RIGEL PHARMACEUTICALS INC
Form 10-Q
May 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 0-29889

Rigel Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3248524**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1180 Veterans Blvd. **South San Francisco, CA**	**94080**
(Address of principal executive offices)	(Zip Code)

(650) 624-1100

(Registrant s telephone number, including area code)

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 x No o

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 o No o

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.

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

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

As of April 28, 2010, there were 51,970,449 shares of the registrant s Common Stock outstanding.

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RIGEL PHARMACEUTICALS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

RIGEL PHARMACEUTICALS, INC.

CONDENSED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2010 (unaudited)	December 31, 2009 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 15,389	$ 14,717
Available-for-sale securities	94,160	118,601
Accounts receivable	100,000	
Prepaid expenses and other current assets	2,745	2,650
Total current assets	212,294	135,968
Property and equipment, net	2,426	2,291
Other assets	2,425	2,485
	$ 217,145	$ 140,744
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 3,701	$ 3,154
Accrued compensation	1,807	6,840
Other accrued liabilities	8,187	6,718
Deferred rent	3,727	
Deferred revenue	96,739	
Capital lease obligations	990	1,061
Total current liabilities	115,151	17,773
Long-term portion of capital lease obligations	633	883
Long-term portion of deferred rent	8,424	12,064
Other long-term liabilities	152	157
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of March 31, 2010 and December 31, 2009		
Common stock, $0.001 par value; 100,000,000 shares authorized; 51,969,119 and 51,956,140 shares issued and outstanding as of March 31, 2010 and December 31, 2009, respectively	52	52
Additional paid-in capital	728,402	723,151
Accumulated other comprehensive loss	(12)	(12)
Accumulated deficit	(635,657)	(613,324)
Total stockholders equity	92,785	109,867

	$ 217,145	$ 140,744

(1) The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date included in Rigel s Annual Report on Form 10-K for the year ended December 31, 2009.

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31,	
	2010	**2009**
Contract revenues	$ 3,261	$
Costs and expenses:		
Research and development	17,425	24,538
General and administrative	8,186	4,603
Restructuring charges		1,141
Total costs and expenses	25,611	30,282
Loss from operations	(22,350)	(30,282)
Interest income	47	347
Interest expense	(30)	(53)
Loss before income taxes	(22,333)	(29,988)
Income tax benefit		66
Net loss	$ (22,333)	$ (29,922)
Net loss per share, basic and diluted	$ (0.43)	$ (0.82)
Weighted average shares used in computing net loss per share, basic and diluted	51,964	36,699

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2010	**2009**
Operating activities		
Net loss	$ (22,333)	$ (29,922)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	305	320
Stock-based compensation expense	5,167	2,266
Changes in assets and liabilities:		
Accounts receivable	(100,000)	
Prepaid expenses and other current assets	(95)	423
Other assets	60	50
Accounts payable	547	806
Accrued compensation	(5,033)	26
Other accrued liabilities	1,469	(2,629)
Deferred revenue	96,739	
Deferred rent and other long-term liabilities	82	(402)
Net cash used in operating activities	(23,092)	(29,062)
Investing activities		
Purchases of available-for-sale securities	(12,825)	(27,034)
Maturities and sale of available-for-sale securities	37,266	47,169
Capital expenditures	(440)	(11)
Net cash provided by investing activities	24,001	20,124
Financing activities		
Payments on capital lease obligations	(321)	(436)
Net proceeds from issuances of common stock	84	98
Net cash used in financing activities	(237)	(338)
Net increase (decrease) in cash and cash equivalents	672	(9,276)
Cash and cash equivalents at beginning of period	14,717	46,005
Cash and cash equivalents at end of period	$ 15,389	$ 36,729
Supplemental disclosure of cash flow information		
Interest paid	$ 28	$ 55
Schedule of non cash transactions		
Issuance of warrant with lease amendment	$	$ 616

See Accompanying Notes.

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Rigel Pharmaceuticals, Inc.

Notes to Condensed Financial Statements

(unaudited)

In this report, Rigel, we, us and our refer to Rigel Pharmaceuticals, Inc.

1. Nature of Operations

We were incorporated in the state of Delaware on June 14, 1996. We are engaged in the discovery and development of novel, small-molecule drugs for the treatment of inflammatory/autoimmune diseases, as well as for certain cancers and metabolic diseases.

2. Basis of Presentation

Our accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed financial statements include all normal and recurring adjustments that we believe are necessary to fairly state our financial position and the results of our operations and cash flows. Interim-period results are not necessarily indicative of results of operations or cash flows for a full-year. The balance sheet at December 31, 2009 has been derived from audited financial statements at that date, but does not include all disclosures required by U.S. GAAP for complete financial statements. Because all of the disclosures required by U.S. GAAP for complete financial statements are not included herein, these interim unaudited condensed financial statements and the notes accompanying them should be read in conjunction with our audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from these estimates.

3. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, or ASU, No. 2009-13 (formerly Emerging Issues Task Force, or EITF, No. 08-1) on Accounting Standards Codification (ASC) 605 for revenue recognition related to multiple-deliverable revenue arrangements. ASU No. 2009-13 provides amendments to the existing criteria for separating consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable, eliminate the residual method of allocation of arrangement consideration to all deliverables and require the use of the relative selling price method in allocation of arrangement consideration to all deliverables, require the determination of the best estimate of a selling price in a consistent manner, and significantly expand the disclosures related to the multiple-deliverable revenue arrangements. The amendments will be effective in fiscal years beginning on or after June 15, 2010, and early adoption is permitted. We are currently evaluating the impact on our financial statements of adopting these amendments to ASC 605 and cannot estimate the impact of adoption at this time.

4. Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share was computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net loss per share excluded shares of potential common stock, consisting of stock options and warrants, because their effect would have been anti-dilutive.

5. Stock Award Plans

Total stock-based compensation expense related to all of our stock-based awards that we recognized was as follows (in thousands):

	Three Months Ended March 31,	
	2010	**2009**
Research and development	$ 3,083	$ 1,425
General and administrative	2,084	719
Restructuring charges		122
Total stock-based compensation expense	$ 5,167	$ 2,266

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In February 2009, we announced that we cut our research programs in virology and oncology as well as terminated certain related development and administrative staff, which resulted in the dismissal of 36 employees, or approximately 20% of our workforce. This measure was intended to maintain our emphasis on our active preclinical and clinical programs, while conserving our resources. As part of a package we offered the terminated employees, we extended the date the terminated employees had to exercise their vested options to December 31, 2009 rather than 90 days from the termination date as is typically required under our equity incentive plan. We recorded $122,000 of non-cash stock-based compensation expense related to this modification in the first quarter of 2009.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. We have segregated option awards into three homogenous groups for purposes of determining fair values of options: officers and directors, all other employees, and consultants.

We determined weighted-average valuation assumptions separately for each of these groups as follows:

- Volatility We estimated volatility using the historical share price performance over the expected life of the option up to the point where we have historical market data. We also considered other factors, such as implied volatility, our current clinical trials and other company activities that may affect the volatility of our stock in the future. We determined that at this time historical volatility is more indicative of our expected future stock performance than implied volatility.

- Expected term For options granted to consultants, we use the contractual term of the option, which is typically ten years, for the initial valuation of the option and the remaining contractual term of the option for succeeding periods. We worked with various historical data to determine the applicable expected term for each of the other option groups. This data included: (1) for exercised options, the term of the options from option grant date to exercise date; (2) for cancelled options, the term of the options from option grant date to cancellation date, excluding unvested option forfeitures; and (3) for options that remained outstanding at the balance sheet date, the term of the options from option grant date to the end of the reporting period and the estimated remaining term of the options. The consideration and calculation of the above data gave us reasonable estimates of the expected term for each employee group. We also considered the vesting schedules of the options granted and factors surrounding exercise behavior of the option groups, our current market price and company activity that may affect our market price. In addition, we considered the optionee type (i.e., officers and directors or all other employees) and other factors that may affect the expected term of the option.

- Risk-free interest rate The risk-free interest rate is based on U.S. Treasury constant maturity rates with similar terms to the expected term of the options for each option group.

- Forfeiture rate We estimated the forfeiture rate using our historical experience with pre-vesting options. We review our forfeiture rates each quarter and make changes as factors affecting our forfeiture rate calculations and assumptions change.

- Dividend yield The expected dividend yield is 0% as we have not paid and do not expect to pay dividends.

The following table summarizes the weighted-average assumptions relating to options granted pursuant to our equity incentive plans for the three months ended March 31, 2010 and 2009:

	Equity Incentive Plans Three Months Ended March 31,	
	2010	**2009**
Risk-free interest rate	2.4%	1.8%
Expected term (in years)	5.3	4.4
Dividend yield	0.0%	0.0%
Expected volatility	90.1%	98.4%

Options are priced at the market price of our common stock on the date immediately preceding the date of grant, become exercisable at varying dates and generally expire ten years from the date of grant. We granted options to purchase 1,227,200 shares of common stock during the three months ended March 31, 2010, with a grant-date weighted average fair value of $6.89 per share. We granted options to purchase 1,982,473 shares of common stock during the three months ended March 31, 2009, with a grant-date weighted average fair value of $4.60 per share. As of March 31, 2010, there was approximately $11.9 million of total unrecognized stock-based compensation cost, net of estimated forfeitures, related to unvested options granted under our equity incentive plans. At March 31, 2010, 1,585,341 shares of common stock were available for future grant under our equity incentive plans and options to purchase 12,979 shares were exercised during the three months ended March 31, 2010.

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Employee Stock Purchase Plan (ESPP)

The fair value of awards granted under our ESPP is estimated on the date of grant using the Black-Scholes option pricing model, which uses weighted-average assumptions. Our ESPP provides for a twenty-four month offering period comprised of four six-month purchase periods with a look-back option. A look-back option is a provision in our ESPP under which eligible employees can purchase shares of our common stock at a price per share equal to the lesser of 85% of the fair market value on the first day of the offering period or 85% of the fair market value on the purchase date. Our ESPP also includes a feature that provides for a new offering period to begin when the fair market value of our common stock on any purchase date during an offering period falls below the fair market value of our common stock on the first day of such offering period. This feature is called a reset. Participants are automatically enrolled in the new offering period. We had a reset on January 2, 2009 because the fair market value of our stock on December 31, 2008 was lower than the fair market value of our stock on July 1, 2008, the first day of the offering period. We applied modification accounting in accordance with ASC Topic No. 718, *Stock Compensation*, to determine the incremental fair value associated with this ESPP reset and recognized the related stock-based compensation expense according to the FASB ASC Subtopic No. 718-50, *Employee Share Purchase Plan*. The total incremental fair value for this ESPP reset was $1,443,848, and is being recognized over the new twenty-four month offering period.

