

CYTOKINETICS INC  
Form DEF 14A  
April 02, 2012

## SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

### **Cytokinetics, Incorporated**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

**1.** Title of each class of securities to which transaction applies:

**2.** Aggregate number of securities to which transaction applies:

**3.**

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Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

## **Cytokinetics, Incorporated**

### **NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**May 22, 2012**

To the Stockholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Cytokinetics, Incorporated (the Company), a Delaware corporation, will be held on Tuesday, May 22, 2012, at 10:00 a.m. local time, at the Embassy Suites Hotel, 250 Gateway Boulevard, South San Francisco, CA 94080, for the following purposes:

1. To elect Robert I. Blum, Denise M. Gilbert and Sandford D. Smith as Class II Directors, each to serve for a three-year term and until their successors are duly elected and qualified (Proposal One);
2. To ratify the selection by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm to the Company for the fiscal year ending December 31, 2012 (Proposal Two);
3. To approve an increase in the number of authorized shares reserved for issuance under the 2004 Equity Incentive Plan, as amended, by 2,500,000 shares (Proposal Three);
4. To transact such other business as may properly be brought before the meeting and any adjournment(s) thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on March 28, 2012 are entitled to notice of and to vote at the meeting.

Sincerely,

Sharon A. Barbari  
*Corporate Secretary*

South San Francisco, California

April 2, 2012

**YOUR VOTE IS IMPORTANT**

**THIS PROXY STATEMENT IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY THE COMPANY, ON BEHALF OF THE BOARD OF DIRECTORS, FOR THE 2012 ANNUAL MEETING OF STOCKHOLDERS. THE PROXY STATEMENT AND THE RELATED PROXY FORM ARE BEING DISTRIBUTED ON OR ABOUT APRIL 11, 2012. IF YOU ARE A STOCKHOLDER OF RECORD YOU CAN VOTE YOUR SHARES USING ONE OF THE FOLLOWING METHODS:**

**COMPLETE AND RETURN A WRITTEN PROXY CARD**

**BY INTERNET OR TELEPHONE**

**ATTEND THE COMPANY'S 2012 ANNUAL MEETING OF STOCKHOLDERS AND VOTE**  
**ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING. HOWEVER, TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE URGED TO MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PREPAID ENVELOPE ENCLOSED FOR THAT PURPOSE OR VOTE YOUR SHARES BY INTERNET OR TELEPHONE. ANY STOCKHOLDER ATTENDING THE MEETING MAY VOTE IN PERSON EVEN IF HE OR SHE HAS RETURNED A PROXY CARD OR VOTED BY INTERNET OR TELEPHONE. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER.**

*Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of*

*Stockholders to be Held on May 22, 2012*

**This Proxy Statement, Notice of Annual Meeting and Form of Proxy Card and the 2011 Annual Report to Stockholders are available at [www.cytokinetics.com/proxy](http://www.cytokinetics.com/proxy). You may obtain directions to the Annual Meeting of Stockholders by directing a request to:**

**Investor Relations**

**Cytokinetics, Incorporated**

**280 East Grand Avenue**

**South San Francisco, California 94080**

**email: [investor@cytokinetics.com](mailto:investor@cytokinetics.com)**

**Telephone: 650-624-3000**

## **CYTOKINETICS, INCORPORATED**

**280 East Grand Avenue**

**South San Francisco, California 94080**

### **PROXY STATEMENT**

#### **FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**May 22, 2012**

#### **INFORMATION CONCERNING SOLICITATION AND VOTING**

##### **General**

The Board of Directors of Cytokinetics, Incorporated (the Company, we, us, our) is soliciting proxies for use at the Annual Meeting of Stockholders (the Annual Meeting) to be held at the Embassy Suites Hotel, 250 Gateway Boulevard, South San Francisco, CA 94080, on Tuesday, May 22, 2012, at 10:00 a.m. local time, and at any adjournment(s) thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Our principal executive offices are located at the address listed at the top of the page and the telephone number is (650) 624-3000.

Our Annual Report and our Annual Report on Form 10-K, containing financial statements for the fiscal year ended December 31, 2011, are being provided together with these proxy solicitation materials to all stockholders entitled to vote. This proxy statement, the accompanying proxy card, our Annual Report and our Annual Report on Form 10-K will first be mailed on or about April 11, 2012 to all stockholders entitled to vote at the meeting.

WE WILL PROVIDE WITHOUT CHARGE TO ANY STOCKHOLDER SOLICITED BY THESE PROXY SOLICITATION MATERIALS A COPY OF OUR ANNUAL REPORT ON FORM 10-K, TOGETHER WITH THE FINANCIAL STATEMENTS REQUIRED TO BE FILED WITH THE ANNUAL REPORT ON FORM 10-K, UPON REQUEST OF THE STOCKHOLDER MADE IN WRITING TO CYTOKINETICS, INCORPORATED, 280 EAST GRAND AVENUE, SOUTH SAN FRANCISCO, CALIFORNIA, 94080, ATTN: INVESTOR RELATIONS, ANNUAL STOCKHOLDER MEETING.

##### **Record Date and Share Ownership**

Common stockholders of record at the close of business on March 28, 2012 (the Record Date) are entitled to notice of and to vote at the meeting and at any adjournment(s) thereof. We have one series of common shares issued and outstanding, designated as Common Stock, \$0.001 par value per share (the Common Stock). As of the Record Date, 245,000,000 shares of Common Stock were authorized and 77,512,080 shares were issued and outstanding. As of the Record Date, 10,000,000 shares of Preferred Stock were authorized and 8,070 shares of Series A Convertible Preferred Stock were issued and outstanding. The Series A Convertible Preferred Stock has no voting rights.

##### **Revocability of Proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by: (i) issuing a later proxy, (ii) delivering to us at our principal offices (Attention: Corporate Secretary) a written notice of revocation, or (iii) attending the Annual Meeting and voting in person.

**Voting**

On all matters, each common share has one vote.

### **Solicitation of Proxies**

We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of Common Stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of Common Stock for their costs of forwarding solicitation materials to such beneficial owners. Proxies may be solicited by certain of our directors, officers and regular employees, without additional compensation, personally or by telephone or facsimile.

### **Voting in Person or by Proxy Card**

If you are a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy using the proxy card. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote in person if you have already voted by proxy. To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive. To vote using the proxy card, simply complete, sign and date the proxy card (which is enclosed if you received this proxy statement by mail or that you may request or that we may elect to deliver at a later time), and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

### **Voting Via the Internet or by Telephone**

Stockholders may also grant a proxy to vote their shares by means of the telephone or on the Internet. The laws of the State of Delaware, under which we are incorporated, specifically permit electronically transmitted proxies, provided that each such proxy contains or is submitted with information from which the Inspector of Elections can determine that such proxy was authorized by the stockholder.

The telephone and Internet voting procedures below are designed to authenticate stockholders' identities, to allow stockholders to grant a proxy to vote their shares and to confirm that stockholders' instructions have been recorded properly. Stockholders granting a proxy to vote via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, which must be borne by the stockholder.

### ***For Shares Registered in Your Name***

Stockholders of record as of the close of business on the Record Date may go to [www.proxyvoting.com/cytk](http://www.proxyvoting.com/cytk) to grant a proxy to vote their shares by means of the Internet. They will be required to provide our number and control number contained on their proxy cards. The voter will then be asked to complete an electronic proxy card. The votes represented by such proxy will be generated on the computer screen and the voter will be prompted to submit or revise them as desired. Any stockholder using a touch-tone telephone may also grant a proxy to vote shares by calling 1-866-540-5760 and following the recorded instructions.

### ***For Shares Registered in the Name of a Broker or Bank***

Most beneficial owners whose stock is held in street name receive instructions for granting proxies from their banks, brokers or other agents, rather than our proxy card.

A number of brokers and banks are participating in a program provided through Broadridge Financial Solutions that offers the means to grant proxies to vote shares via telephone and the Internet. If your shares are held in an account with a broker or bank participating in the Broadridge Financial Solutions program, you may grant a proxy to vote those shares telephonically by calling the telephone number shown on the instruction form received from your broker or bank, or via the Internet at Broadridge Financial Solutions' web site at [www.proxyvote.com](http://www.proxyvote.com).

**General Information for All Shares Voted Via the Internet or By Telephone**

Votes submitted via the Internet or by telephone must be received by 11:59 p.m., Eastern Time on May 21, 2012. Submitting your proxy via the Internet or by telephone will not affect your right to vote in person should you decide to attend the Annual Meeting.

**Quorum; Abstentions; Broker Non-Votes**

Votes cast by proxy or in person at the Annual Meeting ( Votes Cast ) will be tabulated by the Inspector of Elections (the Inspector ) who is expected to be a representative from Computershare Shareowner Services, our Transfer Agent and Registrar. The Inspector will also determine whether or not a quorum is present. Except in certain specific circumstances, the affirmative vote of a majority of shares present in person or represented by proxy at a duly held meeting at which a quorum is present is required under Delaware law for approval of proposals presented to stockholders. In general, Delaware law provides that a quorum will be present if stockholders holding at least a majority of shares entitled to vote are present in person or represented by proxy at the meeting.

The Inspector will treat shares that are voted WITHHELD or ABSTAIN as being present and entitled to vote for purposes of determining the presence of a quorum. However, such shares will not be treated as votes in favor of approving any matter submitted to the stockholders for a vote. When proxies are properly dated, executed and returned, or if instructions are properly carried out for Internet or telephone voting, the shares represented by such proxies will be voted at the Annual Meeting in accordance with the stockholder s instructions. If no specific instructions are given, the shares will be voted (i) for the election of the nominees for directors set forth herein; (ii) for the ratification of PricewaterhouseCoopers LLP; (iii) for approval of the amendment to the 2004 Equity Incentive Plan, as amended; and (iv) upon such other business as may properly come before the Annual Meeting or any adjournment thereof, but will not be voted in the election of directors other than as provided in (i) above.

If a broker indicates on the enclosed proxy or its substitute that such broker does not have discretionary authority as to certain shares to vote on a particular matter ( broker non-votes ), then those shares will be considered as present with respect to establishing a quorum for the transaction of business. Discretionary items are proposals considered routine under the rules of the New York Stock Exchange ( NYSE ) on which your broker may vote shares held in street name in the absence of your voting instructions. Non-discretionary items are matters that may substantially affect the rights or privileges of stockholders, such as mergers, stockholder proposals, elections of directors (even if not contested) and executive compensation, including the advisory stockholder votes on executive compensation and on the frequency of stockholder votes on executive compensation. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. We believe that the tabulation procedures to be followed by the Inspector are consistent with the general statutory requirements in Delaware concerning voting of shares and determination of a quorum.

Broker non-votes with respect to proposals set forth in this proxy statement will not be considered Votes Cast and, accordingly, will not affect the determination as to whether the requisite number of Votes Cast has been obtained with respect to a particular matter. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date.

**Deadline for Receipt of Stockholder Proposals**

Stockholders are entitled to present proposals for action at a forthcoming meeting if they comply with the requirements of our bylaws and the rules established by the Securities and Exchange Commission (the SEC ) under the Securities Exchange Act of 1934, as amended (the Exchange Act ). Under these requirements,



proposals of our stockholders that are intended to be presented by such stockholders at our 2013 Annual Meeting of Stockholders must be received by us no later than December 12, 2012. A copy of the relevant bylaws provisions relating to stockholder proposals is available upon written request to Cytokinetics, Incorporated, 280 East Grand Avenue, South San Francisco, California 94080, Attention: Corporate Secretary.

**Results of the Voting at the Annual Meeting**

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the Annual Meeting. If final voting results are not available to us in time to file a current report on Form 8-K within four business days after the Annual Meeting, we intend to file a current report on Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional current report on Form 8-K to publish the final results.

**PROPOSAL ONE**

**ELECTION OF THREE CLASS II DIRECTORS**

**Nominees**

Our Board of Directors currently has eight members. We have a classified Board of Directors, which is divided into three classes of directors whose terms expire at different times. The three classes are currently comprised of the following directors:

Class I consists of L. Patrick Gage and Wendell Wierenga, who will serve until the 2014 Annual Meeting of Stockholders meeting and until their successors have been duly elected and qualified;

Class II consists of Robert I. Blum, Denise M. Gilbert and Sandford D. Smith, who will serve until the 2012 Annual Meeting of Stockholders and stand for re-election as Class II directors at such meeting; and

Class III consists of Santo J. Costa, Stephen Dow and John T. Henderson, who will serve until the 2013 Annual Meeting of Stockholders and until their successors have been duly elected and qualified.

At each Annual Meeting of Stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third Annual Meeting of Stockholders following election and until their successors have been duly elected and qualified. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of an equal number of directors.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for our three nominees named below, who are currently directors of the Company. The nominees have consented to be named as nominees in the proxy statement and to continue to serve as directors if elected. If any nominee becomes unable or declines to serve as a director or if additional persons are nominated at the meeting, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of the nominees listed below if possible (or, if new nominees have been designated by the Board of Directors, in such a manner as to elect such nominees), and the specific nominees to be voted for will be determined by the proxy holders.

The nominees for the Class II directors are as follows:

*Robert I. Blum*

*Denise M. Gilbert*

*Sandford D. Smith*

Biographical information for each Class II director can be found below in the Board of Directors section. We are not aware of any reason that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a Class II director will continue until our 2015 Annual Meeting of Stockholders and until a successor has been elected and qualified. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which he is or was to be selected as a director or officer of the Company.

**Vote Required**

Directors will be elected by a plurality vote of the shares of Common Stock present or represented and entitled to vote on this matter at the meeting. Accordingly, the candidates receiving the highest number of affirmative votes of shares represented and voting on this proposal at the meeting will be elected directors of the Company. Votes withheld from a nominee and broker non-votes will be counted for purposes of determining the presence or absence of a quorum but, because directors are elected by a plurality vote, will have no impact once a quorum is present. See Quorum; Abstentions; Broker Non-Votes.

**THE CLASS I AND III DIRECTORS RECOMMEND THAT  
STOCKHOLDERS VOTE *FOR* THE CLASS II NOMINEES LISTED ABOVE.**

**PROPOSAL TWO**

**RATIFICATION OF SELECTION OF PRICEWATERHOUSECOOPERS LLP  
AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE COMPANY FOR  
THE FISCAL YEAR ENDING DECEMBER 31, 2012**

The Audit Committee of the Board of Directors has selected PricewaterhouseCoopers LLP, an independent registered public accounting firm, to audit our financial statements for the fiscal year ending December 31, 2012, and recommends that the stockholders vote for ratification of such selection. Although action by stockholders is not required by law, the Board of Directors has determined that it is desirable to request ratification of this selection by the stockholders. Notwithstanding the selection or ratification, the Audit Committee, in its discretion, may direct the selection of a new independent registered public accounting firm at any time during the year, if the Audit Committee determines that such a change would be in our best interest.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the meeting and will be afforded the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

**THE BOARD OF DIRECTORS RECOMMENDS THAT****STOCKHOLDERS VOTE FOR RATIFICATION OF THE SELECTION BY THE AUDIT****COMMITTEE OF THE BOARD OF DIRECTORS OF****PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT REGISTERED PUBLIC****ACCOUNTING FIRM TO THE COMPANY****FOR THE FISCAL YEAR ENDING DECEMBER 31, 2012.****Principal Accountant Fees and Services**

Fees incurred for professional services provided by our independent registered public accounting firm in each of the last two fiscal years were:

|                    | Years Ended<br>December 31, |                   |
|--------------------|-----------------------------|-------------------|
|                    | 2011                        | 2010              |
| Audit Fees         | \$ 588,700                  | \$ 408,453        |
| Audit-Related Fees | 82,000                      | 23,000            |
| Tax Fees           |                             |                   |
| Other Fees         | 1,800                       | 1,500             |
|                    | <b>\$ 672,500</b>           | <b>\$ 432,953</b> |

PricewaterhouseCoopers LLP served as our independent registered public accounting firm for the years ended December 31, 2011 and 2010.

Audit fees include fees associated with the annual audit of our financial statements, fees associated with Sarbanes-Oxley Act compliance and the interim review of our financial statements included in quarterly reports on Form 10-Q. Audit-related fees include services provided in connection with private placements of Common Stock and issuance of consents relating to registration statement filings with the SEC.

Other fees in 2011 and 2010 consist of the cost of our subscription to an accounting research tool provided by PricewaterhouseCoopers LLP.



All audit services and non-audit services provided to us by our independent registered public accounting firm are required to be pre-approved by the Audit Committee. The pre-approval of non-audit services to be provided by PricewaterhouseCoopers LLP includes making a determination that the provision of the services is compatible with maintaining the independence of PricewaterhouseCoopers LLP as our independent registered public accounting firm. All services for audit and other fees set forth in the table above were pre-approved by the Audit Committee.

**Vote Required**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of PricewaterhouseCoopers LLP. Abstentions will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

**PROPOSAL THREE**

**APPROVAL OF AMENDMENT TO**

**THE 2004 EQUITY INCENTIVE PLAN, AS AMENDED**

The 2004 Equity Incentive Plan, as amended (the "2004 Equity Plan"), was originally adopted by the Board of Directors in January 2004 and approved by the stockholders in February 2004. Our stockholders approved amendments to the 2004 Equity Plan in May 2008, May 2009, May 2010 and May 2011. A total of 1,600,000 split-adjusted shares of Common Stock were initially authorized for issuance under the 2004 Equity Plan. The authorized amount was thereafter increased pursuant to: (i) the evergreen provisions of the 2004 Equity Plan, through May 2008; (ii) by shares returned to our 1997 Stock Option/Stock Issuance Plan (the "1997 Plan") that were rolled into the 2004 Equity Plan pursuant to the terms of the 2004 Equity Plan; (iii) by 2,000,000 shares as of May 22, 2008 as approved by the stockholders; (iv) by 2,000,000 shares as of May 21, 2009 as approved by the stockholders; (v) by 2,300,000 shares as of May 20, 2010 as approved by the stockholders; and (vi) by 3,000,000 shares as of May 18, 2011 as approved by the stockholders. As of February 29, 2012, a total of 15,779,275 shares are authorized for issuance under the 2004 Equity Plan, which may be increased by the number of shares, if any, returned on or after February 29, 2012 to the 1997 Plan as a result of termination of options or repurchase of shares issued under such plan, up to a maximum of 428,896 additional shares.

The Board of Directors is now requesting that the stockholders approve an amendment to the 2004 Equity Plan to increase of the number of authorized shares reserved for issuance under the 2004 Equity Plan by 2,500,000 shares. The Board of Directors has approved the increase to the authorized share reserve, subject to approval from the stockholders at the Annual Meeting.

**Amendment to the 2004 Equity Plan**

The following is a summary of the amendment to the 2004 Equity Plan. This summary is qualified in its entirety by reference to the actual text of the proposed amendment to the 2004 Equity Plan, set forth as Appendix A.

An increase to the number of authorized shares of our Common Stock reserved for issuance under the 2004 Equity Plan of 2,500,000 shares, from 15,779,275 shares as of February 29, 2012 to 18,279,275 shares;

The Board of Directors believes that the approval of the amendment to the 2004 Equity Plan is essential to our continued success. In particular, the Board of Directors believes that our employees are our most valuable assets and that the awards permitted under the 2004 Equity Plan are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we operate. Such awards also are crucial to our ability to motivate our employees to achieve our goals. The proposed increase in the number of shares authorized for issuance under the 2004 Equity Plan is intended to provide sufficient shares to fund anticipated equity awards at least until the 2013 Annual Meeting of Stockholders.

**Vote Required**

The approval of the 2004 Equity Plan requires the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting. Abstentions will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

**Recommendation of the Board of Directors**

The Board of Directors recommends voting **FOR** approval of the amendment to the 2004 Equity Plan and the number of authorized shares reserved for issuance thereunder.

### Summary of the 2004 Equity Plan, As Amended

The following is a summary of the principal features of the 2004 Equity Plan, as amended by the Board of Directors and subject to stockholder approval as described in this Proposal Three. The summary is qualified in its entirety by reference to the 2004 Equity Plan itself set forth in Appendix A.

The 2004 Equity Plan provides for the grant of the following types of incentive awards: (i) stock options, including incentive stock options and nonstatutory stock options, (ii) restricted stock, (iii) stock appreciation rights, (iv) performance units and performance shares, and (v) restricted stock units. Each of these is referred to as an Award. The 2004 Equity Plan also provides the ability to grant performance restricted stock, performance units, performance shares and performance restricted stock units, which enable the Compensation and Talent Committee of the Board of Directors to use performance goals or other business criteria in establishing specific targets to be attained as a condition to the granting or vesting of Awards.

