UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002.

OR

☐ **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.)
240 East Grand Avenue **South San Francisco, CA** (Address of principal executive offices)	**94080** (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 ☒ No ☐

As of May 1, 2002, there were 45,314,663 shares of the Registrant's common stock outstanding.

RIGEL PHARMACEUTICALS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

RIGEL PHARMACEUTICALS, INC.
CONDENSED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2002 (unaudited)	**December 31, 2001** (Note 1)

Assets		
Current assets:		
Cash and cash equivalents	$ 29,473	$ 11,488
Available-for-sale securities	28,062	21,927
Accounts receivable	2,529	1,153
Prepaid expenses and other current assets	3,602	1,965
Total current assets	63,666	36,533
Property and equipment, net	8,913	8,440
Other assets.	1,580	1,475
	$ 74,159	$ 46,448
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,283	$ 1,952
Accrued compensation	1,020	671
Accrued liabilities	2,648	1,104
Deferred revenue	4,425	3,264
Capital lease obligations	3,292	3,171
Total current liabilities	15,668	10,162
Capital lease obligations	3,752	4,243
Long-term portion of deferred revenue	1,867	2,240
Other long-term liabilities	647	862
Commitments		
Stockholders' equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized; 45,301,163 and 37,732,209 shares issued and outstanding on March 31, 2002 and December 31, 2001, respectively	45	38
Additional paid-in capital	140,293	109,095
Deferred stock compensation	(1,935)	(2,452)
Accumulated other comprehensive (loss) income	(22)	44
Accumulated deficit	(86,156)	(77,784)
Total stockholders' equity	52,225	28,941
	$ 74,159	$ 46,448

Note (1)The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date included in the Company's Form 10-K for the fiscal year ended December 31, 2001.

See accompanying notes.

RIGEL PHARMACEUTICALS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2002	**2001**
	(unaudited)	
Revenues:		
Contract revenues from collaborations	$ 4,098	$ 3,194
Costs and expenses:		
Research and development	10,091	5,977
General and administrative	2,444	1,961
	12,535	7,938
Loss from operations	(8,437)	(4,744)
Interest income	294	699
Interest expense	(229)	(115)
Net loss	$ (8,372)	$ (4,160)
Net loss per share, basic and diluted.	$ (0.19)	$ (0.11)
Weighted average shares used in computing net loss per common share, basic and diluted.	43,312	36,901

See accompanying notes.

RIGEL PHARMACEUTICALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31,	
	2002	**2001**
	(unaudited)	

Operating activities:		
Net loss	$ (8,372)	$ (4,160)
Adjustments to reconcile net loss to net cash used in		
Operating activities:		
Depreciation and amortization	1,242	817
Amortization of deferred stock compensation	480	1,089
Noncash stock compensation recovery	(47)	(1,185)
Issuances of equity instruments for noncash benefits	4	—
Changes in assets and liabilities:		
Accounts receivable	(1,376)	(857)
Prepaid expenses and other current assets	(185)	(222)
Other assets	(43)	—
Accounts payable	2,331	(56)
Accrued compensation	349	99
Accrued liabilities	92	(269)
Deferred revenue	788	(257)
Other long-term liabilities	(215)	88
Net cash used in operating activities	(4,952)	(4,913)
Investing activities:		
Purchase of available-for-sale securities	(13,076)	(25,355)
Maturities of available-for-sale securities	6,875	3,965
Capital expenditures	(1,715)	(1,315)
Net cash used in investing activities	(7,916)	(22,705)
Financing activities:		
Proceeds from capital lease financing	540	581
Principal payments on capital lease obligations	(910)	(896)
Net proceeds from issuances of common stock	31,223	46
Net cash provided by (used in) financing activities	30,853	(269)
Net increase (decrease) in cash and cash equivalents	17,985	(27,887)
Cash and cash equivalents at beginning of period	11,488	49,030
Cash and cash equivalents at end of period	$ 29,473	$ 21,143

See accompanying notes.

Rigel Pharmaceuticals, Inc.
Notes to Condensed Financial Statements
(unaudited)

1. Nature of operations

Rigel Pharmaceuticals, Inc. ("Rigel" or the "Company") was incorporated in the state of Delaware on June 14, 1996. The Company is engaged in the discovery and development of a broad range of new small molecule drug candidates.

2. Basis of presentation

The accompanying unaudited condensed financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of Rigel's management, these unaudited financial statements include all adjustments, consisting only of normal recurring adjustments, which Rigel considers necessary to fairly state the Company's financial position and the results of its operations and its cash flows. Interim-period results are not necessarily indicative of results of operations or cash flows for a full-year period. The balance sheet at December 31, 2001 has been derived from audited financial statements at that date, but does not include all disclosures required by generally accepted accounting principles for complete financial statements.

These condensed financial statements and the notes accompanying them should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Stockholders are encouraged to review the Form 10-K for a broader discussion of the Company's business and the opportunities and risks inherent in the Company's business. Copies of the Form 10-K are available from the Company upon request.

Comprehensive loss did not materially differ from the net loss as reported.

3. Net loss per share

Basic earnings per share excludes any dilutive effects of options, shares subject to repurchase, warrants and convertible securities. The calculation of diluted net loss per share excludes shares of potential common stock if the effect is anti-dilutive.

4. Revenue recognition

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.

Revenues related to collaborative research with the Company's corporate collaborators are recognized as research services are performed over the related funding periods for each contract. Under these agreements, the Company is 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. Research and development expenses under the collaborative research agreements approximate or exceed the revenue recognized under such agreements over the term of the respective agreements. Deferred revenue may result if the Company were not to incur the required level of effort during a specific period in comparison to funds received under the respective contracts.

Milestones are recognized pursuant to collaborative agreements upon the achievement of these specified at-risk milestones.

Royalties will be recognized as earned in accordance with the contract terms when the third-party results are reliably measurable and collectibility is reasonably assured.