As of March 31, 2010, there were approximately 1,213,893 shares reserved for future issuance under the ESPP. The following table summarizes the weighted-average assumptions related to our ESPP for the three months ended March 31, 2010 and 2009. Expected volatilities for our ESPP are based on the historical volatility of our stock. Expected term represents the weighted average of the purchase periods within the offering period. The risk-free interest rate for periods within the expected term is based on U.S. Treasury constant maturity rates.

	Employee Stock Purchase Plan Three Months Ended March 31,	
	2010	**2009**
Risk-free interest rate	0.3%	1.1%
Expected term (in years)	0.7	1.3
Dividend yield	0.0%	0.0%
Expected volatility	82.6%	112.0%

6. Revenue Recognition

We present revenue from our collaboration arrangements under FASB ASC 808, *Collaboration Arrangements*. Our revenue arrangements with multiple elements are evaluated under FASB ASC 605-25, *Multiple-Element Arrangements*, and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of any undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

Non-refundable, up-front payments received in connection with research and development collaboration agreements, including technology access fees, are deferred and recognized on a straight-line basis over the relevant periods of continuing involvement, generally the research term. When a research term is not specified, we estimate the time it will take us to complete our deliverables under the contract and recognize the upfront fee using the straight-line method over that time period. We review our estimates every quarter for reasonableness.

Revenues related to collaborative research with our corporate collaborators are recognized as research services are performed over the related development periods for each agreement. Under these agreements, we are required to perform research and development activities as specified in each respective agreement. The payments received are not refundable and are generally based on a contractual cost per full-time equivalent employee working on the project. Our research and development expenses under the collaborative research agreements approximate the revenue recognized under such agreements over the term of the respective agreements. It is our policy to recognize revenue based on our level of effort expended, however, revenue recognized will not exceed amounts billable under the agreement.

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Revenues associated with substantive, at-risk milestones pursuant to collaborative agreements are recognized upon achievement of the milestones.

7. **Research and Development Accruals**

We have various contracts with third parties related to our research and development activities. Costs that are incurred but not billed to us as of the end of the period are accrued. We make estimates of the amounts incurred in each period based on the information available to us and our knowledge of the nature of the contractual activities generating such costs. Clinical trial contract expenses are accrued based on units of activity reported by third parties. Expenses related to other research and development contracts, such as research contracts, toxicology study contracts and manufacturing contracts are estimated to be incurred generally on a straight-line basis over the duration of the contracts. Raw materials and study materials purchased by third parties are expensed at the time of purchase.

8. Cash, Cash Equivalents and Available-For-Sale Securities

Cash, cash equivalents and available-for-sale securities consisted of the following (in thousands):

	March 31, 2010	December 31, 2009
Checking account	$ 258	$ 158
Money market funds	7,170	8,859
U. S. treasury bills	34,773	44,483
Government-sponsored enterprise securities	39,273	39,167
Corporate bonds and commercial paper	28,075	40,651
	$ 109,549	$ 133,318
Reported as:		
Cash and cash equivalents	$ 15,389	$ 14,717
Available-for-sale securities	94,160	118,601
	$ 109,549	$ 133,318

Cash equivalents and available-for-sale securities include the following securities with unrealized gains and losses (in thousands):

March 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. treasury bills	$ 34,765	$ 8	$	$ 34,773
Government-sponsored enterprise securities	39,282	3	(12)	39,273
Corporate bonds and commercial paper	28,086	4	(15)	28,075
Total	$ 102,133	$ 15	$ (27)	$ 102,121

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. treasury bills	$ 44,489	$ 3	$ (9)	$ 44,483
Government-sponsored enterprise securities	39,184	7	(24)	39,167
Corporate bonds and commercial paper	40,640	12	(1)	40,651
Total	$ 124,313	$ 22	$ (34)	$ 124,301

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As of March 31, 2010, the contractual maturities of our cash equivalents and available-for-sale securities were (in thousands):

	Years to Maturity	
	Within One Year	After One Year Through Five Years
Money market funds	$ 7,170	$
U. S. treasury bills	34,773	
Government-sponsored enterprise securities	39,273	
Corporate bonds and commercial paper	28,075	
	$ 109,291	$

As of March 31, 2010, our cash equivalents and available-for-sale securities had a weighted average time to maturity of approximately 116 days. We view our available-for-sale portfolio as available for use in current operations. We have the ability to hold all investments as of March 31, 2010 to maturity. At March 31, 2010 and December 31, 2009, we had no investments that had been in a continuous unrealized loss position for more than twelve months. As of March 31, 2010, a total of 17 individual securities were in an unrealized loss position for twelve months or less and the losses were deemed to be temporary.

