RIGEL PHARMACEUTICALS INC
Form 10-Q
August 05, 2014
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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 JUNE 30, 2014

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 x 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 July 30, 2014, there were 87,792,740 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 JUNE 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RIGEL PHARMACEUTICALS, INC.

CONDENSED BALANCE SHEETS

(In thousands)

	June 30, 2014 (unaudited)	December 31, 2013(1)
Assets		
Current assets:		
Cash and cash equivalents	$ 23,882	$ 20,854
Available-for-sale securities	152,148	191,121
Accounts receivable		5,750
Prepaid and other current assets	1,510	2,350
Total current assets	177,540	220,075
Property and equipment, net	3,430	4,455
Other assets	1,461	1,528
	$ 182,431	$ 226,058
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,896	$ 3,903
Accrued compensation	3,172	2,849
Accrued research and development	2,770	1,588
Other accrued liabilities	731	746
Deferred rent, current portion	1,496	1,208
Total current liabilities	10,065	10,294
Long-term portion of deferred rent	6,570	7,439
Other long-term liabilities	63	74
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	88	88
Additional paid-in capital	1,062,571	1,057,390
Accumulated other comprehensive income	42	47
Accumulated deficit	(896,968)	(849,274)
Total stockholders equity	165,733	208,251
	$ 182,431	$ 226,058

(1) The balance sheet at December 31, 2013 has been derived from the audited financial statements included in Rigel s Annual Report on Form 10-K for the year ended December 31, 2013.

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Contract revenues from collaborations	$	$ 1,400	$	$ 1,400
Costs and expenses:				
Research and development	20,063	19,393	36,932	39,708
General and administrative	5,393	4,892	10,909	10,287
Total costs and expenses	25,456	24,285	47,841	49,995
Loss from operations	(25,456)	(22,885)	(47,841)	(48,595)
Interest income	65	117	147	253
Net loss	$ (25,391)	$ (22,768)	$ (47,694)	$ (48,342)
Net loss per share, basic and diluted	$ (0.29)	$ (0.26)	$ (0.54)	$ (0.55)
Weighted average shares used in computing net loss per share, basic and diluted	87,532	87,147	87,529	87,144

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$ (25,391)	$ (22,768)	$ (47,694)	$ (48,342)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities	4	(61)	(5)	(65)
Comprehensive loss	$ (25,387)	$ (22,829)	$ (47,699)	$ (48,407)

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended June 30,	
	2014	**2013**
Operating activities		
Net loss	$ (47,694)	$ (48,342)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,278	1,297
Stock-based compensation expense	4,496	3,540
Changes in assets and liabilities:		
Accounts receivable	5,750	
Prepaid and other current assets	840	1,282
Other assets	67	115
Accounts payable	(2,007)	424
Accrued compensation	323	(4,072)
Accrued research and development	1,182	(103)
Other accrued liabilities	(15)	(252)
Deferred rent and other long term liabilities	(592)	(321)
Net cash used in operating activities	(36,372)	(46,432)
Investing activities		
Purchases of available-for-sale securities	(125,057)	(209,436)
Maturities of available-for-sale securities	164,025	227,876
Sales of available-for-sale securities		16,479
Capital expenditures	(253)	(925)
Net cash provided by investing activities	38,715	33,994
Financing activities		
Net proceeds from issuances of common stock	685	822
Net cash provided by financing activities	685	822
Net increase (decrease) in cash and cash equivalents	3,028	(11,616)
Cash and cash equivalents at beginning of period	20,854	33,484
Cash and cash equivalents at end of period	$ 23,882	$ 21,868

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 and autoimmune diseases, as well as muscle disorders.

2. Basis of Presentation

Our accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Act of 1933, as amended (Securities Act). 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 only 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 or any subsequent interim period. The balance sheet at December 31, 2013 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, 2013.

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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09 *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements under Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance under the ASC. The core principle of the ASU No. 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity

expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 also requires additional disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU No. 2014-09 will be effective fiscal years beginning after December 15, 2016 and early adoption is not permitted. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. We are currently evaluating the transition method that will be elected and the potential impact of the adoption of ASU No. 2014-09 on our financial statements and cannot estimate the impact of adoption at this time.