5. Equity financing

During January 2002, the Company issued 7,000,000 shares of common stock in a registered direct offering to certain institutional investors at a price of $4.50 per share under the Company's shelf registration statement. The Company received net

proceeds of approximately $29.4 million after deducting commissions and offering costs. During February 2002, the Company issued 465,117 shares of common stock in a registered direct offering to a certain institutional investor at a price of $4.30 per share under the Company's shelf registration statement. The Company received net proceeds of approximately $1.8 million after deducting commissions and offering costs.

6. Equipment financing

In January 2002, the Company entered into an additional equipment lease line agreement for an aggregate total of $2,000,000. The Company also issued a warrant to purchase 23,810 shares of common stock at an exercise price of $4.20 per share in conjunction with the agreement. The fair market value of this warrant, as determined by the Black-Scholes valuation model, was approximately $66,000. This amount has been capitalized in other long-term assets and will be amortized into expense over the payment periods of the obligation. As of March 31, 2002, the Company had utilized $540,000 of this lease line. The Company has the ability to draw down on this facility up to August 2002. The lease period for this facility is three years with the interest on each lease line fixed at the time of draw down. As of March 31, 2002, the average interest rate on outstanding obligations was 11.5%. Obligations under this lease line are secured by assets financed under the leases.

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 accompanying notes included in this report and the 2001 audited financial statements and accompanying notes included in our 2001 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2002 are not necessarily indicative of results that may occur in future periods.

Except for the historical information contained herein, the following discussion contains forward-looking statements that are based upon current expectations. Forward-looking statements involve risks and uncertainties. When used herein, the words "believe," "anticipate," "expect," "estimate" and similar expressions are intended to identify such forward-looking statements. There can be no assurance that these statements will prove to be correct. Our actual results and the timing of events could differ significantly from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors," as well as those discussed elsewhere in this report and in our 2001 Annual Report on Form 10-K as filed with the SEC. Rigel undertakes no obligation to update any of the forward-looking statements contained herein to reflect any future events or developments.

Overview

We are a drug discovery and development company that uses advanced functional genomics tools to discover novel drug targets that can be used to develop orally administered small molecule drugs. Our technology is designed to identify molecules that play an important role in regulating a human cell's response to disease by testing a very large number of proteins in a very large number of cells to determine which proteins will change a cell's response to the disease. Rigel has ten product development programs underway at Rigel with five programs being our proprietary programs in the product development areas of asthma/allergy, rheumatoid arthritis and inflammatory bowel disease, cancerous tumor growth and hepatitis C. We expect to begin clinical trials during 2002 with one or more drug candidates from these five programs. In addition to the Rigel-owned programs, we have five programs in connection with our corporate partners in the product development areas of asthma/allergy, autoimmunity, transplant rejection and two programs in cancerous tumor growth. With our support, one of our partners is conducting an additional program in chronic bronchitis at their location. We have incurred net losses since inception and expect to incur substantial and increasing losses for the next several years as we begin to move drug candidates into and through preclinical and clinical stages of drug development and expand our research and development activities. To date, we have funded our operations primarily through the sale of equity securities, non-equity payments from collaborative partners and capital asset lease financings. We received our first funding from our collaborative partners in December 1998. As of March 31, 2002, including both research funding and equity investments, we had received an aggregate of $65.5 million from our collaborative partners, including $3.4 million in the three months ended March 31, 2002. As of March 31, 2002, our accumulated deficit was approximately $86.2 million.

We expect our sources of revenue for the next several years to consist primarily of payments under our current and future corporate collaborations. Under these arrangements, sources of revenue may include up-front payments, funded research, milestone payments and royalties. The process of carrying out our research programs for our collaborative partners and the development of our own non-partnered products to the later stages of development will require significant additional research and development expenditures, including preclinical testing and clinical trials. These activities, together with our general and administrative expenses, are expected to result in substantial operating losses for the foreseeable future. We will not receive product revenue unless we or our collaborative partners complete clinical trials, obtain regulatory approval and successfully commercialize one or more of our products.

To date, we have entered into collaborations with three major pharmaceutical companies: Johnson & Johnson, Pfizer and Novartis. These three collaborations have contributed nearly all of our revenues over the last three years.

On July 6, 2001, we expanded our collaboration with Novartis with the initiation of our angiogenesis program, the fourth and final program in our Novartis collaboration. Pursuant to the expanded Novartis collaboration, we received a $4.0 million upfront payment from Novartis, which will be recognized as revenue ratably over the life of the contract. In addition, the expanded collaboration provides that the angiogenesis research program will be carried out at Rigel, and provides for research reimbursement over the next three years and includes potential future milestones and royalty payments to Rigel. In conjunction with the original collaboration, Novartis paid $4.0 million for 2,000,000 shares of our series D preferred stock that converted to 2,000,000 shares of common stock upon the completion of our initial public offering. The original collaboration also allowed for an additional equity investment by Novartis of up to $10.0 million that was callable by us until our initial public offering. We exercised this right and sold to Novartis 1,428,571 shares of common stock at $7.00 per share concurrent with the

closing of the our initial public offering. As of March 31, 2002, Novartis still held all 3,428,571 of these shares.

In December 2001, Johnson & Johnson elected to extend the research phase of our collaboration for an additional two years, resulting in additional research reimbursement through the end of 2003 of approximately $5.0 million.

In February 2002, the research phase of our collaboration with Pfizer concluded with Pfizer accepting a total of seven validated targets. Under our collaboration with Pfizer, these validated targets will continue through the drug discovery and development process at Pfizer.

A summary of these partnerships is as follows:

Partner	Research Program	Commencement Date
Johnson & Johnson	Tumor Growth—Cell Cycle Inhibition	December 4, 1998
Pfizer	Asthma/Allergy—IgE Production in B Cells	January 31, 1999
Novartis	Transplant Rejection—T Cell Activation	May 26, 1999
	Autoimmunity Disease—B Cell Activation	August 1, 1999
	Chronic Bronchitis (conducted at Novartis)	January 1, 2000
	Tumor Growth—Inhibition of Tumor Angiogensis	July 6, 2001

Under the terms of these collaborations, our partners have agreed to provide future research funding up to approximately $23.0 million over the next three years, $9.7 million of which is subject to possible cancellation. In addition, we may receive additional payments upon the achievement of specific research and development milestones and royalties upon commercialization of any products.

