

CURIS INC  
Form 10-Q/A  
March 31, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q/A**

**Amendment No. 1**

(Mark one)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005**

**OR**

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

Commission File Number: 000-30347

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**CURIS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

04-3505116

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(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

61 Moulton Street

Cambridge, Massachusetts  
(Address of Principal Executive Offices)

02138  
(Zip Code)

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 November 11, 2005, there were 49,339,994 shares of the Registrant's common stock outstanding.

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**EXPLANATORY NOTE:**

This Amendment No. 1 on Form 10-Q/A is being filed to restate the September 30, 2005 and December 31, 2004 consolidated balance sheets contained herein to correct amounts reported in prepaid expenses and other current assets, deposits and other assets, short-term and long-term deferred revenues, additional paid-in capital, and accumulated deficit; and to restate the consolidated statements of operations for the three- and nine-month periods ended September 30, 2005 and September 30, 2004, to correct amounts reported in gross revenues and research and development expenses. As a result of these restatements, amounts in the consolidated statements of cash flows for the nine-month periods ended September 30, 2005 and 2004 have also been corrected.

A summary of the effects of this restatement to our financial statements included within this Amendment No. 1 on Form 10-Q/A is presented at Note 3, Restatement of Financial Statements.

This Amendment No. 1 amends Part I, Items 1 and 2 and Part II, Item 6 of the Quarterly Report on Form 10-Q for the three- and nine-month periods ended September 30, 2005. This Amendment No. 1 continues to reflect circumstances as of the date of the original filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 and we have not updated the disclosures contained herein to reflect events that occurred at a later date, except for items related to the restatement or where otherwise indicated.

We do not anticipate filing amended Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for any periods prior to the first quarter of 2005. Our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q from the second quarter of 2003 through fiscal 2004 have not been revised to reflect the restatement and the consolidated financial statements contained in those reports should not be relied upon. Instead, the consolidated financial statements for fiscal 2004 and 2003 included in our Annual Report on Form 10-K for the fiscal period ended December 31, 2005 should be relied upon.

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**QUARTERLY REPORT ON FORM 10-Q**

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**Table of Contents****Item 1. FINANCIAL STATEMENTS**

**CURIS, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

	September 30, 2005	December 31, 2004
	(as restated)	(as restated)
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 22,884,331	\$ 22,679,924
Marketable securities	20,013,996	26,834,038
Accounts receivable	2,026,140	1,226,460
Prepaid expenses and other current assets	1,004,128	796,618
<b>Total current assets</b>	<b>45,928,595</b>	<b>51,537,040</b>
Property and Equipment, net	5,015,497	3,416,620
Other Assets:		
Long-term investments		2,606,681
Long-term investments restricted	195,998	193,166
Goodwill, net	8,982,000	8,982,000
Other intangible assets, net	45,818	102,122
Deposits and other assets	475,664	494,413
<b>Total other assets</b>	<b>9,699,480</b>	<b>12,378,382</b>
	<b>\$ 60,643,572</b>	<b>\$ 67,332,042</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Debt, current portion	\$ 1,634,680	\$ 1,141,294
Convertible notes payable	2,556,962	
Accounts payable	1,320,839	1,643,219
Accrued liabilities	2,271,819	1,078,687
Deferred revenue, current portion	1,236,152	819,640
<b>Total current liabilities</b>	<b>9,020,452</b>	<b>4,682,840</b>
Long-term debt obligations, net of current portion	1,187,500	
Convertible notes payable, net of current portion		5,710,007
Deferred revenue, net of current portion	10,440,558	8,356,134
Other long-term liabilities	763,800	271,058
<b>Total liabilities</b>	<b>21,412,310</b>	<b>19,020,039</b>

