

CURIS INC
Form 10-Q/A
August 04, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

OR

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

Commission File Number: 000-30347

CURIS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-3505116
(I.R.S. Employer
Identification No.)

45 Moulton Street

Cambridge, Massachusetts
(Address of Principal Executive Offices)

02138
(Zip Code)

Registrant's Telephone Number, Including Area Code: (617) 503-6500

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of July 30, 2010, there were 75,621,814 shares of the registrant's common stock outstanding.

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EXPLANATORY NOTE

Curis, Inc. is filing this Amendment No. 1 (Amendment No. 1) to its Current Report on Form 10-Q for the fiscal quarter ended June 30, 2010, as originally filed with the SEC on August 3, 2010 (the Original 10-Q), for the purpose of:

amending Part I, Item 1 Unaudited Financial Statements to (x) correct a mathematical error related to the calculation of total current assets set forth in the Condensed Consolidated Balance Sheet; and, (y) include the addition of a new Note 1 and the reordering of prior Notes 1-14 to Notes 2 through 15; and

amending Part II, Item 6 Exhibits and Reports on Form 8-K to add new certifications in accordance with Rule 13a-14(a) of the Exchange Act, which are filed as exhibits with this 10-Q/A.

Except as previously disclosed, no other changes to the originally filed Form 10-Q have been set forth herein.

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CURIS, INC. AND SUBSIDIARIES QUARTERLY REPORT ON FORM 10-Q

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Table of Contents**Item 1. FINANCIAL STATEMENTS****CURIS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)**

| | June 30, 2010 | December 31, 2009 |
|---|--------------------------|------------------------------|
| | (See Note 1) | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,905,843 | \$ 7,275,433 |
| Marketable securities | 33,989,971 | 17,759,464 |
| Short-term investment restricted | 216,002 | 216,002 |
| Accounts receivable | 44,512 | 515,758 |
| Prepaid expenses and other current assets | 279,622 | 627,183 |
| Total current assets | 45,435,950 | 26,393,840 |
| Property and equipment, net | 393,579 | 715,429 |
| Goodwill | 8,982,000 | 8,982,000 |
| Other assets | 42,780 | 7,980 |
| Total assets | \$ 54,854,309 | \$ 36,099,249 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 977,130 | \$ 1,561,914 |
| Accrued liabilities | 777,694 | 1,009,244 |
| Deferred revenue | | 475,833 |
| Total current liabilities | 1,754,824 | 3,046,991 |
| Warrants | 1,289,921 | |
| Total liabilities | 3,044,745 | 3,046,991 |
| Commitments | | |
| Stockholders Equity: | | |
| Common stock, \$0.01 par value 125,000,000 shares authorized; 76,669,521 shares issued and 75,621,814 shares outstanding at June 30, 2010; and 68,360,067 shares issued and 67,312,360 outstanding at December 31, 2009 | 766,695 | 683,601 |
| Additional paid-in capital | 767,020,029 | 751,068,635 |
| Treasury stock (at cost, 1,047,707 shares) | (891,274) | (891,274) |
| Deferred compensation | (2,150) | (15,904) |
| Accumulated deficit | (715,107,159) | (717,793,437) |
| Accumulated other comprehensive income | 23,423 | 637 |
| Total stockholders equity | 51,809,564 | 33,052,258 |
| Total liabilities and stockholders equity | \$ 54,854,309 | \$ 36,099,249 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------------|------------------|----------------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| REVENUES: | | | | |
| Research and development | \$ 98,634 | \$ 63,263 | \$ 181,135 | \$ 100,390 |
| License fees | | | 12,475,833 | 6,000,000 |
| Total revenues | 98,634 | 63,263 | 12,656,968 | 6,100,390 |
| COSTS AND EXPENSES: | | | | |
| Research and development | 2,244,742 | 2,281,067 | 4,712,546 | 5,197,126 |
| General and administrative | 1,780,377 | 2,029,854 | 6,206,822 | 4,124,928 |
| Total costs and expenses | 4,025,119 | 4,310,921 | 10,919,368 | 9,322,054 |
| Income (loss) from operations | (3,926,485) | (4,247,658) | 1,737,600 | (3,221,664) |
| OTHER INCOME: | | | | |
| Interest income | 31,254 | 66,272 | 58,043 | 165,337 |
| Change in fair value of warrant liability | 1,797,244 | | 890,635 | |
| Total other income | 1,828,498 | 66,272 | 948,678 | 165,337 |
| Net income (loss) | \$ (2,097,987) | \$ (4,181,386) | \$ 2,686,278 | \$ (3,056,327) |
| Basic net income (loss) per common share | \$ (0.03) | \$ (0.07) | \$ 0.04 | \$ (0.05) |
| Diluted net income (loss) per common share | \$ (0.03) | \$ (0.07) | \$ 0.03 | \$ (0.05) |
| Basic weighted average common shares | 75,617,858 | 63,654,519 | 74,261,033 | 63,625,299 |
| Diluted weighted average common shares | 75,617,858 | 63,654,519 | 77,979,738 | 63,625,299 |
| Net income (loss) | \$ (2,097,987) | \$ (4,181,386) | \$ 2,686,278 | \$ (3,056,327) |
| Unrealized income (loss) on marketable securities | 39,790 | (28,320) | 22,786 | (72,027) |
| Comprehensive income (loss) | \$ (2,058,197) | \$ (4,209,706) | \$ 2,709,064 | \$ (3,128,354) |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