In order to maintain and increase proceeds from collaborations, we are exploring new opportunities with existing and new potential collaborators. Our partnerships to date have generally focused on the early stages of drug discovery, specifically on target discovery and validation, while our collaboration with Johnson & Johnson has been expanded to also include both chemistry and compound high-throughput screening. We expect to continue to engage in collaborations focused on the early stages of drug discovery. In addition, we currently anticipate that we will self-fund, at an increased rate of spending, our own research programs to later stages of development prior to partnering with collaborative partners. Therefore, it is expected that future collaborative partnerships will have an expanded focus and could include cell pathway mapping, high-throughput screening, combinatorial and medicinal chemistry, pre-clinical evaluations and/or clinical development. For some programs, we may also seek to enter into collaborations for the development of compounds that we have discovered. The timing, the amount of funds received and the scope of any new collaboration are uncertain, and any compound collaboration will depend on the successful progress of clinical trials. New, expanded or larger collaborations will also be necessary to offset any decrease in proceeds as collaborations come to the end of their terms. Our Novartis programs are multiple-year agreements with the research phases terminating in 2004 and 2005, while the Johnson & Johnson collaboration concludes its research phase in 2004. As each collaboration reaches the conclusion of its research phase, the parties may evaluate the status of the collaboration and, if appropriate, seek to extend the research phase of the collaboration agreement or negotiate alternative terms.

Critical Accounting Policies and the Use of Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to terms of the research collaborations, investments, stock compensation, impairment issues, the estimated useful life of assets, income taxes, financing operations and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

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.

Revenues related to collaborative research with our corporate collaborators are recognized as research services are performed over the related funding periods for each contract. 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. Research and development expenses under the collaborative research agreements approximate or exceed the revenue recognized under such agreements over the term of the respective agreements. Deferred revenue may result if we were not to incur the required level of effort during a specific period in comparison to funds received under the respective contracts.

Revenues resulting from the achievement of milestones are recognized pursuant to collaborative agreements upon the accomplishment of these specified at-risk milestones.

Royalties will be recognized as earned in accordance with the contract terms when the third-party results are reliably measurable and collectibility is reasonably assured.

Stock-based Compensation

We recorded no deferred stock compensation with respect to options granted to employees in the first three months of 2002 and approximately $0.3 million for the three months ended March 31, 2001, representing the difference between the deemed fair value of our common stock for financial reporting purposes on the date these options were granted and the exercise price. These amounts have been reflected as components of stockholders' equity, and the deferred expense is being amortized to operations over the vesting period of the options, generally four to five years, using the graded vesting method. We amortized deferred stock compensation of $0.5 million and $1.1 million for the three months ended March 31, 2002 and 2001, respectively. At March 31, 2002, we had a total of $1.9 million remaining to be amortized over the remaining vesting periods of the stock options.

In addition to the amortization of the deferred stock compensation, we also record charges associated with options granted to consultants in accordance with accounting principles generally accepted in the United States that involve the periodic revaluation of outstanding unvested consultant options based upon the current market value of our common stock and other assumptions, including the expected future volatility of our stock price. We recognized stock-based compensation recovery for revaluation of consultant options of $47,000 for the three months ended March 31, 2002. We recognized stock-based compensation recovery for revaluation of consultant options of $1.2 million for the three months ended March 31, 2001. Even though the number of unvested outstanding options issued to consultants continues to decline, we expect to see continued fluctuations in the future as a portion of these options are revalued based on the current market price of our common stock through the application of the graded vesting method.

Three Months Ended March 31, 2002 and 2001

Revenues. Contract revenues from collaborations were $4.1 million and $3.2 million for the three months ended March 31, 2002 and 2001, respectively. Revenues in both three-month periods consisted of research support and amortization of upfront fees from the continuation of our collaborations with Novartis, Johnson & Johnson and

Pfizer. In the three months ended March 31, 2002, revenues included milestone payments for targets delivered and accepted in accordance with our Pfizer collaboration. The increase in 2002 revenues of $0.9 million was primarily due to the commencement of the angiogenesis program with Novartis in July 2001 and milestones achieved in the Pfizer collaboration. We expect contract revenues from collaborations to be a significant component of our total revenues for the foreseeable future.

Research and Development. Research and development expenses were $10.1 million and $6.0 million for the three months ended March 31, 2002 and 2001, respectively. The increase of $4.1 million reflects primarily our progress of building our drug development infrastructure, the addition of both drug development and research headcount, increased outside contract efforts and increased preclinical activities as Rigel prepares for commencing clinical trials in 2002. We expect research and development expenses to increase significantly in future periods, particularly as we move our solely-owned product candidates through pre-clinical activities and into clinical trials.

The scope and magnitude of future research and development expenses are difficult to predict at this time given the number of studies that will need to be conducted for any of our potential products. 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 I, II and III clinical studies in humans—each of which is typically more expensive than the previous step. Success in development therefore results in increasing expenditures. Our research and development expenditures currently include costs for scientific personnel, supplies, equipment, consultants, patent filings, sponsored research and allocated facility costs. Future research and development expenses will also include costs related to clinical trials.

Because of the number of research projects we have ongoing at any one time, and the ability to utilize resources across several projects, the majority of our research and development costs are not directly tied to any individual project and are allocated among multiple projects. Our project management is based primarily on scientific data and supplemented by these cost allocations, which are based primarily on human resource time incurred on each project. The costs allocated to a project as a result do not necessarily reflect the actual costs of the project. Accordingly, we do not maintain actual cost incurred information for our projects on a project-by-project basis.