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Commitments		
Stockholders' Equity:		
Common stock, \$0.01 par value		
125,000,000 shares authorized; 49,333,495 and 48,285,788 shares issued and outstanding, respectively, at September 30, 2005 and 48,565,120 and 47,517,413 shares issued and outstanding, respectively, at December 31, 2004	493,335	485,652
Additional paid-in capital	718,740,861	714,831,427
Treasury stock (at cost, 1,047,707 shares at September 30, 2005 and December 31, 2004)	(891,274)	(891,274)
Deferred compensation	(386,699)	(834,157)
Accumulated deficit	(678,689,593)	(665,199,001)
Accumulated other comprehensive loss	(35,368)	(80,644)
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Total stockholders' equity	39,231,262	48,312,003
	<hr/>	<hr/>
	\$ 60,643,572	\$ 67,332,042
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See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005 <u>(as restated)</u>	2004 <u>(as restated)</u>	2005 <u>(as restated)</u>	2004 <u>(as restated)</u>
<b>REVENUES:</b>				
License fees	\$ 258,544	\$ 68,100	\$ 582,243	\$ 174,365
Research and development contracts	2,626,072	1,100,881	7,358,750	2,289,033
Substantive Milestones			250,000	50,000
<b>Gross Revenues</b>	<b>2,884,616</b>	<b>1,168,981</b>	<b>8,190,993</b>	<b>2,513,398</b>
Contra-revenues from co-development with Genentech	(819,491)		(5,697,993)	
<b>Net Revenues</b>	<b>2,065,125</b>	<b>1,168,981</b>	<b>2,493,000</b>	<b>2,513,398</b>
<b>COSTS AND EXPENSES:</b>				
Research and development	3,691,261	3,324,079	10,409,583	9,380,846
General and administrative	1,832,802	2,138,070	6,141,013	6,460,769
Amortization of intangible assets	18,768	18,768	56,304	56,304
<b>Total costs and expenses</b>	<b>5,542,831</b>	<b>5,480,917</b>	<b>16,606,900</b>	<b>15,897,919</b>
<b>Loss from operations</b>	<b>(3,477,706)</b>	<b>(4,311,936)</b>	<b>(14,113,900)</b>	<b>(13,384,521)</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	319,208	116,358	861,869	332,530
Other income		39,500	24,958	232,845
Interest expense	(92,843)	(102,474)	(263,519)	(306,753)
<b>Total other income, net</b>	<b>226,365</b>	<b>53,384</b>	<b>623,308</b>	<b>258,622</b>
<b>Net loss</b>	<b>\$ (3,251,341)</b>	<b>\$ (4,258,552)</b>	<b>\$ (13,490,592)</b>	<b>\$ (13,125,899)</b>
<b>Net loss per common share (basic and diluted)</b>	<b>\$ (0.07)</b>	<b>\$ (0.10)</b>	<b>\$ (0.28)</b>	<b>\$ (0.32)</b>
<b>Weighted average common shares (basic and diluted)</b>	<b>48,178,626</b>	<b>41,620,123</b>	<b>47,998,663</b>	<b>41,398,656</b>
<b>Net loss</b>	<b>\$ (3,251,341)</b>	<b>\$ (4,258,552)</b>	<b>\$ (13,490,592)</b>	<b>\$ (13,125,899)</b>
Unrealized gain (loss) on marketable securities	25,585	23,330	45,276	(35,829)
<b>Comprehensive loss</b>	<b>\$ (3,225,756)</b>	<b>\$ (4,235,222)</b>	<b>\$ (13,445,316)</b>	<b>\$ (13,161,728)</b>

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See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2005	2004
	(as restated)	(as restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (13,490,592)	\$ (13,125,899)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	668,720	833,045
Stock-based compensation expense	193,004	1,058,678
Non-cash interest on notes payable	152,478	293,549
Amortization of intangible assets	56,304	56,304
Decrease/increase in long-term receivables		
Changes in current assets and liabilities:		
Accounts receivable	(799,680)	(396,368)
Prepaid expenses and other assets	(188,761)	(101,713)
Accounts payable and accrued liabilities	1,363,494	251,008
Deferred contract revenue	2,500,936	3,546,348
Total adjustments	3,946,495	5,540,851
Net cash used in operating activities	(9,544,097)	(7,585,048)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of marketable securities	(24,904,025)	(17,383,387)
Sale of marketable securities	31,769,343	10,400,683
Increase in restricted cash	(2,832)	
Purchase of long-term investments		(4,568,290)
Sale of long-term investments	2,606,681	5,350,350
Purchases and dispositions of property and equipment	(2,267,597)	(1,042,801)
Net cash provided by (used in) investing activities	7,201,570	(7,243,445)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	866,048	3,409,560
Proceeds from issuance of debt	1,993,386	591,930
Repayments of notes payable and capital leases	(312,500)	(332,056)
Net cash provided by financing activities	2,546,934	3,669,434
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	204,407	(11,159,059)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	22,679,924	27,734,548
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 22,884,331	\$ 16,575,489

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Issuance of common stock in connection with conversion of note payable to Elan Pharma International, Limited (Note 10)

\$ 3,305,523

\$

See accompanying notes to unaudited condensed consolidated financial statements.