4. Stock Award Plans

We have three stock option plans, our 2011 Equity Incentive Plan (2011 Plan), 2000 Equity Incentive Plan (2000 Plan) and 2000 Non-Employee Directors Stock Option Plan (Directors Plan), that provide for granting to our officers, directors and all other employees and consultants options to purchase shares of our common stock. We also have our Employee Stock Purchase Plan (Purchase Plan), where 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. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model which considered our stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, volatility, expected term, risk-free interest rate and dividends. We estimate volatility over the expected term of the option using historical share price performance. For expected term, we take into consideration our historical data of options exercised, cancelled and expired. The risk-free rate is based on

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the U.S. Treasury constant maturity rate. We have not paid and do not expect to pay dividends in the foreseeable future. In order to calculate stock- based compensation expense, we also estimate the forfeiture rate using our historical experience with options that cancel before they vest. We review our forfeiture rates each quarter and make any necessary changes to our estimates. We use the straight-line attribution method over the requisite employee service period for the entire award in recognizing stock-based compensation expense. In the first quarter of 2014, we granted certain performance-based stock options to purchase shares of our common stock which will vest upon the achievement of certain performance-based conditions. For the portion of the performance-based stock options of which the performance condition is considered probable of achievement, we recognized stock-based compensation expense on the related estimated fair value of such options on straight-line basis from the date of grant up to the date when we expect the performance condition will be probably achieved. For the performance conditions that are not considered probable of achievement at the grant date or upon quarterly evaluation period, prior to the event actually occurring, we will recognize the related stock-based compensation expense when the event occurs or when we can determine that the performance condition is probable of achievement. In those cases, we will recognize the change in estimate at the time we determine the condition is probable of achievement (by recognizing stock-based compensation expense as cumulative catch-up as if we had estimated at the grant date that the performance condition will be achieved) and recognize the remaining compensation cost up to the date when we expect the performance condition will be probably achieved, if any.

5. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period and the number of additional shares of common stock that would have been outstanding if potentially dilutive securities had been issued. Potentially dilutive securities include a warrant to purchase our common shares and stock options and shares issuable under our stock award plans. The dilutive effect of these potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock can result in a greater dilutive effect from potentially dilutive securities.

During the periods presented, we had securities which could potentially dilute basic loss per share, but were excluded from the computation of diluted net loss per share, as their effect would have been antidilutive. These securities consist of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Outstanding options	17,417	15,681	17,417	15,681
Warrant	200	200	200	200
Purchase Plan	199	235	131	153
	17,816	16,116	17,748	16,034

6. Stock-based Compensation

Total stock-based compensation expense related to all of our share-based payments that we recognized for the three and six months ended June 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Research and development	$ 1,189	$ 1,002	$ 2,503	$ 2,025
General and administrative	943	745	1,993	1,515
Total stock-based compensation expense	$ 2,132	$ 1,747	$ 4,496	$ 3,540

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 the following three homogenous groups for the purposes of determining fair values of options: officers and directors, all other employees, and consultants.

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

- Volatility We estimated volatility using our historical share price performance over the expected life of the option. 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 generally ten years, for the initial valuation of the option and the remaining contractual term of the option for the succeeding periods. We analyzed 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 non-vested 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.

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

Pursuant to FASB ASC 718, we are required to estimate the amount of expected forfeitures when calculating compensation costs. We estimated the forfeiture rate using our historical experience with non-vested options. We adjust our stock-based compensation expense as actual forfeitures occur, review our estimated forfeiture rates each quarter and make changes to our estimate as appropriate.

The following table summarizes the weighted-average assumptions relating to options granted pursuant to our equity incentive plans for the three and six months ended June 30, 2014 and 2013:

	Equity Incentive Plans Three Months Ended June 30,		Equity Incentive Plans Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rate	2.2%	0.9%	2.1%	0.8%
Expected term (in years)	6.7	6.0	6.5	5.5
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	76.9%	83.8%	75.3%	73.9%

The exercise price of stock options is at the market price of our common stock on the date immediately preceding the date of grant. Options become exercisable at varying dates and generally expire 10 years from the date of grant. We granted options to purchase 3,397,275 shares of common stock during the six months ended June 30, 2014, with a grant-date weighted-average fair value of $2.35 per share. Of the 3,397,275 common stock options granted, 950,000 shares were related to performance-based stock option awards which will vest upon the achievement of certain corporate performance-based milestones related to the progress and success of the Phase 3 clinical program of fostamatinib in immune thrombocytopenic purpura (ITP). We granted options to purchase 2,109,941 shares of common stock during the six months ended June 30, 2013, with a grant-date weighted-average fair value of $4.00 per share. As of June 30, 2014, there was approximately $10.5 million of total unrecognized stock-based compensation cost, net of estimated forfeitures, related to unvested options granted under our equity incentive plans. At June 30, 2014, there were 7,151,106 shares of common stock available for future grant under our equity incentive plans and 9,426 options to purchase shares were exercised during the six months ended June 30, 2014.

