceeding or other step with a view to readjustment, rescheduling or deferral of all or any part of its indebtedness, which it would or might otherwise be unable to pay when due, or proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors;
  - (vii) a Collateral Account (or any account in which collateral provided by a Loan Party is maintained) or any portion thereof is terminated, attached or subjected to a levy;
  - (viii) the Borrower or any Loan Party fails to provide promptly all financial and other information as the Bank may request from time to time;
  - (ix) any indebtedness of the Borrower or any other Loan Party in respect of borrowed money (including indebtedness guaranteed by the Borrower or any other Loan Party) or in respect of any swap, forward, cap, floor, collar, option or other derivative transaction, repurchase or similar transaction or any combination of these transactions is not paid when due, or any event or condition causes the indebtedness to become, or permits the holder to declare the indebtedness to be, due and payable prior to its stated maturity;
  - (x) final judgment for the payment of money is rendered against Borrower (or any Loan Party) and, within thirty days

from the entry of judgment, has not been discharged or stayed pending appeal or has not been discharged within thirty days from the entry of a final order of affirmance on appeal;

- (xi) any legal proceeding is instituted or any other event occurs or condition exists that in the Bank's judgment calls into question (A) the validity or binding effect of this Agreement or any related agreement or any of the Borrower's (or any other Loan Party's) obligations under this Agreement or under any related agreement or (B) the ability of the Borrower (or any Loan Party) to perform its obligations under this Agreement, or under any related agreement; or
- (xii) the Bank otherwise deems itself or its security interest in the Collateral insecure or the Bank believes in good faith that the prospect of payment or other performance by any Loan Party is impaired.

then, the Credit Line Obligations will become immediately due and payable (without demand) and the Bank may, in its sole and absolute discretion, liquidate, withdraw or sell all or any part of the Collateral and apply the same, as well as the proceeds of any liquidation or sale, to any amounts owed to the Bank, including any applicable Breakage Costs and Breakage Fee. The Bank will not be liable to any Loan Party in any way for any adverse consequences (for tax effect or otherwise) resulting from the liquidation of appreciated Collateral. Without limiting the generality of the foregoing, the sale may be made in the Bank's sole and absolute discretion by public sale on any exchange or market where business is then usually transacted or by private sale, and the Bank may be the purchaser at any public or private sale. Any Collateral that may decline speedily in value or that customarily is sold on a recognized exchange or market may be sold without providing any Loan Party with prior notice of the sale. Each Loan Party agrees that, for all other Collateral, two calendar days notice to the Loan Party, sent to its last address shown in the Bank's account records, will be deemed reasonable notice of the time and place of any public sale or time after which any private sale or other disposition of the Collateral may occur. Any amounts due and not paid on any Advance following an Event will bear interest from the day following the Event until fully paid at a rate per annum equal to the interest rate applicable to the Advance immediately prior to the Event plus 2.00%. In addition to the Bank's rights under this Agreement, the Bank will have the right to exercise any one or more of the rights and remedies of a secured creditor under the Utah Uniform Commercial Code, as then in effect, or under any other applicable law.

- b) Nothing contained in this Section 10 will limit the right of the Bank to demand full or partial payment of the Credit Line Obligations, in its sole and absolute discretion and without cause, at any time, whether or not an Event has occurred and is continuing.
- c) All rights and remedies of the Bank under this Agreement are cumulative and are in addition to all other rights and remedies that the Bank may have at law or equity or under any other contract or other writing for the enforcement of the security interest herein or the collection of any amount due under this Agreement.
- d) Any non-exercise of rights, remedies and powers by the Bank under this Agreement and the other documents delivered in connection with this Agreement shall not be construed as a waiver of any rights, remedies and powers. The Bank fully reserves its rights to invoke



UBS Bank USA		
Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN	Internal Use Only	

## Credit Line Agreement

any of its rights, remedies and powers at any time it may deem appropriate.

### 11) Representations, Warranties and Covenants by the Loan Parties

Each Borrower and each other Loan Party (if applicable) makes the following representations, warranties and covenants (and each Borrower will be deemed to have repeated each representation and warranty each time a Borrower requests an Advance) to the Bank:

- a) Except for the Bank's rights under this Agreement and the rights of the Securities Intermediary under any account agreement, the Borrower and each relevant Pledgor owns the Collateral, free of any interest, lien or security interest in favor of any third party and free of any impediment to transfer;
- b) Each Loan Party: (i) if a natural Person, is of the age of majority; (ii) is authorized to execute and deliver this Agreement and to perform its obligations under this Agreement and any related agreement; (iii) is not an employee benefit plan, as that term is defined by the Employee Retirement Income Security Act of 1974, or an Individual Retirement Credit Line Account (and none of the Collateral is an asset of a plan or account); and (iv) unless the Loan Party advises the Bank to the contrary, in writing, and provides the Bank with a letter of approval, where required, from its employer, is not an employee or member of any exchange or of any corporation or firm engaged in the business of dealing, either as a broker or as principal, in securities, bills of exchange, acceptances or other forms of commercial paper;
- c) Neither the Borrower nor any Pledgor on the Collateral Account has pledged or will pledge the Collateral or grant a security interest in the Collateral to any party other than the Bank or the Securities Intermediary, or has permitted or will permit the Collateral to become subject to any liens or encumbrances (other than those of the Bank and the Securities Intermediary), during the term of this Agreement;
- d) No Loan Party is in default under any material contract, judgment, decree or order to which it is a party or by which it or its properties may be bound;
- e) Each Loan Party has duly filed all tax and information returns required to be filed and has paid all taxes, fees, assessments and other governmental charges or levies that have become due and payable, except to the extent such taxes or other charges are being contested in good faith and are adequately reserved against in accordance with GAAP.
- f) The Borrower and each relevant Pledgor (i) is and at all times will continue to be the legal and beneficial owner of all assets held in or credited to any Collateral Account or otherwise included in the Collateral, and (ii) does not hold any assets held in or credited to any Collateral Account or otherwise included in the Collateral in trust or subject to any contractual or other restrictions on use that would prevent the use of such assets to (a) repay the Bank or (b) be pledged as Collateral in favor of the Bank.

The provisions of this Section 11 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations.

### 12) Indemnification; Limitation on Liability of the Bank and the Securities Intermediary

Borrower agrees to indemnify and hold harmless the Bank and the Securities Intermediary, their affiliates and their respective directors, officers, agents and employees against any and all claims, causes of action, liabilities, lawsuits, demands and damages, for example, any and all court costs and reasonable attorneys fees, in any way relating to or arising out of or in connection with this Agreement, except to the extent caused by the Bank's or Securities Intermediary's breach of its obligations under this Agreement. Neither the Bank nor the Securities Intermediary will be liable to any party for any consequential damages arising out of any act or omission by either of them with respect to this Agreement or any Advance or Collateral

Account. The provisions of this Section 12 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations.

**13) Acceptance of Application and Agreement; Applicable Law**

**THIS APPLICATION AND AGREEMENT WILL BE RECEIVED AND ACCEPTED BY BANK IN THE STATE OF UTAH, OR IF THIS APPLICATION AND AGREEMENT IS DELIVERED TO BANK'S AGENT, UBS FINANCIAL SERVICES INC., IT WILL BE RECEIVED AND ACCEPTED WHEN RECEIVED BY UBS FINANCIAL SERVICES INC.'S UNDERWRITING DEPARTMENT. DELIVERY OF THE APPLICATION AND AGREEMENT TO THE BORROWER'S FINANCIAL ADVISOR AT UBS FINANCIAL SERVICES INC. WILL NOT BE CONSIDERED RECEIPT OR ACCEPTANCE BY BANK. ALL DECISIONS MADE BY BANK REGARDING THE CREDIT LINE WILL BE MADE IN UTAH.**

**THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF UTAH APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY IN THE STATE OF UTAH AND, IN CONNECTION WITH THE CHOICE OF LAW GOVERNING INTEREST, THE FEDERAL LAWS OF THE UNITED STATES, EXCEPT THAT WITH RESPECT TO THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, INCLUDING, WITHOUT LIMITATION, THE NEW YORK UNIFORM COMMERCIAL CODE, AND FOR PURPOSES OF THIS AGREEMENT, THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THE JURISDICTION OF UBS FINANCIAL SERVICES INC. AND UBS-I SHALL BE DEEMED TO BE THE STATE OF NEW YORK.**

**14) Assignment**

This Agreement may not be assigned by the Borrower without the prior written consent of the Bank. This Agreement will be binding upon and inure to the benefit of the heirs, successors and permitted assigns of the Borrower. The Bank may assign this Agreement, and this Agreement will inure to the benefit of the Bank's successors and assigns.

**15) Amendment**

This Agreement may be amended only by the Bank, including, but not limited to, (i) the addition or deletion of any provision of this Agreement and (ii) the amendment of the (x) "Spread Over LIBOR/UBS Bank USA Fixed Funding Rate" in Schedule I or (y) "Spread Over Prime" in Schedule II to this Agreement, at any time by sending written notice, signed by an authorized officer of the Bank, of an amendment to the Borrower. The amendment shall be effective as of the date established by the Bank. This Agreement may not be amended orally. The Borrower or the Bank may waive compliance with any provision of this Agreement, but any waiver must be in writing and will not be deemed to be a waiver of any other provision of this Agreement. The provisions of this Agreement constitute the entire agreement between the Bank and the Borrower with respect to the subject matter hereof and supersede all prior or contemporaneous agreements, proposals, understandings and representations, written or oral, between the parties with respect to the subject matter hereof.

**16) Severability**

If any provision of this Agreement is held to be invalid, illegal, void or unenforceable, by reason of any law, rule, administrative order or judicial



UBS Bank USA		
Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN	Internal Use Only	

Credit Line Agreement

or arbitral decision, the determination will not affect the validity of the remaining provisions of this Agreement.