The following table shows the fair value and gross unrealized losses of our investments in individual securities that are in an unrealized loss position, aggregated by investment category (in thousands):

March 31, 2010	Fair Value	Gross Unrealized Losses
Government-sponsored enterprise securities	$ 19,439	$ (12)
Corporate bonds and commercial paper	7,830	(15)
Total	$ 27,269	$ (27)

9. Fair Value

Under FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value is defined as the price at which an asset could be exchanged or a liability transferred in a transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or parameters are not available, valuation models are applied.

Assets and liabilities recorded at fair value in our financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair valued assets we hold that are generally included under this Level 1 are money market securities where fair value is based on publicly quoted prices.

Level 2 Are inputs, other than quoted prices included in Level 1, that are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument s anticipated life.

The fair valued assets we hold that are generally assessed under Level 2 included government-sponsored enterprise securities, U. S. Treasury bills and corporate bonds and commercial paper where fair value is based on valuation methodologies such as models using observable market inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers and other reference data.

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 and which reflect management s best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

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Fair Value on a Recurring Basis

Financial assets measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations (in thousands):

	Assets at Fair Value as of March 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 7,170	$	$	$ 7,170
U. S. treasury bills		34,773		34,773
Government-sponsored enterprise securities		39,273		39,273
Corporate bonds and commercial paper		28,075		28,075
Total	$ 7,170	$ 102,121	$	$ 109,291

	Assets at Fair Value as of December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 8,859	$	$	$ 8,859
U. S. treasury bills		44,483		44,483
Government-sponsored enterprise securities		39,167		39,167
Corporate bonds and commercial paper		40,651		40,651
Total	$ 8,859	$ 124,301	$	$ 133,160

Fair Value on a Non-Recurring Basis

On March 31, 2009, we issued a new warrant granting our landlord the right to purchase 200,000 shares of common stock, and cancelled an existing warrant to purchase 100,000 shares of common stock, in connection with the amendment of our build-to-suit lease agreement. We used the Black-Scholes option-pricing model and calculated an incremental fair market value of $616,000 related to the new warrant. The new warrant was categorized as level 3 under FASB ASC 820 due to the unobservable inputs we used in the Black Scholes option-pricing model.

The following table summarizes the assumptions used relating to the valuation of the new warrant:

Risk-free interest rate	2.2%
Expected term (in years)	7.0
Dividend yield	0.0%
Expected volatility	99.2%

10. AstraZeneca Collaboration

In February 2010, we entered into an exclusive worldwide license agreement with AstraZeneca AB (AZ) for the global development and commercialization of our oral Syk inhibitors for the treatment of human diseases other than those primarily involving respiratory or pulmonary dysfunction. The agreement includes a license of rights to R788, our late-stage investigational product candidate for the treatment of RA and other indications. After a limited transition period, AZ will be responsible for conducting and funding all development, regulatory filings, manufacturing and global commercialization of products containing oral Syk inhibitors. We are responsible for conducting, at our expense, an on-going open label extension study in R788 during the limited transition period.

The agreement became effective on March 26, 2010 and, in connection with the effectiveness of the agreement, we received an upfront payment of $100.0 million in April 2010 from AZ. We are recognizing the upfront payment ratably over the transition period from the effective date until all deliverables are completed, which we estimate to be September 25, 2010. As of March 31, 2010, $3.3 million of the upfront payment has been recognized as revenue and $96.7 million has been deferred. AZ is required to pay us up to an additional $345.0 million if specified development, regulatory and launch milestones are achieved for R788. We will also be eligible to receive up to an additional $800.0 million if specified sales performance milestones are achieved for R788, as well as significant stepped double-digit royalties on net worldwide sales of R788.

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11. Amendment to the Build-to-Suit Lease Agreement

On March 31, 2009, we amended our build-to-suit lease agreement with our landlord, HCP BTC, LLC (formerly known as Slough BTC, LLC), to defer certain rental obligations in the aggregate amount of $6.9 million for a period of up to seventeen months. Under the terms of this amendment, we were obligated to repay the deferred rental amounts, including interest accruing at 12% during the deferral period, based on a timeline that could vary depending upon the occurrence of certain financing or collaborative transactions. We reevaluated the lease amendment under FASB ASC 840 and determined that the amended lease still qualified as an operating lease. In addition, the amendment to the lease agreement also provided for the cancellation of an existing warrant granting HCP Estates USA Inc. (an affiliate of our landlord) the right to purchase 100,000 shares of common stock and the issuance of a new warrant granting our landlord the right to purchase 200,000 shares of common stock. The exercise price per share of the new warrant is $6.61, which is the average closing price of our common stock for the three business days immediately preceding the execution of the amendment to the lease agreement. The new warrant remains exercisable for 7 years from the date of issuance. We applied modification accounting and calculated an incremental fair market value of the new warrant of $616,000. This amount has been deferred in other assets and is being amortized into rent expense over the remaining term of the lease. On September 22, 2009, we completed an underwritten public offering and received net proceeds of approximately $101.5 million after deducting underwriting discounts and commissions and offering expenses. As a result of this financing, we paid our landlord $3.7 million, or 50% of the deferred rental amounts, plus interest at 12%, in November 2009. In February 2010, we entered into a worldwide license agreement with AZ in which we received an upfront payment of $100.0 million in April 2010. As a result of this additional cash received, we paid our landlord $3.9 million, or 50% of the remaining deferred rental amounts, plus interest at 12%, in April 2010.