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Employee Stock Purchase Plan

The fair value of awards granted under our Purchase Plan is estimated on the date of grant using the Black-Scholes option pricing model, which uses weighted- average assumptions. Our Purchase Plan 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 Purchase Plan 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 Purchase Plan 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, 2014 because the fair market value of our stock on December 31, 2013 was lower than the fair market value of our stock on July 1, 2013, 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 Purchase Plan reset and will recognize the related stock-based compensation expense according to FASB ASC Subtopic No. 718-50, *Employee Share Purchase Plan*. The total incremental fair value for this Purchase Plan reset was approximately $577,000, and is being recognized from January 2, 2014 to December 31, 2015.

As of June 30, 2014, there were approximately 3,826,858 shares reserved for future issuance under the Purchase Plan. The following table summarizes the weighted-average assumptions related to our Purchase Plan for the six months ended June 30, 2014 and 2013. Expected volatilities for our Purchase Plan 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 Six Months Ended June 30,	
	2014	**2013**
Risk-free interest rate	0.3%	0.2%
Expected term (in years)	1.7	1.4
Dividend yield	0.0%	0.0%
Expected volatility	66.0%	58.0%

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. 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 for us by third parties are expensed at the time of purchase.

8. Corporate Collaborations

We have several active collaborations, none of which that we currently consider significant. Under these collaborations, which we enter into in the ordinary course of business, we received or may be entitled to receive upfront cash payments, progress-dependent contingent payments on events achieved by such partners and royalties on any net sales of products sold by such partners under the agreements. Total future contingent payments to us under all of these current collaborations could exceed $152.3 million if all potential product candidates achieved all of the payment triggering events under all of our current collaborations (based on a single product candidate under each agreement). Of this amount, up to $61.2 million relates to the achievement of development events, up to $53.6 million relates to the achievement of regulatory events and up to $37.5 million relates to the achievement of certain commercial or launch events. This estimated future contingent amount does not include any estimated royalties that could be due to us if any of these partners successfully commercialize the licensed products. Future events that may trigger payments to us under the agreements are based solely on our partners future efforts and achievements of specified development, regulatory or commercial events.

Since we do not control the research, development or commercialization of the product candidates generated under these collaborations, we are not able to reasonably estimate when, if at all, any contingent payments would become payable to us. As such, the contingent payments we could receive thereunder involve a substantial degree of risk to achieve and may never be received. Accordingly, we do not expect, and investors should not assume, that we will receive all or any portion of the potential contingent payments provided for under these collaborations and it is possible that we may never receive any additional significant contingent payments or royalties under these collaborations.

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In June 2012, we entered into an exclusive worldwide license agreement with AstraZeneca AB (AZ) for the development and commercialization of our program, R256, an inhaled janus kinase (JAK) inhibitor shown to inhibit interleukin (IL)-13 and IL-4 signaling, which is being investigated as a treatment for moderate to severe chronic asthma. AZ is responsible for beginning the first-in- human clinical studies for R256, and for designing and conducting the clinical development of the compound. AZ also has exclusive rights to commercialize R256 around the world. AZ paid us an upfront payment of $1.0 million in July 2012. Under the agreement, we were obligated to provide the following deliverables: (i) granting a license of rights to our program, and (ii) delivery of a small batch of compound to AZ. We concluded that these deliverables should be accounted for as separate units of accounting. As our obligations with respect to the deliverables were achieved by June 30, 2012, we recognized revenue of $1.0 million in the second quarter of 2012. On December 31, 2013, we earned revenue associated with the time-based non-refundable payment of $5.8 million from AZ in consideration for AZ s decision to continue its development of R256 in asthma.

In June 2011, we entered into an exclusive license agreement with BerGenBio AS (BerGenBio) for the development and commercialization of an oncology program, which is currently in Phase 1 development. BerGenBio is responsible for all activities it wishes to perform under the license we granted to it. In July 2012, we received a time-based payment of $500,000 from BerGenBio due to us on June 29, 2012, pursuant to the terms of the agreement. We recognized the payment as revenue in the second quarter of 2012.