17) Choice of Forum; Waiver of Jury Trial

- a) ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY JUDGMENT ENTERED BY ANY COURT REGARDING THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT WILL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH OR IN THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH. EACH OF THE LOAN PARTIES IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH AND OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH FOR THE PURPOSE OF ANY SUCH ACTION OR PROCEEDING AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH ACTION OR PROCEEDING. EACH OF THE LOAN PARTIES IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE NOW OR IN THE FUTURE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.
- b) EACH OF THE LOAN PARTIES (FOR ITSELF, ANYONE CLAIMING THROUGH IT OR IN ITS NAME, AND ON BEHALF OF ITS EQUITY HOLDERS) IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY REGARDING ANY CLAIM BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.
- c) Any arbitration proceeding between the Borrower (or any other Loan Party) and the Securities Intermediary, regardless of whether or not based on circumstances related to any court proceedings between the Bank and the Borrower (or the other Loan Party), will not provide a basis for any stay of the court proceedings.
- d) Nothing in this Section 17 will be deemed to alter any agreement to arbitrate any controversies which may arise between the Borrower (or any other Loan Party) and UBS Financial Services Inc. or its predecessors, and any claims between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc. or its employees (whether or not they have acted as agents of the Bank) will be arbitrated as provided in any agreement between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc.

18) State Specific Provisions and Disclosures

- a) For residents of Ohio:

The Ohio laws against discrimination require that all creditors make credit equally available to all creditworthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.

- b) For residents of Oregon:

**NOTICE TO BORROWER: DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT. THIS AGREEMENT PROVIDES FOR THE PAYMENT OF A PENALTY IF YOU WISH TO REPAY A FIXED RATE ADVANCE PRIOR TO THE DATE PROVIDED FOR REPAYMENT IN THE AGREEMENT**

- c) For residents of Vermont:

**NOTICE TO BORROWER: THE ADVANCES MADE UNDER THIS AGREEMENT ARE DEMAND LOANS AND SO MAY BE COLLECTED BY THE LENDER AT ANY TIME. A NEW LOAN MUTUALLY AGREED UPON AND SUBSEQUENTLY ISSUED MAY CARRY A HIGHER OR LOWER RATE OF INTEREST.**

**NOTICE TO JOINT BORROWER: YOUR SIGNATURE ON THE AGREEMENT MEANS THAT YOU ARE EQUALLY LIABLE FOR REPAYMENT OF THIS LOAN. IF THE BORROWER DOES NOT PAY, THE LENDER HAS A LEGAL RIGHT TO COLLECT FROM YOU.**

**d) For residents of California:**

- (i) Any person, whether married, unmarried, or separated, may apply for separate credit.**
- (ii) As required by law, you are notified that a negative credit report reflecting on your credit record may be submitted to a credit reporting agency if you fail to fulfill the terms of your credit obligations.**
- (iii) The Borrower will notify the Bank, within a reasonable time, of any change in the Borrower's name, address, or employment.**
- (iv) The Borrower will not attempt to obtain any Advance if the Borrower knows that the Borrower's credit privileges under the Credit Line have been terminated or suspended.**
- (v) The Borrower will notify the Bank by telephone, telegraph, letter, or any other reasonable means that an unauthorized use of the Credit Line has occurred or may occur as the result of the loss or theft of a credit card or other instrument identifying the Credit Line, within a reasonable time after the Borrower's discovery of the loss or theft, and will reasonably assist the Bank in determining the facts and circumstances relating to any unauthorized use of the Credit Line.**

**19) Account Agreement**

**Each Loan Party acknowledges and agrees that this Agreement supplements their account agreement(s) with the Securities Intermediary relating to the Collateral Account and, if applicable, any related account management agreement(s) between the Loan Party and the Securities Intermediary. In the event of a conflict between the terms of this Agreement and any other agreement between the Loan Party and the Securities Intermediary, the terms of this Agreement will prevail.**

**20) Notices**

**Unless otherwise required by law, all notices to a Loan Party may be oral or in writing, in the Bank's discretion, and if in writing, delivered or mailed by the United States mail, or by overnight carrier or by telecopy to the address of the Loan Party shown on the records of the Bank. Each Loan Party agrees to send notices to the Bank, in writing, at such address as provided by the Bank from time to time.**





**UBS Bank USA**

Variable Credit Line Account Number: <i>(if applicable)</i>		
5V	62006	CP
Fixed Credit Line Account Number: <i>(if applicable)</i>		
SF		
SS# / TIN	Internal Use Only	

Credit Line Agreement

**Schedule I to UBS Bank USA Credit Line Agreement**

Schedule of Percentage Spreads Over LIBOR or the UBS Bank USA Fixed

Funding Rate, as applicable	Spread Over LIBOR/UBS Bank
Aggregate Approved Amount	USA Fixed Funding Rate
\$250,000 to \$499,999	2.750%
\$500,000 to \$999,999	1.750%
\$1,000,000 to \$4,999,999	1.500%
\$5,000,000 and over	1.250%