| | Six Months Ended June 30, | |
|---|----------------------------------|---------------------|
| | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 2,686,278 | \$ (3,056,327) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 361,300 | 379,187 |
| Stock-based compensation expense | 1,346,662 | 1,015,706 |
| Change in fair value of warrant liability | (890,635) | |
| Non-cash interest expense (income) | (74,906) | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 471,246 | 67,698 |
| Prepaid expenses and other assets | 312,761 | 33,038 |
| Accounts payable and accrued liabilities | (816,334) | (499,806) |
| Deferred revenue | (475,833) | |
| Total adjustments | 234,261 | 995,823 |
| Net cash provided by (used in) operating activities | 2,920,539 | (2,060,504) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities | (34,673,435) | (19,054,967) |
| Sales of marketable securities | 18,540,620 | 17,302,866 |
| Purchases of property and equipment | (39,450) | (7,471) |
| Net cash used in investing activities | (16,172,265) | (1,759,572) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from registered direct offering of common stock and warrants, net of issuance costs of \$1,310,000 | 14,942,317 | |
| Proceeds from other issuances of common stock and exercise of warrants | 1,939,819 | 127,203 |
| Net cash provided by financing activities | 16,882,136 | 127,203 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,630,410 | (3,692,873) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 7,275,433 | 10,158,795 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 10,905,843 | \$ 6,465,922 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****1. Revision of Quarterly Financial Results**

The Company has revised its June 30, 2010 consolidated balance sheet to correct a mathematical error related to the calculation of total current assets. There was no impact to the Company's total assets at the consolidated balance sheets as of June 30, 2010 and December 31, 2009, to its consolidated statements of operations for the three-month and six-month periods ended June 30, 2010 and 2009, or to its consolidated statements of cash flows for the six-month periods ended June 30, 2010 and 2009.

The following is a summary of the effect of the change described above:

| | As Previously Reported | As Revised |
|---|---------------------------|----------------|
| June 30, 2010 | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,905,843 | \$ 10,905,843 |
| Marketable securities | 33,989,971 | 33,989,971 |
| Short-term investment - restricted | 216,002 | 216,002 |
| Accounts receivable | 44,512 | 44,512 |
| Prepaid expenses and other current assets | 279,622 | 279,622 |
| Total current assets | 44,435,950 | 45,435,950 |

2. Nature of Business

Curis, Inc. (the Company or Curis) is a drug discovery and development company that is committed to leveraging its innovative signaling pathway drug technologies in seeking to develop next generation targeted cancer therapies. Curis is building upon its past experiences in targeting signaling pathways, including the Hedgehog signaling pathway, in its efforts to develop targeted cancer therapies. Curis conducts research programs both internally and through strategic collaborations.

The Company operates in a single reportable segment, which is the research and development of innovative cancer therapeutics. The Company expects that any successful products would be used in the health care industry and would be regulated in the United States by the U.S. Food and Drug Administration, or FDA, and in overseas markets by similar regulatory agencies.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, development by its competitors of new or better technological innovations, dependence on key personnel, its ability to protect proprietary technology, its ability to successfully advance discovery, preclinical and clinical stage drug candidates in its internally funded programs, unproven technologies and drug development approaches, reliance on corporate collaborators and licensees to successfully research, develop and commercialize products based on the Company's technologies, its ability to comply with FDA government regulations and approval requirements as well as its ability to execute on its business strategies and obtain adequate financing to fund its operations.

