

CYTOKINETICS INC  
Form 10-Q  
November 04, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

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)

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

**280 East Grand Avenue**

**South San Francisco, California**  
(Address of principal executive offices)

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

**94080**  
(Zip Code)

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

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

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

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  (Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares of common stock, \$0.001 par value, outstanding as of October 28, 2011: 72,279,751.

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**CYTOKINETICS, INCORPORATED**

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**CYTOKINETICS, INCORPORATED****(A Development Stage Enterprise)****CONDENSED BALANCE SHEETS**

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,591	\$ 17,514
Short-term investments	38,994	54,125
Related party accounts receivable	116	46
Prepaid and other current assets	2,170	1,813
Total current assets	59,871	73,498
Long-term investments		1,206
Property and equipment, net	1,514	2,321
Restricted cash	215	788
Other assets	178	179
Total assets	\$ 61,778	\$ 77,992
<b>LIABILITIES and STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,450	\$ 1,119
Accrued liabilities	3,263	5,372
Related party payables and accrued liabilities	11	
Short-term portion of equipment financing lines	310	833
Total current liabilities	5,034	7,324
Long-term portion of equipment financing lines		152
Total liabilities	5,034	7,476
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value:		
Authorized: 10,000,000 shares at September 30, 2011 and December 31, 2010		
Issued and outstanding: Series A Convertible Preferred Stock 8,070 shares at September 30, 2011 and zero shares at December 31, 2010		
Common stock, \$0.001 par value:		
Authorized: 245,000,000 shares at September 30, 2011 and 170,000,000 shares at December 31, 2010		
	72	67

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Issued and outstanding: 72,279,751 shares at September 30, 2011 and 66,907,600 shares at December 31, 2010

Additional paid-in capital	453,296	431,103
Accumulated other comprehensive income (loss)	8	(4)
Deficit accumulated during the development stage	(396,632)	(360,650)
<b>Total stockholders' equity</b>	<b>56,744</b>	<b>70,516</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 61,778</b>	<b>\$ 77,992</b>

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

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(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended		Period from
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	August 5, 1997 (Date of Inception) to September 30, 2011
<b>Revenues:</b>					
Research and development revenues from related parties	\$ 994	\$ 306	\$ 2,037	\$ 1,390	\$ 51,133
Research and development, grant and other revenues	433	88	1,206	88	5,251
License revenues from related parties					112,935
<b>Total revenues</b>	<b>1,427</b>	<b>394</b>	<b>3,243</b>	<b>1,478</b>	<b>169,319</b>
<b>Operating expenses:</b>					
Research and development	8,891	9,547	28,583	28,852	443,872
General and administrative	3,204	3,412	10,727	10,629	141,089
Restructuring charges					2,450
<b>Total operating expenses</b>	<b>12,095</b>	<b>12,959</b>	<b>39,310</b>	<b>39,481</b>	<b>587,411</b>
<b>Operating loss</b>	<b>(10,668)</b>	<b>(12,565)</b>	<b>(36,067)</b>	<b>(38,003)</b>	<b>(418,092)</b>
Interest and other, net	29	48	85	153	21,434
<b>Loss before income taxes</b>	<b>(10,639)</b>	<b>(12,517)</b>	<b>(35,982)</b>	<b>(37,850)</b>	<b>(396,658)</b>
Income tax benefit		(176)		(176)	(26)
<b>Net loss</b>	<b>(10,639)</b>	<b>(12,341)</b>	<b>(35,982)</b>	<b>(37,674)</b>	<b>(396,632)</b>
Deemed dividend related to beneficial conversion feature of convertible preferred stock			(2,857)		(2,857)
<b>Net loss allocable to common stockholders</b>	<b>\$ (10,639)</b>	<b>\$ (12,341)</b>	<b>\$ (38,839)</b>	<b>\$ (37,674)</b>	<b>\$ (399,489)</b>
Net loss per share allocable to common stockholders basic and diluted	\$ (0.15)	\$ (0.19)	\$ (0.55)	\$ (0.59)	
Weighted-average number of shares used in computing net loss per share allocable to common stockholders basic and diluted	72,280	64,434	70,134	63,424	

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



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## CYTOKINETICS, INCORPORATED

(A Development Stage Enterprise)

## CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended		Period from
	September 30,	September 30,	August 5, 1997
	2011	2010	(Date of Inception)
			to September 30,
			2011
<b>Cash flows from operating activities:</b>			
Net loss	\$ (35,982)	\$ (37,674)	\$ (396,632)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization of property and equipment	1,068	1,437	28,434
Loss on disposal of equipment	3	(13)	301
Non-cash impairment charges			103
Non-cash restructuring expenses, net of reversals			498
Non-cash interest expense			504
Non-cash forgiveness of loans to officers		9	434
Stock-based compensation	2,228	3,165	31,504
Tax benefit from stock-based compensation		20	
Non-cash warrant expense			1,626
Other non-cash expenses			141
Changes in operating assets and liabilities:			
Related party accounts receivable	(70)	(82)	(467)
Prepaid and other assets	(280)	221	(2,300)
Accounts payable	422	(585)	1,608
Accrued liabilities	(2,050)	(1,486)	3,122
Related party payables and accrued liabilities	11		11
Deferred revenue		(751)	
Net cash used in operating activities	(34,650)	(35,739)	(331,113)
<b>Cash flows from investing activities:</b>			
Purchases of investments	(40,876)	(81,790)	(952,306)
Proceeds from sales and maturities of investments	57,226	106,282	893,379
Proceeds from sales of auction rate securities		17,900	20,025
Purchases of property and equipment	(418)	(406)	(31,011)
Proceeds from sales of property and equipment	3	13	141
(Increase) decrease in restricted cash	573	886	(215)
Issuance of related party notes receivable			(1,146)
Proceeds from repayments of notes receivable			859
Net cash provided by (used in) investing activities	16,508	42,885	(70,274)
<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			206,871

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Proceeds from draw down of committed equity financing facilities and at-the-market facility, net of issuance costs	(76)	8,930	52,778
Proceeds from other issuances of common stock and warrants, net of issuance costs	10,641	287	18,060
Proceeds from issuance of preferred stock, net of issuance costs	9,329		142,501
Repurchase of common stock			(68)
Proceeds from loan with UBS			12,441
Repayment of loan with UBS		(10,201)	(12,441)
Proceeds from equipment financing lines			23,696
Repayment of equipment financing lines	(675)	(1,264)	(23,860)
Tax benefit from stock-based compensation		(20)	
<b>Net cash provided by (used in) financing activities</b>	<b>19,219</b>	<b>(2,268)</b>	<b>419,978</b>
Net increase in cash and cash equivalents	1,077	4,878	18,591
Cash and cash equivalents, beginning of period	17,514	25,561	
Cash and cash equivalents, end of period	\$ 18,591	\$ 30,439	\$ 18,591

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

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**CYTOKINETICS, INCORPORATED**

**(A Development Stage Enterprise)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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

***Overview***

Cytokinetics, Incorporated (the Company, we or our) was incorporated under the laws of the state of Delaware on August 5, 1997. The Company is a clinical-stage biopharmaceutical company focused on the discovery and development of novel small molecule therapeutics that modulate muscle function for the potential treatment of serious diseases and medical conditions. The Company is a development stage enterprise and has been primarily engaged in conducting research, developing drug candidates and technologies, and raising capital. The Company has never generated revenues from commercial sales of its drugs and it may not have drugs to market for at least several years, if ever.

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

The Company's financial statements contemplate the conduct of the Company's operations in the normal course of business. The Company has incurred an accumulated deficit since inception and there can be no assurance that the Company will attain profitability. The Company had a net loss of \$36.0 million and net cash used in operations of \$34.7 million for the nine months ended September 30, 2011, and an accumulated deficit of \$396.6 million as of September 30, 2011. Cash, cash equivalents and investments decreased to \$57.6 million at September 30, 2011 from \$72.8 million at December 31, 2010. The Company anticipates that it will continue to have operating losses and net cash outflows in future periods. If sufficient additional capital is not available on terms acceptable to the Company, its liquidity will be impaired.

The Company has funded its operations primarily through sales of equity securities, contract payments under its collaboration agreements, debt financing arrangements, government grants and interest income. Until it achieves profitable operations, the Company intends to continue to fund operations through payments from strategic collaborations, additional sales of equity securities, government grants and debt financings. Based on the current status of its research and development plans, the Company believes that its existing cash, cash equivalents and investments at September 30, 2011 will be sufficient to fund its cash requirements for at least the next twelve months. If, at any time, the Company's prospects for financing its research and development programs decline, the Company may decide to reduce research and development expenses by delaying, discontinuing or reducing its funding of one or more of its research or development programs. Alternatively, the Company might raise funds through strategic collaborations, public or private financings or other arrangements. Such funding, if needed, may not be available on favorable terms, or at all.

***Basis of Presentation***

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

The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date. The financial statements and related disclosures have been prepared with the presumption that users of the interim financial statements have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 11, 2011.

**Table of Contents****Comprehensive Loss**

Comprehensive loss consists of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in stockholders' equity that are excluded from net loss. Comprehensive loss and its components for the three and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net loss	\$ (10,639)	\$ (12,341)	\$ (35,982)	\$ (37,674)
Change in unrealized gain (loss) on investments	(7)	4	12	6
Comprehensive loss	\$ (10,646)	\$ (12,337)	\$ (35,970)	\$ (37,668)

**Restricted Cash**

In accordance with the terms of the Company's line of credit agreements with General Electric Capital Corporation (GE Capital), the Company is obligated to maintain a certificate of deposit with the lender. In January 2011 and July 2011, GE Capital reduced the amount of the Company's certificate of deposit.