**Schedule II to UBS Bank USA Credit Line Agreement**

Schedule of Percentage Spreads Over Prime

Outstanding Amount under Credit Line	Spread Over Prime
\$0 to \$24,999	3.125%
\$25,000 to \$49,999	2.625%
\$50,000 to \$74,999	2.125%
\$75,000 to \$99,999	1.625%
\$100,000 to \$249,999	1.375%

**NOTICE TO CO-SIGNER (Traduccion en Ingles Se Requiere Por La Ley)**

You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to pay to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

The creditor can collect this debt from you without first trying to collect from the borrower. The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of your credit record.

This notice is not the contract that makes you liable for the debt.

**AVISO PARA EL FIADOR (Spanish Translation Required By Law)**

Se le esta pidiendo que garantice esta deuda. Pienselo con cuidado antes de ponerse de acuerdo. Si la persona que ha pedido este prestamo no paga la deuda, usted tendra que pagarla. Este seguro de que usted podra pagar si sea obligado a pagarla y de que usted desea aceptar la responsabilidad.

Si la persona que ha pedido el prestamo no paga la deuda, es posible que usted tenga que pagar la suma total de la deuda, mas los cargos por tardarse en el pago o el costo de cobranza, lo cual aumenta el total de esta suma.

El acreedor (financiero) puede cobrarle a usted sin, primeramente, tratar de cobrarle al deudor. Los mismos metodos de cobranza que pueden usarse contra el deudor, podran usarse contra usted, tales como presentar una demanda en corte, quitar parte de su sueldo, etc. Si alguna vez no se cumpla con la obligacion de pagar esta deuda, se puede incluir esa informacion en la historia de credito de usted.

Este aviso no es el contrato mismo en que se le echa a usted la responsabilidad de la deuda.

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Re: Account Number CP 14862 (the "Account")

**ADDENDUM TO CREDIT LINE AGREEMENT**

The attached "Credit Line Agreement" sets forth certain terms related to the extension of credit by UBS Bank USA (the "Bank") with respect to certain assets held through the above-referenced discretionary corporate cash management Account with UBS Financial Services Inc. (the "Firm"). The party signing this Addendum as Client where indicated below (the "Client") understands and agrees that, notwithstanding anything to the contrary contained in either the Credit Line Agreement (including, without limitation, Section 19 of the Credit Line Agreement) or the existing Corporate Cash Management Account Agreement applicable to the Account (the "Account Agreement"), the terms of the Credit Line Agreement supplement, but do not replace, the existing Account Agreement as follows: (i) the terms of the Credit Line Agreement (as amended from time to time in accordance with its terms) shall govern with respect to any matters, issues or disputes related directly to, or arising directly from, the extension of credit and/or the status of Client as borrower and the Bank as lender pursuant to the Credit Line Agreement (e.g., matters relating to the loan account(s) established at the Bank pursuant to the Credit Line Agreement, the terms of any borrowing or extension of credit under the Credit Line Agreement, and/or the indemnification of the Bank as a lender); and (ii) the terms of the Account Agreement (as amended from time to time in accordance with its terms) shall govern with respect to all other matters (e.g., matters relating to the Account established at the Firm pursuant to the Account Agreement, the Firm's trading authority and activities and/or the indemnification of the Firm for the services it provides under the Account Agreement).

Without limiting the generality of the foregoing, Client further understands and agrees that:

- (A) The Account remains a discretionary account, as described in Section 5 of the Account Agreement, and the Firm will continue to exercise investment discretion over the assets in the Account as provided in the Account Agreement.
- (B) If applicable, Client may continue to receive Financial Advisor Reports with respect to the Account, as described in Section 8 of the Account Agreement, and Client's receipt of such reports remains subject to the provisions of Section 8 of the Account Agreement.
- (C) Solely with respect to disputes arising out of the extension of credit and/or the status of Client as borrower and the Bank as lender pursuant to the Credit Line Agreement, the choice of law provisions of Section 13 of the Credit Line Agreement and the dispute resolution provisions of Section 17 of the Credit Line Agreement shall govern. With respect to any other disputes relating to the Account, the choice of law provisions of Section 14 of the Account Agreement and the dispute resolution provisions of Section 15 of the Account Agreement shall continue to govern.