12. Contingencies

On February 6, 2009, a purported securities class action lawsuit was commenced in the United States District Court for the Northern District of California, naming as defendants us and certain of our officers, directors and underwriters for our February 2008 stock offering. An additional purported securities class action lawsuit containing similar allegations was subsequently filed in the United States District Court for the Northern District of California on February 20, 2009. By order of the Court dated March 19, 2009, the two lawsuits were consolidated into a single action. On June 9, 2009, the Court issued an order naming the Inter-Local Pension Fund GCC/IBT as lead plaintiff and Coughlin Stoia as lead counsel. The lead plaintiff filed a consolidated complaint on July 24, 2009. We filed a motion to dismiss on September 8, 2009. On December 21, 2009, the Court granted our motion and dismissed the consolidated complaint with leave to amend. Plaintiff filed its consolidated amended complaint on January 27, 2010. The lawsuit alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 in connection with allegedly false and misleading statements made by us related to the results of the Phase 2a clinical trial of our product candidate R788. The plaintiffs seek damages, including rescission or rescissory damages for purchasers in the stock offering, an award of their costs and injunctive and/or equitable relief for purchasers of our common stock during the period between December 13, 2007 and February 9, 2009, including purchasers in the stock offering. We filed a motion to dismiss the consolidated amended complaint on February 16, 2010. Briefing on the motion to dismiss is complete and we are awaiting a ruling on that motion from the Court. It is possible that additional suits will be filed with respect to these same matters and also naming us and/or our officers and directors as defendants. If any such additional suits are filed in the same court, we believe that they would be consolidated into the consolidated action.

This lawsuit and any other related lawsuits are subject to inherent uncertainties and the actual costs to be incurred relating to the lawsuit will depend upon many unknown factors. The outcome of the litigation is necessarily uncertain and we could be forced to expend significant resources in the defense of this suit, and we may not prevail. We are not currently able to estimate the possible cost to us from this matter, and we cannot ascertain how long it may take to resolve this matter. We have not established any reserve for any potential liability relating to this lawsuit. We believe that we have meritorious defenses and intend to defend this lawsuit vigorously.

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Report of Independent Registered Public Accounting Firm

The Board of Directors

Rigel Pharmaceuticals, Inc.

We have reviewed the condensed balance sheet of Rigel Pharmaceuticals, Inc. as of March 31, 2010, and the related condensed statements of operations and cash flows for the three-month periods ended March 31, 2010 and 2009. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Rigel Pharmaceuticals, Inc. as of December 31, 2009, and the related statements of operations, stockholders equity, and cash flows for the year then ended (not presented herein) and in our report dated March 2, 2010, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Palo Alto, California
May 4, 2010

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with our financial statements and the accompanying notes included in this report and the audited financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2009. Operating results for the three months ended March 31, 2010 are not necessarily indicative of results that may occur in future periods.

This Quarterly Report on Form 10-Q contains statements indicating expectations about future performance and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. We usually use words such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, intend, or the negative of these terms or similar expressions to identify these forward-looking statements. These statements appear throughout this Quarterly Report on Form 10-Q and are statements regarding our current expectation, belief or intent, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: our business and scientific strategies; the progress of our product development programs, including clinical testing, and the timing of results thereof; our corporate collaborations and revenues that may be received from our collaborations; our drug discovery technologies; our research and development expenses; protection of our intellectual property; sufficiency of our cash resources; and our operations and legal risks. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including as a result of the risks and uncertainties discussed under the heading Risk Factors in Item 1A of Part II of this Quarterly Report on Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Overview

We are a clinical-stage drug development company that discovers and develops novel, small-molecule drugs for the treatment of inflammatory/autoimmune, muscle and metabolic diseases. Our pioneering research focuses on intracellular signaling pathways and related targets that are critical to disease mechanisms. Our productivity has resulted in strategic collaborations with large pharmaceutical partners to develop and market our product candidates. We have product development programs in inflammatory/autoimmune diseases, including R788, an oral Syk inhibitor that is expected to enter Phase 3 clinical trials for rheumatoid arthritis, or RA, in 2010 and R343 in asthma. R788 is our lead product candidate. In February 2010, we entered into an exclusive worldwide license agreement with AstraZeneca AB (AZ) for the global development and commercialization of our oral Syk inhibitors for the treatment of human diseases other than those primarily involving respiratory or pulmonary dysfunction. The agreement includes a license of rights to R788, our late-stage investigational product candidate for the treatment of RA and other indications. We completed a comprehensive Phase 2 clinical trial of R788, which is at the most advanced stage of development of the oral Syk inhibitors being evaluated for an RA indication. Inhibiting Syk is thought to block the intracellular signaling of various immune cells implicated in the destruction of bone and cartilage, which is characteristic of RA. After a limited transition period, AZ will be responsible for conducting and funding all development, regulatory filings, manufacturing and global commercialization of products containing oral Syk inhibitors. The agreement became effective on March 26, 2010 and, in connection with the effectiveness of the agreement, we received an upfront payment of $100.0 million in April 2010 from AZ. AZ is required to pay us up to an additional $345.0 million if specified development, regulatory and launch milestones are achieved for R788. We will also be eligible to receive up to an additional $800.0 million if specified sales performance milestones are achieved for R788, as well as significant stepped double-digit royalties on net sales worldwide of R788. We believe that our existing capital resources will be sufficient to support our current and projected funding requirements through at least the next twelve months.