General and Administrative Expenses. General and administrative expenses were $2.4 million and $2.0 million for the three months ended March 31, 2002 and 2001, respectively. The increase was primarily attributable to higher employee costs and greater infrastructure costs to supporting the growing research and development activities. We expect that general and administrative expenses will increase in the future to support the continued growth of our research and development efforts as our products move into clinical trials.

Net Interest Income. Net interest income was $65,000 and $584,000 in the three months ended March 31, 2002 and 2001, respectively. Interest income results from our interest-bearing balances, whereas interest expense is the result of our capital lease obligations associated with fixed asset purchases. The decrease in net interest income in 2002 was due to the reduction in interest rates on our owned securities and a higher balance on our capital lease obligations.

Liquidity and Capital Resources

We have financed our operations from inception primarily through sales of equity securities, contract payments payable to us under our collaboration agreements and equipment financing arrangements. As of March 31, 2002, we had received $126.1 million in gross proceeds from the sale of equity securities, including $20.0 million from collaborators, and had received $45.5 million in research funding from collaborators. In addition, as of March 31, 2002, we had financed, through leases and loans, the purchase of equipment and leasehold improvements totaling approximately $15.7 million.

As of March 31, 2002, we had $57.5 million in cash, cash equivalents and available-for-sale securities, as compared to $33.4 million as of December 31, 2001, an increase of $24.1 million. The increase was attributable to proceeds of $31.2 million, net of commissions and offering costs, from the sale of 7,465,117 shares of our common stock to certain institutional investors in two offerings in January and February 2002 under our shelf registration statement. We also invested $1.7 million in capital equipment and tenant improvements and had debt service payments of $0.9 million in conjunction with our equipment financing arrangements. These payments were offset by $0.5 million of proceeds from lease financings.

As of March 31, 2002, we had $7.0 million in capital lease obligations associated with our financed purchase of equipment and leasehold improvements. Also, as of March 31, 2002, we had $1.5 million available for draw down on one of our financing arrangements that was secured in January of 2002. All equipment financing agreements are secured by the equipment financed, bear interest rates in a range of 7% to 15% and are due in monthly installments through 2005. In addition, three of these agreements have balloon payments at the end of each loan term, while the fourth agreement allows us to purchase the assets financed at the fair market value or 20% of the original acquisition cost at the end of the financing term.

In May 2001, we entered into a 15-year non-cancelable lease for future research and office facilities, consisting of approximately 147,000 square feet in South San Francisco, California. Under the terms of this lease, we expect to occupy these new facilities in late 2002 and will concurrently terminate our lease of our current facilities at 240 East Grand Avenue in South San Francisco. The future research and office facilities are currently under construction as a build-to-suit facility. We are obligated to fund approximately $18.0 million of the total tenant improvement obligations. Of this amount, we have incurred approximately $1.2 million in pre-construction and construction costs associated with our new facility through March 31, 2002. These costs are currently being capitalized on our balance sheet as construction-in-progress, a component of property and equipment. These leasehold improvements will be amortized ratably over the term of the lease, which is 15 years, upon occupation of the buildings. We are in the process of securing additional debt financing to meet the majority of our tenant improvement obligations for the new facility.

The following are our contractual commitments as of December 31, 2001 associated with debt obligations, lease obligations, contracted research obligations and tenant improvement obligations.

	Total	1 Year	2-3 Years	4-5 Years	6-16 Years
			(in thousands)		
Capital leases	$ 8,506	$ 3,829	$ 4,566	$ 111	$ —
Facilities leases	161,152	3,494	14,995	17,310	125,353
Contracted research	2,265	1,931	334	—	—
Tenant improvement	18,005	13,902	4,103	—	—
Total	$ 189,928	$ 23,156	$ 23,998	$ 17,421	$ 125,353

We believe that our existing capital resources together with the proceeds from current and future collaborations and tenant improvement financings, will be sufficient to support our current operating plan for at least the next 18 months. We will require additional financing in the future to fund our operations. Our future funding requirements will depend on many factors, including, but not limited to:

- our ability to maintain our existing collaboration partnerships;

- our ability to establish and the scope of new collaborations;
- the progress and number of research programs carried out at Rigel;
- the progress of the research and development efforts of our collaborators;
- any changes in the breadth of our research and development programs;
- our ability to secure, on acceptable terms, adequate financing for the tenant improvement costs of our new facility;
- our ability to meet the milestones identified in our collaborative agreements that trigger payments;
- our ability to maintain and establish new corporate relationships and research collaborations;
- our ability to acquire or license other technologies or compounds, if any;
- the progress and success of preclinical studies and clinical trials of our drug candidates conducted by us or our collaborative partners or licensees;
- our ability to manage our growth;
- competing technological and market developments;
- the costs and timing of obtaining, enforcing and defending our patent and intellectual rights;
- the costs and timing of regulatory approvals; and
- expenses associated with unforeseen litigation.

In addition, we are constantly reviewing potential opportunities to expand our technologies or add to our portfolio of drug candidates. In the future, we may need further capital in order to acquire or invest in technologies, products or businesses. For the next several years, we do not expect the cash generated from our operations to generate the amount of cash required by our future cash needs. In December 2001, we filed a registration statement on Form S-3 to offer and sell equity and debt securities in one or more offerings up to a total dollar amount of $50 million. Currently, approximately $16.5 million remains available on the Form S-3, and we have no current commitments to offer and sell any securities that may be offered and sold pursuant to such registration statement. We expect to finance future cash needs through strategic collaborations, debt financing and the sale of equity securities. We cannot assure you that additional financing or collaboration and licensing arrangements will

be available when needed or that, if available, this financing will be obtained on terms favorable to us or our stockholders. Insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs, to lose rights under existing licenses or to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose or may adversely affect our ability to operate as a going concern. If additional funds are obtained by issuing equity securities, substantial dilution to existing stockholders may result.