The Company's future operating results will largely depend on the magnitude of payments from its current and potential future corporate collaborators and the progress of drug candidates currently in its research and development pipeline. The results of the Company's operations will vary significantly from year to year and quarter to quarter and depend on, among other factors, the timing of its entry into new collaborations, if any, the timing of the receipt of payments from new or existing collaborators and the cost and outcome of any preclinical development or clinical trials then being conducted. The Company anticipates that existing capital resources at June 30, 2010 should enable the Company to maintain its current and planned operations into the second half of 2012. The Company's ability to continue funding its planned operations beyond the second half of 2012 is dependent upon, among other things, the success of its collaborations with Genentech and Debiopharm and receipt of additional cash payments under these collaborations, its ability to control expenses and its ability to raise additional funds through equity or debt financings (see Note 8), new collaborations or other sources of financing.

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CURIS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

3. Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. These statements, however, are condensed and do not include all disclosures required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on March 3, 2010.

In the opinion of management, the unaudited financial statements contain all adjustments (all of which were considered normal and recurring) necessary for a fair statement of the Company's financial position at June 30, 2010, the results of operations condensed for the three- and six-month periods ended June 30, 2010 and 2009 and cash flows for the six month periods ended June 30, 2010 and 2009. The preparation of the Company's Consolidated Financial Statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts and disclosure of certain assets and liabilities at the balance sheet date. Such estimates include revenue recognition, the collectibility of receivables, the carrying value of property and equipment and intangible assets, and the value of certain investments and liabilities, including the value of its warrant liability. Actual results may differ from such estimates.

These interim results are not necessarily indicative of results to be expected for a full year or subsequent interim periods.

4. Revenue Recognition

The Company's business strategy includes entering into collaborative license and development agreements with biotechnology and pharmaceutical companies for the development and commercialization of the Company's product candidates. The terms of these agreements may provide for the Company's licensees and collaborators to agree to make non-refundable up-front license fee payments, research and development funding payments, contingent cash payments based upon achievement of clinical development and regulatory objectives and royalties on product sales if any products are successfully commercialized. For a complete discussion of the Company's revenue recognition policy, see Note 2(c) included in its annual report on Form 10-K, as previously filed with the Securities and Exchange Commission on March 3, 2010.

Amounts received prior to satisfying the Company's revenue recognition criteria are recorded as deferred revenue in the accompanying Consolidated Balance Sheets. As of June 30, 2010, the Company had no deferred revenue related to its collaborations. The Company recognized \$476,000 in deferred revenue at December 31, 2009 during the first quarter of 2010 as it had no ongoing material performance obligations under the respective agreements.

5. Debiopharm Hsp90 Inhibitor License Agreement

During the six months ended June 30, 2010, the Company recorded \$8,333,000 in license fee revenues from its August 2009 Hsp90 license agreement with Debiopharm. Under the terms of this agreement the Company received a \$2,000,000 up-front license fee upon execution of the agreement in August 2009. The Company amortized this payment over its estimated performance period under this agreement, which concluded during the first quarter of 2010 and resulted in the recognition of \$333,000 in license fee revenue during the six-month period ended June 30, 2010. In addition, under this agreement, in February 2010, the Company earned \$8,000,000 upon acceptance by French regulatory authorities of Debiopharm's clinical trial application for Hsp90 inhibitor, Debio 0932. The Company received this payment in March 2010 and recorded \$8,000,000 as revenue within License Fees in the Revenues section of its Consolidated Statement of Operations for the six months ended June 30, 2010 because the Company has no ongoing material performance obligations under the agreement.

6. Genentech, Inc. Hedgehog Pathway Inhibitor Collaboration

In the first quarter of 2009, the Company received a payment of \$6,000,000 from Genentech under the parties' June 2003 Hedgehog pathway inhibitor collaboration. This payment was made upon Genentech's initiation of a pivotal phase II clinical trial of GDC-0449, an orally-administered small molecule Hedgehog pathway inhibitor, as a single-agent therapy for patients with metastatic or locally advanced basal cell carcinoma. The Company has recorded this amount as revenue within License Fees in the Revenues section of its Consolidated Statement of Operations for the six months ended June 30, 2009 because the Company has no ongoing material performance obligations under the collaboration.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)****7. Fair Value Measurements**

The Company discloses fair value measurements based on a framework outlined by U.S. GAAP, which requires expanded disclosures regarding fair value measurements. U.S. GAAP also defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

Level 1 Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets include cash equivalents, investments in marketable securities, and a restricted investment. As of June 30, 2010, the Company held cash equivalents of \$9,706,000 and marketable securities of \$33,990,000. The Company's marketable securities are investments with original maturities of greater than three months from the date of purchase, but less than twelve months from the balance sheet date, and consist of commercial paper and government obligations. These amounts are invested directly in commercial paper of financial institutions and corporations with A-/Aa3 or better long-term ratings and A-1/P-1 short term debt ratings, U.S. Treasury securities and U.S. Treasury money market funds.