We have not been profitable and have incurred operating losses since we were incorporated in June 1996. We incurred net losses of approximately $22.3 million for the three months ended March 31, 2010, and $111.5 million and $132.3 million for the years ended December 31, 2009 and 2008, respectively. As of March 31, 2010, we had an accumulated deficit of approximately $635.7 million. Until we are able to generate sufficient amounts of product revenues and royalty revenues, we expect to finance future cash needs through collaboration and licensing arrangements or public and/or private equity or debt offerings, as well as through interest income earned on the investment of our cash balances and short-term investments.

Product Development Programs

Our product development portfolio features multiple novel small molecule drug candidates whose specialized mechanisms of action are intended to provide therapeutic benefit for a range of inflammatory/autoimmune diseases, as well as for certain cancers and metabolic diseases.

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Partnered Clinical Programs

R788

In February 2010, we entered into an exclusive worldwide license agreement with AZ for the global development and commercialization of our oral Syk inhibitors for the treatment of human diseases other than those primarily involving respiratory or pulmonary dysfunction. The agreement includes a license of rights to fostamatinib disodium, or R788, our late-stage investigational product candidate for the treatment of RA and other indications. We completed a comprehensive Phase 2 clinical trial of R788, which is at the most advanced stage of development of the oral Syk inhibitors being evaluated for an RA indication. Inhibiting Syk is thought to block the intracellular signaling of various immune cells implicated in the destruction of bone and cartilage, which is characteristic of RA. For further discussion on the collaboration, see AstraZeneca under Corporate Collaborations below.

The agreement became effective on March 26, 2010 and, in connection with the effectiveness of the agreement, we received an upfront payment of $100.0 million in April 2010 from AZ. AZ is required to pay us up to an additional $345.0 million if specified development, regulatory and launch milestones are achieved for R788. We will also be eligible to receive up to an additional $800.0 million if specified sales performance milestones are achieved for R788, as well as significant stepped double-digit royalties on net sales worldwide of R788. After a limited transition period, AZ will be responsible for conducting and funding all development, regulatory filings, manufacturing and global commercialization of products containing oral Syk inhibitors. We are responsible for conducting, at our expense, the on-going open label extension study in R788 during the limited transition period.

Under the agreement, AZ is expected to design a global Phase 3 clinical trial of R788 for the treatment of RA, anticipated to begin in the second half of 2010, with the goal of filing new drug applications with the U.S. Food and Drug Administration (FDA) and the European Medicines Agency (EMEA) in 2013. Under the terms of the agreement, AZ also received exclusive rights to our portfolio of oral Syk inhibitors, including for indications for R788 other than RA.

Rheumatoid Arthritis

Disease background. RA is a systemic autoimmune inflammatory disease that causes damage to the joints and other organs, affecting approximately 1 in 100 people. It is a major cause of disability and is also associated with reduced life expectancy, especially if it is not adequately treated. Despite current treatment options, many patients still experience significant disease activity, including continued joint destruction leading to pain and disability, so new treatment options are needed.

The current treatment options for RA have significant potential side effects and other shortfalls, including gastrointestinal complications and kidney damage. RA patients receive multiple drugs depending on the extent and aggressiveness of their disease. Most RA patients eventually require some form of disease modifying anti-rheumatic drug (DMARD). This category of drugs includes methotrexate, and/or a variety of intravenously- delivered immunomodulatory agents (tumor necrosis factor, or TNF, inhibitors and co-stimulation inhibitors).

Orally-available Syk inhibitor program. R788 is an orally bio-available Syk inhibitor. It is being developed as a next-generation oral RA therapy in adults who have failed to respond adequately to a traditional DMARD, such as methotrexate, where a TNF biologic add-on treatment would currently be considered. It has a novel mechanism of action for the treatment of RA, inhibiting receptor signaling of immunoglobulin G, or IgG, in various immune cells, including macrophages and B-cells. RA is an autoimmune disease characterized by chronic inflammation that affects multiple tissues, but typically produces its most pronounced symptoms in the joints. We believe the development of R788 may result in a safe oral DMARD that can be used early in the course of the disease, preventing its progression prior to major bone and cartilage destruction.

TASKi2

In July 2009, we announced that R788 produced significant clinical improvement in RA patients in the *TASKi2* Phase 2b clinical trial in which 457 RA patients were treated for up to six months. *TASKi2* was a multi- center, randomized, double blind, placebo controlled, parallel dose clinical trial involving RA patients in the U.S., Latin America and Europe who had failed to respond to methotrexate alone. Patients received either 100 mg of R788 b.i.d. (twice a day), 150 mg q.d. (once a day) or placebo.

Efficacy assessments for each participant were based on the American College of Rheumatology (ACR) criteria, which denotes at least 20% (ACR 20), at least 50% (ACR 50), or at least 70% (ACR 70) improvement, in addition to improvement denoted in the Disease Activity Score (DAS28), from each patient s baseline assessment at the end of the six month treatment period. The groups treated with 100 mg of R788 b.i.d. and 150 mg q.d. reported higher response rates than the placebo group in all aforementioned criteria levels. The efficacy results for the two dosing groups were comparable, although the response rates for the 100 mg b.i.d. group was uniformly greater.