**[Remainder of page intentionally left blank]**

**[Signature page follows]**

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Acknowledged and agreed this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

Client's Name: Cytokinetics, Incorporated

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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**ADDENDUM TO CREDIT LINE ACCOUNT APPLICATION AND AGREEMENT**

<b>Credit Line Account</b>		<b>Account Number</b>	
Cytokinetics, Inc.	5V	62006	CP
<b>Collateral Account</b>		<b>Account Number</b>	
Cytokinetics, Inc.	CP	14862	CPW4

This Addendum (this "Addendum") is attached to, incorporated by reference into and is fully a part of the Credit Line Account Application and Agreement between UBS Bank USA (the "Bank") and the borrower named in the signature area below (the "Borrower"), dated as of the date hereof (as amended or otherwise modified from time to time, the "Agreement"). This Addendum and the Agreement shall not become effective and binding upon the Bank until this Addendum has been executed by the Borrower and accepted by the Bank at its home office. Any conflict between the terms of the Agreement and this Addendum shall be resolved in accordance with the terms of this Addendum. Defined terms used herein to have the respective meanings set forth in the Agreement unless otherwise defined in this Addendum.

**A.** The Bank, UBS Financial Services Inc. and the Borrower each acknowledge and agree that:

**Definitions**

1. The Agreement is amended by adding the following definitions in Section 1:

- "Additional Payments" has the meaning specified in Section 5 g).
- "ARS Collateral" means any and all Collateral consisting of Auction Rate Securities.
- "ARS Payments" has the meaning specified in Section 5 g).
- "Auction Rate Securities" means any and all securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Auction Rate Securities," which, for greater certainty, include, without limitation, debt securities on which the interest rate payable is periodically re-set by an auction process and/or equity securities on which any dividend payable is periodically re-set by an auction process.
- "Taxable SLARC Maximum Auction Rate" means the applicable "reset rate," "maximum auction rate" or other similar rate as may be specified in the prospectus or other documentation governing any applicable Taxable Student Loan Auction Rate Securities as representing the failed auction rate or similar rate payable on such Auction Rate Securities, in each case expressed as a per-annum rate and as calculated in the Bank's sole and absolute discretion.
- "Taxable Student Loan Auction Rate Securities" means any and all Auction Rate Securities Collateral consisting of securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Student Loan Auction Rate Securities" and on which the interest or dividend rate paid or payable to the Borrower by the issuer of such securities is taxable to the Borrower."

**Terms of Advances**

2. The Agreement is amended by adding the following as Section 3 e):

"The Borrower acknowledges that the Bank will not make an Advance against the ARS Collateral in amounts equal to the fair market or par value of the ARS Collateral unless the Borrower arranges for another person or entity to provide additional collateral or assurances on terms and conditions satisfactory to the Bank. In requesting an Approved Amount equal to the par value of the ARS Collateral, the Borrower has arranged for UBS Financial Services Inc. to provide, directly or through a third party, the pledge of additional collateral and/or assurances to the Bank so that the Bank will consider making Advances from

time to time in accordance with the terms of this Agreement and in amounts equal to, in the aggregate, the par value of the ARS Collateral at the date of an Advance. In addition, the Borrower, the Bank and UBS Financial Services Inc. acknowledge and agree that if (a) the Bank is repaid all of the Credit Line Obligations due to the Bank under the Agreement and this Addendum and (b) as part of such repayment, the Bank realizes on the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank, then the Agreement shall not terminate and the Bank shall automatically assign to UBS Financial Services Inc. and any such third party, and UBS Financial Services Inc. and any such third party shall automatically assume and be subrogated to, all of the Bank's rights, claims and interest in and under the Agreement and this Addendum, including without limitation, the security interest in the Collateral, including without limitation the ARS Collateral, granted the Bank under the Agreement and this Addendum (further including, without limitation, interest, dividends, distributions, premiums, other income and payments received in respect of any and all such Collateral) to the extent of the amount that the Bank has realized on all or any part of the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank in order to effect the repayment of the Credit Line Obligations due to the Bank under the Agreement. Upon such automatic assignment and subrogation, UBS Financial Services Inc. and any such third party shall be entitled to directly exercise any and all rights and remedies afforded the Bank under the Agreement, this Addendum and any and all other documents and agreements entered into in connection with the Agreement and/or this Addendum."