Risk Factors

An investment in our securities is risky. Prior to making a decision about investing in our securities you should carefully consider the following risks, as well as the other information contained in this quarterly report filed on Form 10-Q. If any of the following risks actually occurs, our business could be harmed. In that case, the trading price of our common stock could decline, and you might lose all or part of your investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also harm our business. If any of these additional risks or uncertainties occurs, the trading price of our common stock could decline, and you might lose all or part of your investment.

Our success as a company is uncertain due to our limited operating history, our history of operating losses and the uncertainty of future profitability.

Due in large part to the significant research and development expenditures required to identify and validate new drug candidates and advance our programs toward later stages of development, we have not been profitable and have generated operating losses since we were incorporated in June 1996. Currently, our revenues are generated solely from research payments from our collaboration agreements and licenses and are insufficient to generate profitable operations. As of March 31, 2002, we had an accumulated deficit of approximately $86.2 million. We expect to incur losses for at least the next several years and expect that these losses will actually increase as we expand our research and development activities, incur significant clinical and testing costs and expand our facilities. Moreover, our losses are expected to continue even if our current research projects are able to successfully identify potential drug targets. If the time required to generate revenues and achieve profitability is longer than anticipated or if we are unable to obtain necessary capital, we may not be able to fund and continue our operations.

Because most of our expected future revenues are contingent upon collaborative and license agreements, we might not meet our strategic objectives.

Our ability to generate revenues in the near term depends on our ability to enter into additional collaborative agreements with third parties and to maintain the agreements we currently have in place. Our ability to enter into new collaborations and the revenue, if any, that may be recognized under these collaborations is highly uncertain. If we are unable to enter into new collaborations, our business prospects could be harmed, which could have an immediate adverse effect on the trading price of our stock.

To date, most of our revenues have been related to the research phase of each of our collaborative agreements. Such revenues are for specified periods, and the impact of such revenues on our results of operations is partially offset by corresponding research costs. Following the completion of the research phase of each collaborative agreement, additional revenue may come only from milestone payments and royalties, which may not be paid, if at all, until some time well into the future. The risk is heightened due to the fact that unsuccessful research efforts may preclude us from receiving any milestone payments under these agreements. Our receipt of revenue from collaborative arrangements is also significantly affected by the timing of efforts expended by us and our collaborators and the timing of lead compound identification. In late 2001, we recorded the first revenue from achievement of milestones in both the Pfizer and Johnson & Johnson collaborations. Under many agreements, milestone payments may not be earned until the collaborator has advanced products into clinical testing, which may never occur or may not occur until some time well into the future. We may not recognize revenue under our collaborations when and in accordance with our expectations or the expectations of industry analysts, which could harm our business and have an immediate adverse effect on the trading price of our stock.

Our business plan contemplates that we will need to generate meaningful revenue from royalties and licensing agreements. To date, we have not yet received any

revenue from royalties for the sale of commercial drugs, and we do not know when we will receive any such revenue, if at all. Likewise, we have not licensed any lead compounds or drug development candidates to third parties, and we do not know whether any such license will be entered into on acceptable terms in the future, if

at all.

We are unable to predict when, or if, we will become profitable, and even if we are able to achieve profitability at any point in time, we do not know if our operations will be able to maintain profitability during any future periods.

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

At the present time, our operations are in the early stages of drug identification and development. To date, we have only identified a few potential drug compounds, all of which are still in very early stages of development and have not yet been put into clinical testing. It is statistically unlikely that the few compounds that we have identified as potential drug candidates will actually lead to successful drug development efforts, and we do not expect any drugs resulting from our research to be commercially available for several years, if at all. Our leads for potential drug compounds will be subject to the risks and failures inherent in the development of pharmaceutical products based on new technologies. These risks include, but are not limited to, the inherent difficulty in selecting the right drug target and avoiding unwanted side effects as well as the unanticipated problems relating to product development, testing, regulatory compliance, manufacturing, marketing and competition and additional costs and expenses that may exceed current estimates.

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

Commercialization of our product candidates depends upon successful completion of preclinical studies and clinical trials. Preclinical testing and clinical development are long, expensive and uncertain processes, and we do not know whether we, or any of our collaborative partners, will be permitted to undertake clinical trials of any potential products. It may take us or our 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. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials. Moreover, if and when our projects reach clinical trials, we or our collaborative partners may decide to discontinue development of any or all of these projects at any time for commercial, scientific or other reasons. There is also a risk that competitors and third parties may develop similar or superior products or have proprietary rights that preclude us from ultimately marketing our products, as well as the potential risk that our products may not be accepted by the marketplace.

If our current corporate collaborations or license agreements are unsuccessful or if conflicts develop with these relationships, our research and development efforts could be delayed.

Our strategy depends upon the formation and sustainability of multiple collaborative arrangements and license agreements with third parties in the future. We rely on these arrangements for not only financial resources, but also for expertise that we expect to need in the future relating to clinical trials, manufacturing, sales and marketing, and for licenses to technology rights. To date, we have entered into several such arrangements with corporate collaborators; however, we do not know if such third parties will dedicate sufficient resources or if any such development or commercialization efforts by third parties will be successful. Should a collaborative partner fail to develop or commercialize a compound or product to which it has rights from us, we may not receive any future milestone payments and will not receive any royalties associated with such compound or product. In addition, the continuation of some of our partnered drug discovery and development programs may be dependent on the periodic renewal of our corporate collaborations. For example, the funded research phase of our collaboration with Pfizer has been completed and the development portion of our collaboration is ongoing at Pfizer. More generally, our corporate collaboration agreements may terminate before the full term of the collaborations or upon a breach or a change of control. We may not be able to renew these collaborations on acceptable terms, if at all, or negotiate additional corporate collaborations on acceptable terms, if at all.

We are also a party to various license agreements that give us rights to use specified technologies in our research and development processes. The agreements, pursuant to which we have in-licensed technology, permit our licensors to terminate the agreements under certain circumstances. If we are not able to continue to license these and future technologies on commercially reasonable terms, our product development and research may be delayed.