*Eligibility.* Those who will be eligible for Awards under the 2004 Equity Plan are members of the Board of Directors and employees and consultants who provide services to us and our parent or subsidiaries. As of February 29, 2012, approximately 79 of our employees and 7 non-employee directors are eligible for Awards under the 2004 Equity Plan.

*Number of Shares of Common Stock Available Under the 2004 Equity Plan.* The maximum aggregate number of shares that may be awarded and sold under the 2004 Equity Plan, after giving effect to the proposed amendment, is 18,279,275 shares, which may be increased by the number of shares, if any, returned on or after February 29, 2012 to the 1997 Plan as a result of termination of options or repurchase of shares issued under such plan, up to a maximum of 428,896 additional shares.

Shares subject to Awards granted with an exercise price less than the fair market value on the date of grant count against the share reserve as two shares for every one share subject to such an Award, and if shares acquired pursuant to any such Awards are forfeited or repurchased by us and would otherwise return to the 2004 Equity Plan as described below, two times the number of shares so forfeited or repurchased will become available for future issuance under the 2004 Equity Plan.

If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to restricted stock, restricted stock units, performance shares or performance units, is forfeited to or repurchased by us due to failure to vest, the unpurchased shares (or for Awards other than options and stock appreciation rights, the forfeited or repurchased shares) which were subject to the Award will become available for future grant or sale under the 2004 Equity Plan. Upon exercise of a stock appreciation right settled in shares, the gross number of shares covered by the portion of the stock appreciation right so exercised will cease to be available under the 2004 Equity Plan. If the exercise price of an option is paid by tender of shares owned by the participant to us, or by attestation to the ownership of shares owned by the participant, the number of shares available for issuance under the 2004 Equity Plan will be reduced by the gross number of shares for which the option is exercised. Shares that have actually been issued under the 2004 Equity Plan under any Award will not be returned to the 2004 Equity Plan and will not become available for future distribution under the 2004 Equity Plan; provided, however, that if unvested shares of restricted stock, restricted stock units, performance shares or performance units are repurchased by us or are forfeited to us due to failure to vest, such shares will become available for future grant under the 2004 Equity Plan as described above. Shares used to pay the exercise price of an Award and/or used to satisfy tax withholding obligations will not become available for future grant or sale under the 2004 Equity Plan. To the extent an Award is paid out in cash rather than stock, such cash payment will not reduce the number of shares available for issuance under the 2004 Equity Plan. The maximum number of shares that may be issued upon the exercise of incentive stock options under the 2004 Equity Plan will equal the maximum aggregate number of shares that may be issued under the 2004 Equity Plan, plus, to the extent allowable under Section 422 of the Internal Revenue Code of 1986, as amended (the Code), any shares that become available for issuance under the 2004 Equity Plan pursuant to this paragraph.



If we declare a stock dividend or engage in a reorganization or other change in our capital structure, including in connection with a merger, the Administrator (as defined below) will adjust the (i) number and class of shares available for issuance under the 2004 Equity Plan, (ii) number, class and price of shares subject to outstanding Awards, (iii) maximum number of shares issuable under the 2004 Equity Plan and (iv) specified per-person limits on Awards to reflect the change.

As of February 29, 2012, the closing price of the Common Stock as reported on the NASDAQ Global Select Market was \$1.03 per share.

*Administration of the 2004 Equity Plan.* The Board of Directors, or a committee of directors or of other individuals satisfying applicable laws and appointed by the Board of Directors (referred to as the Administrator), will administer the 2004 Equity Plan. To make grants to certain of our officers and key employees, the members of the committee must qualify as non-employee directors under Rule 16b-3 of the Exchange Act, and as outside directors under Section 162(m) of the Code, so that we can receive a federal tax deduction for certain compensation paid under the 2004 Equity Plan. The Board of Directors has delegated to the Compensation and Talent Committee of the Board of Directors, administration of the 2004 Equity Plan.

Subject to the terms of the 2004 Equity Plan, the Administrator has the sole discretion to select the employees, consultants, and directors who will receive Awards, to determine the terms and conditions of Awards, to modify or amend each Award (subject to the restrictions of the 2004 Equity Plan), to interpret the provisions of the 2004 Equity Plan and outstanding Awards, and to allow participants to satisfy withholding tax obligations by electing to have us withhold from the shares to be issued upon exercise that number of shares having a fair market value equal to the minimum amount required to be withheld.

The Administrator may, with stockholder approval, implement an exchange program under which (i) outstanding Awards may be surrendered or cancelled in exchange for Awards of the same type, Awards of a different type, or cash; (ii) participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator; and/or (iii) the exercise price of an outstanding Award could be reduced. However, subject to the mandatory anti-dilution adjustments section of the 2004 Equity Plan, the Administrator cannot amend the terms of any Award to reduce the exercise price of such outstanding Award or cancel an outstanding Award in exchange for cash or other Awards with an exercise price that is less than the exercise price of the original Award, without stockholder approval.

*Options.* The Administrator may grant nonstatutory stock options and incentive stock options under the 2004 Equity Plan. The Administrator determines the number of shares subject to each option, although the 2004 Equity Plan provides that a participant may not receive options for more than 1,500,000 shares in any fiscal year, except that a participant may be granted options for up to an additional 1,500,000 shares in connection with his or her initial service with us, in which case he or she may be granted options covering up to a maximum of 3,000,000 shares.

The aggregate fair market value, determined at the time of grant, of shares of Common Stock with respect to incentive stock options that are exercisable for the first time by a participant during any calendar year under all of our stock plans may not exceed \$100,000. The stock options or portions of stock options that exceed this limit are treated as nonstatutory stock options.

The Administrator determines the exercise price of options granted under the 2004 Equity Plan, provided the exercise price must be at least equal to the fair market value of our Common Stock on the date of grant. In addition, the exercise price of an incentive stock option granted to any participant who owns more than 10% of the total voting power of all classes of our outstanding stock must be at least 110% of the fair market value of the Common Stock on the grant date.

The term of each option will be stated in the Award agreement. The term of an option may not exceed ten years, except that, with respect to any participant who owns more than 10% of the total voting power of all classes of our outstanding stock, the term of an incentive stock option may not exceed five years.

After a termination of service with us, a participant will be able to exercise the vested portion of his or her option for the period of time stated in the Award agreement. If no such period of time is stated in the participant's Award agreement, the participant (or his or her permitted transferee) will generally be able to exercise the option for (i) three months following the participant's termination for reasons other than death or disability, and (ii) twelve months following the participant's termination due to death or disability.

The Administrator determines the acceptable form of consideration for exercising an option, which may include (i) cash, (ii) check, (iii) promissory note, to the extent permitted by applicable laws, (iv) other shares of Common Stock, (v) consideration received by us under a cashless exercise program implemented by us, (vi) a reduction in the amount of any Company liability to the participant, including any liability under any Company-sponsored deferred compensation program or arrangement, (vii) other consideration and methods of payment permitted by applicable laws, or (viii) any combination of the foregoing methods of payment.

*Restricted Stock.* Awards of restricted stock are issuances of shares of our Common Stock, which vest in accordance with the terms and conditions established by the Administrator in its sole discretion. For example, the Administrator may set restrictions based on the achievement of specific performance goals. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed (unless such acceleration is otherwise not permitted under Section 162(m) of the Code to the extent compliance with Section 162(m) is desired). On the date set forth in the Award agreement, all unvested restricted stock will be forfeited to us. The Award agreement generally will grant us a right to repurchase or reacquire the shares upon the termination of the participant's service with us for any reason, including death or disability. The Administrator will determine the number of shares granted pursuant to an Award of restricted stock, but for Awards of restricted stock that are intended to qualify as performance-based compensation under Section 162(m) of the Code, no participant will be granted a right to purchase or acquire more than 1,000,000 shares of restricted stock during any fiscal year, except that a participant may be granted up to an additional 1,000,000 shares of restricted stock in connection with his or her initial service with us, in which case he or she may be granted up to a maximum of 2,000,000 shares of restricted stock.

*Stock Appreciation Rights.* Stock appreciation rights (SARs) are rights to receive the appreciation in fair market value of Common Stock between the exercise date and the date of grant. We can pay the appreciation in either cash, shares of Common Stock or a combination thereof. The Administrator, subject to the terms of the 2004 Equity Plan, will have complete discretion to determine the terms and conditions of SARs granted under the 2004 Equity Plan, provided, however, that the exercise price may not be less than 100% of the fair market value of a share on the date of grant and the term of an SAR may not exceed ten years. No participant will be granted SARs covering more than 1,500,000 shares during any fiscal year, except that a participant may be granted SARs covering up to an additional 1,500,000 shares in connection with his or her initial service with us, in which case he or she may be granted SARs covering up to a maximum of 3,000,000 shares.

The Administrator may grant affiliated SARs, freestanding SARs, tandem SARs or any combination thereof. An affiliated SAR is an SAR that is granted in connection with a related option and which automatically will be deemed to be exercised at the same time that the related option is exercised. However, the deemed exercise of an affiliated SAR will not require a reduction in the number of shares subject to the related option. A freestanding SAR is one that is granted independent of any options. A tandem SAR is a SAR granted in connection with an option that entitles the participant to exercise the SAR by surrendering to us an equivalent portion of the unexercised related option. A tandem SAR may be exercised only with respect to the shares for which its related option is then exercisable. With respect to a tandem SAR granted in connection with an incentive stock option, the tandem SAR will expire no later than the expiration of the underlying incentive stock option, the value of the payout with respect to the tandem SAR will be for no more than 100% of the difference between the exercise price of the underlying incentive stock option and the fair market value of the shares subject to the underlying incentive stock option at the time the tandem SAR is exercised, and the tandem SAR will be exercisable only when the fair market value of the shares subject to the incentive stock option exceeds the exercise price of the incentive stock option.

*Performance Units and Performance Shares.* Performance units and performance shares are Awards that result in a payment to a participant only if the performance goals or other vesting criteria the Administrator establishes are achieved or the Awards otherwise vest. Earned performance units and performance shares will be paid, in the Administrator's sole discretion, in the form of cash, shares, or in a combination thereof. The Administrator will establish performance or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. The performance units and performance shares will vest at a rate determined by the Administrator; provided, however, that after the grant of a performance unit or performance share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance unit or performance share (unless such reduction or waiver is otherwise not permitted under Section 162(m) of the Code to the extent compliance with Section 162(m) is desired). On the date set forth in the Award agreement, all unearned or unvested performance units and performance shares will be forfeited to us. The Administrator will determine the number of performance shares or performance units to be granted to a participant, but for Awards of performance shares or performance units that are intended to qualify as performance-based compensation under Section 162(m) of the Code, no participant will receive more than 1,000,000 performance shares during any fiscal year and no participant will receive performance units having an initial value greater than \$4,000,000 during any fiscal year, except that a participant may be granted up to an additional 1,000,000 performance shares in connection with his or her initial service with us, in which case he or she may be granted up to a maximum of 2,000,000 shares. Performance units will have an initial value established by the Administrator on or before the date of grant. Performance shares will have an initial value equal to the fair market value of a share of our Common Stock on the grant date.

*Restricted Stock Units.* A restricted stock unit represents an unfunded and unsecured obligation of the Company for the fair market value of one share of Common Stock on the date of grant. Vested restricted stock units will be settled in shares to be paid out to participants. The Administrator will establish service-based or other vesting criteria at its discretion, which, depending on the extent to which they are met, will determine the number of restricted stock units to be issued to participants. The restricted stock units will vest at a rate determined by the Administrator; provided, however, that after the grant of the restricted stock units, the Administrator, in its sole discretion, may reduce or waive any vesting provisions for such restricted stock units (unless such reduction or waiver is otherwise not permitted under Section 162(m) of the Code to the extent compliance with Section 162(m) is desired). On the date set forth in the Award agreement, all unvested restricted stock units will be forfeited to us. The Administrator will determine the number of shares granted pursuant to a restricted stock unit award, but, for restricted stock units intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, no participant will be granted more than 1,000,000 restricted stock units during any fiscal year, except that a participant may be granted up to an additional 1,000,000 restricted stock units in connection with his or her initial service with us, in which case he or she may be granted up to a maximum of 2,000,000 restricted stock units.

*Performance Goals.* The grant and/or vesting of Awards of restricted stock, restricted stock units, performance shares and performance units and other incentives under the 2004 Equity Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement including: cash position, clinical progression, collaboration arrangement, collaboration progression, financing event, operating expenses, product approval, projects in development and regulatory filings. The performance goals may differ from participant to participant and from Award to Award, may be used alone or in combination, may be used to measure the performance of the Company as a whole or a business unit of the Company and may be measured relative to a peer group or index or to another performance goal.

*Transferability of Awards.* Awards are generally not transferable, and all rights with respect to an Award granted to a participant generally will be available during a participant's lifetime only to the participant. The Administrator may make an Award transferable only to one or more of the following: (i) the participant's spouse, children or grandchildren (including adopted and step children or grandchildren), parents, grandparents, siblings

or any Family Member (as defined pursuant to Rule 701 of the Securities Act of 1933, as amended) of the participant; (ii) a trust for the benefit of one or more of the participant or the persons referred to in clause (i); (iii) a partnership, limited liability company or corporation in which the participant or the persons referred to in clause (i) are the only partners, members or stockholders; or (iv) organizations as charitable donations.

*Change in Control.* In the event of a change in control of the Company (as defined in the 2004 Equity Plan and described below), each outstanding Award will be assumed or an equivalent option or right substituted by the successor corporation or a parent or subsidiary of the successor corporation. If the successor corporation refuses to assume or substitute for the Award, then: (i) the participant will fully vest in, and have the right to exercise, all of his or her outstanding options and stock appreciation rights, including shares as to which such Awards would not otherwise be vested or exercisable; (ii) all restrictions on restricted stock will lapse; and, (iii) with respect to performance shares, performance units and restricted stock units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an option or stock appreciation right is not assumed or substituted for in the event of a change in control, the Administrator will notify the participant in writing or electronically that the option or stock appreciation right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

With respect to Awards granted to a non-employee director that are assumed or substituted for, if on the date of or following such assumption or substitution the participant's status as a director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the participant not at the request of the successor, then: (i) the participant will fully vest in, and have the right to exercise, his or her options and stock appreciation rights as to all of the shares subject to the Award; (ii) all restrictions on restricted stock shall lapse; and, (iii) with respect to performance shares, performance units and restricted stock units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met.

For purposes of the 2004 Equity Plan, a change in control generally means the occurrence of any of the following events: (i) any person (as defined in Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of our securities representing 50% or more of the total voting power of our then outstanding voting securities; (ii) consummation of the sale or disposition by us of all or substantially all of our assets; (iii) a change in the composition of the Board of Directors occurring within a two-year period, as a result of which fewer than a majority of the directors are incumbent directors (as defined in the 2004 Equity Plan); or (iv) consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent at least 50% of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

*Amendment and Termination of the 2004 Equity Plan.* The Administrator will have the authority to amend, alter, suspend or terminate the 2004 Equity Plan, except that stockholder approval will be required for any amendment to the 2004 Equity Plan to the extent required by any applicable laws. No amendment, alteration, suspension or termination of the 2004 Equity Plan will impair the rights of any participant, unless mutually agreed otherwise between the participant and the Administrator, which agreement must be in writing and signed by the participant and us. The 2004 Equity Plan will terminate on February 9, 2021 unless the Administrator terminates it earlier.

#### **New Plan Benefits**

Awards that an employee, director or consultant may receive under the 2004 Equity Plan are in the Administrator's discretion and are not subject to set benefits or amounts, and we have not approved any Awards

that are conditioned on stockholder approval of the 2004 Equity Plan. Therefore, we cannot currently determine the benefits, amounts or number of shares subject to Awards that may be granted in the future to our executive officers and other employees, directors or consultants under the 2004 Equity Plan.

### 2004 Equity Plan Benefits

The following table sets forth, for each of the individuals and various groups indicated, the number of shares of Common Stock subject to stock option Awards granted under the 2004 Equity Plan as of February 29, 2012.

| Name of Individual or Group   | Number of Shares Subject to Awards |
|---|------------------------------------|
| Robert I. Blum  | 1,640,000                          |
| Sharon A. Barbari   | 856,500                            |
| David W. Cragg  | 515,000                            |
| Andrew A. Wolff, M.D., F.A.C.C.   | 827,500                            |
| All current executive officers, as a group                                  | 3,839,000                          |
| All current directors who are not executive officers, as a group            | 848,251                            |
| All current employees who are not current executive officers, as a group(1) | 4,344,693                          |
| Denise M. Gilbert, Ph.D.  | 85,000                             |
| Sandford D. Smith.  |                                    |

(1) Includes former employees who have currently exercisable stock options.

The following table sets forth, for each of the individuals and various groups indicated, the number of shares of Common Stock subject to Awards of restricted stock and restricted stock units granted under the 2004 Equity Plan as of February 29, 2012.

| Name of Individual or Group  | Number of Shares Subject to Awards |
|--|------------------------------------|
| Robert I. Blum   | 350,000                            |
| Sharon A. Barbari  | 200,000                            |
| David W. Cragg   | 125,000                            |
| Andrew A. Wolff, M.D., F.A.C.C.  | 175,000                            |
| All current executive officers, as a group                               | 850,000                            |
| All current directors who are not executive officers, as a group         |                                    |
| All current employees who are not current executive officers, as a group | 2,418,960                          |
| Denise M. Gilbert, Ph.D.   |                                    |
| Sandford D. Smith  |                                    |

As of February 29, 2012, a total of 9,495,239 shares were subject to outstanding stock options awarded under the 2004 Equity Plan and the 1997 Plan. As of such date, these stock option awards had a weighted average exercise price of \$3.58 per share and a weighted average remaining term of 6.5 years. No stock option awards were granted under the 2004 Equity Plan or 1997 Plan in which the exercise price for the underlying shares was less than the fair market value of such shares on the date of grant. As of February 29, 2012, there were 3,060,500 unvested restricted stock units outstanding. As of February 29, 2012, there were 3,652,432 shares available for grant under the 2004 Equity Plan, which may be increased by the number of shares, if any, returned on or after February 29, 2012 to the 1997 Plan as a result of termination of options or repurchase of shares issued under such plan, up to a maximum of 428,896 additional shares.

### Federal Tax Aspects

The following is a summary of the general federal income tax consequences to U.S. taxpayers and the Company of Awards granted under the 2004 Equity Plan. Tax consequences for any particular individual may be different. This summary is not intended to be exhaustive and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.



*Nonstatutory Stock Options.* No taxable income is reportable when a nonstatutory stock option is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any taxable income recognized in connection with an option exercise by an employee of the Company is subject to tax withholding by us. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

As a result of Section 409A of the Code and the Treasury Regulations promulgated thereunder ( Section 409A ), however, nonstatutory stock options and stock appreciation rights granted with an exercise price below the fair market value of the underlying stock on the date of grant or with a deferral feature may be taxable to the participant in the year of vesting in an amount equal to the difference between the then fair market value of the underlying stock and the exercise price of such Awards and may be subject to an additional 20% federal income tax plus penalties and interest. In addition, certain states, such as California, have adopted similar tax provisions.

*Incentive Stock Options.* No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the participant's alternative minimum tax at exercise, if any, in which case the amount of tax is the same as for nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

*Stock Appreciation Rights.* No taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and/or the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

*Restricted Stock, Performance Units and Performance Shares.* A participant generally will not have taxable income at the time an Award of restricted stock, performance shares or performance units are granted. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the shares underlying the Award becomes either (i) freely transferable, or (ii) no longer subject to substantial risk of forfeiture. However, the recipient of a restricted stock Award may elect, under Section 83(b) of the Code, to recognize income at the time he or she receives the Award in an amount equal to the fair market value of the shares underlying the Award (less any cash paid for the shares) on the date the Award is granted.

*Restricted Stock Units.* A participant generally will not have taxable income at the time restricted stock units are granted. Instead, he or she will recognize ordinary income upon distribution of shares with respect to a restricted stock unit in an amount equal to the fair market value of those shares. Any additional gain or loss recognized upon any other disposition of the shares would be capital gain or loss. The capital gain tax rate will depend on a number of factors, including the length of time the participant held the shares prior to selling them.