KU Rev 08/08 Zero Net Cost LTPV Loan Addendum



**Interest**

3. The Agreement is amended by adding the following as a new Section 4 d), Section 4 e) and Section 4 f):

- “d) Notwithstanding anything to the contrary in this Agreement, and subject to the provisions of Sections 4 e) and f) of this Agreement, the interest rate charged on any and all outstanding Variable Rate Advances shall be the lesser of (i) the amount prescribed by Sections 4 a), b), or c) of this Agreement, as applicable, and (ii) the then applicable weighted average rate of interest or dividend rate paid to the Borrower by the issuer of the ARS Collateral.
- e) The Bank and the Borrower acknowledge and agree that the Bank shall be entitled to determine or adjust, at any time and from time to time, the interest rate payable by the Borrower to the Bank on all or any part of the outstanding Variable Rate Advances to reflect any changes in the composition of the ARS Collateral, to address any inability to determine interest rates, or for any other reason that, in the Bank’s sole and absolute discretion, is necessary to give effect to the intent of the provisions of this Agreement, including, without limitation, this Section 4 (it being acknowledged and agreed that the provisions of this Section 4 are intended to cause the interest payable by the Borrower under this Agreement to equal the interest or dividend rate payable to the Borrower by the issuer of any ARS Collateral) and any and all such adjustments by the Bank hereunder shall be conclusive and binding on the Bank and the Borrower absent manifest error.
- f) **If and to the extent that any or all of the ARS Collateral consists of Taxable Student Loan Auction Rate Securities, then notwithstanding anything to the contrary in this Agreement, when calculating such weighted average interest rate, the interest rate paid to the Borrower with respect to such Taxable Student Loan Auction Rate Securities shall be deemed to be equal to (i) for the period from the date of this Addendum through and including January 21, 2009, the applicable coupon rate(s) and (ii) from January 22, 2009 and thereafter, the then applicable Taxable SLARC Maximum Auction Rate, for, and to the extent of, such Taxable Student Loan Auction Rate Securities. The Borrower will be charged interest on the Loan in months in which the Borrower does not receive interest on the Taxable Student Loan Auction Rate Securities.”**

**Payments**

4. The Agreement is amended by adding the following as Section 5 g):

“The Borrower will make additional payments (“Additional Payments”) as follows:

- The proceeds of any liquidation, redemption, sale or other disposition of all or part of the ARS Collateral will be automatically transferred to the Bank as payments. The amount of these payments will be determined by the proceeds received in the Collateral Account, and may be as much as the total Credit Line Obligations.
- All other interest, dividends, distributions, premiums, other income and payments that are received in the Collateral Account in respect of any ARS Collateral will be automatically transferred to the Bank as payments. These are referred to as “ARS Payments.” The amount of each ARS Payment will vary, based on the proceeds received in the Collateral Account. The Bank estimates that the ARS Payments will range from zero to fifteen (\$15.00) dollars per month per \$1,000 in par value of Pledged ARS. The Bank will notify the Borrower at least ten (10) days in advance of any ARS Payment that falls outside of this range. If the Borrower would prefer to have advance notice of each payment to be made to Advances, the Borrower may cancel ARS Payments as described below.
- The Borrower agrees that any cash, check or other deposit (other than a deposit of securities) made to the Collateral Account is an individual authorization to have such amount transferred to the Bank as a payment. The amount of each payment is the amount of the deposit.

Each Additional Payment will be applied, as of the date received by the Bank, in the manner set forth in the last sentence of Section 5 d). The Borrower acknowledges that neither the Bank nor UBS Financial Services Inc. sets or arranges for any schedule of Additional Payments. Instead, Additional Payments will be transferred automatically from the Collateral Account whenever amounts are received in the Collateral Account, generally on the second Business Day after receipt.

The Borrower may elect to stop ARS Payments at any time, and this election will cancel all ARS Payments that would occur three (3) Business Days or more after the Bank receives such notice. If the Borrower stops ARS Payments, the Borrower will continue to be obligated to pay principal, interest, and other amounts pursuant to the Agreement. If the Borrower elects to cancel ARS Payments, all other Additional Payments will be cancelled. Cancelling ARS Payments and Additional Payments may result in higher interest charges by the Bank because amounts received in the Collateral Account will not be automatically transferred and credited. Any amounts received in the Collateral Account will remain in the Collateral Account unless the Bank permits you to withdraw all or part of such amounts. Your notice to cancel must be sent to: Attention: Head of Credit Risk Monitoring, UBS Bank USA, 299 South Main Street, Suite 2275, Salt Lake City, Utah 84111, or call (801) 741-0310.

**Important Disclosure About Required Payments.** If Additional Payments are sufficient to pay all accrued interest on Advances on or before a due date, then the Borrower need not make an additional interest payment. Excess Additional Payments will be applied against principal. However, if Additional Payments are not sufficient to pay all accrued interest on Advances on or before a due date, then the Bank may, in its sole discretion (1) capitalize unpaid interest as an additional Advance, or (2) require the Borrower to make payment of all accrued and unpaid interest.”