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Consistent with the previous Phase 2a clinical trial *(TASKi1)*, the onset of effect of R788 occurred within one week after the initiation of therapy and was maintained. The most frequent adverse events were expected based on *TASKi1* and appear to be manageable. The most common clinically meaningful drug-related adverse events noted in *TASKi2* were diarrhea and hypertension. Dose reduction options were pre-specified in the trial protocol and, in cases where doses were reduced, patients generally completed the clinical trial with minimal safety issues. The mean increase in blood pressure from baseline at six months, using a last observation carry forward methodology, was less than 0.5 mmHg for the 150 mg q.d. dose group and approximately 1 mmHg for the 100mg b.i.d. dose group. In patients that had a history of high blood pressure, an elevated blood pressure level at screening or baseline, or were on blood pressure medication, approximately 29% and 39% of these patients in the 150 mg q.d. dose and the 100 mg b.i.d. dose groups, respectively, had blood pressure medication adjusted or initiated during the course of the study, compared with 12% of these patients from the placebo group. In patients that did not have a history of high blood pressure, were not on blood pressure medication or did not have an elevated blood pressure level at screening or baseline, approximately 4% and 9% of these patients from the 150 mg q.d. dose and the 100 mg b.i.d. dose groups, respectively, had blood pressure medication initiated during the course of the study, compared with 3% of these patients from the placebo group. For those patients who had their dose of blood pressure medications adjusted or initiated, their blood pressure was successfully reduced and was generally well controlled throughout the remainder of the trial. The blood pressure medications were standard doses of common blood pressure medication such as angiotensin-converting enzyme (ACE) inhibitors or diuretics.

The most common adverse events in the trial overall were related to infections, though these were generally evenly distributed among the placebo and R788 groups.

TASKi3

In July 2009, we also announced results for the *TASKi3* Phase 2b clinical trial involving 219 RA patients who had failed to respond to at least one biologic treatment. In the *TASKi3* clinical trial, patients received either 100 mg of R788 b.i.d. or placebo b.i.d. for up to three months. The group treated with R788 did not report significantly higher ACR 20, ACR 50, ACR 70 and DAS28 response rates than the placebo group at three months, and therefore, the trial failed to meet its efficacy endpoints. The objective components (C-Reactive Protein and Erythrocyte Sedimentation Rate) of these ACR scores did show a statistically significant difference; however, the subjective reported response rate components did not as compared to placebo. Although the ACR scores for the R788 group were within the expected range in this patient population, the reported placebo response rates were considerably higher than seen in any other previous study of RA biologic failure patients and rose unaccountably between week six (at which point the reported response rates between R788 and placebo were significantly different) and month three (when such reported response rates were no longer significantly different).

TASKi3 was the first clinical trial for R788 in which anatomical changes in the patients wrists and hands were evaluated using Magnetic Resonance Imaging and scored using the RAMRIS (Rheumatoid Arthritis Magnetic Resonance Imaging Scoring) system. Those results showed improvements in the treated group versus the placebo group in the Synovitis and Osteitis scores, while the Erosion scores, known to be the slowest to change, showed no significant effect at three months.

Similar to *TASKi2*, the most common clinically meaningful drug-related adverse events noted in *TASKi3* were diarrhea and hypertension. Dose reduction options were pre-specified in the trial protocol and, in cases where doses were reduced, patients generally completed the clinical trial with minimal safety issues. The mean increase in blood pressure from baseline at three months, using a last observation carry forward methodology, was 3.2 - 3.6 mmHg for the R788 group. In *TASKi3*, patients that had a history of high blood pressure, had an elevated blood pressure level at screening or baseline, or were on blood pressure medication, approximately 26% of these patients had blood pressure medication adjusted or initiated during the course of the study, compared with 14% of these patients from the placebo group. In patients that did not have a history of high blood pressure, were not on blood pressure medication or did not have an elevated blood pressure level at screening or baseline, approximately 5% of these patients had blood pressure medication initiated during the course of the study, compared with 3% of these

patients from the placebo group. For those patients who had their dose of blood pressure medications adjusted or initiated, their blood pressure was successfully reduced and was generally well controlled throughout the remainder of the trial. The blood pressure medications were standard doses of common blood pressure medications such as ACE inhibitors or diuretics.

The most common adverse events in the trial overall were related to infections, though these were generally evenly distributed among the placebo and R788 groups.

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QTc Study

In February 2009, we announced favorable results in a QTc study for R788, which was conducted to evaluate the cardiac safety of R788. The double-blind, double-dummy, randomized, positive and placebo controlled parallel study of the effects of R788 on QT/QTc intervals in healthy subjects showed that R788 does not elicit a QT/QTc signal. Under a protocol pre-reviewed by the FDA, a total of 208 healthy volunteers were divided into four dosage groups and were given either placebo, a standard dose of 100 mg b.i.d. of R788, a super dose of 300 mg b.i.d. of R788, or moxifloxacin (known to elevate QT/QTc intervals in normal healthy adults). All participants were dosed for four days and were evaluated for changes from the time-matched baseline QT/QTc intervals using extractions from continuous Holter monitors. There were no significant effects on the QT/QTc intervals of participants in either the 100 mg b.i.d. or the 300 mg b.i.d. R788 dosage groups. As expected, the study found that participants in the moxifloxacin group experienced QT/QTc elevations.