The Company also has a short-term restricted investment of \$216,000 as of June 30, 2010 that was solely comprised of a certificate of deposit.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company has no Level 2 assets or liabilities at June 30, 2010.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company's warrant liability was valued at June 30, 2010 using a probability-weighted Black-Scholes model, discussed further in Note 8, and is therefore classified as Level 3.

In accordance with the fair value hierarchy, the following table shows the fair value as of June 30, 2010 and December 31, 2009, of those financial assets that are measured at fair value on a recurring basis, according to the valuation techniques the Company used to determine their fair market value. No financial assets are measured at fair value on a nonrecurring basis at June 30, 2010 or December 31, 2009.

| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Fair Value |
|-----------------------------|---|---|----------------------------------|---------------|
| As of June 30, 2010: | | | | |
| Cash equivalents | | | | |
| Money market funds | \$ 6,091,000 | \$ | \$ | \$ 6,091,000 |
| Municipal bonds | 2,365,000 | | | 2,365,000 |
| Corporate bonds and notes | 1,250,000 | | | 1,250,000 |
| Investments | | | | |
| US government obligations | 12,726,000 | | | 12,726,000 |
| Corporate bonds and notes | 21,264,000 | | | 21,264,000 |
| Restricted investments (CD) | 216,000 | | | 216,000 |
| Total assets at fair value | \$ 43,912,000 | \$ | \$ | \$ 43,912,000 |

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

| As of December 31, 2009: | | | |
|-----------------------------------|----------------------|-----------|----------------------|
| Cash equivalents | | | |
| Money market funds | \$ 5,422,000 | \$ | \$ 5,422,000 |
| Corporate bonds and notes | 1,000,000 | | 1,000,000 |
| Investments | | | |
| US government obligations | 14,261,000 | | 14,261,000 |
| Corporate bonds and notes | 3,498,000 | | 3,498,000 |
| Restricted investments (CD) | 216,000 | | 216,000 |
| Total assets at fair value | \$ 24,397,000 | \$ | \$ 24,397,000 |

At June 30, 2010, the Company held an equity investment in BioTime, Inc. (BioTime), a U.S. biotechnology company publicly traded on the New York Stock Exchange Amex Equities market. In May 2010, BioTime acquired ES Cell International (ES Cell), a privately-held former collaborator of the Company. The Company held shares in ES Cell, which were valued at \$5,000 at December 31, 2009, and that were converted into unregistered shares of BioTime pursuant to the acquisition. At June 30, 2010, the Company marked the investment in BioTime to market value of \$40,000 within Other Assets , resulting in an unrealized gain of \$35,000 reported within Accumulated other comprehensive income on the Company s Consolidated Balance Sheet at June 30, 2010.

The following table rolls forward the fair value of the Company s warrant liability, the fair value of which is determined by Level 3 inputs for the six months ended June 30, 2010:

| | (In Thousands) |
|------------------------------|-----------------------|
| Balance at December 31, 2009 | \$ |
| Issuance of new warrants | 2,181 |
| Change in fair value | (891) |
| Balance at June 30, 2010 | \$ 1,290 |

8. Common Stock and Warrant Liability

On January 27, 2010, the Company completed a registered direct offering of 6,449,288 units with each unit consisting of (i) one share of the Company s common stock and (ii) one warrant to purchase 0.25 of a share of common stock at a purchase price of \$2.52 per unit. The Company received net proceeds from the sale of the units, after deducting offering expenses, of approximately \$14,942,000.