*Section 409A.* Section 409A of the Code provides certain requirements on non-qualified deferred compensation arrangements. Generally, stock options, stock appreciation rights and restricted stock granted under the 2004 Equity Plan will not be deemed deferred compensation. Awards other than stock options and restricted stock, certain Awards that are modified after the date of grant, Awards with deferral features, and discounted stock options or stock appreciation rights may be subject to Section 409A of the Code. If an Award is subject to and fails to satisfy the requirements of Section 409A, the participant may recognize ordinary income on the amounts deferred under the Award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an Award that is subject to Section 409A fails to comply with

Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation. Some states may also apply a penalty tax (for instance, California imposes a 20% penalty tax in addition to the 20% federal penalty tax). **We strongly encourage recipients of such Awards to consult their tax, financial or other advisor regarding the tax treatment of such Awards.**

*Tax Effect for the Company; Section 162(m).* We generally will be entitled to a tax deduction in connection with an Award under the 2004 Equity Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, upon exercise of a nonstatutory stock option), provided that we satisfy certain tax withholding requirements applicable to such income. Special rules limit the deductibility of compensation paid to our Chief Executive Officer (i.e., our principal executive officer) and to each of our three most highly compensated executive officers for the taxable year (other than the principal financial officer). Under Section 162(m) of the Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, we can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met for such compensation to qualify as performance-based compensation. These conditions include obtaining stockholder approval of the 2004 Equity Plan, setting limits on the number of shares and, in the case of performance units, the value for which Awards may be granted to any participant during any fiscal year as described above under Summary of the 2004 Equity Incentive Plan, As Amended, and for Awards other than certain stock options and stock appreciation rights, establishing performance criteria that must be met before the Award actually will vest or be paid. The 2004 Equity Plan has been designed to permit the Administrator to grant Awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m) for exemption from the deduction limits.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE 2004 EQUITY PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS**

**VOTE FOR APPROVAL OF THE AMENDMENT TO THE 2004 EQUITY PLAN.**



**FORWARD-LOOKING STATEMENTS**

This proxy statement, including the section entitled "Compensation Discussion and Analysis" set forth below, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. These statements are based on our current expectations and involve risks and uncertainties, which may cause results to differ materially from those set forth in the statements. These forward-looking statements reflect management's current expectations concerning future results and events and can generally be identified by the use of words such as "may," "will," "should," "could," "would," "likely," "potential," "continue," "future," "estimate," "believe," "expect," "intend," "plan," and other similar words or phrases, as well as statements in the future tense. Without limiting the generality of the foregoing, forward-looking statements contained in this proxy statement include statements relating to compensation plans, strategies, objectives and our anticipated financial and operational performance. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Forward-looking statements should be evaluated together with the many risks and uncertainties that affect our business, including those set forth in the risk factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the SEC.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of February 29, 2012, certain information with respect to the beneficial ownership of Common Stock by:

any person (including any group as that term is used in Section 13(d)(3) of the Exchange Act), known by us to be the beneficial owner of more than 5% of our voting securities,

each director and each nominee for director to the Company,

each of the executive officers named in the Summary Compensation Table appearing herein, and

all such executive officers, directors and nominees for director of the Company as a group.

The number and percentage of shares beneficially owned are based on the aggregate of 76,376,801 shares of Common Stock outstanding as of February 29, 2012, adjusted as required by the rules promulgated by the SEC. We do not know of any arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change of control of the Company.

| Name and Address of Beneficial Owner   | Number of Shares | Percent of Common Stock Outstanding |
|--|------------------|-------------------------------------|
| <b>5% Stockholders:</b>  |                  |                                     |
| Entities affiliated with Deerfield(1)<br>780 Third Avenue, 37 <sup>th</sup> Floor<br><br>New York, NY 10017                  | 7,622,405        | 9.8%                                |
| Eastern Capital Limited(2)<br>P.O. Box 31363<br><br>Grand Cayman KY1-1206, Cayman Islands                                    | 7,066,236        | 9.3%                                |
| Entities Affiliated with QVT Financial LP(3)<br>1177 Avenue of the Americas, 9 <sup>th</sup> Floor<br><br>New York, NY 10036 | 5,000,000        | 6.5%                                |
| Entities Affiliated with Lansdowne Partners Limited Partnership(4)<br>15 Davies Street<br><br>London W1K 3AG<br><br>England  | 4,322,680        | 5.7%                                |
| Wellington Management Company LLP(5)<br>280 Congress Street<br><br>Boston, MA 02210  | 4,025,519        | 5.3%                                |
| <b>Executive Officers and Directors:</b>   |                  |                                     |
| Robert I. Blum(6)  | 1,277,578        | 1.6%                                |
| Sharon A. Barbari(7)   | 634,666          | *                                   |
| David W. Cragg(8)  | 398,349          | *                                   |
| David J. Morgans, Jr., Ph.D.(9)  | 640,269          | *                                   |
| Andrew A. Wolff, M.D., F.A.C.C.(10)  | 602,705          | *                                   |
| Santo J. Costa(11)   | 37,221           | *                                   |

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|  |           |      |
|--|-----------|------|
| Stephen Dow(12)  | 3,501,002 | 4.6% |
| L. Patrick Gage, Ph.D.(13)   | 134,305   | *    |
| Denise M. Gilbert, Ph.D.(14)                                       | 83,333    | *    |
| John T. Henderson, M.B., Ch.B.(15)                                 | 158,741   | *    |
| Sandford D. Smith.   |           | *    |
| Wendell Wierenga, Ph.D.(16)  | 33,888    | *    |
| All directors and named executive officers as a group (12 persons) | 7,502,057 | 9.3% |

\* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of Common Stock.

- (1) Based on a 13-G filed with the SEC on February 7, 2012. Represents: (a) 1,049,908 shares of Common Stock held by Deerfield Special Situations Fund, L.P.; (b) 1,700,900 shares of Common Stock held by Deerfield Private Design Fund II, L.P.; (c) 1,949,100 shares of Common Stock held by Deerfield Private Design International II, L.P.; (d) 1,432,143 shares of Common Stock held by Deerfield Special Situations Fund International Limited; and (e) 1,490,354 shares of Common Stock underlying warrants held by Deerfield entities that are exercisable as of February 29, 2012. Excludes: (a) 5,194,646 shares of Common Stock underlying warrants held by Deerfield entities that are exercisable as of February 29, 2012; and (b) 8,070,000 shares of Common Stock issuable upon conversion of Series A Convertible Preferred Stock held by Deerfield entities that are convertible as of February 29, 2012; these shares are excluded because the underlying instruments prohibit the holder from exercising (with respect to the warrants) or converting (with respect to the Series A Convertible Preferred Stock) the instrument if, as a result of such exercise or conversion, the holder and its affiliates would own more than 9.98% of the total number of shares of the Company's common stock then issued and outstanding.
- (2) Based on a Schedule 13G filed with the SEC on February 14, 2012.
- (3) Based on a Schedule 13G filed with the SEC on February 14, 2012. Represents (a) 4,533,292 shares of Common Stock held by QVT Fund LP and (b) 466,708 shares of Common Stock held by Quintessence Fund LP.
- (4) Based on a Schedule 13G filed with the SEC on February 13, 2012 and a Schedule 13F filed with the SEC on February 14, 2012. Represents (a) 3,629,804 shares of Common Stock held by Lansdowne UK Equity Fund Ltd.; (b) 633,155 shares of Common Stock held by Lansdowne UK Equity Fund L.P.; and (c) 59,721 shares of Common Stock held by Lansdowne UK Strategic Investment Master Fund Ltd.
- (5) Based on a Schedule 13G filed with the SEC on February 14, 2012.
- (6) Represents: (a) 18,416 shares of Common Stock held by Mr. Blum; (b) 12,500 shares of Common Stock held by the Brittany Blum 2003 Irrevocable Trust; (c) 12,500 shares of Common Stock held by the Bridget Blum 2003 Irrevocable Trust; and (d) 1,234,162 shares of Common Stock underlying options granted to Mr. Blum that are exercisable within 60 days of February 29, 2012. Mr. Blum disclaims beneficial ownership of the shares of Common Stock held by the trusts.
- (7) Represents: (a) 19,127 shares of Common Stock held by the Barbari Family Trust; and (b) 615,539 shares of Common Stock underlying options granted to Ms. Barbari that are exercisable within 60 days of February 29, 2012.
- (8) Represents: (a) 15,225 shares of Common Stock held by Mr. Cragg; and (b) 383,124 shares of Common Stock underlying options granted to Mr. Cragg that are exercisable within 60 days of February 29, 2012.
- (9) Represents: (a) 42,000 shares of Common Stock held by Dr. Morgans; and (b) 598,269 shares of Common Stock underlying options granted to Dr. Morgans that are exercisable within 60 days of February 29, 2012.
- (10) Represents: (a) 10,000 shares of Common Stock held by Dr. Wolff; and (b) 592,705 shares of Common Stock underlying options granted to Dr. Wolff that are exercisable within 60 days of February 29, 2012.
- (11) Represents: 37,221 shares of Common Stock underlying options granted to Mr. Costa that are exercisable within 60 days of February 29, 2012.
- (12) Based in part on a Schedule 13G/A filed with the SEC on February 13, 2012 for entities affiliated with Sevin Rosen Funds. Represents: (a) 3,690 shares of Common Stock held by Sevin Rosen Bayless Management Company; (b) 1,615,715 shares of Common Stock held by

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Sevin Rosen Fund VI L.P.; (c) 127,235 shares of Common Stock held by Sevin Rosen Fund VI Affiliates Fund L.P.; (d) 625,950 shares of Common Stock held by Sevin Rosen Fund VII L.P.; (e) 24,050 shares of Common Stock held by Sevin Rosen VII Affiliates Fund L.P.; (f) 755,631 shares of Common Stock held by Sevin Rosen Fund VIII L.P.; (g) 15,421 shares of Common Stock held by Sevin Rosen VIII Affiliates Fund L.P.; (h) 145,000 shares of Common Stock held by the Dow Family Trust; and (i) 188,310 shares of Common Stock underlying options granted to Mr. Dow that are exercisable within 60 days of February 29, 2012. Stephen Dow is a general

partner of each of the Sevin Rosen entities except for Sevin Rosen Bayless Management Company, of which he is a Vice President. Mr. Dow disclaims beneficial ownership of the shares held by entities affiliated with Sevin Rosen Funds, except to the extent of his proportionate partnership interest therein.

(13) Represents 134,305 shares of Common Stock underlying options granted to Dr. Gage that are exercisable within 60 days of February 29, 2012.

(14) Represents 83,333 shares of Common Stock underlying options granted to Dr. Gilbert that are exercisable within 60 days of February 29, 2012.

(15) Represents (a) 1,500 shares of Common Stock held by Dr. Henderson; (b) 500 shares held by Dr. Henderson's spouse; and (c) 156,741 shares of Common Stock underlying options granted to Dr. Henderson that are exercisable within 60 days of February 29, 2012. Dr. Henderson disclaims beneficial ownership of the shares of Common Stock held by his spouse.

(16) Represents: 33,888 shares of Common Stock underlying options granted to Dr. Wierenga that are exercisable within 60 days of February 29, 2012.

Except as otherwise noted above, the address of each person listed on the table is c/o Cytokinetics, Incorporated, 280 East Grand Avenue, South San Francisco, CA 94080.

We do not have a policy for stock ownership guidelines for members of the Board of Directors or executive officers.

#### **BOARD OF DIRECTORS**

Our Board of Directors is composed of individuals whose knowledge, background, experience and judgment we believe to be valuable to the Company. The primary functions of our Board of Directors are to:

Review and approve our strategic direction and annual operating plan and monitor our performance;

Evaluate the President and Chief Executive Officer;

Review management performance and compensation;

Review management succession planning;

Advise and counsel management;

Monitor and manage potential conflicts of interests of management, board members and stockholders;

Ensure the integrity of financial information; and

Monitor the effectiveness of the governance practices under which the Board of Directors operates and make changes as needed.

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We do not have a formal diversity policy for selecting Board of Directors members. However, we believe it is important that the members of our Board of Directors collectively bring the experiences and skills appropriate to effectively carry out the Board of Directors' responsibilities both as our business exists today and as we plan to develop an organization capable of successfully conducting late-stage clinical development and commercialization of our products. We therefore seek as members of our Board of Directors individuals with a variety of perspectives and the expertise and ability to provide advice and oversight in one or more of these areas: accounting controls, business strategy, risk management, strategic partnering, financial engineering, legal and regulatory compliance and compensation and retention practices.

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The following table sets forth in alphabetical order the names of each of our Class I Directors, each of our Class II Directors, and each of our Class III Directors and their ages and present positions with us as of April 2, 2012.

| Name                                 | Age | Position   |
|--------------------------------------|-----|--|
| Robert I. Blum                       | 48  | President and Chief Executive Officer; Class II Director |
| Santo J. Costa(2)(3)                 | 66  | Class III Director                                       |
| Stephen Dow(1)(2)                    | 56  | Class III Director                                       |
| L. Patrick Gage, Ph.D.(3)            | 69  | Chairman of the Board of Directors; Class I Director     |
| Denise M. Gilbert, Ph.D.(1)          | 54  | Class II Director  |
| John T. Henderson, M.B., Ch.B.(1)(2) | 67  | Class III Director                                       |
| Sandford D. Smith(3)                 | 65  | Class II Director  |
| Wendell Wierenga, Ph.D.(3)           | 64  | Class I Director   |

(1) Member of the Audit Committee.

(2) Member of the Nominating and Governance Committee.

(3) Member of the Compensation and Talent Committee.

*Robert I. Blum* was appointed as our President and Chief Executive Officer and as a member of our Board of Directors in January 2007. Previous to that appointment, Mr. Blum served as our President from February 2006 to January 2007. He served as our Executive Vice President, Corporate Development and Commercial Operations and Chief Business Officer from September 2004 to February 2006. From January 2004 to September 2004, he served as our Executive Vice President, Corporate Development and Finance and Chief Financial Officer. From October 2001 to December 2003, he served as our Senior Vice President, Corporate Development and Finance and Chief Financial Officer. From July 1998 to September 2001, Mr. Blum was our Vice President, Business Development. Prior to joining us in July 1998, he was Director, Marketing at COR Therapeutics, Inc., a biopharmaceutical company, since 1996. From 1991 to 1996, he was Director, Business Development at COR Therapeutics. Prior to that, Mr. Blum performed roles of increasing responsibility in sales, marketing and other pharmaceutical business functions at Marion Laboratories, Inc. and Syntex Corporation. Mr. Blum received B.A. degrees in Human Biology and Economics from Stanford University and an M.B.A. from Harvard Business School.

Mr. Blum brings to our Board of Directors a deep familiarity with our operations, strategy and vision, as well as a record of successful corporate management, strategic partnering and financing.

*Santo J. Costa* has served as a member of our Board of Directors since November 2010. Since 2007, Mr. Costa has served as Of Counsel to the law firm of Smith, Anderson, Blount, Dorsett, Mitchell and Jernigan, L.L.P. of Raleigh, North Carolina, specializing in corporate law for healthcare companies. From 1994 to 2001, he held various positions at Quintiles Transnational Corporation, including as Vice Chairman, President and Chief Operating Officer. Prior to joining Quintiles, Mr. Costa spent 23 years in the pharmaceutical industry, most recently as General Counsel and Senior Vice President, Administration with Glaxo Inc. Prior to joining Glaxo, he served as U.S. Area Counsel with Merrell Dow Pharmaceuticals and as Food & Drug Counsel with Norwich Eaton Pharmaceuticals. Mr. Costa has served on the Board of Directors of Biovest Corp. I since 2010. He served as Chairman of LaboPharm, Inc. from 2006 to 2011, Chairman of NeuroMedix Inc. from 2005 to 2007, a director of CV Therapeutics from 2001 to 2009, a director of OSI Pharmaceuticals from 2006 to 2010 and a director of NPS Pharmaceuticals from 1995 to 2007, as well as serving as a director at other private companies. Mr. Costa is an Adjunct Professor in the clinical research program at the Campbell University School of Pharmacy. Mr. Costa earned both a B.S. in Pharmacy and a J.D. from St. John's University.



Mr. Costa brings to our Board of Directors broad operational leadership experience in the pharmaceutical and clinical services industries, including relevant legal, regulatory, governance and policy expertise. He also has extensive experience as a public company executive and board member in the pharmaceutical and biotechnology industries.

*Stephen Dow* has served as a member of our Board of Directors since April 1998. He served as Lead Outside Director of the Board of Directors from February 2009 through March 2010. Mr. Dow has been a General Partner with Sevin Rosen Funds, a venture capital firm, since 1983. Since 1989, Mr. Dow has served on the Board of Directors of Citrix Systems Inc., an enterprise software company. He has served as the chief executive officer of two privately held software companies and served on the board of directors of numerous privately held companies in a variety of industries during his tenure at Sevin Rosen Funds. Mr. Dow received a B.A. in Economics and an M.B.A. from Stanford University.

Mr. Dow brings to our Board of Directors a diversity of experience in the development, financing and management of emerging technology and life science companies.

*L. Patrick Gage, Ph.D.* has served as a member of our Board of Directors since November 2009 and as Chairman of the Board of Directors since March 2010. Since July 2002, Dr. Gage has served as a consultant to the biopharmaceutical industry, including service as an advisor to venture capital firms. From 1998 to 2002, Dr. Gage was President of Wyeth Research and subsequently also Senior Vice President, Science and Technology. From 1989 to 1998, he held roles of increasing responsibility at Genetics Institute, Inc., first as head of Research and Development, then as Chief Operating Officer and eventually as President. From 1971 to 1989, Dr. Gage held various positions in research management with Hoffmann-La Roche Inc., most recently serving as Vice President responsible for U.S. drug discovery. Dr. Gage served on the Board of Directors of Neose Technologies from 2002 through 2009, and as the Chairman of its Board of Directors from 2006 through 2009. He served on PDL BioPharma, Inc.'s Board of Directors from 2003 through 2008, as the Chairman of its Board of Directors in 2007, and as its Interim Chief Executive Officer from 2007 through 2008. Dr. Gage served on the Board of Directors of Serono (now a subsidiary of Merck KGaA) from 2004 until 2007. He also serves as the Chairman of the Board of Directors of a privately held, clinical-stage life science company. Dr. Gage earned a bachelor's degree in Physics from the Massachusetts Institute of Technology and a Ph.D. in Biophysics from the University of Chicago.

Dr. Gage brings to our Board of Directors extensive experience as a public company executive and board member in the pharmaceutical and biotechnology industries and in strategies for bringing breakthrough medicines to approval and commercialization.

*Denise M. Gilbert, Ph.D.* has served as a member of our Board of Directors since May 2008. From 2001 to 2002, she served as Chief Executive Officer of Entigen Corporation, a private life science information technology company. From 1995 to 1999, Dr. Gilbert served as Chief Financial Officer and Executive Vice President of Incyte Pharmaceuticals (now Incyte Corporation). From 1993 to 1995, Dr. Gilbert was Chief Financial Officer and Executive Vice President of Affymax Inc. From 1986 through 1993, Dr. Gilbert was a Managing Director and senior biotechnology analyst at Smith Barney Harris & Upham and Vice President and biotechnology analyst at Montgomery Securities. Dr. Gilbert has served on the Board of Directors of Dynavax Technologies Corporation, a biopharmaceutical company, since 2004, and has served on the Board of Directors of a privately held biotechnology company since 2006. She served on the Board of Directors of Connetics Corporation, a pharmaceutical company, from 2003 to 2007. Dr. Gilbert holds a B.S. from Cornell University and a Ph.D. in Cell and Developmental Biology from Harvard University.

Dr. Gilbert brings to our Board of Directors broad experience in leading and advising developing life sciences companies, and in implementing and overseeing financial systems and controls and creating financing and strategic partnering opportunities for these companies.