In August 2002, we entered into a collaboration agreement with Daiichi Sankyo (Daiichi) to pursue research related to a specific target from a novel class of drug targets called ligases that control cancer cell proliferation through protein degradation, which is currently in Phase 1 development. In April 2013, we received a $1.4 million payment from Daiichi related to Daiichi s filing of an investigational new drug (IND) for an oncology compound. In January 2012, we received a $750,000 payment from Daiichi. To date, we have earned payments under this arrangement totaling $7.9 million. The research phase of this three-year collaboration expired in August 2005. Under the terms of the collaboration agreement, we retain the rights to co-develop and co- promote certain products resulting from this collaboration in North America, while Daiichi retains co-development and promotion rights in the remainder of the world.

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

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

	June 30, 2014	December 31, 2013
Checking account	$ 401	$ 195
Money market funds	12,482	9,059
U. S. treasury bills	2,049	2,085
Government-sponsored enterprise securities	57,510	67,178
Corporate bonds and commercial paper	103,588	133,458
	$ 176,030	$ 211,975
Reported as:		
Cash and cash equivalents	$ 23,882	$ 20,854
Available-for-sale securities	152,148	191,121
	$ 176,030	$ 211,975

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

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. treasury bills	$ 2,047	$ 2	$	$ 2,049
Government-sponsored enterprise securities	57,496	22	(8)	57,510
Corporate bonds and commercial paper	103,562	30	(4)	103,588
Total	$ 163,105	$ 54	$ (12)	$ 163,147

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. treasury bills	$ 2,083	$ 2	$	$ 2,085
Government-sponsored enterprise securities	67,160	29	(11)	67,178
Corporate bonds and commercial paper	133,431	33	(6)	133,458
Total	$ 202,674	$ 64	$ (17)	$ 202,721

As of June 30, 2014, 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 Two Years
U. S. treasury bills	$ 2,049	$
Government-sponsored enterprise securities	32,009	25,501
Corporate bonds and commercial paper	90,784	12,804
Total	$ 124,842	$ 38,305

As of June 30, 2014, our cash equivalents and available-for-sale securities had a weighted-average time to maturity of approximately 214 days. We view our available-for-sale portfolio as available for use in current operations. Accordingly, we have classified certain investments as available-for-sale securities on our balance sheet even though the stated maturity date of these securities may be more than one year from the current balance sheet date. We have the ability to hold all investments as of June 30, 2014 through their respective maturity dates. At June 30, 2014, we had no investments that had been in a continuous unrealized loss position for more than twelve months. As of June 30, 2014, a total of 19 individual securities had been in an unrealized loss position for twelve months or less and the losses were determined to be temporary. The gross unrealized losses above were caused by interest rate increases. No significant facts or circumstances have arisen to indicate that there has been any deterioration in the creditworthiness of the issuers of the securities held by us. Based on our review of these securities, including the assessment of the duration and severity of the unrealized losses and our ability and intent to hold the investments until maturity, there were no other-than-temporary impairments for these securities at June 30, 2014.

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):

	Unrealized

June 30, 2014	Fair Value	Losses
Government-sponsored enterprise securities	$ 14,045	$ (8)
Corporate bonds and commercial paper	22,377	(4)
Total	$ 36,422	$ (12)

10. 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.

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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. We utilize third party pricing services in developing fair value measurements 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. We use quotes from external pricing service providers and other on-line quotation systems to verify the fair value of investments provided by our third party pricing service providers. We review independent auditor s reports from our third party pricing service providers particularly regarding the controls over pricing and valuation of financial instruments and ensure that our internal controls address certain control deficiencies, if any, and complementary user entity controls are in place.

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.

We do not have fair valued assets classified under Level 3.

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 June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**

Money market funds	$ 12,482	$	$	$ 12,482
U. S. treasury bills		2,049		2,049
Government-sponsored enterprise securities		57,510		57,510
Corporate bonds and commercial paper		103,588		103,588
Total	$ 12,482	$ 163,147	$	$ 175,629

	Assets at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 9,059	$	$	$ 9,059
U. S. treasury bills		2,085		2,085
Government-sponsored enterprise securities		67,178		67,178
Corporate bonds and commercial paper		133,458		133,458
Total	$ 9,059	$ 202,721	$	$ 211,780

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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, 2013. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of results that may occur in future interim periods or for the full fiscal year.