The balance of the certificate of deposit, which the Company classifies as restricted cash, was as follows (in thousands):

	September 30, 2011	December 31, 2010
Certificate of deposit classified as restricted cash	\$ 215	\$ 788

**Note 2. Net Loss Per Share**

Basic net loss per share allocable to common stockholders is computed by dividing the net loss allocable to common stockholders by the weighted average number of vested common shares outstanding during the period. Diluted net loss per share allocable to common stockholders is computed by giving effect to all potentially dilutive common shares, including outstanding stock options, unvested restricted stock, warrants, convertible preferred stock and shares issuable under the Company's Employee Stock Purchase Plan (ESPP), by applying the treasury stock method. Following is the calculation of basic and diluted net loss per share allocable to common stockholders (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net loss	\$ (10,639)	\$ (12,341)	\$ (35,982)	\$ (37,674)
Deemed dividend related to beneficial conversion feature of convertible preferred stock			(2,857)	
Net loss allocable to common stockholders	\$ (10,639)	\$ (12,341)	\$ (38,839)	\$ (37,674)
Weighted-average common shares outstanding	72,280	64,552	70,134	63,586
Unvested restricted stock		(118)		(162)
	72,280	64,434	70,134	63,424

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Weighted-average number of shares used in computing net loss per share allocable to common stockholders basic and diluted

Net loss per share allocable to common stockholders basic and diluted	\$ (0.15)	\$ (0.19)	\$ (0.55)	\$ (0.59)
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The following instruments were excluded from the computation of diluted net loss per share allocable to common stockholders for the periods presented because their effect would have been antidilutive (in thousands):

	<b>Three and Nine Months Ended</b>	
	<b>September 30, 2011</b>	<b>September 30, 2010</b>
Options to purchase common stock	9,855	8,134
Warrants to purchase common stock	10,238	4,027
Series A convertible preferred stock (as converted to common stock)	8,070	
Shares issuable related to the ESPP	131	108
<b>Total shares</b>	<b>28,294</b>	<b>12,269</b>

**Table of Contents****Note 3. Supplemental Cash Flow Data**

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

	Nine Months Ended		Period from August 5, 1997 (date of inception) to September 30, 2011
	September 30, 2011	September 30, 2010	
Significant non-cash investing and financing activities:			
Deferred stock-based compensation	\$	\$	\$ 6,940
Purchases of property and equipment through accounts payable	13	18	13
Purchases of property and equipment through trade in value of disposed property and equipment			258
Penalty on restructuring of equipment financing lines			475
Conversion of convertible preferred stock to common stock			133,172
Warrants issued in equity financing			1,585

**Note 4. Related Party Research and Development Arrangements****Amgen Inc. ( Amgen )**

Pursuant to its collaboration and option agreement with Amgen, the Company has recognized research and development revenue from Amgen for reimbursements of its costs of full-time employee equivalents ( FTEs ) supporting the research and development program for omeacamtiv mecarbil and related compounds, and for reimbursements of other costs related to that program. These reimbursements were recorded as research and development revenues from related parties. Revenue from Amgen was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
FTE reimbursements	\$ 985	\$ 120	\$ 1,986	\$ 857
Reimbursements of other costs	9	186	51	533
<b>Total research and development revenues from Amgen</b>	<b>994</b>	<b>306</b>	<b>2,037</b>	<b>1,390</b>
<b>Total revenue from Amgen</b>	<b>\$ 994</b>	<b>\$ 306</b>	<b>\$ 2,037</b>	<b>\$ 1,390</b>

Deferred revenue and related party accounts receivable related to Amgen were as follows (in thousands):

	September 30, 2011	December 31, 2010
Deferred revenue Amgen	\$	\$
Related party accounts receivable Amgen	\$ 116	\$ 41

**GlaxoSmithKline ( GSK )**

There were no related party accounts receivables due from GSK at September 30, 2011 or December 31, 2010. Related party payables and accrued liabilities due to GSK were as follows (in thousands):

		September 30, 2011	December 31, 2010
Related party payables and accrued liabilities	GSK	\$ 11	\$

**Note 5. Grant Arrangement**

In July 2010, the National Institute of Neurological Disorders and Stroke ( NINDS ) awarded to the Company a \$2.8 million grant to support for three years its research and development of CK-2017357 directed to the potential treatment for myasthenia gravis. We have determined that the Company is the principal participant in the grant arrangement and, accordingly, the Company records amounts earned under the arrangement as revenue. The Company recognized grant revenue under this grant arrangement as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
NINDS myasthenia gravis	\$ 433	\$ 88	\$ 1,206	\$ 88

**Table of Contents****Note 6. Cash Equivalents and Investments***Cash Equivalents and Available for Sale Investments*

The amortized cost and fair value of cash equivalents and available for sale investments at September 30, 2011 and December 31, 2010 were as follows (in thousands):

		September 30, 2011				
		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Maturity Dates
Cash equivalents	money market funds	\$ 15,636	\$	\$	\$ 15,636	
Cash equivalents	U.S. Treasury securities	\$ 752	\$	\$		