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**CURIS, INC. AND SUBSIDIARY**

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

**1. Nature of Business**

Curis, Inc. (the Company or Curis) is a therapeutic drug development company principally focused on the discovery, development and future commercialization of products that modulate key regulatory signaling pathways controlling the repair and regeneration of human tissues and organs. The Company's product development approach involves using small molecules, proteins or antibodies to modulate these regulatory signaling pathways. The Company's lead product candidate, a topical therapy for the treatment of basal cell carcinoma, is currently in a phase I clinical trial and is being co-developed with Genentech, Inc., or Genentech, a collaborator. The Company is sharing equally in all U.S. development costs and will share equally in any future U.S. net profits and/or losses, should its basal cell carcinoma product candidate be successfully developed and marketed. The Company operates in a single reportable segment: developmental biology products. 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 technological innovations, dependence on key personnel, its ability to protect proprietary technology, reliance on corporate collaborators and licensors 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 grow its business and obtain adequate financing to fund this growth.

**2. Basis of Presentation**

The accompanying unaudited 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 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, 2004, as filed with the Securities and Exchange Commission on March 15, 2005.

In the opinion of the Company, the unaudited consolidated financial statements contain all adjustments (all of which were considered normal and recurring) necessary to present fairly the Company's financial position at September 30, 2005, the results of operations for the three- and nine-month periods ended September 30, 2005 and 2004, and cash flows for the nine-month periods ended September 30, 2005 and 2004. The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosure of certain assets and liabilities at the balance sheet date. Such estimates include the carrying value of property and equipment and intangible assets and the value of certain liabilities. Actual results may differ from such estimates.

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

**3. Restatement of Financial Statements**

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The Company has restated its September 30, 2005 and December 31, 2004 consolidated balance sheets to correct amounts in prepaid expenses and other current assets, deposits and other assets, short- and long-term deferred revenues, additional paid-in capital, and accumulated deficit. The Company has also restated

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

its consolidated statements of operations for the three-month and nine-month periods ended September 30, 2005 and September 30, 2004, to correct amounts in gross revenues and research and development expenses. As a result of these restatements, amounts in the consolidated statements of cash flows for the nine-month periods ended September 30, 2005 and 2004 have also been corrected. The correction of the accounting for the June 2003 Genentech collaboration and the January 2004 Wyeth collaboration agreements resulted in a \$1,629,000 decrease in net cash used in operating activities and a corresponding decrease in net cash provided by financing activities for the nine-month period ended September 30, 2005.

These adjustments are more fully described as follows:

*Genentech license fee payments:* The Company had been recognizing revenue in connection with \$7,509,000 in license maintenance fee payments received from Genentech as of part of the June 2003 Hedgehog antagonist collaboration between the parties over an eight-year period based on the Company's belief that its participation on the steering committees would become inconsequential after the first product was approved in each of the two programs covered under this collaboration, and would therefore no longer represent a performance obligation. The Company has determined it should not have recognized any of this revenue in 2005, 2004, or 2003. Instead, the Company will defer the \$7,509,000 in payments and recognize this amount as revenue only when the Company can reasonably estimate when its contractual steering committee obligations will cease or after it no longer has contractual steering committee obligations under this agreement with Genentech. The contractual term of the Company's steering committee obligations extends for as long as Hedgehog antagonist products subject to this collaboration are being developed or commercialized by either of the parties. Accordingly, the contractual term of the Company's steering committee obligations is indefinite and the Company expects that it will not record any revenue related to these payments for at least several years.

*Expenses due to university licensors:* The Company is restating previously reported research and development expenses associated with \$410,000 in license fee payments that were payable by the Company to university licensors in connection with the June 2003 Hedgehog antagonist collaboration with Genentech. The Company had previously capitalized this amount as Prepaid expenses and other current assets and Deposits and other assets in its consolidated balance sheets and amortized this amount to research and development expense as the related license fee was recognized. The Company has determined that it should have instead recognized the entire \$410,000 immediately as research and development expense in June 2003.

*Correction of previously identified immaterial errors Allocation of up-front payments received from Genentech and Wyeth:* In connection with the restatement, the Company will also correct other previously identified immaterial errors which had previously been corrected through a cumulative adjustment to the consolidated financial statements in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005. The restatement will allocate the adjustment among the correct periods.