Conflicts might also arise with respect to our various relationships with third parties. If any of our corporate collaborators were to breach or terminate their agreement with us or otherwise fail to conduct the collaborative activities successfully and in a

timely manner, the preclinical or clinical development or commercialization of the affected product candidates or research programs could be delayed or terminated. We generally do not control the amount and timing of resources that our corporate collaborators devote to our programs or potential products. We do not know whether current or future collaborative partners, if any, might pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including our competitors, as a means for developing treatments for the diseases targeted by collaborative arrangements with us. Conflicts also might arise with collaborative partners concerning proprietary rights to particular compounds. While our existing collaborative agreements typically provide that we retain milestone payments and royalty rights with respect to drugs developed from certain derivative compounds, any such payments or royalty rights may be at reduced rates, and disputes may arise over the application of derivative payment provisions to such drugs, and we may not be successful in such disputes.

If we fail to enter into new collaborative arrangements in the future, our business and operations would be negatively impacted.

Although we have established several collaborative arrangements and various license agreements, we do not know if we will be able to establish additional arrangements, or whether current or any future collaborative arrangements will ultimately be successful. For example, there have been, and may continue to be, a significant number of recent business combinations among large pharmaceutical companies that have resulted, and may continue to result, in a reduced number of potential future corporate collaborators, which may limit our ability to find partners who will work with us in developing and commercializing our drug targets. If business combinations involving our existing corporate collaborators were to occur, the effect could be to diminish, terminate or cause delays in one or more of our corporate collaborations.

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

Our operations require significant additional funding in large part due to our research and development expenses, future preclinical and clinical-testing costs, the expansion of our facilities and the absence of any meaningful revenues over the foreseeable future. The amount of future funds needed will depend largely on the success of our collaborations and our research activities, and we do not know whether additional financing will be available when needed, or that, if available, we will obtain financing on terms favorable to our stockholders or us. We have consumed substantial amounts of capital to date, and operating expenditures are expected to increase over the next several years as we expand our infrastructure and research and development activities.

We believe that our existing capital resources together with the proceeds from current and future collaborations and tenant improvement financings, will be sufficient to support our current operating plan for at least the next 18 months. We will require additional financing in the future to fund our operations. Our future funding requirements will depend on many factors, including, but not limited to:

- our ability to maintain our existing collaboration partnerships;
- our ability to establish and the scope of new collaborations;
- the progress and number of research programs carried out at Rigel;
- the progress of the research and development efforts of our collaborators;
- any changes in the breadth of our research and development programs;
- our ability to secure, on acceptable terms, adequate financing for the tenant improvement costs of our new facility;
- our ability to meet the milestones identified in our collaborative agreements that trigger payments;
- our ability to maintain and establish new corporate relationships and research collaborations;
- our ability to acquire or license other technologies or compounds, if any;
- the progress and success of preclinical studies and clinical trials of our drug candidates conducted by us or our collaborative partners or licensees;
- our ability to manage our growth;
- competing technological and market developments;
- the costs and timing of obtaining, enforcing and defending our patent and intellectual rights;
- the costs and timing of regulatory approvals; and
- expenses associated with unforeseen litigation.

To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. To the extent that we raise additional funds through collaboration and licensing arrangements, we may be required to relinquish some rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us. If adequate

funds are not available, we will not be able to continue developing our products.

Our success is dependent on intellectual property rights held by us and third parties, and our interest in such rights is complex and uncertain.

Our success will depend to a large part on our own, our licensees' and our licensors' ability to obtain and defend patents for each party's respective technologies and the compounds and other products, if any, resulting from the application of such technologies. Eight U.S. patents have been issued to us as of May 1, 2002, and we have numerous applications in the U.S. and abroad awaiting approval. In the future, our patent position might be highly uncertain and involve complex legal and factual questions. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date. Accordingly, we cannot predict the breadth of claims allowed in our or other companies' patents.

The degree of future protection for our proprietary rights is uncertain, and we cannot ensure that:

- we were the first to make the inventions covered by each of our pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our pending patent applications will result in issued patents;
- any patents issued to us or our collaborators will provide a basis for commercially viable products or will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies that are patentable; or
- the patents of others will not have a negative effect on our ability to do business.

We rely on trade secrets to protect technology where we believe patent protection is not appropriate or obtainable. However, trade secrets are difficult to protect. While we require employees, collaborators and consultants to enter into confidentiality agreements, we may not be able to adequately protect our trade secrets or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information.

We are a party to certain in-license agreements that are important to our business, and we generally do not control the prosecution of in-licensed technology. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we exercise over our internally-developed technology. Moreover, some of our academic institution licensors, research collaborators and scientific advisors have rights to publish data and information in which we have rights. If we cannot maintain the confidentiality of our technology and other confidential information in connection with our collaborations, then our ability to receive patent protection or protect our proprietary information will be impaired. In addition, some of the technology we have licensed relies on patented inventions developed using U.S. government resources. The U.S. government retains certain rights, as defined by law, in such patents, and may choose to exercise such rights.

If a dispute arises regarding the infringement or misappropriation of the proprietary rights of others, such dispute could be costly and result in delays in our research and development activities.

Our success will also depend, in part, on our ability to operate without infringing or misappropriating the proprietary rights of others. There are many issued patents and patent applications filed by third parties relating to products or processes that are similar or identical to ours or our licensors, and others may be filed in the future. There can be no assurance that our activities, or those of our licensors, will not infringe patents owned by others. We believe that there may be significant litigation in the industry regarding patent and other intellectual property rights, and we do not know if we or our collaborators would be successful in any such litigation. Any legal action against our collaborators or us claiming damages or seeking to enjoin commercial activities relating to the affected products, our methods or processes could:

- require our collaborators or us to obtain a license to continue to use, manufacture or market the affected products, methods or processes, which may not be available on commercially reasonable terms, if at all;
- prevent us from using the subject matter claimed in the patents held by others;
- subject us to potential liability for damages;
- consume a substantial portion of our managerial and financial resources; and
- result in litigation or administrative proceedings that may be costly, whether we win or lose.