**Remedies**

5. The Agreement is amended by adding the following as Section 10 e):

“The Borrower agrees that in the event the Bank determines to liquidate or sell any Collateral, the Bank shall, to the fullest extent permitted by applicable law, have the right to do so in any manner, including, without limitation, the sale of Collateral individually or in a block, for cash or for credit, in a public or private sale, with or without public notice, through the use of sealed bids or otherwise, with the aid of any advisor or agent who may be an affiliate of the Bank or in any other manner as the Bank in its sole discretion shall choose. The Borrower acknowledges that the price the Bank obtains for Collateral in the Bank’s chosen method of sale may be lower than might be otherwise obtained in another method of sale, and the Borrower hereby agrees that any such sale shall not be considered to be not commercially reasonable solely because of such lower price. The Borrower understands that there may not be a liquid market for the Collateral and that, as a result, the price received for the Collateral upon liquidation or sale by the Bank may be substantially less than the Borrower paid for such Collateral or than the last market value available for it, if any. The Borrower further agrees that any sale by the Bank shall not be considered to be not commercially reasonable solely because there are few (including only one) or no third parties who submit bids or otherwise offer to buy the Collateral. The Borrower understands that the Bank’s sale of any of the Collateral may be subject to various state and federal property and/or securities laws and regulations, and that compliance with such laws and regulations may result in delays and/or a lower price being obtained for the Collateral. The Borrower agrees that the Bank shall have the right to restrict any prospective purchasers to those who, in the Bank’s sole discretion, the Bank deems to be qualified. The Borrower acknowledges that the Bank shall have sole authority to determine, without limitation, the time, place, method of advertisement and manner of sale and that the Bank may delay or adjourn any such sale in its sole discretion. The Borrower expressly authorizes the Bank to take any action with respect to the Collateral as the Bank deems necessary or advisable to facilitate any liquidation or sale, and the Borrower agrees that the Bank shall not be held liable for taking or failing to take any such action, regardless if a greater price may have been obtained for the Collateral if such action was or was not taken, as applicable. The Borrower hereby waives, to the fullest extent permitted by law, any legal right of appraisal, notice, valuation, stay, extension, moratorium or redemption that the Borrower would otherwise have with respect to a sale of the Collateral.”

**Representations, Warranties and Covenants by the Loan Parties**

6. The Agreement is amended by adding the following as Section 11 g):

“g) If at any time there are Credit Line Obligations outstanding under the Credit Line, then in connection with any ARS Collateral, if at any time any such ARS Collateral may be sold, exchanged, redeemed, transferred or otherwise conveyed by the Borrower for gross proceeds that are, in the aggregate, not less than the par value of such Auction Rate Securities to any party, including, without limitation, to UBS Financial Services Inc. and/or any of its affiliates (any such sale, exchange, redemption, transfer or conveyance referred to herein as an “ARS Liquidation”), the Borrower agrees (i) to immediately effect such ARS Liquidation to the extent necessary to satisfy all Credit Line Obligations in full and (ii) that the proceeds of any such ARS Liquidation so effected shall be immediately and automatically used to pay down any and all such outstanding Credit Line Obligations to the extent of such proceeds. The Borrower hereby acknowledges and agrees with the Bank and directs UBS Financial Services Inc. that to the extent permitted by applicable law, this Section 11 g) shall constitute an irrevocable instruction, direction and standing sell order to UBS Financial Services Inc. to effect an ARS Liquidation to the extent it is possible to do so at any time during the term of this Agreement. The Borrower further agrees with the Bank and UBS Financial Services Inc. to execute and deliver to the Bank and/or UBS Financial Services Inc. such further documents and agreements as may be necessary in the sole and absolute discretion of the Bank and/or UBS Financial Services Inc. to effect the foregoing irrevocable instruction, direction and standing sell order.”

**Waivers**

7. The Agreement is amended by adding the following as Section 21:

**“The Borrower hereby (i) acknowledges and admits its indebtedness and obligations to the Bank under the Agreement; and (ii) acknowledges, admits and agrees that it has no and shall assert no defenses, offsets, counterclaims or claims in**

respect of its obligations under the Agreement, in each case notwithstanding any claim or asserted claim that it may have, or purport to have, against any affiliate of the Bank.”

**Schedules I and II**

8. a) Schedule I of the Agreement is amended in its entirety to read as follows:

\$25,001 to \$499,999	2.750%
\$500,000 to \$999,999	1.750%
\$1,000,000 to \$4,999,999	1.500%
\$5,000,000 and over	1.250%

b) Schedule II of the Agreement is deleted in its entirety and replaced with: “[Intentionally Deleted].”

KU Rev 08/08 Zero Net Cost LTPV Loan Addendum



**No Fixed Rate Advances/Prime Credit Lines**

9. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement: (a) the Borrower shall not request and the Bank shall not make a Fixed Rate Advance; and (b) there shall be no Prime Credit Line facilities available under the Agreement.

**Alternative Financing**

10. If at any time the Bank exercises its right of demand under Section 5 a), Section 5 b) and Section 10 b) of the Loan Agreement for any reason other than (i) the occurrence of an Event under Sections 10 a) (iv), (v), (vii), (ix) (if and to the extent any indebtedness specified thereunder is to the Bank or any of the Bank's affiliates), or (xi) of the Agreement; or (ii) in connection with any termination for cause by UBS Financial Services Inc. of the overall customer relationship between UBS Financial Services Inc. and the Borrower or its affiliates, then UBS Financial Services Inc. shall, or shall cause one or more of its affiliates, to provide as soon as reasonably possible, alternative financing on substantially the same terms and conditions as those under the Agreement and the Bank agrees that the Agreement shall remain in full force and effect until such time as such alternative financing has been established.