These errors relate to the Company's sale of shares of its common stock in connection with the June 2003 Genentech and January 2004 Wyeth collaboration agreements. In each case, the Company calculated the value of the common stock using the negotiated price (which was less than the closing market price on the agreement date). Because of this, the Company understated additional paid-in capital and overstated deferred revenues by \$1,629,000. During the third quarter of 2005, prior to restating, the Company recorded a cumulative adjustment as a result of these errors to reverse previously recorded license fee revenue of \$460,000 for the years ended December 31, 2004 and 2003 and through the nine-month period ended September 30, 2005. The overstatement of deferred revenues resulted in an overstatement of license fee revenues because, in



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

each case, the Company amortized deferred revenue over the estimated performance period to revenues in its consolidated statements of operations. The Company will correct its accounting for these common stock sales by allocating the fair value of the common stock sold to its additional paid-in capital accounts at the date of sale and by removing the effect of any license fee revenue that had been previously recorded as a result of these errors. The correction of the accounting for the January 2004 Wyeth collaboration agreement resulted in a \$138,000 increase in net cash used in operating activities and a corresponding increase in net cash provided by financing activities for the nine months ended September 30, 2004.

The following is a summary of the effects of the changes described above:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
<b><u>Consolidated Balance Sheets</u></b>			
<b>September 30, 2005</b>			
Prepaid expenses and other current assets	\$ 1,068,822	\$ (64,694)	\$ 1,004,128
Total current assets	45,993,289	(64,694)	45,928,595
Total assets	60,708,266	(64,694)	60,643,572
Deferred revenue, current portion	2,152,210	(916,058)	1,236,152
Total current liabilities	9,936,510	(916,058)	9,020,452
Deferred revenue, net of current portion	7,290,927	3,149,631	10,440,558
Accumulated deficit	(676,391,326)	(2,298,267)	(678,689,593)
Total stockholders' equity	41,529,529	(2,298,267)	39,231,262
Total liabilities and stockholders' equity	60,708,266	(64,694)	60,643,572
<b>December 31, 2004</b>			
Prepaid expenses and other current assets	\$ 843,198	\$ (46,580)	\$ 796,618
Total current assets	51,583,620	(46,580)	51,537,040
Deposits and other assets	750,604	(256,191)	494,413
Total other assets	12,634,573	(256,191)	12,378,382
Total assets	67,634,813	(302,771)	67,332,042
Deferred revenue, current portion	1,939,708	(1,120,068)	819,640
Total current liabilities	5,802,908	(1,120,068)	4,682,840
Deferred revenue, net of current portion	6,941,545	1,414,589	8,356,134
Additional paid-in capital	713,202,427	1,629,000	714,831,427
Accumulated deficit	(662,972,709)	(2,226,292)	(665,199,001)
Total stockholders' equity	48,909,295	(597,292)	48,312,003
Total liabilities and stockholders' equity	67,634,813	(302,771)	67,332,042
<b><u>Consolidated Statements of Operations</u></b>			
<b>Three months ended September 30, 2005</b>			
License fee revenues	\$ 8,561	\$ 249,983	\$ 258,544
Gross revenues	2,634,633	249,983	2,884,616
Net revenues	1,815,142	249,983	2,065,125
Research and development expenses	3,820,650	(129,389)	3,691,261
Total costs and expenses	5,672,220	(129,389)	5,542,831
Loss from operations	(3,857,078)	379,372	(3,477,706)

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Net loss	(3,630,713)	379,372	(3,251,341)
Net loss per common share (basic and diluted)	\$ (0.08)	\$ 0.01	\$ (0.07)