*John T. Henderson, M.B., Ch.B.* has served as a member of our Board of Directors since February 2009. Since December 2000, Dr. Henderson has served as a consultant to the pharmaceutical industry as president of Futurepharm LLC. Until his retirement in December 2000, Dr. Henderson was with Pfizer Inc. for over 25 years, most recently as a Vice President in the Pfizer Pharmaceuticals Group. Dr. Henderson previously held Vice Presidential level positions with Pfizer in Research and Development in Europe and later in Japan. He was also Vice President, Medical for Pfizer's Europe, U.S. and International Pharmaceuticals groups. Dr. Henderson has served on the Board of Directors of Myriad Genetics, Inc., a healthcare diagnostics company, since 2004, and served as the Chairman of Myriad's Board of Directors since April 2005. He has served on the Board of Directors of Myrexis, Inc. (formerly Myriad Pharmaceuticals, Inc.) since its spin-off from Myriad Genetics, Inc. in June 2009. He also serves as the chairman of the Board of Directors of a privately held pharmaceutical research and development company. Dr. Henderson earned his bachelor's of science and medical degrees from the University of Edinburgh and is a Fellow of the Royal College of Physicians (Ed.) and the Faculty of Pharmaceutics Medicine.

Dr. Henderson brings to our Board of Directors broad experience in matters relating to global pharmaceutical drug development in a wide range of therapeutic areas and stages of business development, and an extensive background as a public company executive, board member and consultant in the pharmaceutical industry.

*Sandford D. Smith* has served as a member of our Board of Directors since March 2012. From 1996 to 2011, Mr. Smith held various positions at Sanofi-Genzyme (formerly Genzyme Corporation), most recently leading the integration of Genzyme's international business into Sanofi's global organization. Prior to that, he served as Executive Vice President of Genzyme Corporation, a biotechnology company, and President of Genzyme International. From 1986 to 1996, Mr. Smith was President, Chief Executive Officer and a member of the Board of Directors of RepliGen Corporation, a biotechnology company. From 1977 to 1985, Mr. Smith held various positions at Bristol-Myers Squibb, most recently serving as Vice President of Business Development and Strategic Planning for the Pharmaceutical and Nutritional Division. Mr. Smith has served on the Board of Directors of Aegerion Pharmaceuticals, Inc., a biopharmaceutical company, since January 2012. He served on the Board of Directors of NVenta Biopharmaceuticals Corporation from 2007 to 2009, and on the Board of Directors at Ariad Pharmaceuticals, Inc., from 1991 to 2008, most recently as Vice Chairman and Lead Independent Director. Mr. Smith earned a bachelor's degree from the University of Denver.

Mr. Smith brings to our Board of Directors broad experience in matters relating to the launch and commercialization of new drugs in a wide range of therapeutic areas, and more specifically drugs targeting rare disease indications. He also has extensive experience as a public company executive and board member in the pharmaceutical and biotechnology industries.

*Wendell Wierenga, Ph.D.* has served as a member of our Board of Directors since February 2011. Since June 2011, Dr. Wierenga has served as Executive Vice President, Research and Development, at Santarus, Inc., a specialty biopharmaceutical company. From 2006 to 2011, he served as Executive Vice President, Research and Development, at Ambit Biosciences Corporation. From 2003 to 2006, he served as Executive Vice President of Research and Development at Neurocrine Biosciences, Inc. From 2000 to 2003, Dr. Wierenga served as Chief Executive Officer of Syrrx, Inc. (now part of Takeda Pharmaceutical Company). From 1990 to 2000, he was Senior Vice President of Worldwide Pharmaceutical Sciences, Technologies and Development at Parke-Davis/Warner Lambert (now Pfizer, Inc.) Prior to that, Dr. Wierenga spent 16 years at Upjohn Pharmaceuticals in research and drug discovery roles, most recently as Executive Director of Discovery Research. Dr. Wierenga has served on the Board of Directors of XenoPort, Inc., a biopharmaceutical company, since 2001 and on the Board of Directors of Onyx Pharmaceuticals, Inc. since 1996. Dr. Wierenga holds a B.A. from Hope College and a Ph.D. in Chemistry from Stanford University.

Dr. Wierenga brings to our Board of Directors over thirty years of experience in matters relating to pharmaceutical drug discovery and development in a wide range of therapeutic areas, and an extensive background as a public company executive and board member in the pharmaceutical and biotechnology industries.

### **Board Leadership Structure**

Our Board of Directors does not have a policy on whether the same person should serve as both the Chief Executive Officer and Chairman of the Board or, if the roles are separate, whether the Chairman should be selected from the non-employee directors or should be an employee. The Board of Directors believes that it should have the flexibility to make these determinations in the way that it believes best provides appropriate leadership for us at a given time.

The Board believes that its current leadership structure, with Mr. Blum serving as Chief Executive Officer and Dr. Gage serving as Chairman, is appropriate for us at this time. Both leaders are actively engaged on significant matters affecting us, such as long-term strategy. The Chief Executive Officer has overall responsibility for all aspects of our operation, while the Chairman has a greater focus on governance of the Company, including oversight of the Board of Directors. We believe this balance of shared leadership between the two positions is a strength for us.

### **Board Role in Risk Oversight**

The role of our Board of Directors is to oversee the President and Chief Executive Officer and other senior management in the competent, lawful and ethical operation of the Company, including management's establishment and implementation of appropriate practices and policies with respect to areas of potentially significant risk to us. The Board as a whole is responsible for such risk oversight, but administers certain of its risk oversight functions through its committees, such as the Audit Committee, the Compensation and Talent Committee, and the Nominating and Governance Committee.

The Audit Committee is responsible for the oversight of our accounting and financial reporting processes, including our internal control systems. In addition, the Audit Committee oversees and reviews our financially related risk management practices, including our investment policy. At least quarterly, management reports to the Board of Directors and Audit Committee on our significant risk areas, as identified by management. These reports include discussions of current and new areas of potential operational, legal or financial risk and status reports on risk mitigation programs undertaken by us.

As part of the of the Compensation and Talent Committee's risk oversight function, it considers whether our compensation policies and practices for our employees create risks that are reasonably likely to have a material adverse effect on us. In conducting this evaluation, the Compensation and Talent Committee has reviewed our current practices and procedures for awarding cash and equity compensation to employees through the annual performance review process, particularly as such practices and procedures apply to the establishment of the goals that are taken into consideration in the payment of bonuses. The Compensation and Talent Committee has determined that these practices do not encourage inappropriate risk-taking. In particular, because we are a development-stage company with no commercial sales, the Compensation and Talent Committee has concluded that our employees are not incentivized to take inappropriate risks to meet short-term goals, such as quarterly earnings or sales projections. Further, the Compensation and Talent Committee believes that there is sufficient Board of Director oversight of our processes for compensation determinations to avoid the establishment of incentives that are materially adverse to our interests. Accordingly, the Compensation and Talent Committee has determined that our compensation policies at this time do not create risks that are reasonably likely to have a material adverse effect on the Company.

The Nominating and Governance Committee oversees the risks associated with our corporate governance and operating practices, including those relating to the composition of Board of Directors, the structure and

function of Board committees, and meeting logistics and policies. The Nominating and Governance Committee regularly reviews issues and developments relating to corporate governance and formulates and recommends corporate governance standards to the Board of Directors.

### **Independence of Directors**

The Board of Directors has determined that directors Santo J. Costa, Stephen Dow, L. Patrick Gage, Denise M. Gilbert, John T. Henderson, Sandford D. Smith and Wendell Wierenga are each independent as defined under the NASDAQ Stock Market LLC listing standards. The Board of Directors has also determined that each member of the Compensation and Talent Committee and Nominating and Governance Committee is independent as defined under the NASDAQ Stock Market LLC listing standards, and that each member of the Audit Committee is independent as defined under the NASDAQ Stock Market LLC listing standards, as well as the applicable SEC rules. In reaching its conclusions on independence, the Board of Directors reviewed the relationship of Mr. Dow with certain of our investors and determined that such relationships did not affect his independence under the standards of the NASDAQ Stock Market LLC and the applicable SEC rules.

There is no family relationship between any director and executive officer of the Company.

### **Board of Directors Meetings and Committees**

Our Board of Directors held seventeen meetings during the fiscal year ended December 31, 2011. Each of the directors serving during fiscal year 2011 attended at least 75% of the aggregate of all meetings of the Board of Directors and the committees of the Board of Directors upon which such director served during his or her tenure. The Board of Directors has a standing Audit Committee, a Compensation and Talent Committee and a Nominating and Governance Committee.

*Audit Committee.* The Audit Committee consists of directors Stephen Dow, Denise M. Gilbert and John T. Henderson. The Board of Directors has determined that Stephen Dow and Denise M. Gilbert are each an audit committee financial expert as defined in the SEC rules. The Audit Committee operates under a written charter adopted by the Board of Directors. We maintain a copy of the Audit Committee charter on our website, [www.cytokinetics.com](http://www.cytokinetics.com). The information found on our website is not part of this or any other report filed with or furnished to the SEC.

The Audit Committee reviews our critical accounting policies and practices, consults with and reviews the services provided by our independent registered public accounting firm and selects our independent registered public accounting firm.

The Audit Committee held nine meetings during fiscal year 2011.

*Compensation and Talent Committee.* The Compensation and Talent Committee consists of directors Santo J. Costa, L. Patrick Gage, Sandford D. Smith and Wendell Wierenga. The Board of Directors has adopted a written charter for the Compensation and Talent Committee. We maintain a copy of the Compensation and Talent Committee charter on our website, [www.cytokinetics.com](http://www.cytokinetics.com).

The Compensation and Talent Committee reviews and approves the salaries and incentive compensation of our executive officers and administers our stock plans and employee benefit plans. The Compensation and Talent Committee, in consultation with the third-party executive compensation consultant and discussion with management, forms its own recommendations for all executive compensation (base salary, bonus, equity and other benefits) and director compensation. All new hire stock option grants to employees above the senior director level, including our executive officers, are approved by the Compensation and Talent Committee. In addition, the Compensation and Talent Committee approves the annual stock option grants for all employees as part of the annual performance review process. The Compensation and Talent Committee has delegated to

Robert I. Blum the authorization to approve new hire stock option grants, within pre-approved new hire grant guidelines, for new hires at or below the senior director level. Further discussion of the role and function of our Compensation and Talent Committee can be found in the section below entitled Compensation Discussion and Analysis.

The Compensation and Talent Committee engages the services of nationally recognized third-party professional executive compensation consulting firms to assist in benchmarking data from competitive peer group companies. The Compensation and Talent Committee engaged Radford Surveys + Consulting in 2011 and 2012 for this purpose.

The Compensation and Talent Committee held five meetings during fiscal year 2011.

*Nominating and Governance Committee.* The Nominating and Governance Committee consists of directors Santo J. Costa, Stephen Dow and John T. Henderson. The Board of Directors has adopted a written charter for the Nominating and Governance Committee. We maintain a copy of the Nominating and Governance Committee charter on our website, [www.cytokinetics.com](http://www.cytokinetics.com).

The Nominating and Governance Committee assists the Board of Directors in identifying qualified persons to serve as directors, evaluates all proposed director nominees, evaluates incumbent directors before recommending renomination, and recommends approved candidates to the Board of Directors for appointment or renomination to Company stockholders. The Nominating and Governance Committee also regularly reviews issues and developments relating to corporate governance and formulates and recommends corporate governance standards to the Board of Directors. If there is a change in a director's employment, the Nominating and Governance Committee evaluates and makes a recommendation to the Board of Directors as to whether the potential termination of the director is appropriate.

We have used, and the Nominating and Governance Committee intends to use in the future, an executive recruiting firm to assist in the identification and evaluation of qualified candidates to join the Board of Directors.

The Nominating and Governance Committee held four meetings during fiscal year 2011.

To date, the Nominating and Governance Committee has not established a policy for considering candidates for director nominated by our stockholders, and will consider director candidates nominated by stockholders on a case-by-case basis, as appropriate. Stockholders may nominate candidates for director in accordance with the advance notice and other procedures contained in our Bylaws.

We do not have a formal policy regarding stockholder communication with the Board of Directors. However, our stockholders may communicate directly with the Board of Directors in writing, addressed to:

Board of Directors

c/o Corporate Secretary

Cytokinetics, Incorporated

280 East Grand Avenue

South San Francisco, California 94080

or by email to: [investor@cytokinetics.com](mailto:investor@cytokinetics.com)

The Corporate Secretary will review each stockholder communication. The Corporate Secretary will forward to the entire Board of Directors (or to members of a Board of Directors committee, if the communication relates to a subject matter clearly within that committee's area of responsibility) each communication that relates to our business or governance, is not offensive, is legible in form and reasonably understandable in content, and does not merely relate to a personal grievance against us or an individual or the

purpose of which is to further a personal interest not shared by the other stockholders generally. Stockholders who would like their submissions directed to an individual member of the Board of Directors may so specify, and the communication will be forwarded, as appropriate.

We do not have formal policies regarding attendance by members of the Board of Directors at our annual meetings of stockholders. Robert I. Blum, Santo J. Costa, L. Patrick Gage and John T. Henderson attended the 2011 Annual Meeting of Stockholders.

### EXECUTIVE OFFICERS

The following table sets forth in alphabetical order the names of our executive officers who are not also directors, and their ages and present positions with us as of April 2, 2012:

| Name                            | Age | Position   |
|---------------------------------|-----|--|
| Sharon A. Barbari               | 57  | Executive Vice President, Finance and Chief Financial Officer                      |
| David W. Cragg                  | 56  | Senior Vice President, Human Resources   |
| Andrew A. Wolff, M.D., F.A.C.C. | 57  | Senior Vice President, Clinical Research and Development and Chief Medical Officer |

*Sharon A. Barbari* has served as our Executive Vice President of Finance and Chief Financial Officer since July 2009. She served as our Senior Vice President of Finance and Chief Financial Officer from September 2004 through June 2009. From September 2002 to August 2004, she served as Chief Financial Officer and Senior Vice President of Finance and Administration of InterMune, Inc., a biopharmaceutical company. From January 1998 to June 2002, she served at Gilead Sciences, Inc., a biopharmaceutical company, most recently as Vice President and Chief Financial Officer. From 1996 to 1998, she served as Vice President, Strategic Planning at Foote, Cone & Belding Healthcare in San Francisco, an international advertising and marketing firm. From 1972 to 1995, she was employed by Syntex Corporation where she held various management positions in corporate finance, financial planning, marketing and commercial planning. Ms. Barbari received a B.S. in Accounting from San Jose State University.

*David W. Cragg* has served as our Senior Vice President, Human Resources since July 2009. He served as our Vice President of Human Resources from February 2005 through June 2009. From October 2000 until January 2005, Mr. Cragg managed his own human resources consulting practice. From March 2000 until its acquisition in September 2000 by Yahoo!, Inc., he was Vice President, Human Resources for eGroups Inc., an Internet email management company. Prior to October 2000, Mr. Cragg was a Principal Human Resources Consultant at Genentech, Inc., a biotechnology company. Mr. Cragg received a B.A. in Industrial Psychology from the University of California, Santa Cruz.

*Andrew A. Wolff, M.D., F.A.C.C.* has served as our Senior Vice President of Clinical Research and Development and Chief Medical Officer since September 2004. From September 1994 until September 2004, Dr. Wolff held various positions of increasing responsibility at CV Therapeutics, a biopharmaceutical company, most recently as Senior Vice President and Chief Medical Officer. From 1988 until 1994, he served in various drug development positions of increasing responsibility in both the United States and the United Kingdom for Syntex Corporation, most recently as the Executive Director of Medical Research and New Molecules Clinical Programs Leader. Since 1986, Dr. Wolff has held an appointment in the Cardiology Division of the University of California, San Francisco, where he is currently an Associate Clinical Professor, and is an Attending Cardiologist in the Coronary Care Unit at the San Francisco Veterans Administration Medical Center. Dr. Wolff received a B.A. in Chemistry and Biology from the University of Dayton and an M.D. from Washington University Medical School.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis explains our compensation philosophy, policies and practices for 2011 for the following executives, who we refer to in this Compensation Discussion and Analysis and in the following tables as our named executive officers:

Robert I. Blum, President and Chief Executive Officer;

Sharon A. Barbari, Executive Vice President, Finance and Chief Financial Officer;

David W. Cragg, Senior Vice President, Human Resources;

David J. Morgans, Jr., Ph.D., former Executive Vice President, Preclinical Research and Development; and

Andrew A. Wolff, M.D., F.A.C.C., Senior Vice President, Clinical Research and Development and Chief Medical Officer.

#### **Executive Summary**

Cytokinetics designs our executive compensation program to provide a competitive compensation package that focuses on corporate and individual performance and long-term results, while maximizing retention.

The highlights of our 2011 executive compensation program include:

Our equity program for our named executive officers consisted of (i) stock options granted in February 2011 with exercise prices equal to 100% of the fair market value on the date of grant, each vesting monthly over four years based on continued service; and (ii) restricted stock units granted in November 2011, 50% of which vest in September 2012, and 50% of which vest in September 2013, provided that the individual remains a service provider to the Company on each vesting date. The restricted stock units were awarded following a corporate restructuring and 18% reduction in headcount in October 2011. All employees participated in this special restricted stock unit grant. These equity awards are intended to promote employee retention, encourage executives to focus on creating meaningful stock price appreciation that is sustained over multiple years and provide a meaningful ownership opportunity for our named executive officers.

We grant stock options and other equity awards under our 2004 Equity Incentive Plan, which prohibits the repricing of stock options without prior stockholder approval within 12 months prior to such repricing. Stock options granted to our named executive officers in 2011 have exercise prices equal to 100% of the fair market value on the date of grant, and vest monthly over four years based on continued service. We believe that stock options structured in this manner encourage our named executive officers to focus on increasing stockholder value and stock price appreciation over the long term and limit unnecessary risk taking behavior, while promoting retention.

We did not pay cash bonuses to our executive officers or employees for 2011 achievements, which reflects our desire to preserve our cash reserves and to maintain a responsible cost structure in a difficult economic environment.

We held our first advisory stockholder vote on executive compensation in May 2011. Approximately 76% of the shares that were voted cast votes in favor of our say on pay proposal. The Compensation and Talent Committee of the Board of Directors, or the Committee, believes that this stockholder vote endorses the Company's compensation philosophy and the decisions made for 2010. No mid-year adjustments were necessary to our compensation decisions in 2011 as a result of the vote (although other factors resulted in mid-year compensation decisions), and the Committee decided in February 2012 to maintain a consistent approach in making 2012 compensation decisions.





## Overview of Compensation Program

### *Compensation Philosophy and Objectives*

The Committee works to structure our executive compensation program to reward achievement of our business goals, align the executive officers' interests with those of our stockholders and encourage our executives to build a sustainable biopharmaceutical company. The Committee seeks to ensure that we maintain our ability to attract and retain superior employees in key positions by providing our executives compensation that is competitive relative to the compensation paid to similarly situated executives in a defined group of peer companies and the broader marketplace from which we recruit and compete for talent. The Committee seeks to ensure that the total compensation paid to our executive officers is fair, reasonable, competitive and reflective of their performance and contributions toward corporate goals and objectives. To meet these objectives, we provide base salary, cash bonus opportunities, equity awards, broad-based employee benefits with limited prerequisites, and severance benefits upon a loss of position in connection with a change in control.

In determining the amount and form of these compensation elements, the Committee considers a number of factors, including:

compensation levels paid to similarly situated executives by our Peer Companies (as defined below), to attract and retain executives in a competitive market for talent;

corporate and individual performance, including performance in relation to our business plan, and execution of individual, team and company-wide strategic initiatives, to focus executives on achieving our business objectives;

internal pay equity of the compensation paid to one executive officer as compared to another – that is, the compensation paid to each executive should reflect the importance of his or her role to the Company as compared to the roles of the other executives – to promote teamwork and contribute to retention, while recognizing that compensation opportunities should increase based on increased levels of responsibility among officers;

broader economic conditions, to ensure that our pay strategies account for how the larger economic environment impacts our business;

the potential dilutive effect of equity awards on our stockholders; and

the experiences and knowledge of our executives.

### *Role of the Committee*

The Committee is generally responsible for reviewing, modifying, approving and otherwise overseeing the compensation policies and practices applicable to all of our employees, including the administration of our equity plans and employee benefit plans. As part of its responsibilities, our Committee is responsible for establishing and implementing compensation decisions for our named executive officers and for evaluating the success of those decisions in supporting the Company's compensation philosophy for our executive officers. However, the Committee may, at its discretion and in accordance with the philosophy of making all information available to our Board, present executive compensation matters to the entire Board for their review and approval.