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, and Section 21E of the Exchange Act, 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 and our collaborators product development programs, including clinical testing, and the timing of results thereof; the potential impact of our cost reduction plans and reduction in workforce, our corporate collaborations and revenues that may be received from our collaborations and the timing of those potential payments; our expectations with respect to regulatory submissions and approvals; our drug discovery technologies; our research and development expenses; protection of our intellectual property; sufficiency of our cash and capital resources and the need for additional capital; 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 and autoimmune diseases, as well as muscle disorders. Our pioneering research focuses on intracellular signaling pathways and related targets that are critical to disease mechanisms. We currently have five product candidates in development: fostamatinib, an oral spleen tyrosine kinase (SYK) inhibitor in a Phase 3 clinical program for ITP and expected to enter into a Phase 2 clinical trial for IgA nephropathy (IgAN) in the second half of 2014; R348, a topical JAK/SYK inhibitor currently in Phase 2 clinical trials for dry eye; R118, an adenosine monophosphate (AMP)-activated protein kinase (AMPK) activator in Phase 1 development; and two oncology product candidates in Phase 1 development with partners BerGenBio and Daiichi.

Since inception, we have financed our operations primarily through the sale of equity securities, contract payments under our collaboration agreements and equipment financing arrangements. Our research and development activities, including preclinical studies and clinical trials, consume substantial amounts of capital. As of June 30, 2014, we had approximately $176.0 million in cash, cash equivalents and available-for-sale securities. We believe that our existing capital resources will be sufficient to support our current and projected funding requirements through the second quarter of 2016. Unless and until we are able to generate a sufficient amount of product, royalty or milestone revenue, we expect to finance future cash needs through public and/or private offerings of equity securities, debt financings or collaboration and licensing arrangements, and to a much lesser extent through interest income earned on the investment of our cash balances and short-term investments. With the exception of contingent and royalty payments that we may receive under our existing collaborations, we do not currently

have any commitments for future funding.

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 and autoimmune diseases, as well as muscle disorders.

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Clinical Stage Programs

Fostamatinib Immune Thrombocytopenic Purpura

Disease background. Chronic ITP affects an estimated 60,000 to 125,000 people in the US. In patients with ITP, the immune system attacks and destroys the body s own blood platelets, which play an active role in blood clotting and healing. ITP patients can suffer extraordinary bruising, bleeding and fatigue as a result of low platelet counts. Current therapies for ITP include steroids, blood platelet production boosters that imitate thrombopoietin (TPOs) and splenectomy. We believe that fostamatinib is the only potential therapy that may address the autoimmune basis of the disease.

Orally-available SYK inhibitor program. Taken in tablet form, fostamatinib blocks the activation of SYK inside immune cells. ITP causes the body to produce antibodies that attach to healthy platelets in the blood stream. Immune cells recognize these antibodies and affix to them, which activates the SYK enzyme inside the immune cell, and triggers the destruction of the antibody and the attached platelet. When SYK is inhibited by fostamatinib, it interrupts this immune cell function and allows the platelets to escape destruction. The results of our Phase 2 clinical study, in which fostamatinib was orally administered to sixteen adults with chronic ITP, published in *Blood (2009, volume 113, number 14)*, showed that fostamatinib significantly increased the platelet counts of certain ITP patients, including those who had failed other currently available agents.

In October 2013, we met with the U.S. Food and Drug Administration (FDA) for an end-of-Phase 2 meeting for fostamatinib in ITP. Based on that meeting, we designed a Phase 3 clinical program in which a total of 150 ITP patients will be randomized into two identical multi-center, double-blind, placebo-controlled clinical studies. The patients will have been diagnosed with persistent or chronic ITP, and have blood platelet counts consistently below 30,000 per microliter of blood. Two-thirds of the subjects will receive fostamatinib orally at 100 mg bid (twice daily) and the other third will receive placebo on the same schedule. Subjects are expected to remain on treatment for 24 weeks. At week four of treatment, subjects who meet certain platelet count and tolerability thresholds will have their dosage of fostamatinib (or corresponding placebo) increased to 150 mg bid. The primary efficacy endpoint of this program is a stable platelet response by week 24 with platelet counts at or above 50,000 per microliter of blood for at least four of the final six qualifying blood draws. We initiated our Phase 3 clinical program in July 2014 and expect top-line data by the end of 2015.