In connection with this offering, the Company issued warrants to purchase an aggregate of 1,612,322 shares of common stock. The warrants have an initial exercise price of \$3.55 per share and a five-year term. The warrants include certain protective features, including an exercise price adjustment clause and a possible cash-settlement option available to the warrant holder in the event of a change of control until the later to occur of (i) two years from the date of original issuance of the warrant and (ii) the date upon which Genentech or Roche submits a New Drug Application (NDA) for GDC-0449. Due to these terms in the warrant agreement, the warrants were deemed to be a liability and, therefore, the fair value of the warrants was recorded in the liability section of the Consolidated Balance Sheet as of June 30, 2010. The Company estimated that the fair value of the warrants at issuance was \$2,181,000 using a Black-Scholes option pricing model under various probability-weighted outcomes which take into consideration the protective, but limited, cash-settlement feature of the warrants with the following assumptions assigned to the varying outcomes: expected volatilities of 69.8% and 80%, risk free interest rates ranging from 1.42% to 2.38%, expected lives of three to five years and no dividends. The warrants will be revalued each reporting period with updated assumptions, and the resulting change in fair value of the warrant liability will be recognized in the Consolidated Statement of Operations. The Company recorded other income of approximately \$1,797,000 and \$891,000 for the three and six months ended June 30, 2010, respectively, as a result of the change in the fair

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value of the warrant liability primarily due to a decrease in the Company's stock price since issuance of the warrants.

As of December 31, 2009, the Company had warrants to purchase an aggregate of 1,742,671 shares of its common stock at an exercise price of \$1.02 per share outstanding under its August 2007 private placement, all of which had been accounted for within stockholders' equity. In the first quarter of 2010, the Company received proceeds of \$1,778,000 upon the exercise of the remaining warrants to purchase 1,742,671 shares of the Company's common stock under this private placement.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)****9. Micromet Settlement**

On February 4, 2010, the Company entered into a settlement, mutual release and termination agreement with Micromet, Inc. to resolve a claim filed by the Company, relating to a June 2001 Agreement associated with the Company's Single Chain Peptide technology between the Company and Micromet's wholly owned subsidiary Micromet AG. Under the June 2001 Agreement, Micromet AG acquired from the Company certain intellectual property assets relating to single chain antibodies, including patents and license agreements. Pursuant to the settlement agreement, Micromet made a final payment of \$4,000,000 during the first quarter of 2010 to the Company in order to settle the dispute and discharge and terminate all future payment obligations that would have arisen under the June 2001 Agreement. The Company has recorded the \$4,000,000 within the License fee revenue line item in the Consolidated Statement of Operations for the six months ended June 30, 2010. During the first quarter of 2010, the Company incurred approximately \$1,525,000 in legal fees and expenses through the settlement date. During the six months ended June 30, 2009, the Company had incurred \$359,000 related to this matter. These costs are included within the General and Administrative expense line item of the Consolidated Statement of Operations for the respective periods.

10. Accrued Liabilities

Accrued liabilities consist of the following:

| | June 30, 2010 | December 31, 2009 |
|------------------------|-------------------|-------------------------|
| Accrued compensation | \$ 469,000 | \$ 501,000 |
| Professional fees | 113,000 | 157,000 |
| Facility-related costs | 105,000 | 194,000 |
| Other | 91,000 | 157,000 |
| Total | \$ 778,000 | \$ 1,009,000 |

11. Accounting for Stock-Based Compensation

As of June 30, 2010, the Company had two shareholder-approved, share-based compensation plans: the 2010 Stock Incentive Plan and the 2010 Employee Stock Purchase Plan. These plans were adopted by the Board of Directors in April 2010 and approved by shareholders in June 2010. The Company can issue up to 6,000,000 shares of its common stock pursuant to awards granted under the 2010 Stock Incentive Plan and a total of up to 500,000 shares may be purchased under the 2010 Employee Stock Purchase Plan.

The 2010 Stock Incentive Plan permits the granting of incentive and non-qualified stock options and stock awards to employees, officers, directors, and consultants of the Company and its subsidiaries at prices determined by the Company's Board of Directors. Options become exercisable as determined by the Board of Directors and expire up to 10 years from the date of grant. The 2010 Stock Incentive Plan uses a fungible share concept under which each share of stock subject to awards granted as options and stock appreciation rights (SARs), will cause one share per share under the award to be removed from the available share pool, while each share of stock subject to awards granted as restricted stock, restricted stock units, other stock-based awards or performance awards where the price charged for the award is less than 100% of the fair market value of the Company's common stock will cause 1.22 shares per share under the award to be removed from the available share pool. As of June 30, 2010, the Company had granted options to purchase 31,000 shares of the Company's common stock, each with an exercise price equal to the fair market value on the date of grant.

Under the 2010 Employee Stock Purchase Plan, eligible employees may purchase shares at 85% of the lower closing market price at the beginning or ending date of the purchase period, as defined. The Company has two six-month purchase periods per year, with the initial purchase period under the plan commencing on June 15, 2010 for purchase on December 14, 2010.