**Margin Calls; Interest Payments**

11. Notwithstanding anything to the contrary in the Agreement, the Bank and the Borrower acknowledge and agree that UBS Financial Services Inc. or any affiliate thereof may, in its sole and absolute discretion, elect to: (i) provide additional collateral to the Bank in the form of United States Treasury Securities if and to the extent that the Borrower does not maintain in a Collateral Account, Collateral having an aggregate lending value as specified by the Bank from time to time; and/or (ii) satisfy any and all amounts of accrued and unpaid interest that are otherwise due and payable by the Borrower to the Bank under the Agreement, to the extent that the amount of any Additional Payments under the Agreement are insufficient to satisfy any and all such amounts.

**Collateral Account Features**

12. Section 8 f) of the Agreement is deleted in its entirety and replaced with the following:

"If a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account. If a Collateral Account has Resource Management Account® or Business Services Account BSA® features, such as check writing, cards, bill payment, or electronic funds transfer services, all such features shall be removed by UBS Financial Services Inc. or UBS International Inc., as applicable."

**No Credit Line Checks**

13. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement, the Credit Line shall not have Credit Line checks.

**Headings**

14. The headings of each of Section of this Addendum is for descriptive purposes only and shall not be deemed to modify or qualify the terms, conditions, rights or obligations described in such Section.

- B. This Addendum may be signed in multiple original counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

[Signature page(s) follows]





Credit Line Account Number

5V 62006 CP

IN WITNESS WHEREOF, each of the parties has signed this Addendum pursuant to due and proper authority as of the date set forth below.

	<u>Sharon A. Barbari, Chief Financial Officer/CFO</u>	
Date	Print Name and Title	Signature
	<u>ROBERT BLUM, Chief Executive Officer/CEO</u>	
Date	Print Name and Title	Signature

**UBS BANK USA**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**UBS FINANCIAL SERVICES INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_, 2008



requested with respect to the omitted portions.

Amgen Contract No. 200625165-006

March \_\_, 2009

[Name]

[Title]

Cytokinetics, Incorporated  
280 East Grand Ave.  
South San Francisco, CA 94080

**Re: Amendment No. 1 to Amended and Restated Executive Employment Agreement**

Dear \_\_\_\_\_,

As you know, Cytokinetics, Incorporated (the "Company") and you ("Executive") are parties to that certain Amended and Restated Executive Employment Agreement effective [date] (the "Agreement"). By this letter amendment, the parties agree to amend the Agreement as described below in order to comply with Internal Revenue Code Section 409A, effective as of January 1, 2009:

1. Section 9(b)(i) of the Agreement is hereby deleted in its entirety and replaced with the following:

"To receive any of the severance payment, vesting acceleration and benefits described in section 9(a), the release described in Section 9(a)(Y) must be entered into and must not be revoked by the Employee within the fifty-two (52) day period following the termination of the Executive's employment. No severance pursuant to Section 9(a) shall be paid or provided until the release becomes effective. Any severance payment, acceleration and benefits to which Executive otherwise would have been entitled under Section 9(a) during such fifty-two (52) day period shall be paid or provided, as applicable, by the Company to Executive in full arrears on the fifty-third (53<sup>rd</sup>) day following Executive's employment termination date or such later date as is required to avoid the imposition of additional taxes under Section 409A. Any other severance payments and benefits will be paid or provided, as applicable, by the Company to the Executive in accordance with normal payroll policies as provided in Section 9(a). If Executive should die before all amounts have been paid, such unpaid amounts will be paid in a lump-sum payment to Executive's designated beneficiary, if living, or otherwise to the personal representative of Executive's estate."

Any capitalized terms used herein and not otherwise defined herein will have the meaning ascribed in the Agreement. Except as expressly set forth herein, all of the terms of the Agreement will remain in full force and effect.

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Please so indicate your acceptance of the foregoing by signing this letter amendment in the appropriate signature line below, and return such signed copy to David Cragg, Vice President, Human Resources at your earliest convenience.

Sincerely,

Robert I. Blum  
President and CEO

**Agreed and accepted:**

By: \_\_\_\_\_

Date: \_\_\_\_\_

Page 2 of 2

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-125786, 333-129786, 333-138306, 333-146814 and 333-155259) and Form S-8 (Nos. 333-115146, 333-125973, 333-133323, 333-136524, 333-140963, 333-149713 and 333-152850) of Cytokinetics, Incorporated of our report dated March 12, 2009, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, CA

March 12, 2009

**PRINCIPAL EXECUTIVE OFFICER CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert I. Blum, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cytokinetics, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: March 12, 2009

**PRINCIPAL FINANCIAL OFFICER CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sharon A. Barbari, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cytokinetics, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: March 12, 2009

**CEO and CFO CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. Section 1350)**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Robert I. Blum, President, Chief Executive Officer and Director, and Sharon A. Barbari, Chief Financial Officer, of Cytokinetics, Incorporated (the "Company"), hereby certify that to the best of our knowledge:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and to which this certification is attached as Exhibit 32.1 (the "Annual Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in this Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

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

Date: March 12, 2009