Fostamatinib IgAN

Disease background. IgAN is an autoimmune disease that severely affects the functioning of the kidneys. An estimated 12,000 Americans are diagnosed with this type of glomerulonephritis each year, with 25% of its victims eventually requiring dialysis and/or kidney transplantation over time. IgAN is characterized by the deposition of IgA immune complexes in the glomeruli of the kidneys leading to an inflammatory response and subsequent tissue damage that ultimately disrupts the normal filtering function of the kidneys. By inhibiting SYK in kidney cells, fostamatinib may block the signaling of IgA immune complex receptors and arrest or slow destruction of the glomeruli. We expect to enter a Phase 2 trial of fostamatinib in patients with IgAN in the second half of 2014.

R348 Keratoconjunctivitis Sicca

Disease background. Chronic dry eye, or keratoconjunctivitis sicca, is an inflammatory disease that often affects the lacrimal (tear producing) glands of the eye. Over five million Americans suffer with this disorder, and many patients with chronic dry eye may also suffer with autoimmune conditions, including systemic lupus erythematosus and rheumatoid arthritis. Chronic dry eye is an irritating and painful disease that may be destructive to the cornea if not well controlled.

Topical Ophthalmic JAK/SYK inhibitor program. Since both JAK and SYK are important components in the body s immune and inflammatory responses, R348 s combined JAK/SYK inhibition is expected to offer relief directly to the eye. A completed Phase 1 study of R348 in patients with dry eye disease showed that the drug candidate is well tolerated. In July 2013, we initiated a Phase 2 study, called DROPS (Dry eye Rigel Ophthalmic Phase 2 Study). This multi-center, randomized, double-masked study, evaluates two doses of R348 versus placebo administered twice a day over a three-month period in approximately 210 patients with dry eye disease. The efficacy endpoints will include change from baseline in corneal staining, tear production and dry eye symptom scores. Results of this Phase 2 study are expected this month.

R348 Dry Eye in Patients with Ocular Graft-Versus-Host Disease (GvHD)

Disease background. According to an article published by the American Academy of Ophthalmology, a significant number (22% to 80%) of patients with acute or chronic GvHD develop a secondary incidence of dry eye (keratoconjunctivitis sicca). In general, these patients are severely ill and have a great medical need for a topical therapy that may better manage their symptoms.

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Topical Ophthalmic JAK/SYK inhibitor program. We have initiated a Phase 2 trial of R348 in patients with dry eye as a result of primary GvHD in the second quarter of 2014.

R118 Intermittent Claudication

Disease background. Intermittent claudication (IC) refers to the muscle pain associated with peripheral artery disease (PAD) caused by either atherosclerosis or inflammation. Patients with IC have difficulty with simple activities, like walking, and current therapies do not provide sufficient relief. IC affects more than 5% of the population age 50 or older, but anyone with PAD may also suffer the effects of IC.

AMPK activator program. Preclinical evaluation of R118, an AMPK activator, has shown it to be a central regulator of lipid and metabolic activity and capable of increasing muscle endurance. We have performed extensive research profiling R118 in a novel murine model designed to mimic the physiological conditions of people with chronic PAD. Various measurements were taken to record both the cellular-level functionality of R118 in the muscles vasculature and the exercise performance of the group receiving R118 treatments compared to the untreated, or those treated with a positive control. In the study, the group treated with R118 showed functional performance benefits, including the ability to run faster and longer, as well as notable improvements in cellular energy efficiencies and small blood vessel perfusion.

In March 2014, we announced that the American Journal of Physiology has published recent research results with its orally-bioavailable AMPK activator, R118. The publication, entitled *Exercise performance and peripheral vascular insufficiency improve with AMPK activation* indicates that R118 may be useful in treating PAD, a chronic and progressive vascular disease effecting nearly 5% of the population over the age of 50, and related metabolic disorders. We also announced that we commenced Phase 1 clinical studies with R118 as a potential treatment for IC.

Research/Preclinical Programs

We are conducting proprietary research in the broad disease areas of inflammation/immunology and muscle wasting/muscle endurance. 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 have active small molecule discovery programs in muscle wasting. Excessive loss of muscle in the context of illness can contribute significantly to both morbidity and mortality rates. Many conditions that have been associated with muscle atrophy, or the loss of muscle mass, 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.

In the area of muscle atrophy and muscle endurance, we are focusing on several signaling pathways that are important for muscle homeostasis. Patients with chronic illnesses such as chronic heart failure, chronic obstructive pulmonary disease (COPD), or diabetes, often experience a decrease in strength and increase in fatigue due to muscle myopathy.