As part of its deliberations, in any given year, the Committee may review and consider materials such as Company financial reports, financial projections, operational data and stock performance data. The Committee also reviews information such as total compensation that may become payable to the named executive officers in various hypothetical scenarios, executive stock ownership information, analyses of historical executive compensation levels and current Company-wide compensation levels, benchmarking data provided by the independent compensation consultant, and the recommendations of our President and Chief Executive Officer and the Committee's independent compensation consultant.

***Role of the Independent Compensation Consultant***

The Committee retained Radford Surveys + Consulting, a division of Aon Consulting, Inc., or Radford, as its independent compensation consultant for compensation decisions in 2011. For 2011, Radford provided the following services to the Committee:

reviewed and provided recommendations on the composition of our peer group of companies;

provided compensation data related to executives at the selected companies in our peer group based on data from SEC filings and Radford's Life Science Survey;

conducted a competitive review of the compensation of our named executive officers, including advising on the design and structure of our equity incentive compensation program;

prepared an analysis of our share usage under our equity incentive plan in comparison to the 2011 Peer Companies; and

made recommendations regarding the structure of our broad-based equity compensation program.

The Company pays for the costs of Radford's services. However, the Committee has the authority to engage and terminate Radford's services. Although Radford made recommendations to the Committee, it had no authority to make compensation decisions on behalf of the Committee or Company. Radford attended Committee meetings either in person or via conference call as deemed appropriate by the Chair of the Committee. Management provided historical data, reviewed reports for accuracy and interacted directly with Radford.

Other than providing survey data for our broader employee base to our management, Radford did not provide any other services to the Company in 2011. The costs of these other services provided by Radford to management in 2011 did not exceed \$15,000. The Committee permitted these other non-executive compensation services as it determined that these services did not constitute a conflict of interest or prevent Radford from objectively performing its work for the Committee.

***Role of Executive Officers in Compensation Decisions***

For compensation decisions in 2011, the President and Chief Executive Officer aided the Committee by providing recommendations regarding the compensation of all executive officers other than himself. Each executive officer, with the exception of the President and Chief Executive Officer, participated in an annual performance review process with the President and Chief Executive Officer to provide input about his or her contributions to the Company's goals and objectives for 2010. The President and Chief Executive Officer participated in a similar review process, with respect to his own performance review, with a designated representative from the Board of Directors. The Committee assessed the recommendations of the President and Chief Executive Officer (and, with respect to the President and Chief Executive Officer, the recommendations of the Board of Directors' representative) in the context of each executive officer's performance. No executive officer participated directly in the Committee's final determinations regarding the amount of any component of his or her own 2011 compensation package.

Our Human Resources, Finance and Legal departments work with our President and Chief Executive Officer to design and develop compensation programs applicable to the named executive officers, to recommend changes to existing compensation programs, to establish corporate and individual performance goals, to prepare peer data comparisons and other Committee briefing materials and ultimately to implement the Committee's decisions. The Senior Vice President, Human Resources and the President and Chief Executive Officer meet separately with Radford to convey information on proposals that management may make to the Committee, as well as to allow Radford to collect information about the Company to perform its duties for the Committee.

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**Benchmarking**

The Committee believes it is important when making its compensation-related decisions to be informed as to current compensation practices of comparable publicly held companies in the life sciences industry. To obtain independent and expert advice on appropriate compensation, the Committee engages Radford to analyze the executive compensation practices of a number of comparable publicly held companies in the life sciences industry, or our Peer Companies. The Committee, in consultation with Radford, reviews and adjusts the list of Peer Companies annually to ensure that the list provides a current and useful comparison of companies for use as a means of comparing our executive compensation levels relative to the market.

The Committee approved the following Peer Companies for use in making compensation decisions in 2011:

|                             |                                |                             |
|-----------------------------|--------------------------------|-----------------------------|
| Affymax Inc.                | Dyax Corp.                     | MAP Pharmaceuticals, Inc.   |
| Amicus Therapeutics         | Dynavax Technologies Corp.     | Rigel Pharmaceuticals, Inc. |
| Ardea Biosciences, Inc.     | Idenix Pharmaceuticals, Inc.   | Sangamo BioSciences, Inc.   |
| ARIAD Pharmaceuticals, Inc. | Infinity Pharmaceuticals, Inc. | Synta Pharmaceuticals Corp. |
| ArQule, Inc.                | Lexicon Pharmaceuticals, Inc.  | XenoPort, Inc.              |
| Array Biopharma             |                                |                             |

Companies are evaluated and adjusted as appropriate for inclusion in these analyses based on business characteristics similar to ours. Potential companies are selected based on criteria that include business model, stage of development, market capitalization, year of initial public offering, employee headcount, research and development expenditures, cash reserves and revenue. The Committee selected the 2011 Peer Companies in November 2010. At the time of the determination, these companies had an average market capitalization between \$107 million and \$597 million, had an employee head count between 62 and 345, and were generally at a comparable stage to us in the development of their lead product candidate.

After the 2011 Peer Companies were selected, Radford prepared an extensive analysis of the compensation practices of the Peer Companies as reported in their proxy statements, and offered additional analysis based on the compensation practices of a broader group of life science companies (a subset of what is included in the Radford Life Science Survey). As the data provided was not extensive enough for analysis for the Senior Vice President, Human Resources position, Radford further supplemented the Peer Companies' data with the practices of biotechnology and life sciences companies with 50 to 200 employees. Radford presented this analysis to the Committee with its recommendations regarding compensation practices, and the Committee factored these recommendations into its own decision-making process.

The Committee reviewed the cash and equity components from these benchmarking analyses to set a total compensation package for each executive officer based on his or her past and anticipated contributions to the Company, current compensation package, the compensation market trends for competitive positions, retention risks and overall Company performance. While benchmarking alone is not sufficient for setting compensation, the Committee believes that referring to this information is an important aspect of diligence in compensation-related decisions. Other factors, such as economic conditions, internal pay equity and individual negotiations may play an important role with respect to the compensation offered to an executive in any given year.

In general and in line with the Company's general compensation philosophy, when referencing the Peer Company data, the Committee aims to provide target total cash and long-term equity compensation at or around

the median of the compensation paid to similarly situated executives employed by the Peer Companies for target level performance, with compensation above this level possible for exceptional performance. To achieve this positioning for target levels of compensation, the Committee generally sets the various compensation elements as follows:

base salaries between the 50<sup>th</sup> and 75<sup>th</sup> percentile for comparable positions;

target cash bonus compensation at a level such that, when combined with base salary, the target total cash compensation is at or around the median for comparable positions; and

target long-term equity compensation at a level such that, when combined with target total cash compensation, target total cash and equity compensation is at or around the median for comparable positions.

The Committee believes that weighting compensation more heavily toward base salary, as compared to cash and equity compensation, is appropriate, as discussed below under Compensation Components Base Salary .

### Compensation Components

**Base Salary.** We provide base salary as a fixed source of compensation for our executive officers for the services they provide to us during the year and to balance the impact of having the balance of their compensation at risk in the form of discretionary annual cash bonuses and equity-based incentive compensation. The Committee recognizes the importance of base salaries as an element of compensation that helps to attract and retain talented executives. We believe that base salaries should be consistent with the salaries provided by our Peer Companies. The Committee targets base salary between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of the Peer Companies. The Committee believes this positioning is necessary to attract and retain executives in the Bay Area where the cost of living is higher than much of the country, and to enable us to recruit executive talent from companies that are at a more mature stage of development and therefore have greater resources to provide higher base compensation, higher total compensation, greater job security and increased employee benefits.

The Committee generally reviews base salaries annually and adjusts base salaries if necessary to remain at the desired benchmark level as compared to the Peer Company data. The Committee also takes into account each executive's individual responsibilities, performance during the prior fiscal year and experience in deciding whether the benchmark percentile is the correct positioning for that executive that year. Additionally, in determining base salary increases, the Committee considers the Company's overall budget for merit salary increases for the year, and whether an executive officer was promoted or his or her responsibilities were or are expected to be modified during the year. The Company's 2011 budget for merit salary increases was an aggregate increase of 3% over the 2010 salary budget.

2011 base salaries for the named executive officers were as follows:

| Named Executive Officer         | 2011 Base Salary |
|---------------------------------|------------------|
| Robert I. Blum                  | \$ 555,000       |
| Sharon A. Barbari               | \$ 391,000       |
| David W. Cragg                  | \$ 278,000       |
| David J. Morgans, Jr., Ph.D.    | \$ 388,000       |
| Andrew A. Wolff, M.D., F.A.C.C. | \$ 388,000       |

**Annual Bonus.** We structure our annual cash bonuses to provide incentives for our executive officers to achieve our annual corporate and individual performance objectives.

**Target Bonuses.** Each named executive officer's annual target bonus is expressed as a percentage of his or her base salary and is set at a level that, upon 100% achievement of the Company and the individual performance goals, falls at the median level for a similar executive position as compared to the Peer Company data. In

determining the split of the target bonus as between corporate and individual performance, the Committee believes that the more senior a named executive officer's position and operational responsibilities within the Company, the greater the percentage of his or her bonus that should be weighted to corporate rather than individual achievement. For example, our President and Chief Executive Officer's bonus is based entirely on corporate achievement and not on individual achievement. Target bonus levels for 2011 performance for the named executive officers, expressed as a percentage of base salary, were as follows:

| Named Executive Officer         | Target Bonus<br>% of<br>Salary(1) | Individual<br>Achievement<br>Contribution | Corporate<br>Achievement<br>Contribution |
|---------------------------------|-----------------------------------|---|--|
| Robert I. Blum                  | 50%                               | 0%  | 100%                                     |
| Sharon A. Barbari               | 40%                               | 25%                                       | 75%                                      |
| David W. Cragg                  | 30%                               | 25%                                       | 75%                                      |
| David J. Morgans, Jr., Ph.D.(2) | 40%                               | 25%                                       | 75%                                      |
| Andrew A. Wolff, M.D., F.A.C.C. | 35%                               | 25%                                       | 75%                                      |

(1) No changes were made from 2010 levels, other than Dr. Wolff, whose 2010 level was 30%.

(2) Dr. Morgans was still employed at the time the bonus levels were set.

The 2011 target bonus levels were at the median level for similar executive positions as compared to the 2011 Peer Company data.

In the first quarter of each year, the Committee establishes general corporate goals that it wishes to see achieved. However, the Committee does not establish a specific performance formula or weighting of goals. Rather, the Committee determines actual bonuses in a subjective fashion at the end of the year, taking into account the original goals and any other factors the Committee determines are material, in its discretion. The minimum bonus amount is zero, and the maximum is 120% of the target bonus amount. If the Committee determines that bonuses should not be awarded for corporate achievement for any reason, bonuses will not be paid even if the individual achievements were met. We believe this fully discretionary bonus structure allows the Committee to be responsive to the uncertainties and lack of predictability associated with being a development-stage biotechnology company dedicated to the discovery, development and commercialization of first-in-class therapeutics with novel mechanisms of action.

**Equity Awards.** The Committee believes that providing a material portion of our executive officers' total compensation in equity awards aligns the interests of our executive officers with our stockholders, by linking the value of compensation to the value of our common stock. In determining the form and size of equity awards, the Committee considers information provided by Radford as to whether the complete compensation packages provided to each named executive officer, including prior equity awards, are sufficient to retain, motivate and adequately reward the executive for his or her contributions. In addition, in determining the size of equity awards, the Committee considers the anticipated value of the named executive officer's contributions going forward.

**Stock Options.** We grant stock options to our named executive officers when they join us and annually as part of our performance review and rewards process. All options have an exercise price equal to the fair market value of our common stock on the date of grant, and generally vest monthly based on continued service over a four-year period (with a one-year cliff for new hire grants). As a result of our option grant structure, the options provide a return to the executive officer only if the executive officer remains a service provider to the Company, and then only if the market price of our common stock appreciates over the period in which the option vests.

In determining the size of stock option grants to executive officers in a given year, the Committee may consider:

for each executive officer, the value of equity awards granted to executives in similar positions at our Peer Companies, targeting long-term equity compensation at a level such that, when combined with target total cash compensation, the officer's target total compensation opportunity is at or around the median for comparable positions;

the equity budget for a given year for all of our employees, and the percentage of that budget allocated to be used for awards to our named executive officers. Generally we allocate less than half of the budget to grants to our executive officers, reflecting our belief that all employees should share in our success through the value of equity compensation;

the retention and motivation value of equity awards that have been previously granted to each executive officer;

each executive officer's total potential ownership as a percentage of our total outstanding shares; and

internal pay equity among our named executive officers, to reflect the importance of each officer's responsibilities for the company's success as compared to the other executive officers and our President and Chief Executive Officer.

The number of shares underlying stock options granted to our named executive officers in February 2011 was as follows:

| Named Executive Officer         | Option Shares |
|---------------------------------|---------------|
| Robert I. Blum                  | 500,000       |
| Sharon A. Barbari               | 200,000       |
| David W. Cragg                  | 100,000       |
| David J. Morgans, Jr., Ph.D.    | 175,000       |
| Andrew A. Wolff, M.D., F.A.C.C. | 200,000       |

*Restricted Stock Units.* Historically, we generally have not awarded restricted stock units or other full value equity awards. The Committee has generally relied on stock options because we believed it was consistent with the practices of our Peer Companies (that is, less than half of our Peer Companies use full value awards), because of the lower accounting expense to the Company, and because we believe options are the best way to link the value of equity compensation to our performance. However, in November 2011, the Company awarded time-based restricted stock units to all of our employees, including our then-current named executive officers, to encourage retention of employees following our restructuring and 18% headcount reduction. The Committee was very concerned that the outstanding option awards did not provide sufficient motivation or retention incentives, as almost all of our employees' then-outstanding stock options had exercise prices above the market value of our Common Stock at the time. Additionally, the Committee recognized that no cash bonus awards would be paid for 2011 given the need to conserve cash resources. Our employees are critical to our potential for long-term success, and the Committee believed it was important to provide a consistent retention incentive across all levels of our employee base and that, given our cash constraints, restricted stock units were the best way to meet our immediate employee retention goals.

The Committee approved an aggregate restricted stock units budget of 3.2 million shares, allocating 27% to our named executive officers, in recognition of each individual's ability to impact our success. The Committee determined the number of restricted stock units to award to our named executive officers based on the Committee's determination of internal pay equity, taking into account each executive officer's anticipated role and ability to impact the success of the Company following the grant, and targeting each grant to fall within a range of 63% to 75% of the executive officer's target bonus amount on an annualized basis over the two-year vesting period.

The number of restricted stock units awarded to our named executive officers in November 2011 was as follows:

| Named Executive Officer         | Restricted Stock Units |
|---------------------------------|------------------------|
| Robert I. Blum                  | 350,000                |
| Sharon A. Barbari               | 200,000                |
| David W. Cragg                  | 125,000                |
| David J. Morgans, Jr., Ph.D.(1) |                        |
| Andrew A. Wolff, M.D., F.A.C.C. | 175,000                |

(1) Dr. Morgans was no longer an employee when the restricted stock units were granted.

The restricted stock units vest as follows: 50% of the units vest in September 2012 and the remaining 50% in September 2013, provided that the individual remains a service provider to the Company through each vesting date.

### Corporate and Individual Achievement Assessment

**Corporate Achievement.** Before the start of each calendar year, management prepares a set of corporate goals covering our expected operating and financial performance for the fiscal year. Our corporate goals are focused on corporate metrics and objectives that are intended to provide both near- and long-term stockholder value. The Committee then reviews and approves these corporate goals.

For 2011, the Committee approved corporate goals related to:

commencing and completing clinical trials for our drug candidate in our skeletal muscle contractility development program;

delivering materials for clinical trials of our drug candidate in our skeletal muscle contractility development program;

submitting investigational new drug applications for potential drug candidates;

advancing our research programs to lead optimization and candidate selection;

corporate partnering of our skeletal muscle contractility program and receipt of funds from other partnered programs;

receiving funds from equity capital markets and managing to budget to close the fiscal year with sufficient cash to cover projected expenditures.

At the end of each year, the Committee determines the overall level of corporate achievement, including assessing our performance relative to these goals. The Committee does not use a rigid formula in determining our level of achievement, but considers:

the degree of success achieved for each corporate goal, comparing actual results against the pre-determined deliverables associated with each objective;

the difficulty of the goal;

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whether significant unforeseen obstacles or favorable circumstances altered the expected difficulty of achieving the desired results;

other factors that may have made the stated goals more or less important to our success; and

other accomplishments by us during the year or other factors which, although not included as part of the formal goals, are nonetheless deemed important to our near- and long-term success.



The Committee does not assign weights in these assessments, but uses its discretion and judgment to determine a percentage that it believes fairly represents our achievement level for the year.

**Individual Achievement.** Individual goals for each named executive officer are derived from the corporate goals that relate to his or her functional area, except for the President and Chief Executive Officer, who has no individual goals apart from the corporate goals. The President and Chief Executive Officer establishes the individual goals with each named executive officer described below based on the relevant corporate goals and key functional area priorities for the year.

Ms. Barbari's 2011 goals related to maintaining appropriate cash reserves and developing strategies and contingency plans to address our future cash requirements, developing and implementing a plan for the execution of tenant improvements, conducting investor events surrounding the release of our amyotrophic lateral sclerosis (ALS) clinical trial data, ensuring compliance with regulatory requirements, maintaining timely financial reporting to effectively manage business operations, meeting SEC reporting compliance requirements, and ensuring compliance with internal controls as required by the Sarbanes-Oxley Act of 2002.

Mr. Cragg's 2011 goals related to meeting staffing metrics regarding direct hires and budgetary goals, managing our compensation and benefit programs to ensure competitiveness and cost effectiveness, managing employee communication forums, leading our corporate employee community service volunteerism program, and assessing and establishing a management training program for first-line and senior managers.

Dr. Morgans' 2011 goals related to selecting potential drug candidates from our skeletal muscle contractility research programs, conducting certain non-clinical studies, advancing our research programs, representing us on the joint development committee for omeamtiv mecarbil, expanding our pharmacology function, and acting as the chair of our Scientific Advisory Board.

Dr. Wolff's 2011 goals related to the completing and presenting data from certain clinical trials for our skeletal muscle contractility development program, writing and submitting manuscripts for our cardiac and skeletal muscle contractility development programs, providing clinical and regulatory support for our strategic alliance with Amgen, completing final study reports on all completed clinical trials, and developing a broad strategic development plan for our skeletal muscle contractility program.

At the end of each year, the Committee and the President and Chief Executive Officer determine the overall level of individual achievement for each named executive officer, which includes, but is not limited to, an assessment of the executive's performance relative to these goals. The Committee does not use a rigid formula in determining each executive officer's level of achievement, but considers:

the degree of success achieved against the specific deliverables associated with each objective;

the difficulty of the goal;

whether significant unforeseen obstacles or favorable circumstances altered the expected difficulty of achieving the desired results;

the overall performance of the functional areas for which the executive officer has responsibility;

the manner in which the executive officer contributes to the overall success of the company, including areas outside of his or her responsibility;

the overall management of the executive officer's staff;

other factors that may have made the stated goals more or less important to our success; and

other accomplishments by the executive officer during the year which, although not included as part of the formal goals, are nonetheless deemed important to our near- and long-term success.

The Committee does not assign weights in these assessments, but uses its discretion and judgment to determine, based on recommendations by the President and Chief Executive Officer, a percentage that it believes fairly represents the named executive officer's individual achievement level for the year.

## **2011 Executive Compensation Decisions**

### ***Corporate Achievement Level***

In February 2012, the Committee determined that we had an overall corporate achievement level of 70% for 2011. This determination was based on successes in the advancement of our skeletal muscle clinical development programs, the advancement of our skeletal muscle research program, and the generation of funds through equity financings. The Committee considers these achievements alongside progress toward achieving business development goals, other financing objectives and certain research goals.

### ***Performance Bonus for 2011 Performance***

Despite our 70% overall corporate achievement level for 2011, management recommended that to preserve our cash reserves, no performance bonuses be paid to the named executive officers or employees based on 2011 performance. The Committee accepted management's recommendation. Because no cash bonuses were paid for 2011, the Committee did not assess 2011 individual achievement levels for our named executive officers.