Pharmexa (formerly M&E Biotech) has notified us that they have received patent protection in some European countries and Australia for a process they assert is similar to certain aspects of our technologies. Pharmexa has notified us of its belief that

we have infringed, and are contributorily infringing, certain claims of that European patent. In June 2001, we commenced administrative proceedings to oppose Pharmexa's European patent. Earlier in the year, Pharmexa commenced an administrative proceeding to oppose our Australian patent. Legal proceedings with respect to these patents could be lengthy, costly and require significant management time and other resources, which could adversely affect the pursuit of scientific and business goals. In addition, any such legal action could result in the award of damages or a court order preventing us from using the technology covered by the Pharmexa patent. In addition, any license or other transfer of rights to the patent by Pharmexa to a third party could adversely impact our ability to obtain a license to the patent. In the event we desire to seek a license to the patent, we may not be able to obtain a license on acceptable terms. Furthermore, such failure might adversely impact our collaborations with European partners or may materially adversely affect our business in the jurisdictions that may be covered by the patent protection. We are also aware that Pharmexa has sought patent protection in other countries, including the U.S., and has the option to seek patent protection in other parts of the world. If Pharmexa were to receive such patent protection, it might conflict with or overlap with the patent rights we have under U.S. Patent No. 6,153,380 and others we are pursuing. We currently do not, and do not plan to, operate in any country other than the United States.

If we are unable to obtain regulatory approval to market products in the United States and foreign jurisdictions, we might not be permitted to commercialize products from our research.

Due, in part, to the early stage of our drug candidate research and development process, we cannot predict whether regulatory clearance will be obtained for any product we, or our collaborative partners, hope to develop. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product and requires the expenditure of substantial resources. Of particular significance to us are the requirements covering research and development and testing.

Before commencing clinical trials in humans, we, or our collaborative partners, will need to submit and receive approval from the FDA of an IND. If regulatory clearance of a product is granted, this clearance will be limited to those disease states and conditions for which the product is demonstrated through clinical trials to be safe and efficacious. We cannot ensure that any compound developed by us, alone or with others, will prove to be safe and efficacious in clinical trials and will meet all of the applicable regulatory requirements needed to receive marketing clearance.

Outside the United States, our ability, or that of our collaborative partners, to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. This foreign regulatory approval process typically includes all of the risks associated with FDA clearance described above and may also include additional risks.

We may encounter difficulties in managing our growth, and these difficulties could increase our losses.

We have experienced a period of rapid and substantial growth that has placed, and will continue to place, a strain on our human and capital resources. The number of our employees increased from 31 at December 31, 1997 to 160 at March 31, 2002. Our ability to manage our operations and growth effectively requires us to continue to use funds to improve our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to manage this growth effectively, our losses will increase.

If our competitors develop technologies that are more effective than ours, our commercial opportunity will be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Many of the drugs that we are attempting to discover will be competing with existing therapies. In addition, a number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. We face competition from pharmaceutical and biotechnology companies both in the United States and abroad.

Our competitors may utilize discovery technologies and techniques or partner with collaborators in order to develop products more rapidly or successfully than we, or our collaborators, are able to do. Many of our competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than we do. In addition, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection with respect to potentially competitive products or technologies and may establish exclusive collaborative or licensing relationships with our competitors.

We believe that our ability to compete is dependent, in part, upon our ability to create, maintain and license scientifically-advanced technology and upon our and our strategic partners' ability to develop and commercialize pharmaceutical

products based on this technology, as well as our ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary technology or processes and secure sufficient capital resources for the expected substantial time period between technological conception and commercial sales of products based upon our technology. The failure by us or any of our collaborators in any of those areas may prevent the successful commercialization of our potential drug targets.

Our competitors might develop technologies and drugs that are more effective or less costly than any that are being developed by us or that would render our technology and potential drugs obsolete and noncompetitive. In addition, our competitors may succeed in obtaining the approval of the FDA or other regulatory agencies for drug candidates more rapidly. Companies that complete clinical trials, obtain required regulatory agency approvals and commence commercial sale of their drugs before their competitors may achieve a significant competitive advantage, including certain patent and FDA marketing exclusivity rights that would delay or prevent our ability to market certain products. Any drugs resulting from our research and development efforts, or from our joint efforts with our existing or future collaborative partners, might not be able to compete successfully with competitors' existing or future products or products under development or obtain regulatory approval in the United States or elsewhere.

Our ability to generate revenues will be diminished if our collaborative partners fail to obtain acceptable prices or an adequate level of reimbursement for products from third-party payors.

The drugs we hope to develop may be rejected by the marketplace due to many factors, including cost. Our ability to commercially exploit a drug may be limited due to the continuing efforts of government and third-party payors to contain or reduce the costs of health care through various means. For example, in some foreign markets, pricing and profitability of prescription pharmaceuticals are subject to government control. In the United States, we expect that there will continue to be a number of federal and state proposals to implement similar government control. In addition, increasing emphasis on managed care in the United States will likely continue to put pressure on the pricing of pharmaceutical products. Cost control initiatives could decrease the price that any of our collaborators would receive for any products in the future. Further, cost control initiatives could adversely affect our collaborators' ability to commercialize our products and our ability to realize royalties from this commercialization.

Our ability to commercialize pharmaceutical products with collaborators may depend, in part, on the extent to which reimbursement for the products will be available from:

- government and health administration authorities;
- private health insurers; and
- other third-party payors.

Significant uncertainty exists as to the reimbursement status of newly-approved healthcare products. Third-party payors, including Medicare, are challenging the

prices charged for medical products and services. Government and other third-party payors increasingly are attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new drugs and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted labeling approval. Third-party insurance coverage may not be available to patients for any products we discover and develop, alone or with collaborators. If government and other third-party payors do not provide adequate coverage and reimbursement levels for our products, the market acceptance of these products may be reduced.

If conflicts arise between our collaborators or advisors and us, any of them may act in their self-interest, which may be adverse to your interests.