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

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
<b>Three months ended September 30, 2004</b>			
License fee revenues	\$ 385,345	\$ (317,245)	\$ 68,100
Gross revenues	1,486,226	(317,245)	1,168,981
Net revenues	1,486,226	(317,245)	1,168,981
Research and development expenses	3,288,472	35,607	3,324,079
Total costs and expenses	5,445,310	35,607	5,480,917
Loss from operations	(3,959,084)	(352,852)	(4,311,936)
Net loss	(3,905,700)	(352,852)	(4,258,552)
Net loss per common share (basic and diluted)	\$ (0.09)	\$ (0.01)	\$ (0.10)
<b>Nine months ended September 30, 2005</b>			
License fee revenues	\$ 892,295	\$ (310,052)	\$ 582,243
Gross revenues	8,501,045	(310,052)	8,190,993
Net revenues	2,803,052	(310,052)	2,493,000
Research and development expenses	10,647,659	(238,076)	10,409,583
Total costs and expenses	16,844,976	(238,076)	16,606,900
Loss from operations	(14,041,924)	(71,976)	(14,113,900)
Net loss	(13,418,616)	(71,976)	(13,490,592)
Net loss per common share (basic and diluted)	\$ (0.28)	\$ (0.00)	\$ (0.28)
<b>Nine months ended September 30, 2004</b>			
License fee revenues	\$ 1,123,067	\$ (948,702)	\$ 174,365
Gross revenues	3,462,100	(948,702)	2,513,398
Net revenues	3,462,100	(948,702)	2,513,398
Research and development expenses	9,448,534	(67,688)	9,380,846
Total costs and expenses	15,965,607	(67,688)	15,897,919
Loss from operations	(12,503,507)	(881,014)	(13,384,521)
Net loss	(12,244,885)	(881,014)	(13,125,899)
Net loss per common share (basic and diluted)	\$ (0.30)	\$ (0.02)	\$ (0.32)

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

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
<b><u>Consolidated Statements of Cash Flows</u></b>			
<b>Nine months ended September 30, 2005</b>			
Net loss	\$ (13,418,616)	\$ (71,976)	\$ (13,490,592)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	49,316	(238,077)	(188,761)
Deferred revenue	561,884	1,939,052	2,500,936
Total adjustments	2,245,519	1,700,976	3,946,495
Net cash used in operating activities	(11,173,097)	1,629,000	(9,544,097)
Reclassification of deferred revenues to additional paid-in capital	1,629,000	(1,629,000)	
Net cash provided by financing activities	4,175,934	(1,629,000)	2,546,934
<b>Nine months ended September 30, 2004</b>			
Net loss	\$ (12,244,885)	\$ (881,014)	\$ (13,125,899)
Increase in long-term receivables	2,000,000	(2,000,000)	
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	(234,023)	132,310	(101,713)
Accounts payable and accrued liabilities	451,006	(199,998)	251,008
Deferred revenue	735,646	2,810,702	3,546,348
Total adjustments	4,797,837	743,014	5,540,851
Net cash used in operating activities	(7,447,048)	(138,000)	(7,585,048)
Proceeds from issuance of common stock	3,271,560	138,000	3,409,560
Net cash provided by financing activities	3,531,434	138,000	3,669,434

**4. Financial Statement Reclassifications**

The Company has reclassified \$368,000 and \$1,059,000, respectively, for the three- and nine-month periods ended September 30, 2004 from Stock-based compensation expense to Research and development expenses and General and administrative expenses in the Company's costs and expenses section of its consolidated statements of operations and comprehensive loss to conform with the current period presentation. Of these amounts, \$342,000 and \$864,000 were reclassified to Research and development expenses and \$26,000 and \$195,000 were reclassified to General and administrative expenses for the three- and nine-month periods ended September 30, 2004, respectively.

**5. 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 the agreements typically include non-refundable license fees, funding of research and development, payments based upon achievement of clinical development milestones and royalties on product sales. The Company follows the provisions of the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104 (SAB No. 104), *Revenue Recognition*, Emerging Issues Task Force (EITF) Issue No. 00-21 (EITF 00-21), *Accounting for Revenue Arrangements with Multiple Deliverables*, EITF Issue No. 99-19 (EITF 99-19), *Reporting Revenue Gross as a Principal Versus Net as an Agent*, and EITF Issue No. 01-9 (EITF 01-9), *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*.

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Non-refundable license fees are recognized as revenue when the Company has a contractual right to receive such payment, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably

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**CURIS, INC. AND SUBSIDIARY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

assured and the Company has no further performance obligations under the license agreement. Multiple element arrangements, such as license and development arrangements are analyzed to determine whether the deliverables, which often include a license and performance obligations such as research and steering committee services can be separated or whether they must be accounted for as a single unit of accounting in accordance with EITF 00-21. The Company recognizes up-front license payments as revenue upon delivery of the license only if the license has stand-alone value and the fair value of the undelivered performance obligations, typically including research or steering committee services, can be determined. If the