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In the first quarter of 2010, the Company's shareholder-approved, share-based 2000 Stock Incentive Plan had expired in accordance with its terms and its 2000 Director Stock Option Plan had no available shares remaining under the plan. No additional awards will be made under these plans, although all outstanding awards under these plans will remain in effect. For a complete discussion of the Company's former share-based compensation plans, see Note 5 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as previously filed with the Securities and Exchange Commission on March 3, 2010.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

During the six months ended June 30, 2010 and consistent with past practices, the Company's Board of Directors granted options to purchase a total of 878,500 shares of the Company's common stock to officers and employees of the Company, of which 872,500 were granted under the 2000 Stock Incentive Plan and 6,000 were granted under the 2010 Stock Incentive Plan. These options vest over a four-year period and bear exercise prices that are equal to the closing market price of the Company's common stock on the NASDAQ Global Market on the grant date.

During the six months ended June 30, 2010, the Company's Board of Directors also granted options to its non-employee directors to purchase 235,000 shares of common stock under the 2000 and 2010 Stock Incentive Plans. Of this amount, 210,000 of these options were granted under the 2000 Stock Incentive Plan, were fully vested on the February 2, 2010 grant date and bear exercise prices that are equal to the closing market price of the Company's common stock on the NASDAQ Global Market on the date of grant. The remaining 25,000 shares were granted under the 2010 Stock Incentive Plan to a newly appointed director and will vest over a four-year period and bear an exercise price that is equal to the closing market price of the Company's common stock on the NASDAQ Global Market on the June 3, 2010 grant date.

Employee and Director Grants

In determining the fair value of stock options, the Company uses the Black-Scholes option pricing model. The Company calculated the Black-Scholes value of employee options awarded during the six months ended June 30, 2010 and 2009 using the Black-Scholes valuation model based on the assumptions noted in the following table:

| | For the six months ended June 30, | |
|-----------------------------------|--|-------------|
| | 2010 | 2009 |
| Expected term (years) - Employees | 6 | 6 |
| Expected term (years) - Directors | 6 | 6 |
| Risk-free interest rate | 2.6-2.8% | 2.1-2.3% |
| Volatility | 69% | 82% |
| Dividends | None | None |

The stock price volatility and expected terms utilized in the calculation involve management's best estimates at that time, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, accordingly, the expense that is to be recognized over the life of the option. In determining the expense recorded in the Company's Consolidated Statements of Operations, the Company has applied an estimated forfeiture rate to the remaining unvested awards based on historical experience, as adjusted. This estimate is evaluated quarterly and the forfeiture rate is adjusted as necessary. If the actual number of forfeitures differs from management's estimates, additional adjustments to compensation expense may be required in future periods.

The aggregate intrinsic value of employee options outstanding at June 30, 2010 was \$774,000, of which \$549,000 related to exercisable options. The weighted average grant-date fair values of stock options granted during the six months ended June 30, 2010 and 2009 were \$1.46 and \$0.76, respectively. As of June 30, 2010, there was approximately \$2,401,000, net of the impact of estimated forfeitures, of unrecognized compensation cost related to unvested employee and director stock option awards outstanding under the 2000 and 2010 Stock Incentive Plans that is expected to be recognized as expense over a weighted average period of 2.45 years. The intrinsic values of employee stock options exercised during the six months ended June 30, 2010 and 2009 were \$197,000 and \$6,000, respectively. The total fair values of vested stock options for the six months ended June 30, 2010 and 2009 were \$1,785,000 and \$1,061,000, respectively.

The Company recorded \$295,000 and \$1,363,000 in compensation expense for the three and six months ended June 30, 2010, respectively, and \$403,000 and \$975,000 in compensation expense for the three and six months ended June 30, 2009, respectively, related to employee and director stock option grants. Certain stock options to purchase a total of 816,500 shares of the Company's common stock were issued to employees of the Company in 2008 and 2007 in which vesting was tied to a performance condition. These options immediately vested upon the consummation of a collaboration, licensing or other similar agreement regarding programs under the Company's targeted cancer programs that included an up-front cash payment of at least \$10,000,000 excluding any equity investment in the Company and subject to the employee's continued employment. The Company's Compensation Committee of its Board of Directors determined that the combined payments received

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from Debiopharm in September 2009 and March 2010 totaling \$10,000,000 met the performance condition underlying these options. Receipt of the March 2010 payment resulted in the immediate vesting of these options and the Company recorded approximately \$485,000 in additional stock compensation expense during the six months ended June 30, 2010.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)*****Non-Employee Grants***