Other Indications

In addition to RA, R788 is currently being administered to patients for other immune indications and oncology. Under our collaboration with AZ, AZ has sole responsibility for all development decisions for all indications under its license except for one of the oncology studies, a solid tumor study announced in June 2009, which is funded, designed and implemented by NCI. Any decisions regarding this study are the responsibility of NCI.

R343 Asthma

Disease background. Allergic asthma is a chronic inflammatory disorder of the airways. Asthma affects the lower respiratory tract and is marked by episodic flare-ups, or attacks, that can be life threatening. In some patients, allergens, such as pollen, trigger the production of immunoglobulin E antibodies, or IgE antibodies, which then bind to mast cells and cause an intracellular signal that results in the release of various chemical mediators. When this process occurs repeatedly over time, it creates persistent inflammation of the airway passages, resulting in the chronic congestion and airway obstruction associated with allergic rhinitis and asthma, respectively.

Inhaled Syk inhibitor program. R343 is a potent Syk inhibitor that blocks IgE receptor signaling. Allergic asthma is a potentially life-threatening chronic inflammatory disorder of the airways which, in some patients, is mediated by allergen-induced IgE antibodies that trigger intracellular signaling in mast cells via IgE receptors. Mast cells play important roles in both early and late phase allergic reactions, and Syk inhibitors could potentially prevent both phases.

In the first quarter of 2005, we announced a collaborative research and license agreement with Pfizer, Inc., or Pfizer, for the development of inhaled products for the treatment of allergic asthma and other respiratory diseases, such as chronic obstructive pulmonary disease. The collaboration was focused on our pre-clinical small molecule compounds which inhibit Syk. The collaboration is now centered on the development of R343. Pfizer has completed the Phase 1a clinical trial of an inhaled formulation of R343, which commenced in December 2007, resulting in a milestone payment of $5.0 million to us. Pfizer initiated a Phase 1b allergen challenge clinical trial in the second quarter of 2009. We expect that Pfizer will initiate a Phase 2 clinical trial in late 2010 or early 2011.

R763 Oncology

We identified R763 as a lead compound in our aurora kinase inhibition program targeting cancer cell proliferation. R763 is a potent, highly-selective, small-molecule inhibitor of aurora kinase. In October 2005, we signed a licensing agreement with Merck Serono S.A., or Merck Serono, that gave Merck Serono an exclusive license to develop and commercialize inhibitors in our aurora kinase program, including R763 (which they referred to as R763/AS703569). In February 2010, Merck Serono informed us that they expect to wind down the various clinical trials and plan to return the program back to us. As a result, our collaboration with Merck Serono is no longer active. Once the program is returned, we plan to evaluate the preclinical and clinical data and make a decision on the program s disposition.

Research/Preclinical Programs

We are conducting proprietary research in three broad disease areas: inflammation/immunology, metabolism and muscle wasting. Within each disease area, our researchers are investigating mechanisms of action as well as screening compounds against potential novel targets and optimizing those leads that appear to have the greatest potential.

We are in the process of selecting lead candidates for two of our more advanced preclinical programs, both of which grew out of significant research in the area of immunology/inflammation. We are currently performing late lead profiling of a few advanced candidates in our oral JAK3 inhibitor program and expect to have one of these ready for clinical studies by the end of 2010. This program is focused on the treatment of transplant rejection, but could also extend to indications including RA and psoriasis. Additionally, we expect to select a compound for preclinical development by the end of 2010 from our protein kinase C, or PKC, theta program initially focusing on multiple sclerosis and graft vs. host disorders.

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In the area of metabolism, we are investigating adiponectin mimetics for the treatment of type 2 diabetes mellitus and other potential indications. Type 2 diabetes is the most common form of diabetes, affecting more than 23 million people in the United States. In this disease, the body either produces low amounts of insulin or does not respond to the insulin it makes. Insulin is a hormone that helps the body regulate metabolism by causing cells to take up glucose from the blood. Adiponectin is a less-well characterized hormone, which has insulin-sensitizing and anti-diabetic properties. We have identified several classes of compounds with adiponectin mimetic activity and are currently performing structure-activity relationship studies, as well as mechanism of action studies on these classes of compounds. We expect to nominate a lead development candidate in 2011.

In the muscle atrophy program, we are focusing on several signaling pathways important for muscle homeostasis. Muscle atrophy, or the loss of muscle mass, is associated with several disease states and excessive loss of muscle in the context of illness can contribute significantly to both morbidity and mortality rates. Many conditions that have associated muscle loss, including cancer, chronic heart failure, chronic kidney disease, mechanical ventilation and aging (sarcopenia) have significant patient populations that may benefit from therapeutics that counter such muscle loss. One of our core programs in this area is focused on myostatin signaling. Myostatin is a cytokine that signals via the type II activin receptors (ACVR2A and ACVR2B) and has been shown to inhibit muscle growth. We are currently performing structure activity relationship studies on several hit molecules from initial ACVR2A/2B screens, and are developing new screens and models for this program. We expect to nominate a lead development candidate in 2011.

Corporate Collaborations

We conduct research and development programs independently and in connection with our corporate collaborators. We currently have the following active collaborations with