### ***Robert I. Blum.***

Salary. The Committee increased Mr. Blum's salary by 6% to \$555,000, effective March 1, 2011. The 6% increase included a 3% merit increase based on the Committee's evaluation of his 2010 performance, including successes in the advancement of our skeletal muscle clinical development programs, the advancement of our skeletal muscle research program, and the generation of funds through equity financings and grant arrangements, alongside delays in achieving business development and other research goals. The additional 3% increase was intended to bring his base salary into the targeted base salary range of between the 50<sup>th</sup> and 75<sup>th</sup> percentiles based on data from the 2011 Peer Companies.

Bonus. We did not award Mr. Blum a performance bonus for 2011, as discussed above.

### Equity.

Stock Options. In February 2011, the Committee awarded Mr. Blum stock options to purchase 500,000 shares of common stock in consideration of his performance as President and Chief Executive Officer in 2010. This award was within the targeted equity award range based on an analysis of data from the 2011 Peer Companies, which resulted in target total cash and equity compensation at or around the median.

Restricted Stock Units. In November 2011, the Committee awarded Mr. Blum 350,000 restricted stock units. This award was granted after a corporate restructuring and was at a level that the Committee determined, in its sole discretion and without reference to any benchmark levels, would provide a sufficient incentive to retain and motivate Mr. Blum. The Committee also considered that at the time 100% of Mr. Blum's stock options had exercise prices above the stock's current market price and the decision to award no cash bonus for 2011 performance.

### ***Sharon A. Barbari.***

Salary. The Committee increased Ms. Barbari's base salary by 2% to \$391,000, effective March 1, 2011. The Committee felt this increase was warranted given her achievements in 2010, primarily ending 2010 with cash reserves in excess of those required to cover the upcoming 16 months of forecasted



expenditures without having completed a partnership during the year, managing adherence to budgetary goals, and ensuring regulatory compliance. The 2% increase maintained her base salary within the targeted base salary range of between the 50<sup>th</sup> and 75<sup>th</sup> percentiles based on data from the Peer Companies.

Bonus. We did not award Ms. Barbari a performance bonus for 2011, as discussed above.

Equity.

Stock Options. In February 2011, the Committee awarded Ms. Barbari stock options to purchase 200,000 shares of common stock. In determining the size of her award, the Committee considered her contributions in managing our financial resources in 2010. The Committee also considered that at the time the majority of Ms. Barbari's stock options had exercise prices above the stock's current market price. This award resulted in target total cash and equity compensation at or around the median, based on an analysis of data from the 2011 Peer Companies.

Restricted Stock Units. In November 2011, the Committee awarded Ms. Barbari 200,000 restricted stock units. This award was granted after a corporate restructuring and was at a level that the Committee determined, in its sole discretion and without reference to any benchmark levels, would provide a sufficient incentive to retain and motivate Ms. Barbari. The Committee considered that at the time 100% of Ms. Barbari's stock options had exercise prices above the stock's current market price and the decision to award no cash bonus for 2011 performance.

**David W. Cragg.**

Salary. The Committee increased Mr. Cragg's base salary by 2% to \$278,000, effective March 1, 2011. The Committee felt this increase was warranted given his achievements in 2010 in meeting goals relating to staffing metrics, compensation and benefit programs objectives and budgets and leading efforts to meet corporate giving and community service goals. The 2% increase maintained his base salary within the targeted base salary range of between the 50<sup>th</sup> and 75<sup>th</sup> percentiles based on data from the Peer Companies.

Bonus. We did not award Mr. Cragg a performance bonus for 2011, as discussed above.

Equity.

Stock Options. In February 2011, the Committee awarded Mr. Cragg stock options to purchase 100,000 shares of common stock. In determining the size of this award, the Committee considered his successful management of the programs and goals within the Human Resources function in 2010. The Committee also considered that at the time the majority of stock options held by Mr. Cragg had exercise prices above the stock's current market price. This award resulted in target total cash and equity compensation at or around the median, based on an analysis of data from the 2011 Peer Companies.

Restricted Stock Units. In November 2011, the Committee awarded Mr. Cragg restricted stock units for 125,000 shares of Common Stock. This award was granted after a corporate restructuring and was at a level that the Committee determined, in its sole discretion and without reference to any benchmark levels, would provide a sufficient incentive to retain and motivate Mr. Cragg. The Committee considered that at the time 100% of Mr. Cragg's stock options had exercise prices above the stock's current market price and the decision to award no cash bonus for 2011 performance.

**David J. Morgans.**

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Salary. The Committee increased Dr. Morgans' base salary by 2% to \$388,000, effective March 1, 2011. The Committee felt this increase was warranted given his achievements in 2010 in completion of goals for the research, preclinical and nonclinical development areas. These goals included the

advancement of IND-enabling non-clinical development studies and the advancement of research programs to lead optimization and hit-to-lead status. The 2% increase maintained his base salary within the targeted base salary range of between the 50<sup>th</sup> and 75<sup>th</sup> percentiles based on data from the 2011 Peer Companies.

Bonus. Dr. Morgans ceased to be eligible for a 2011 performance bonus upon his termination in October 2011, as described below.

Equity. In February 2011, the Committee awarded Dr. Morgans stock options to purchase 175,000 shares of common stock. In determining the size of this award, the Committee considered his contributions toward advancing our research and preclinical compounds. This award resulted in target total cash and equity compensation at or around the median, based on an analysis of data from the 2011 Peer Companies.

Dr. Morgans left the Company in October 2011 in connection with our restructuring. Dr. Morgans received a severance payment of \$388,000, which is equal to one year of his base salary, and is eligible to receive continued health benefits for up to twelve months from the date of his termination and outplacement assistance. The Committee decided on the size of this severance payment based on guidelines for severance payments approved by the Committee in connection with the restructuring, prior precedent for similarly situated employees from prior restructurings and industry benchmarks for similar executive officers. In addition, as a condition of receiving the severance payment, Dr. Morgans agreed to release all claims against the Company.

Dr. Morgans entered into a consulting agreement with the Company effective November 1, 2011 to help ensure the proper transition of certain preclinical and non-clinical drug discovery research and development activities. Under the terms of the agreement, Dr. Morgans will provide eight days of consulting services per month to us in the areas of preclinical and non-clinical drug discovery research and development for a monthly retainer of \$15,520. If Dr. Morgans provides consulting services in excess of eight days per month, we will compensate him for the additional services at a rate of \$242.50 per hour. This consulting rate is based on 130% of Dr. Morgans' base salary, which is consistent with the manner in which we calculate consulting rates for former employees, and is intended to compensate for lost benefits (e.g., health and life insurance, paid time off) provided to employees. Total fees paid to Dr. Morgans under the consulting agreement may not exceed \$25,000 per month, inclusive of the monthly retainer, except with our written consent. We also reimburse Dr. Morgans for expenses incurred on our behalf. The agreement expires on April 30, 2012, but may be extended with the written agreement of both parties. Either party may terminate the agreement upon 60 days written notice. Dr. Morgans' stock options continue to vest and he has the right to exercise vested options while he remains as an active service provider to us. In the year ended December 31, 2011, Dr. Morgans earned \$31,040 under the consulting agreement.

***Andrew A. Wolff.***

Salary. The Committee increased Dr. Wolff's base salary by 3% to \$388,000, effective March 1, 2011. The Committee felt this increase was warranted given his achievements in 2010 in the completion of the majority of the clinical development goals, including successes in completing the Phase IIa evidence of effect clinical trial of CK-2017357 in ALS patients and initiation of the Phase IIa clinical trial of CK-2017357 in patients with claudication associated with peripheral artery disease. The 3% increase maintained his base salary within the targeted base salary range of between the 50<sup>th</sup> and 75<sup>th</sup> percentiles based on data from the 2011 Peer Companies.

Bonus. We did not award Dr. Wolff a performance bonus for 2011, as discussed above.

Equity.

Stock Options. In February 2011, the Committee awarded Dr. Wolff stock options to purchase 200,000 shares of common stock. In determining the size of this award, the Committee considered his role in completing the Phase IIa clinical trial of CK-2017357 in ALS patients and initiation of the

Phase IIa clinical trial of CK-20717357 in patients with claudication associated with peripheral artery disease. The Committee also considered that at the time the majority of stock options held by Dr. Wolff had exercise prices above the stock's current market price. This award resulted in target total cash and equity compensation at or around the median, based on an analysis of data from the 2011 Peer Companies.

*Restricted Stock Units.* In November 2011, the Committee awarded Dr. Wolff restricted stock units for 175,000 shares of Common Stock. This award was granted after a corporate restructuring and was at a level that the Committee determined, in its sole discretion and without reference to any benchmark levels, would provide a sufficient incentive to retain and motivate Dr. Wolff. The Committee also considered that at the time 100% of Dr. Wolff's stock options had exercise prices above the stock's current market price, and the decision to award no cash bonus for 2011 performance.

#### **Severance Benefits and Employment Agreements**

We have entered into Executive Employment Agreements with each of our named executive officers. These agreements provide for salary and benefit continuation, bonus payments and accelerated vesting of equity awards upon the termination of their employment either by us without cause, or by the executive for good reason following a loss of position in connection with a change of control of the Company. The terms of these agreements are described in more detail in the section entitled "Potential Payments Upon Change of Control." In addition, our equity plan provides that all employee equity awards will be subject to full acceleration if they are not assumed or replaced with comparable awards by the acquirer.

The Committee believes these severance and change of control benefits are an essential element of our executive compensation package and assist it in recruiting and retaining talented executive officers. The Committee believes these benefits serve to minimize the distractions to the executive, reduce the risk that the executive will depart the Company before an acquisition is consummated, and allow the executive to focus on continuing normal business operations and the success of a potential business combination, rather than worrying about how business decisions that may be in the best interest of the Company and its stockholders will impact his or her own financial security. That is, these change of control arrangements help ensure stability among our executive officer ranks and will enable our executives to maintain a balanced perspective in making overall business decisions during periods of uncertainty. Further, these agreements are in line with customary practices at an executive officer level at the Peer Companies.

#### **Other Compensation**

Our executive officers are eligible to participate in our employee benefit plans, including medical, dental, life insurance, employee stock purchase and 401(k) plans. These benefits are available to our executives on the same terms and conditions as our other employees. Our executive officers do not receive any perquisites other than those provided to all employees.

#### **Equity Compensation Policies**

Our policy is to make new-hire and annual equity grants on pre-determined dates as follows:

The Committee pre-approves new hire stock option grants before an offer is made and the options are granted on the last day of the month in which the employee is hired.

We make annual equity grants as part of our performance review and reward process. The Committee makes annual grants to employees at a meeting held during the first quarter of each fiscal year.



The exercise price of the stock options is not less than the closing price of our common stock on the NASDAQ Global Select Market on the grant date of the option. Our policy is not to purposely accelerate or delay the public release of material information in consideration of a pending equity grant to allow the grantee to benefit from a more favorable stock price.

We encourage our executive officers to hold a significant equity interest in the company, but we have not set specific ownership guidelines. We have a policy that prohibits our executive officers, directors and other members of management from engaging in short sales, transactions in put or call options, hedging transactions or other inherently speculative transactions with respect to our stock.

#### **Tax Deductibility of Executive Compensation**

Section 162(m) of the Code limits the amount that a public company may deduct from federal income taxes for remuneration paid to the chief executive officer and the three other most highly paid executive officers, other than the chief financial officer, to \$1.0 million per executive per year, unless certain requirements are met. Section 162(m) provides an exception from this deduction limitation for certain forms of performance-based compensation, including the gain recognized by executive officers upon the exercise of qualifying compensatory stock options. While the Committee is mindful of the benefit to us of the full deductibility of compensation, the Committee believes that it should not be constrained by the requirements of Section 162(m) where those requirements would impair flexibility in compensating our executive officers in a manner that can best promote our corporate objectives. We intend to continue to compensate our executive officers in a manner consistent with what we believe are the best interests of the Company and our stockholders.

#### **Accounting Considerations**

In determining the size and type of equity awards, the Committee also considered the potential impact of the accounting guidance for stock-based compensation to determine the effect of awards. However, we do not set a specific budget for equity compensation based on the accounting cost.

#### **Compensation Recovery Policy**

We do not have a policy to attempt to recover cash bonus payments paid to our executive officers if the performance objectives that led to the determination of such payments were to be restated, or found not to have been met to the extent the Committee originally believed. However, as a public company subject to Section 304 of the Sarbanes-Oxley Act of 2002, if we are required as a result of misconduct to restate our financial results due to the material noncompliance with any financial reporting requirements under the federal securities laws, our President and Chief Executive Officer and Executive Vice President, Finance and Chief Financial Officer may be legally required to reimburse us for any bonus or other incentive-based or equity-based compensation they received. In addition, we will comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act and will adopt a compensation recovery policy once the SEC adopts final regulations on the subject.

### **Compensation and Talent Committee Report**

The Compensation and Talent Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation and Talent Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

MEMBERS OF THE COMPENSATION AND

TALENT COMMITTEE

Santo J. Costa

L. Patrick Gage

Sandford D. Smith

Wendell Wierenga

Dated: April 2, 2012

### **Compensation Committee Interlocks and Insider Participation**

During fiscal year 2011, directors Santo J. Costa, L. Patrick Gage, A. Grant Heidrich (through February 2011), and Wendell Wierenga (beginning in February 2011) served on the Compensation and Talent Committee. No current or former member of the Compensation and Talent Committee or executive officer of the Company has served as a member of the Board of Directors or Compensation and Talent Committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation and Talent Committee. The current and former members of the Compensation and Talent Committee were not officers or employees of the Company while a member of the Compensation and Talent Committee during fiscal year 2011.

### **Risk Analysis of the Compensation Programs**

The Committee has reviewed our compensation policies as generally applicable to our employees and believes that our policies do not encourage excessive and unnecessary risk-taking and that the level of risk that they do encourage is not reasonably likely to have a material adverse effect on us. The design of our compensation policies and programs encourage our employees to remain focused on both our short- and long-term goals. For example, while our cash bonus plans measure corporate and individual performance on an annual basis, the stock options typically vest over a number of years, which the Committee believes encourages employees to focus on sustained stock price appreciation, thus limiting the potential value of excessive risk-taking.

### Summary Compensation Table

The following table summarizes the total compensation earned by or paid to each of the named executive officers for the fiscal years ended December 31, 2011, 2010 and 2009:

| Name and Principal Position       | Year | Salary<br>\$(1) | Bonus<br>(\$) | Stock           | Option          | Non-Equity<br>Incentive<br>Plan | All Other            | Total<br>(\$) |
|-----------------------------------|------|-----------------|---------------|-----------------|-----------------|---------------------------------|----------------------|---------------|
|                                   |      |                 |               | Awards<br>\$(2) | Awards<br>\$(2) | Compensation<br>(\$)            | Compensation<br>(\$) |               |
| Robert I. Blum                    | 2011 | \$ 550,000      |               | \$ 395,150      | \$ 513,050      |                                 |                      | \$ 1,458,200  |
| President and Chief               | 2010 | \$ 520,833      |               |                 | \$ 552,690      | \$ 183,750(4)                   |                      | \$ 1,257,273  |
| Executive Officer                 | 2009 | \$ 470,000      | \$ 190,000(3) |                 | \$ 345,373      | \$ 225,000(5)                   |                      | \$ 1,230,373  |
| Sharon A. Barbari                 | 2011 | \$ 389,667      |               | \$ 225,800      | \$ 205,220      |                                 |                      | \$ 820,687    |
| Executive Vice President, Finance | 2010 | \$ 381,167      |               |                 | \$ 276,345      | \$ 114,900(4)                   |                      | \$ 772,412    |
| and Chief Financial Officer       | 2009 | \$ 359,750      | \$ 100,000(3) |                 | \$ 188,385      | \$ 133,920(5)                   |                      | \$ 782,055    |
| David W. Cragg (6)                | 2011 | \$ 277,083      |               | \$ 141,125      | \$ 102,610      |                                 |                      | \$ 520,818    |
| Senior Vice President, Human      | 2010 | \$ 271,250      |               |                 | \$ 184,230      | \$ 59,269(4)                    |                      | \$ 514,749    |
| Resources                         |      |                 |               |                 |                 |                                 |                      |               |
| David J. Morgans, Jr., Ph.D.      | 2011 | \$ 343,617      |               |                 | \$ 179,568      |                                 | \$ 419,040(7)        | \$ 942,225    |
| Former Executive Vice             | 2010 | \$ 376,750      |               |                 | \$ 276,345      | \$ 106,260(4)                   | \$ 9,897(8)          | \$ 769,252    |
| President, Preclinical Research   | 2009 | \$ 357,500      | \$ 130,000(3) |                 | \$ 188,385      | \$ 127,050(5)                   | \$ 10,444(8)         | \$ 813,379    |
| and Development                   |      |                 |               |                 |                 |                                 |                      |               |
| Andrew A. Wolff, M.D., F.A.C.C    | 2011 | \$ 386,375      |               | \$ 197,575      | \$ 205,220      |                                 |                      | \$ 789,170    |
| Senior Vice President, Clinical   | 2010 | \$ 376,875      |               |                 | \$ 276,345      | \$ 85,106(4)                    |                      | \$ 738,326    |
| Research and Development and      | 2009 | \$ 365,000      | \$ 100,000(3) |                 | \$ 163,267      | \$ 97,125(5)                    |                      | \$ 725,392    |
| Chief Medical Officer             |      |                 |               |                 |                 |                                 |                      |               |

- (1) Includes amounts earned but deferred at the election of the named executive officers pursuant to our 401(k) employee savings and retirement plan.
- (2) Amounts in these columns reflect the grant date fair value of awards granted pursuant to our equity incentive plans, calculated in accordance with the accounting guidance for stock compensation. Assumptions used for the valuation of option grants are set forth in Note 1 to our audited financial statements for each of the fiscal years ended December 31, 2011, 2010 and 2009, included in our Annual Report on Form 10-K for each of such years.
- (3) Represents amounts paid on July 1, 2009 pursuant to a special cash bonus program for Company employees, including the named executive officers, in recognition of efforts and contributions that permitted us to achieve our position of relative financial strength and strategic positioning. Particular achievements included the advancement of omecamtiv mecarbil in clinical development that resulted in Amgen exercising its option to acquire an exclusive license to our cardiac myosin activator program, triggering a \$50 million payment to us, and the closing of a registered direct equity financing in 2009.
- (4) Represents amounts earned in 2010 pursuant to our Employee Bonus Plan and paid on March 11, 2011.
- (5) Represents amounts earned in 2009 pursuant to our Employee Bonus Plan and paid on March 12, 2010.

- (6) Mr. Cragg became a named executive officer in 2010.
  
- (7) Includes \$388,000 of severance payments to Dr. Morgans upon the termination of his employment on October 31, 2011 in connection with our restructuring, and \$31,040 of consulting fees earned by Dr. Morgans after the termination of his employment, as discussed under Certain Business Relationships and Related Party Transactions below.
  
- (8) Represents principal and interest related to an interest-bearing loan that we entered into with Dr. Morgans in May 2002. 100% of the interest was forgiven each year and 25% of the principal amount was forgiven on a pro rata basis over a four-year period beginning on the fifth anniversary of the loan. The loan was fully forgiven as of May 2010.

## Employment and Other Agreements

We have entered into Executive Employment Agreements with each named executive officer.

The Executive Employment Agreements provide for such officers to remain at-will employees of the Company and to receive salary, bonus and benefits as determined at the discretion of the Board of Directors. Such agreements also provide for such officers to receive certain benefits if, within the eighteen-month period following a change of control of the Company, they resign for good reason or are terminated by us or our successor other than for cause see Potential Payments Upon Change of Control below.