Corporate Collaborations

We have several active collaborations, none of which that we currently consider significant. Under these collaborations, which we enter into in the ordinary course of business, we received or may be entitled to receive upfront cash payments, progress-dependent contingent payments on events achieved by such partners and royalties on any net sales of products sold by such partners under the agreements. Total future contingent payments to us under all of these current collaborations could exceed $152.3 million if all potential product candidates achieved all of the payment triggering events under all of our current collaborations (based on a single product candidate under each agreement). Of this amount, up to $61.2 million relates to the achievement of development events, up to $53.6 million relates to the achievement of regulatory events and up to $37.5 million relates to the achievement of certain commercial or launch events. This estimated future contingent amount does not include any estimated royalties that could be due to us if any of these partners successfully commercialize the licensed products. Future events that may trigger payments to us under the agreements are based solely on our partners future efforts and achievements of specified development, regulatory or commercial events.

Since we do not control the research, development or commercialization of the product candidates generated under these collaborations, we are not able to reasonably estimate when, if at all, any contingent payments would become payable to us. As such, the contingent payments we could receive thereunder involve a substantial degree of risk to achieve and may never be received. Accordingly, we do not expect, and investors should not assume, that we will receive all or any portion of the potential contingent payments provided for under these collaborations and it is possible that we may never receive any additional significant contingent payments or royalties under these collaborations.

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In June 2012, we entered into an exclusive worldwide license agreement with AZ for the development and commercialization of our program, R256, an inhaled JAK inhibitor shown to inhibit IL-13 and IL-4 signaling, which is being investigated as a treatment for moderate to severe chronic asthma. AZ is responsible for beginning the first-in-human clinical studies for R256, and for designing and conducting the clinical development of the compound. AZ also has exclusive rights to commercialize R256 around the world. AZ paid us an upfront payment of $1.0 million in July 2012. Under the agreement, we were obligated to provide the following deliverables: (i) granting a license of rights to our program, and (ii) delivery of a small batch of compound to AZ. We concluded that these deliverables should be accounted for as separate units of accounting. As our obligations with respect to the deliverables were achieved by June 30, 2012, we recognized revenue of $1.0 million in the second quarter of 2012. On December 31, 2013, we earned revenue associated with the time-based non-refundable payment of $5.8 million from AZ in consideration for AZ s decision to continue its development of R256 in asthma.

In June 2011, we entered into an exclusive license agreement with BerGenBio for the development and commercialization of an oncology program, which is currently in Phase 1 development. BerGenBio is responsible for all activities it wishes to perform under the license we granted to it. In July 2012, we received a time-based payment of $500,000 from BerGenBio due to us on June 29, 2012, pursuant to the terms of the agreement. We recognized the payment as revenue in the second quarter of 2012.

In August 2002, we entered into a collaboration agreement with Daiichi to pursue research related to a specific target from a novel class of drug targets called ligases that control cancer cell proliferation through protein degradation which is currently in Phase 1 development. In April 2013, we received a $1.4 million non-refundable payment from Daiichi related to Daiichi s filing of an IND for an oncology compound. In January 2012, we received a $750,000 payment from Daiichi. To date, we have earned payments under this arrangement totaling $7.9 million. The research phase of this three-year collaboration expired in August 2005. Under the terms of the collaboration agreement, we retain the rights to co-develop and co-promote certain products resulting from this collaboration in North America, while Daiichi retains co-development and promotion rights in the remainder of the world.

Research and Development Expenses

Our research and development expenditures include costs related to preclinical studies and clinical trials, scientific personnel, supplies, equipment, consultants, sponsored research, stock-based compensation, and allocated facility costs.

We do not track fully-burdened research and development costs separately for each of our drug candidates. We review our research and development expense by focusing on three categories: research, development and other. Our research team is focused on creating a portfolio of product candidates that can be developed into small-molecule therapeutics in our own proprietary programs or with potential collaborative partners and utilizes our robust discovery engine to rapidly discover and validate new product candidates in our focused range of therapeutic indications. Research expenses relate primarily to personnel expenses, lab supplies, fees to third party research consultants and compounds. Our development group leads the implementation of our clinical and regulatory strategies and prioritizes disease indications in which our compounds may be studied in clinical trials. Development expenses relate primarily to clinical trials, personnel expenses, lab supplies and fees to third party research consultants. Other expenses primarily consist of allocated facilities costs and allocated stock-based compensation expense relating to personnel in research and development groups.