The Company has historically granted stock options to consultants for services. These options were issued at or above their fair market value on the date of grant and have various vesting dates from date of grant, ranging from 3.5 months to 4 years. Should the Company or the consultant terminate the consulting agreement, any unvested options will be cancelled. Unvested non-employee options are marked-to-market, which means that as the Company's stock price fluctuates, the related expense either increases or decreases. The Company reversed expense of \$18,000 and \$16,000 related to non-employee stock options for the three and six months ended June 30, 2010, respectively, as a result of a decline in the Company's stock price during the period. The Company recognized expense of \$13,000 related to non-employee stock options for each of the three and six months ended June 30, 2009. As of June 30, 2010, the Company had recorded \$2,000 in deferred compensation related to unvested non-employee options.

Total Stock-Based Compensation Expense

For the three and six months ended June 30, 2010 and 2009, the Company recorded employee and non-employee stock-based compensation expense to the following line items in its Costs and Expenses section of the Consolidated Statements of Operations and Comprehensive Loss:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|-------------------|--------------------------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Research and development expenses | \$ 107,000 | \$ 161,000 | \$ 384,000 | \$ 338,000 |
| General and administrative expenses | 170,000 | 255,000 | 963,000 | 678,000 |
| Total stock-based compensation expense | \$ 277,000 | \$ 416,000 | \$ 1,347,000 | \$ 1,016,000 |

The table below summarizes options outstanding and exercisable at June 30, 2010:

| Exercise Price Range | Options Outstanding | | | Options Exercisable | |
|----------------------|---------------------|--|--|------------------------|--|
| | Number of Shares | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price per Share | Number of Shares | Weighted Average Exercise Price per Share |
| \$ 0.79 - \$ 1.33 | 2,135,788 | 7.68 | \$ 1.03 | 1,399,428 | \$ 1.00 |
| 1.35 - 1.43 | 2,895,196 | 7.22 | 1.40 | 2,233,187 | 1.40 |
| 1.50 - 2.11 | 2,024,407 | 5.07 | 1.61 | 1,858,155 | 1.57 |
| 2.12 - 2.43 | 2,076,126 | 6.37 | 2.35 | 1,204,626 | 2.40 |
| 2.48 - 4.56 | 2,239,045 | 3.23 | 3.93 | 2,208,045 | 3.94 |
| 4.72 - 20.00 | 737,000 | 1.46 | 9.24 | 737,000 | 9.24 |
| | 12,107,562 | 5.71 | \$ 2.48 | 9,640,441 | \$ 2.68 |

12. Income (Loss) Per Common Share

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The Company applies ASC Topic 260 - *Earnings per Share*, which establishes standards for computing and presenting earnings per share. Basic income (loss) per common share is computed using the weighted-average number of shares outstanding during the period. Diluted income per common share is computed using the weighted-average number of shares outstanding during the period plus the incremental shares outstanding assuming the exercise of dilutive stock options, restricted stock and outstanding warrants.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

The following summarizes the effect of dilutive securities on diluted income per common share for the six months ended June 30, 2010:

| | For the six months ended June 30, 2010 |
|---|---|
| Weighted average shares for basic EPS | 74,261,033 |
| Dilutive securities: | |
| Warrants | 266,035 |
| Stock options | 3,452,670 |
| Subtotal of dilutive securities | 3,718,705 |
| Weighted average shares for diluted EPS | 77,979,738 |

The weighted-average diluted shares outstanding for the six months ended June 30, 2010 excludes the dilutive effect of approximately 2,938,045 shares of common stock underlying stock options and 1,612,322 shares of common stock underlying warrants since such options and warrants have an exercise price in excess of the average market value of the Company's common stock during the respective period.

Diluted net loss per common share is the same as basic net loss per common share for the three months ended June 30, 2010 and 2009, as well as for the six months ended June 30, 2009, as the effect of the potential common stock equivalents is antidilutive due to the Company's net loss position for this period. Antidilutive securities consist of stock options and warrants outstanding as of the respective reporting period. Antidilutive securities as of June 30, 2010 and 2009, respectively, are as follows:

| | For the three months ended June 30, 2010 | For the three and six months ended June 30, 2009 |
|-------------------------------|---|---|
| Stock options outstanding | 12,107,562 | 11,444,489 |
| Warrants outstanding | 1,612,322 | 5,322,361 |
| Total antidilutive securities | 13,719,884 | 16,766,850 |

13. Related Party Transactions

Pursuant to a scientific advisory and consulting agreement dated September 14, 2006 with Joseph M. Davie, Ph.D., M.D., a member of the Company's Board of Directors, the Company incurred \$4,000 and \$10,000 in related consulting expenses in its Consolidated Statement of Operations for the three- and six-month periods ended June 30, 2010, respectively, and \$6,000 and \$13,000 in related consulting expenses for the three- and six-month periods ended June 30, 2009, respectively. The consulting agreement was amended in June 2010 to provide that Dr. Davie will be compensated on an hourly basis rather than paid an annual retainer. In June 2010, Dr. Davie stepped down as Chairman of the Scientific Advisory Board, but remains a member of such board.