### Grants of Plan Based Awards in 2011

The following table sets forth information regarding plan-based awards to each of the named executive officers during 2011:

| Name                            | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) |             |              | All Other Stock Awards: Number of Shares of Stock or Units (#)(2) | All Other Option Awards: Number of Securities Underlying Options (#)(3) | Exercise or Base Price of Option Awards (\$) | Grant Date Fair Value of Stock and Option Awards (\$) |
|---------------------------------|------------|--|-------------|--------------|---|---|--|---|
|                                 |            | Threshold (\$)   | Target (\$) | Maximum (\$) |   |   |  |   |
| Robert I. Blum                  | 02/27/11   | \$ 0   | \$ 277,500  | \$ 333,000   |   |   |  |   |
|                                 | 02/28/11   |  |             |              |   |   |  |   |
|                                 | 11/17/11   |  |             |              | 350,000   | 500,000   | \$ 1.57                                      | \$ 513,050  |
| Sharon A. Barbari               | 02/27/11   | \$ 0   | \$ 156,400  | \$ 187,680   |   |   |  |   |
|                                 | 02/28/11   |  |             |              |   | 200,000   | \$ 1.57                                      | \$ 205,220  |
|                                 | 11/17/11   |  |             |              | 200,000   |   |  | \$ 225,800  |
| David W. Cragg                  | 02/27/11   | \$ 0   | \$ 83,400   | \$ 100,080   |   |   |  |   |
|                                 | 02/28/11   |  |             |              |   | 100,000   | \$ 1.57                                      | \$ 102,610  |
|                                 | 11/17/11   |  |             |              | 125,000   |   |  | \$ 141,125  |
| David J. Morgans, Jr., Ph.D.    | 02/27/11   | \$ 0   | \$ 155,200  | \$ 186,240   |   |   |  |   |
|                                 | 02/28/11   |  |             |              |   | 175,000   | \$ 1.57                                      | \$ 179,568  |
|                                 | 11/17/11   |  |             |              |   |   |  |   |
| Andrew A. Wolff, M.D., F.A.C.C. | 02/27/11   | \$ 0   | \$ 135,800  | \$ 162,960   |   |   |  |   |
|                                 | 02/28/11   |  |             |              |   | 200,000   | \$ 1.57                                      | \$ 205,220  |
|                                 | 11/17/11   |  |             |              | 175,000   |   |  | \$ 197,575  |

- (1) Reflects each named executive officer's participation in our Employee Bonus Plan, calculated based on each officer's respective base salary and position as of December 31, 2011. Amounts actually earned under the plan in 2011, if any, are reflected in the Summary Compensation Table above.
- (2) Restricted stock units awarded to the named executive officers in November 2011 were granted under the 2004 Equity Plan. 50% of the units vest in September 2012 and the remaining 50% vest in September 2013.
- (3) All stock options granted to the named executive officers in 2011 were granted under the 2004 Equity Plan. Each option vests monthly over a four-year period.

**Outstanding Equity Awards at December 31, 2011**

The following table sets forth information regarding outstanding equity awards held by each named executive officer as of December 31, 2011:

| Name                            | Option Awards                                       |                              |                       |                        | Stock Awards   |   |
|---------------------------------|---|------------------------------|-----------------------|------------------------|--|---|
|                                 | Number of Securities Underlying Unexercised Options |                              | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested <sup>(2)</sup> | Market Value of Shares or Units Of Stock That Have Not Vested |
|                                 | Exercisable   | Unexercisable <sup>(1)</sup> |                       |                        |  |   |
| Robert I. Blum                  | 31,097  |                              | \$ 1.20               | 07/10/2012             | 350,000  | \$ 336,000  |
|                                 | 32,500  |                              | \$ 1.20               | 05/21/2013             |  |   |
|                                 | 76,192  |                              | \$ 2.00               | 12/18/2013             |  |   |
|                                 | 45,000  |                              | \$ 6.59               | 04/11/2015             |  |   |
|                                 | 100,000   |                              | \$ 7.15               | 03/01/2016             |  |   |
|                                 | 250,000   |                              | \$ 6.81               | 03/14/2017             |  |   |
|                                 | 191,666   | 8,334                        | \$ 3.37               | 02/28/2018             |  |   |
|                                 | 194,791   | 80,209                       | \$ 1.85               | 02/26/2019             |  |   |
|                                 | 123,750   | 146,250                      | \$ 3.08               | 02/24/2020             |  |   |
|                                 | 104,166   | 395,834                      | \$ 1.57               | 02/28/2021             |  |   |
| Sharon A. Barbari               | 110,000   |                              | \$ 9.95               | 09/15/2014             | 200,000  | \$ 192,000  |
|                                 | 16,500  |                              | \$ 6.59               | 04/11/2015             |  |   |
|                                 | 60,000  |                              | \$ 7.15               | 03/01/2016             |  |   |
|                                 | 60,000  |                              | \$ 6.81               | 03/14/2017             |  |   |
|                                 | 117,791   | 5,209                        | \$ 3.37               | 02/28/2018             |  |   |
|                                 | 106,250   | 43,750                       | \$ 1.85               | 02/26/2019             |  |   |
|                                 | 61,875  | 73,125                       | \$ 3.08               | 02/24/2020             |  |   |
|                                 | 41,666  | 158,334                      | \$ 1.57               | 02/28/2021             |  |   |
| David W. Cragg                  | 80,000  |                              | \$ 9.52               | 02/14/2015             | 125,000  | \$ 120,000  |
|                                 | 40,000  |                              | \$ 7.15               | 03/01/2016             |  |   |
|                                 | 50,000  |                              | \$ 6.81               | 03/14/2017             |  |   |
|                                 | 67,083  | 2,917                        | \$ 3.37               | 02/28/2018             |  |   |
|                                 | 60,208  | 24,792                       | \$ 1.85               | 02/26/2019             |  |   |
|                                 | 41,250  | 48,750                       | \$ 3.08               | 02/24/2020             |  |   |
|                                 | 20,833  | 79,167                       | \$ 1.57               | 02/28/2021             |  |   |
| David J. Morgans, Jr., Ph.D.    | 34,000  |                              | \$ 6.50               | 03/08/2014             |  |   |
|                                 | 50,000  |                              | \$ 6.59               | 04/11/2015             |  |   |
|                                 | 60,000  |                              | \$ 7.15               | 03/01/2016             |  |   |
|                                 | 65,000  |                              | \$ 6.81               | 03/14/2017             |  |   |
|                                 | 143,750   | 6,250                        | \$ 3.37               | 02/28/2018             |  |   |
|                                 | 106,250   | 43,750                       | \$ 1.85               | 02/26/2019             |  |   |
|                                 | 61,875  | 73,125                       | \$ 3.08               | 02/24/2020             |  |   |
|                                 | 36,458  | 138,542                      | \$ 1.57               | 02/28/2021             |  |   |
| Andrew A. Wolff, M.D., F.A.C.C. | 110,000   |                              | \$ 9.91               | 10/20/2014             | 175,000  | \$ 168,000  |
|                                 | 12,500  |                              | \$ 6.59               | 04/11/2015             |  |   |
|                                 | 60,000  |                              | \$ 7.15               | 03/01/2016             |  |   |
|                                 | 55,000  |                              | \$ 6.81               | 03/14/2017             |  |   |
|                                 | 119,791   | 5,209                        | \$ 3.37               | 02/28/2018             |  |   |
|                                 | 92,083  | 37,917                       | \$ 1.85               | 02/26/2019             |  |   |
|                                 | 61,875  | 73,125                       | \$ 3.08               | 02/24/2020             |  |   |
|                                 | 41,666  | 158,334                      | \$ 1.57               | 02/28/2021             |  |   |

(1) All currently unexercisable options in this table vest monthly over a four-year period from the date of grant.

- (2) 50% of the unvested restricted stock units vest in September 2012 and the remaining 50% vest in September 2013.

### **Option Exercises and Vesting of Stock in 2011**

No named executive officer exercised stock options during 2011 and none of the restricted stock units held by the named executive officers vested during 2011.

### **Pension Benefits**

We do not provide our employees, including our named executive officers, with a defined benefit pension plan or any supplemental executive retirement plans or retiree health benefits.

### **Nonqualified Deferred Compensation**

We do not have a nonqualified defined contribution plan or other nonqualified deferred compensation plan.

### **Potential Payments Upon Change of Control**

We have entered into Executive Employment Agreements with each of the named executive officers. Such agreements provide for such officers to receive certain benefits if, within the eighteen-month period following a change of control of the Company, the executive officer resigns for good reason or is terminated by us or our successor other than for cause (a qualifying resignation or termination ) and such officer signs a standard release of claims with us.

Good reason includes a material reduction in salary; a material decrease in duties or responsibilities; a material decrease in the duties or responsibilities of the supervisor to whom the executive officer is required to report; a material decrease in the budget over which the executive officer has authority; relocation of the place of employment to a location more than fifty miles from our location at the time of the change in control; or a material breach of the Executive Employment Agreement by us or our successor.

Cause includes failure to substantially perform the duties of the job other than due to physical or mental illness; engaging in conduct that is materially injurious to us or constitutes gross misconduct; material breach of the Executive Employment Agreement by the executive officer; material breach of Company policies that have been adopted by the Board of Directors; conviction of a felony; or fraud against us.

Upon a qualifying resignation or termination, Ms. Barbari, Mr. Cragg and Dr. Wolff will become entitled to receive: continuing severance payments at a rate equal to their base salary for a period of eighteen months; a lump sum payment equal to their full target annual bonus; acceleration in full of vesting of equity awards held by them; and continued employee benefits until the earlier of eighteen months following the date of termination or resignation or the date they obtain employment with generally similar employee benefits. In the event that such payments constitute parachute payments within the meaning of Section 280G of the Code and become subject to the excise tax imposed under Section 4999 of the Code, the Executive Employment Agreements of Ms. Barbari, Mr. Cragg and Dr. Wolff each provide that the benefit amount may be reduced so that no portion of the payment is subject to the excise tax.

Upon a qualifying resignation or termination, Mr. Blum will become entitled to receive: continuing severance payments at a rate equal to his base salary for a period of twenty-four months; a lump sum payment equal to his full target annual bonus; acceleration in full of vesting of equity awards held by him; and continued employee benefits until the earlier of twenty-four months following the date of termination or resignation or the date he obtains employment with generally similar employee benefits. In the event that such payments constitute parachute payments within the meaning of Section 280G of the Code and become subject to the excise tax imposed under Section 4999 of the Code, Mr. Blum is eligible to receive a payment from us sufficient to pay the



excise tax, and a tax gross-up payment, which is an additional payment sufficient to pay the excise tax and other income taxes resulting from the initial excise tax payment. This excise tax and tax gross-up payment has been a benefit we have historically offered at the Chief Executive Officer level based on the uniqueness and importance of that role to our business.

The provisions of each Executive Employment Agreement are intended to comply with the requirements of Section 409A so that none of the severance payments or benefits to be provided under the agreements will be subject to the additional tax imposed under Section 409A. If severance payments to an executive officer at the time of termination would trigger the additional tax imposed under Section 409A, then such payments will instead become payable to the executive officer starting six months and one day after the termination date.

Severance payments and benefits provided to an executive officer under an Executive Employment Agreement following a qualifying resignation or termination are subject to certain conditions including adherence to existing confidentiality, proprietary information and invention assignment agreements, and non-competition clauses.

The following table summarizes the potential benefits the named executive officers would receive in the circumstances described above assuming their employment had been terminated on December 31, 2011:

| Name                            | Salary       | Bonus      | Acceleration of Vesting of Restricted Stock Units(1) | Continuation of Employee Benefits(2) | Total(3)     |
|---------------------------------|--------------|------------|--|--------------------------------------|--------------|
| Robert I. Blum                  | \$ 1,110,000 | \$ 277,500 | \$ 336,000   | \$ 55,107                            | \$ 1,778,607 |
| Sharon A. Barbari               | \$ 586,500   | \$ 156,400 | \$ 192,000   | \$ 40,964                            | \$ 975,864   |
| David W. Cragg                  | \$ 417,000   | \$ 83,400  | \$ 120,000   | \$ 40,637                            | \$ 661,037   |
| Andrew A. Wolff, M.D., F.A.C.C. | \$ 582,000   | \$ 135,800 | \$ 168,000   | \$ 40,578                            | \$ 926,378   |

- (1) The value of the acceleration of vesting of restricted stock units is calculated as the number of shares of unvested restricted stock units as of December 31, 2011 times the fair market value per share of the Common Stock on December 31, 2011, which was \$0.96.
- (2) Includes the cost of premiums for medical, dental, vision, life and disability insurance coverage under our group employee benefit plans.
- (3) Based on the payment amounts reflected in the table, none of the named executive officers would be subject to excise taxes under Sections 280G and 4999 of the Code as of December 31, 2011. Thus, Mr. Blum would not receive excise tax reimbursement or tax gross-up payments, and the termination payments to the other named executive officers would not be reduced to avoid excise taxes.

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**Director Summary Compensation Table for 2011**

The following table summarizes the total compensation earned by our Directors for the fiscal year ended December 31, 2011:

| Name                              | Fees Earned or<br>Paid in Cash<br>(\$)(1) | Option<br>Awards<br>(\$)(1)(2) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|-----------------------------------|---|--------------------------------|-----------------------------------|---------------|
| Robert I. Blum(3)                 |   |                                |                                   |               |
| Santo J. Costa(4)                 | \$ 57,050                                 | \$ 18,724                      |                                   | \$ 75,774     |
| Stephen Dow(5)                    | \$ 41,250                                 | \$ 51,349                      |                                   | \$ 92,599     |
| L. Patrick Gage, Ph.D.(6)         | \$ 27,800                                 | \$ 83,974                      |                                   | \$ 111,774    |
| Denise M. Gilbert, Ph.D.(7)       | \$ 61,375                                 | \$ 18,724                      |                                   | \$ 80,099     |
| A. Grant Heidrich, III(8)         | \$ 3,525                                  | \$ 32,625                      |                                   | \$ 36,150     |
| John T. Henderson, M.B., Ch.B.(9) | \$ 37,250                                 | \$ 51,349                      |                                   | \$ 88,599     |
| Sandford D. Smith(10)             |   |                                |                                   |               |
| James A. Spudich, Ph.D.(11)       | \$ 52,888                                 | \$ 51,349                      | \$ 28,425(13)                     | \$ 132,662    |
| Wendell Wierenga, Ph.D.(12)       | \$ 39,525                                 | \$ 66,996                      |                                   | \$ 106,521    |

- (1) Mr. Dow, Dr. Gage, Mr. Heidrich, Dr. Henderson and Dr. Spudich each made an annual election to receive 100% of their retainer fees for 2011 in stock options.
- (2) Amounts in this column reflect the grant date fair value of awards granted in 2011, calculated in accordance with the accounting guidance for stock compensation. Assumptions used for the valuation of option grants are set forth in Note 1 to our audited financial statements for the fiscal year ended December 31, 2011, included in our Annual Report on Form 10-K.
- (3) Employee Directors receive no separate compensation for their services as members of the Board of Directors.
- (4) As of December 31, 2011, Mr. Costa had outstanding options to purchase 60,000 shares of Common Stock, of which 26,110 were exercisable.
- (5) As of December 31, 2011, Mr. Dow had outstanding options to purchase 177,222 shares of Common Stock, of which 166,959 were exercisable.
- (6) As of December 31, 2011, Dr. Gage had outstanding options to purchase 116,296 shares of Common Stock, of which 94,937 were exercisable.
- (7) As of December 31, 2011, Dr. Gilbert had outstanding options to purchase 85,000 shares of Common Stock, of which 76,666 were exercisable.
- (8) Mr. Heidrich's unexercised stock options expired after his service as a member of the Board of Directors ended in February 2011, and therefore he had no outstanding stock options as of December 31, 2011.
- (9) As of December 31, 2011, Dr. Henderson had outstanding options to purchase 145,653 shares of Common Stock, of which 133,723 were exercisable.

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- (10) Mr. Smith joined the Board of Directors in March 2012 and therefore received no compensation for 2011.
  
- (11) As of December 31, 2011, Dr. Spudich had outstanding options to purchase 168,470 shares of Common Stock, of which 158,207 were exercisable. Dr. Spudich resigned from the Board of Directors in March 2012.
  
- (12) As of December 31, 2011, Dr. Wierenga had outstanding options to purchase 60,000 shares of Common Stock, of which 22,777 were exercisable.
  
- (13) Represents fees earned by Dr. Spudich for services rendered in his capacity as a member of our Scientific Advisory Board and for ad hoc consulting services.

We reimburse our non-employee directors for their expenses incurred in connection with attending Board of Directors and committee meetings.

The Chairman of the Board of Directors receives an annual base retainer of \$40,000, the Lead Outside Director, if any, receives an annual base retainer of \$30,000, and other non-employee directors receive an annual base retainer of \$20,000. Non-employee directors who serve as Board of Directors committee chairpersons receive an additional \$7,500 annual retainer, with the exception of the Chairperson of the Audit Committee, who receives an additional \$12,500 annual retainer. Other non-employee Board of Directors committee members receive an additional \$2,500 retainer for each committee of which they are a member.

Each independent outside director may make an annual election to receive his or her annual base retainer in cash or to receive either 50% or 100% of the retainer in stock options. The grant date of the stock options is the first business day of the fiscal calendar year. The number of stock options is calculated at a rate of 2.5 times the cash retainer amount, divided by the closing price of our Common Stock on the date of grant. For example, if a director elects to receive 100% of the retainer in stock options, \$50,000 (2.5 times \$20,000) is divided by the closing stock price on the date of grant to determine the number of stock options. The stock options vest monthly over a one-year vesting period.

In 2011, non-employee directors were also paid a per meeting fee of \$1,500 for attendance at each Board of Directors meeting or \$1,000 for attendance by telephone, and were paid \$1,000 for attendance at each meeting of a Board of Directors committee or \$650 for attendance by telephone.

We have in the past granted non-employee directors options to purchase our Common Stock pursuant to the terms of our 2004 Equity Plan, and our Board of Directors continues to have the discretion to grant options to new and continuing non-employee Directors. In January and March 2004, our Board of Directors and stockholders, respectively, approved our 2004 Equity Plan, which provided for automatic grants of stock options to directors who are not our officers or employees. New directors receive an initial option grant of 40,000 shares on joining the Board of Directors, and continuing directors receive an annual option grant of 20,000 shares. Generally, grants to new directors vest monthly over three years and grants to continuing directors vest monthly over one year.

Employee directors who meet the eligibility requirements may participate in our 2004 Employee Stock Purchase Plan.

We maintain director and officer indemnification insurance coverage. This insurance covers directors and officers individually. The policies currently run from June 1, 2011 through June 1, 2012 at a total annual cost of \$242,000. The primary carrier is Old Republic Insurance Company.

**REPORT OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS**

The Audit Committee operates under a written charter adopted by the Board of Directors and reviewed and approved annually by the Audit Committee. The purpose of the Audit Committee is to:

Select the Company's independent auditors and oversee the accounting and financial reporting processes of the Company and audits of the financial statements of the Company;

Assist the Board of Directors in oversight and monitoring of (i) the integrity of the Company's financial statements, (ii) the Company's financial reporting process, (iii) the Company's compliance with legal and regulatory requirements under applicable securities law, (iv) the independent auditors' qualifications, independence and performance, (v) the Company's systems of internal accounting and financial controls, and (vi) other areas of current or potential risk to the Company's finances;

Provide the Board of Directors with the results of its monitoring and recommendations derived therefrom; and

Prepare a report in the Company's annual proxy statement in accordance with SEC rules;

Provide to the Board of Directors such additional information and materials as it may deem necessary to make the Board of Directors aware of significant financial matters that come to its attention and that require the attention of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the system of internal controls.

In fulfilling its responsibilities during 2011, the Audit Committee has:

Reviewed and discussed the audited financial statements and the Company's financial reporting processes with management;

Discussed with the Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, matters required to be discussed under Statements of Auditing Standards No. 61, *Communications with Audit Committees*, as amended, and Statements of Auditing Standards No. 90, *Communication with Audit Committees*;

Received from PricewaterhouseCoopers LLP written disclosures and a letter regarding their independence as required by the rules of the Public Company Accounting Oversight Board, and discussed with PricewaterhouseCoopers LLP their independence from management and the Company; and

Discussed with PricewaterhouseCoopers LLP the overall scope and plans for the audit. The Audit Committee met with PricewaterhouseCoopers LLP, with and without management present, to discuss the results of its examinations, its evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

Based on the foregoing, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for filing with the SEC. The Audit Committee and the Board of Directors have also recommended, subject to stockholder approval, the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending December 31, 2012.

Respectfully submitted,

MEMBERS OF THE AUDIT COMMITTEE

Stephen Dow

Denise M. Gilbert

John T. Henderson

Dated: April 2, 2012

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

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Such officers, directors and ten-percent stockholders are also required by SEC rules to furnish us with copies of all forms that they file pursuant to Section 16(a). Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, we believe that during 2011, our executive officers and directors complied with all applicable filing requirements.