In addition to reviewing the three categories of research and development expense described in the preceding paragraph, we principally consider qualitative factors in making decisions regarding our research and development programs, which include enrollment in clinical trials and the results thereof, the clinical and commercial potential for our drug candidates and competitive dynamics. We also make our research and development decisions in the context of our overall business strategy, which includes the evaluation of potential collaborations for the

development of our drug candidates.

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The following table presents our total research and development expense by category.

	Three Months Ended June 30,		Six Months Ended June 30,		From January 1, 2007 to June 30, 2014
	2014	2013	2014	2013	
Categories:					
Research	$ 4,964	$ 6,171	$ 9,757	$ 12,806	$ 165,964
Development	9,713	7,860	16,209	16,173	245,776
Other	5,386	5,362	10,966	10,729	183,817
	$ 20,063	$ 19,393	$ 36,932	$ 39,708	$ 595,557

* We started tracking research and development expense by category on January 1, 2007.

Other expenses mainly represent allocated facilities costs of approximately $4.2 million and $4.4 million for the three months ended June 30, 2014 and 2013, respectively, and allocated stock-based compensation expenses of approximately $1.2 million and $1.0 million for the three months ended June 30, 2014 and 2013, respectively. For the six months ended June 30, 2014 and 2013, allocated facilities costs were approximately $8.5 million and $8.7 million, respectively, and allocated stock-based compensation expenses were approximately $2.5 million and $2.0 million, respectively.

For the three and six months ended June 30, 2014, a major portion of our total research and development expense was associated with the research and development expense for our SYK inhibitor program for ITP, as well as our topical ophthalmic JAK/SYK inhibitor program for dry eye disease, allocated facilities costs and salaries of our research and development personnel. For the three and six months ended June 30, 2013, a major portion of our total research and development expense was associated with the salaries of our research and development personnel, research and development expense for our asthma program, topical ophthalmic JAK/SYK inhibitor program, and our topical JAK/SYK inhibitor program, and allocated facilities costs.

The scope and magnitude of future research and development expense are difficult to predict given the number of clinical trials that we will need to conduct for any of our potential products, as well as our limited capital resources. Preclinical testing and clinical development are long, expensive and uncertain processes. In general, biopharmaceutical development involves a series of steps, beginning with identification of a potential target and including, among others, proof of concept in animals and Phase 1, 2 and 3 clinical trials in humans. Each of these steps is typically more expensive than the previous step, meaning that success in early stages of development often results in increasing expenditures for a given product candidate. Significant delays in clinical testing could materially impact our product development costs and timing of completion of the clinical trials. We do not know whether planned clinical trials will begin on time, will need to be halted or revamped or will be completed on schedule, or at all. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a trial, delays from scale up, delays in reaching agreement on acceptable clinical trial agreement terms with prospective clinical sites, delays in obtaining institutional review board approval to conduct a clinical trial at a prospective clinical site or delays in recruiting subjects to participate in a clinical study.

We currently do not have reliable estimates of total costs for a particular drug candidate to reach the market. Our potential products are subject to a lengthy and uncertain regulatory process that may involve unanticipated additional clinical trials and may not result in receipt of the necessary regulatory approvals. Failure to receive the necessary regulatory approvals would prevent us from commercializing the product candidates affected. In addition, clinical trials of our potential products may fail to demonstrate safety and efficacy, which could prevent or

significantly delay regulatory approval. We do not have a reasonable basis to determine when or if material net cash inflows from the commercialization and sale of our drug candidates will occur. Commercialization of our product candidates depends upon successful completion of extensive preclinical studies and clinical trials to demonstrate their safety and efficacy for humans. We do not know whether we, or any of our current or potential future collaborative partners, will undertake clinical trials of potential products beyond the trials already concluded and the trials currently in process. It will take us, or our current or potential future collaborative partners, several years to complete any such testing, and failure can occur at any stage of testing. Interim results of trials do not necessarily predict final results, and acceptable results in early trials may not be repeated in later trials. Moreover, we or our current or potential future collaborative partners may decide to discontinue development of any project at any time for regulatory, commercial, scientific or other reasons. To date, we have not commercialized any of our drug candidates, and we may never do so.

For a discussion of the risks and uncertainties associated with the timing and costs of completing the development of our drug candidates, see Part I. Item 1A. Risk Factors, including in particular the following risks:

- We will need additional capital in the future to sufficiently fund our operations and research.

- We might not be able to commercialize our product candidates successfully if problems arise in the clinical testing and approval process.

- There is a high risk that drug discovery and development efforts might not successfully generate good product candidates.

- Delays in clinical testing could result in increased costs to us.

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