14. New Accounting Pronouncements

In January 2010, the Company adopted a new U.S. GAAP accounting standard which amends existing revenue recognition accounting guidance to provide accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and

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the consideration allocated. This new guidance eliminates the requirement to establish objective evidence of fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. The superseded guidance previously required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. This was difficult to determine when the product was not individually sold because of its unique features. Under the superseded guidance, if the fair value of all of the undelivered elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. The adoption of the new standard was done on a prospective basis and did not impact the Company's financial position or results of operations as of and for the three and six months ended June 30, 2010. This standard may impact the Company in the event it completes future transactions or modifies existing collaborative relationships.

In January 2010, the FASB issued Accounting Standards Update 2010-06 *Fair Value Measurement and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This guidance provides for the

Table of Contents**CURIS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

following new required disclosures related to fair value measurements: 1) the amounts of and reasons for significant transfers in and out of level one and level two inputs and 2) separate presentation of purchases, sales, issuances, and settlements on a gross basis rather than as one net number for level three reconciliations. The guidance also clarifies existing disclosures as follows: 1) provide fair value measurement disclosures for each class of assets and liabilities and 2) provide disclosures about the valuation techniques and inputs used for both recurring and nonrecurring level two or level three inputs. The new disclosures and clarifications of existing disclosures were effective for the Company beginning January 1, 2010 and have been included in this quarterly report. Disclosures about purchases, sales, issuances, and settlements in the roll forward of activity for level three fair value measurements will be effective for the Company beginning January 1, 2011.

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-17, *Revenue Recognition - Milestone Method* (ASU 2010-017). ASU 2010-017 provides guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This ASU is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010, which for the Company is fiscal 2011. Early adoption is permitted; however, the Company plans to implement ASU No. 2010-17 prospectively, as such, the effect of this guidance will be limited to future transactions. The Company does not expect adoption of this standard to have a material impact on its financial position or results of operations as the Company does not currently have any research and development arrangements which will be accounted for under the milestone method.

15. Subsequent Events***Contingent Payment Under Debiopharm Agreement***

On July 5, 2010, Debiopharm notified the Company that it had treated the fifth patient in its ongoing phase I clinical trial of Debio 0932, an Hsp90 inhibitor. As a result, the Company has earned a \$3,000,000 payment from Debiopharm under the parties' August 2009 license agreement. The Company expects that it will record revenue and receive this payment during the third quarter of 2010.

In February 2010, the Compensation Committee of the Company's Board of Directors approved discretionary bonus payments to its executive officers. Payment of these bonuses are tied to the achievement of regulatory and clinical development milestones by Debiopharm and the receipt of related contingent cash payments from Debiopharm, including a total of \$158,000 due upon treatment of the fifth patient in the phase I clinical trial. Because the payment from Debiopharm was contingent upon the successful treatment of the fifth patient and outside of the Company's control, the related contingent payment of \$3,000,000 was not considered probable at June 30, 2010. As a result, the revenue from this contingent payment was not recognized during the three and six months ended June 30, 2010 and the related bonuses to executive officers were not accrued liabilities as of June 30, 2010. The Company expects that it will recognize the related revenue and expense in the three months ended September 30, 2010. Payment of these bonuses represents the final payment under the discretionary bonus program.

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PART II OTHER INFORMATION

Item 6. EXHIBITS

The exhibits filed herewith or incorporated by reference are set forth on the exhibit index attached hereto.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CURIS, INC.

Dated: August 4, 2010

By:

/s/ MICHAEL P. GRAY
Michael P. Gray

Chief Operating Officer and Chief Financial Officer

(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

| Exhibit Number | Description |
|-----------------------|---|
| 10.1 | First Amendment to Scientific Advisory Agreement dated June 3, 2010 by and between Curis and Joseph M. Davie, Ph. D., M.D.* |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act** |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act** |
| 32.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350** |
| 32.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350** |

* Previously filed with original Form 10-Q

** Filed herewith.