## **CERTAIN BUSINESS RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

### **Review, Approval or Ratification of Transactions with Related Persons**

Our policy is that any transaction with a related party that is required to be reported under applicable SEC rules, other than compensation-related matters and waivers of our Code of Ethics, must be reviewed and approved according to an established procedure. Such a transaction is reviewed by the Audit Committee as required by the Audit Committee's charter, and if approved, is then submitted to the full Board of Directors where it is subject to review and approval or ratification by a majority of the independent, disinterested directors. We have not adopted specific standards for approval of these transactions, but instead review each such transaction on a case-by-case basis. Our policy is to require that all such compensation-related matters be reviewed by the Compensation and Talent Committee and, if approved, submitted to the Board of Directors for review and approval. Any waiver of our Code of Ethics must be reviewed by the Nominating and Governance Committee and, if approved, must be reported as required under applicable SEC rules.

### **Collaboration and Option Agreement and Common Stock Purchase Agreement with Amgen Inc.**

On December 29, 2006, we entered into a collaboration and option agreement with Amgen (the "Amgen Agreement") to discover, develop and commercialize novel small-molecule therapeutics that activate cardiac muscle contractility for potential applications in the treatment of heart failure, including omecamtiv mecarbil, formerly known as CK-1827452. The Amgen Agreement provided Amgen a non-exclusive license and access to certain technology, and an option to obtain an exclusive license to omecamtiv mecarbil and related compounds worldwide, except Japan. Under the agreement, we received an upfront, non-refundable license and technology access fee of \$42.0 million from Amgen, which we were recognizing as revenue ratably over the maximum term of the non-exclusive license, which was 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.

In connection with entering into the Amgen Agreement, we contemporaneously entered into a common stock purchase agreement (the "CSPA") with Amgen, which provided for the sale of 3,484,806 shares of our Common Stock at a price per share of \$9.47 and an aggregate purchase price of approximately \$33.0 million. On January 2, 2007, we issued 3,484,806 shares of Common Stock to Amgen under the CSPA. After deducting the offering costs, we 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 was being recognized as revenue ratably over the maximum term of the non-exclusive license granted to Amgen under the Amgen Agreement, which was four years.

Prior to Amgen's exercise of its option, we conducted research and development activities at its own expense for omecamtiv mecarbil in accordance with an agreed upon plan. In May 2009, Amgen exercised its option. In connection with the exercise of the option, Amgen paid us a non-refundable option exercise fee of \$50.0 million in June 2009. At that time, Amgen assumed responsibility for the development and

commercialization of omecamtiv mecarbil and related compounds, at Amgen's expense, subject to our specified development and commercial participation rights. Amgen's exclusive license extends for the life of the intellectual property that is the subject of the license, and we have no further performance obligations related to research and development under the program, except as defined by the annual joint research and development plans as the parties may mutually agree. Accordingly, we recognized the \$50.0 million option exercise fee as license revenues from related parties in 2009.

Upon Amgen's exercise of the option, we were required to transfer all data and know-how necessary to enable Amgen to assume responsibility for development and commercialization of omecamtiv mecarbil and related compounds. Under the Amgen Agreement, we may be eligible to receive pre-commercialization and commercialization milestone payments of up to \$600.0 million in the aggregate on omecamtiv mecarbil and other potential products arising from research under the collaboration and royalties that escalate based on increasing levels of the 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 products in North America and participate in agreed commercial activities in institutional care settings, at Amgen's expense.

Prior to Amgen's exercise of its option in May 2009, we were amortizing the 2006 non-exclusive license and technology access fee from Amgen and related stock purchase premium over the maximum term of the non-exclusive license, which was four years. The non-exclusive license period ended upon the exercise of Amgen's option in May 2009. We have no further performance obligations related to the non-exclusive license. Accordingly, we recognized as revenue the balance of the deferred Amgen revenue at the time Amgen exercised its option.

Subsequent to Amgen obtaining the exclusive license to omecamtiv mecarbil and related compounds, we are providing research and development support of the program, as and when agreed to by both parties. Under the Amgen Agreement, Amgen reimburses us for such activities at predetermined rates per full-time employee equivalent ( FTE ), and for related out of pocket expenses at cost, including purchases of clinical trial material at manufacturing cost. The FTE rates are negotiated rates that are based upon our costs, and which we believe approximate fair value. In 2009, pursuant to the Amgen Agreement, we transferred to Amgen the majority of our existing inventories of omecamtiv mecarbil and related reference materials. The \$4.0 million purchase price for these materials was a negotiated price and represented the fair value of the materials transferred. Our out-of-pocket costs for the transferred materials were incurred and recorded as research and development expense in prior periods.

Revenue from Amgen was as follows (in thousands):

|  | Years Ended December 31, |          |           |
|--|--------------------------|----------|-----------|
|  | 2011                     | 2010     | 2009      |
| FTE reimbursements                                 | \$ 1,988                 | \$ 910   | \$ 2,107  |
| Reimbursements of other costs                      | 66                       | 577      | 1,018     |
| Transfer of omecamtiv mecarbil materials           |                          |          | 4,000     |
| Total research and development revenues from Amgen | 2,054                    | 1,487    | 7,125     |
| Nonrefundable option exercise fee                  |                          |          | 50,000    |
| Deferred license revenue recognized                |                          |          | 24,367    |
| Total license revenue from Amgen                   |                          |          | 74,367    |
| Total revenue from Amgen                           | \$ 2,054                 | \$ 1,487 | \$ 81,492 |

In the period from August 5, 1997 (inception) through December 31, 2011, we have recognized as related party research and development revenues from Amgen \$10.7 million of reimbursements for FTE, material transfers and other costs, and \$50.0 million for the option exercise fee.



Related party accounts receivable from Amgen was as follows (in thousands):

|   | December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|
| Related party accounts receivable Amgen | \$ 14                | \$ 41                |

#### Consulting Agreement with Dr. Morgans

We entered into a consulting agreement with David J. Morgans, Jr., Ph.D., effective November 1, 2011. Under the terms of the agreement, Dr. Morgans provides eight days of consulting services per month to us in the areas of preclinical and non-clinical drug discovery research and development for a monthly retainer of \$15,520. If Dr. Morgans provides consulting services in excess of eight days per month, we compensate him for the additional services at a rate of \$242.50 per hour. Total fees paid to Dr. Morgans under the consulting agreement may not exceed \$25,000 per month, inclusive of the monthly retainer, except with our written consent. We also reimburse Dr. Morgans for expenses incurred on our behalf. The agreement expires on April 30, 2012, but may be extended with the written agreement of both parties. Either party may terminate the agreement upon 60 days written notice. Dr. Morgans' stock options continue to vest and he has the right to exercise vested options while he remains as an active service provider to us. In the year ended December 31, 2011, Dr. Morgans earned \$31,040 under the consulting agreement.

#### Indemnification of Directors and Officers

We have entered into indemnification agreements with each of our directors and officers, which require us to indemnify its directors and officers to the fullest extent permitted by Delaware law.

#### OTHER MATTERS

The information contained above under the captions Compensation and Talent Committee Report and Report of the Audit Committee of the Board of Directors shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

We know of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form Proxy to vote the shares they represent as the Board of Directors may recommend.

THE BOARD OF DIRECTORS

Dated: April 2, 2012

**CYTOKINETICS, INCORPORATED**

**2004 EQUITY INCENTIVE PLAN, AS AMENDED**

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

to attract and retain the best available personnel for positions of substantial responsibility,

to provide additional incentive to Employees, Directors and Consultants, and

to promote the success of the Company's business.

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

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

(a) Administrator means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) Affiliated SAR means an SAR that is granted in connection with a related Option, and which automatically will be deemed to be exercised at the same time that the related Option is exercised.

(c) Applicable Laws means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(d) Approval Authority means an authority, governmental or otherwise, that regulates pre-market approval of goods and services.

(e) Award means, individually or collectively, a grant under the Plan of Options, SARs, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(f) Award Agreement means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(g) Board means the Board of Directors of the Company.

(h) Cash Position means the Company's or a business unit's level of cash, cash equivalents, and available for sale marketable securities.

(i) Change in Control means the occurrence of any of the following events:

(i) Any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. Incumbent Directors means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

A-1

- (iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.
- (j) Clinical Progression means, for any Performance Period, a Product's entry into or completion of a phase of clinical development, such as when a Product enters into or completes a Phase 1, Phase 2, Phase 3 or other clinical study.
- (k) Code means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.
- (l) Collaboration Arrangement means, for any Performance Period, entry into an agreement or arrangement with a third party for the development, commercialization, marketing or distribution of a Product or for the conducting of a research program to discover or develop a Product or technologies.
- (m) Collaboration Progression means, for any Performance Period, an event that triggers an obligation or payment right to accrue under a Collaboration Agreement.
- (n) Committee means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.
- (o) Common Stock means the common stock of the Company.
- (p) Company means Cytokinetics, Incorporated, a Delaware corporation, or any successor thereto.
- (q) Consultant means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.
- (r) Determination Date means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as performance-based compensation under Section 162(m) of the Code.
- (s) Director means a member of the Board.
- (t) Disability means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.
- (u) Earnings Per Share means as to any Performance Period, the Company's or a business unit's Net Income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding, determined in accordance with generally accepted accounting principles.
- (v) Employee means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute employment by the Company.
- (w) Exchange Act means the Securities Exchange Act of 1934, as amended.
- (x) Exchange Program means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion, subject to the provisions of Section 4(c).

(y) Fair Market Value means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Market, the Nasdaq Global Select Market or the Nasdaq Capital Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(z) Financing Event means, for any Performance Period, the closing of any financing event for capital raising purposes.

(aa) Fiscal Year means the fiscal year of the Company.

(bb) Freestanding SAR means an SAR that is granted independently of any Option.

(cc) Incentive Stock Option means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(dd) Net Income means as to any Performance Period, the income after taxes of the Company or a business unit for the Performance Period determined in accordance with generally accepted accounting principles.

(ee) Nonstatutory Stock Option means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(ff) Officer means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(gg) Operating Cash Flow means the Company's or a business unit's sum of Net Income plus depreciation and amortization less capital expenditures plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses, determined in accordance with generally acceptable accounting principles.

(hh) Operating Expenses means the sum of the Company's or a business unit's research and development expenses and selling and general and administrative expenses during a Performance Period.

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

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

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

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

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

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

- (oo) Performance Share means an Award granted to a Participant pursuant to Section 9.
- (pp) Performance Unit means an Award granted to a Participant pursuant to Section 9.
- (qq) Period of Restriction means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.
- (rr) Plan means this 2004 Equity Incentive Plan.
- (ss) Product means any drug candidate or product candidate requiring pre-market approval by an Approval Authority.
- (tt) Product Approval means the approval by any Approval Authority of the right to market or sell a Product.
- (uu) Product Revenues means as to any Performance Period, the Company's or a business unit's sales, royalties, license fees, milestones and related-party revenues, determined in accordance with generally accepted accounting principles.
- (vv) Profit After Tax means as to any Performance Period, the Company's or a business unit's income after taxes, determined in accordance with generally accepted accounting principles.
- (ww) Projects in Development refers to one or more projects at any or all stages of development from conception, discovery, and/or initial research through Product Approval, including, but not limited to, pre-clinical studies, filing of an investigational new drug application (IND) or foreign equivalent, Phase 1, Phase 2, and Phase 3 clinical trials and submission and approval of a new drug application (NDA) or foreign equivalent.
- (xx) Regulatory Filings means as to any Performance Period, filings submitted to an Approval Authority with respect to a Product for which the Company is pursuing Product Approval.
- (yy) Restricted Stock means shares of Common Stock issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.
- (zz) Restricted Stock Unit shall mean a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 10. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.
- (aaa) Return on Assets means as to any Performance Period, the percentage equal to the Company's or a business unit's Operating Income before incentive compensation, divided by average net Company or business unit, as applicable, assets, determined in accordance with generally accepted accounting principles.
- (bbb) Return on Equity means as to any Performance Period, the percentage equal to the Company's Profit After Tax divided by average stockholder's equity, determined in accordance with generally accepted accounting principles.
- (ccc) Revenue Growth means as to any Performance Period, the Company's or a business unit's net sales determined in accordance with generally accepted accounting principles, compared to the net sales of the immediately preceding quarter.
- (ddd) Rule 16b-3 means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.
- (eee) Section 16(b) means Section 16(b) of the Exchange Act.
- (fff) Service Provider means an Employee, Director or Consultant.
- (ggg) Share means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.

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

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

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

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

### 3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares that may be optioned and sold under the Plan is (A) 18,279,275 Shares plus (B) any Shares returned on or after February 29, 2012 to the 1997 Stock Option/Stock Issuance Plan as a result of termination of options or repurchase of Shares issued under such plan up to a maximum of 428,896 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

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

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a Stock Appreciation Right settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. If the exercise price of an Option is paid by tender to the Company, or by attestation to the ownership of Shares owned by the Participant, the number of Shares available for issuance under the Plan will be reduced by the gross number of Shares for which the Option is exercised. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if unvested Shares of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company due to failure to vest, such Shares will become available for future grant under the Plan. Shares used to pay the tax and exercise price of an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing provisions of this Section 3(c), subject to adjustment provided in Section 14, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

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

### 4. Administration of the Plan.

(a) Procedure.

- (i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.
- (ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as performance-based compensation within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two or more outside directors within the meaning of Section 162(m) of the Code.
- (iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.
- (iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.
- (b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:
- (i) to determine the Fair Market Value;
  - (ii) to select the Service Providers to whom Awards may be granted hereunder;
  - (iii) to determine the number of Shares to be covered by each Award granted hereunder;
  - (iv) to approve forms of agreement for use under the Plan;
  - (v) to determine the terms and conditions of any, and with the approval of the Company's stockholders, to institute an Exchange Program;
  - (vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;
  - (vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;
  - (viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;
  - (ix) to modify or amend each Award (subject to Section 19(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan;
  - (x) to allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Award that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld (the Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined and all elections by a Participant to have Shares withheld for this purpose will be made in such form and under such conditions as the Administrator may deem necessary or advisable);
  - (xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;
  - (xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award



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

(c) Prohibition Against Repricing. Subject to adjustments made pursuant to Section 14, in no event shall the Administrator have the right to amend the terms of any Award to reduce the exercise price of such outstanding Award or cancel an outstanding Award in exchange for cash or other Awards with an exercise price that is less than the exercise price of the original Award without stockholder approval.

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

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

6. Stock Options.

(a) Limitations.

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

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

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

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

(3) The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 14.

(4) If an Option is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 14), the cancelled Option will be counted against the limits set forth in subsections (1) and (2) above.

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

(c) Option Exercise Price and Consideration.

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

(1) In the case of an Incentive Stock Option

a) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant.

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

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator, but will be no less than 100% of the Fair Market Value per Share on the date of grant.

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

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

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

(d) Exercise of Option.

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

An Option will be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

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

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's death or Disability, the Participant may exercise his or her Option within such period

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

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

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

#### 7. Restricted Stock.

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

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

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

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

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

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

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

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

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

#### 8. Stock Appreciation Rights.

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

(b) Number of Shares. The Administrator will have complete discretion to determine the number of SARs granted to any Service Provider; provided, however, no Service Provider will be granted, in any Fiscal Year, SARs covering more than 1,500,000 Shares. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service a Service Provider may be granted SARs covering up to an additional 1,500,000 Shares. The foregoing limitations will be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 14. In addition, if a SAR is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 14), the cancelled SAR will be counted against the numerical share limits set forth above.

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

(d) Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem

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

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

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

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

(h) Maximum Term/Expiration of SARs. The term of each SAR will be stated in the Award Agreement and will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement.

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

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the SAR is exercised.

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

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

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

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

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. Each Award of

Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, or individual goals, applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

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

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

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

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

10. Restricted Stock Units.

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

(b) Vesting Provisions and Other Terms. The Administrator will set service-based or other vesting provisions in its discretion which, depending on the extent to which they are met, will determine the number of Restricted Stock Units that will be paid out to the Service Providers. Each Award of Restricted Stock Units will be evidenced by an Award Agreement that will specify the vesting schedule, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(c) Earning of Restricted Stock Units. Upon vesting, the holder of Restricted Stock Units will be entitled to receive a payout of the number of Restricted Stock Units earned by the Participant. After the grant of Restricted Stock Units the Administrator, in its sole discretion, may reduce or waive any vesting provisions for such Restricted Stock Units.

(d) Form and Timing of Payment of Restricted Stock Units. Payment of earned Restricted Stock Units will be made as soon as practicable after vesting, but in no event more than ten business days later. The Administrator shall pay earned Restricted Stock Units in the form of Shares.

(e) Cancellation of Restricted Stock Units. On the date set forth in the Award Agreement, all unvested Restricted Stock Units Shares will be forfeited to the Company, and again will be available for grant under the Plan.

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

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

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

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

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

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall appropriately adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, the numerical Share limits in Sections 3, 6, 7, 8, 9 and 10 of the Plan.

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

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

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

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the



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

Notwithstanding anything in this Section 14(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

15. Tax Withholding

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

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

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

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

18. Term of Plan. Subject to Section 22 of the Plan, the Plan will continue in effect until February 9, 2021 unless terminated earlier under Section 19 of the Plan.

19. Amendment and Termination of the Plan.

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

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

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

20. Conditions Upon Issuance of Shares.

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

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

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

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

**YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.**

**We encourage you to take advantage of Internet or telephone voting.**

**Both are available 24 hours a day, 7 days a week.**

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to the Annual Stockholders Meeting date.

**INTERNET**

**<http://www.proxyvoting.com/cytk>**

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

**CYTOKINETICS,  
INCORPORATED**

**OR**

**TELEPHONE**

**1-866-540-5760**

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED, OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR ALL FOR PROPOSAL 1 AND FOR PROPOSALS 2 AND 3.** Please mark your votes as **X** indicated in this example

The Board of Directors recommends a vote **FOR ALL** for Proposal 1, and **FOR** Proposals 2 and 3.

|                          |  | FOR | WITHHOLD |             |  | FOR | AGAINST | ABSTAIN |
|--------------------------|--|-----|----------|-------------|--|-----|---------|---------|
| 1. ELECTION OF DIRECTORS | Nominees:  | ALL | FOR ALL  | *EXCEPTIONS |  | FOR | AGAINST | ABSTAIN |
|                          | 01 Robert I. Blum  | ..  | ..       | ..          | 2 Ratification of selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm of Cytokinetics, Incorporated for the fiscal year ending December 31, 2012. | ..  | ..      | ..      |
|                          | 02 Denise M. Gilbert   |     |          |             |  |     |         |         |
|                          | 03 Sandford D. Smith   |     |          |             |  |     |         |         |
|                          | (INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box above and write that nominee's name in the space provided below.) |     |          |             | 3. Approval of Amendment to the 2004 Equity Incentive Plan, as amended, to increase the number of authorized shares reserved for issuance thereunder by 2,500,000 shares.                  | ..  | ..      | ..      |

\*Exceptions

Mark Here for ..

Address Change

or Comments

SEE REVERSE

**NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.**

Signature

Signature

Date



***You can now access your Cytokinetics, Incorporated account online.***

Access your Cytokinetics, Incorporated account online via Investor ServiceDirect® (ISD).

The transfer agent for Cytokinetics, Incorporated, now makes it easy and convenient to get current information on your stockholder account.

|                             |                                    |
|-----------------------------|------------------------------------|
| View account status         | View payment history for dividends |
| View certificate history    | Make address changes               |
| View book-entry information | Obtain a duplicate 1099 tax form   |
| Establish/change your PIN   |                                    |

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**Important notice regarding the Internet Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 22, 2012.** The Proxy Statement, Notice of Annual Meeting, Form of Proxy Card and 2011 Annual Report to Stockholders are available at: [www.cytokinetics.com/proxy](http://www.cytokinetics.com/proxy)

q FOLD AND DETACH HERE q

**PROXY**

**CYTOKINETICS, INCORPORATED**

**Annual Meeting of Stockholders May 22, 2012**

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANY**

The undersigned hereby appoints Sharon A. Barbari and Marjorie C. Wagman, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Cytokinetics, Incorporated Common Stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Stockholders of the Company to be held May 22, 2012 or at any adjournment or postponement thereof, with all powers which the undersigned would possess if present at the Annual Meeting of Stockholders.

**Address Change/Comments**  
**(Mark the corresponding box on the reverse side)**

SHAREOWNER SERVICES  
P.O. BOX 3550  
SOUTH HACKENSACK, NJ 07606-9250

**(Continued and to be marked, dated and signed, on the other side)**

18619