If conflicts arise between us and our corporate collaborators or scientific advisors, the other party may act in its self-interest and not in the interest of our stockholders. Some of our corporate collaborators are conducting multiple product development efforts within each disease area that is the subject of the collaboration with us. In some of our collaborations, we have agreed not to conduct, independently or with any third party, any research that is competitive with the research conducted under our collaborations. Our collaborators, however, may develop, either alone or with others, products in related fields that are competitive with the products or potential products that are the subject of these collaborations. Competing products, either developed by our collaborators or to which our collaborators have rights, may result in their withdrawal of support for our product candidates.

If product liability lawsuits are successfully brought against us, we may incur substantial liabilities and may be required to limit commercialization of our products.

The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. We currently do not have product liability insurance, and our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with corporate collaborators. We, or our corporate collaborators, might not be able to obtain insurance at a reasonable cost, if at all. While under various circumstances we are entitled to be indemnified against losses by our corporate collaborators, indemnification may not be available or adequate should any claim arise.

Our research and development efforts will be seriously jeopardized, if we are unable to attract and retain key employees and relationships.

Being a small company with only 160 employees as of March 31, 2002, our success depends on the continued contributions of our principal management and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, scientists and companies in the face of intense competition for such personnel. In particular, our research programs depend on our ability to attract and retain highly skilled chemists, other scientists, and regulatory and clinical personnel. If we lose the services of any of our personnel, our research and development efforts could be seriously and adversely affected. Although we generally have not experienced problems retaining key employees, our employees can terminate their employment with us at any time. We also expect to encounter increasing difficulty in attracting enough qualified personnel as our operations expand and the demand for these professionals increases, and this difficulty could impede significantly the achievement of our research and development objectives.

We depend on various scientific consultants and advisors for the success and continuation of our research efforts.

We work extensively with various scientific consultants and advisors. The potential success of our drug discovery programs depends, in part, on continued collaborations with certain of these consultants and advisors. We, and various members of our management and research staff, rely on certain of these consultants and advisors for expertise in our research, regulatory and clinical efforts. Our scientific advisors are not employees of ours and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. We do not know if we will be able to maintain such consulting agreements or that such scientific advisors will not enter into consulting arrangements, exclusive or otherwise, with competing pharmaceutical or biotechnology companies, any of which would have a detrimental impact on our research objectives and could have a material adverse effect on our business, financial condition and results of operations.

If we use biological and hazardous materials in a manner that causes injury or violates laws, we may be liable for damages.

Our research and development activities involve the controlled use of potentially harmful biological materials as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, and such liability could exceed our resources. We are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with, or any potential violation of, these laws and regulations could be significant.

Our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other catastrophic disaster could cause damage to our facilities and equipment, which could require us to cease or curtail operations.

Our facilities are located in the San Francisco Bay Area near known earthquake fault zones and are vulnerable to significant damage from earthquakes. We are also vulnerable to damage from other types of disasters, including fires, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities would be seriously, or potentially completely, impaired, and our research could be lost or destroyed. In addition, the unique nature of our research activities and of much of our equipment could make it difficult for us to recover from a disaster. The insurance we maintain may not be adequate to cover or losses resulting from disasters or other business interruptions.

If our officers, directors and largest stockholders choose to act together, they may be able to significantly affect our management and operations, acting in their best interests and not necessarily those of other stockholders.

Our directors, executive officers and principal stockholders and their affiliates beneficially own approximately 47% of

our common stock, based on their beneficial ownership as of April 16, 2002. Accordingly, they collectively will have the ability to significantly affect the election of all of our directors and the outcome of most corporate actions requiring stockholder approval. They may exercise this ability in a manner that advances their best interests and not necessarily those of other stockholders.

Our stock price may be volatile, and your investment in our stock could decline in value.

The market prices for our securities and those of other biotechnology companies have been highly volatile and may continue to be highly volatile in the future. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock:

- announcements of technological innovations or new commercial products by our competitors or us;
- developments concerning proprietary rights, including patents;

- developments concerning our collaborations;
- publicity regarding actual or potential medical results relating to products under development by our competitors or us;
- regulatory developments in the United States and foreign countries;
- litigation;
- economic and other external factors or other disaster or crisis; and
- period-to-period fluctuations in financial results.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us, which may be beneficial to our stockholders, more difficult.

Provisions of our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions:

- establish that members of the board of directors may be removed only for cause upon the affirmative vote of stockholders owning at least two-thirds of our capital stock;
- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- limit who may call a special meeting of stockholders;
- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings; and
- provide for a board of directors with staggered terms.

In addition, Section 203 of the Delaware General Corporation Law, which imposes certain restrictions relating to transactions with major stockholders, may discourage, delay or prevent a third party from acquiring us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities in which we invest may have market risk. This means that a change in prevailing interest rates may cause the fair value amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the market value amount of our investment will decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds and government and non-government debt securities. In 2001 and the first three months of 2002, we maintained an investment portfolio primarily in depository accounts and corporate commercial paper. Due to the short-term nature of these investments, we believe we do not have a material exposure to interest rate risk arising from our investments. Therefore, no quantitative tabular disclosure is provided.

We have operated primarily in the United States, and all funding activities with our collaborators to date have been made in U.S. dollars. Accordingly, we have not had any exposure to foreign currency rate fluctuations.

PART II OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

c) On January 24, 2002, we issued a warrant to purchase 23,810 shares of common stock at an exercise price of $4.20 per share to TBCC Funding Trust II in connection with the execution of an equipment lease line agreement. The warrant was issued in a private transaction pursuant to an exemption from registration in reliance upon Section 4(2) of the Securities Act.

d) Our Registration Statement on Form S-1 (No. 333-45864), as amended, with respect to our initial public offering was declared effective by the SEC on November 28, 2000. We received net proceeds of approximately $35,560,000 after deducting offering expenses of $3,990,000, including underwriting discounts and commissions of $2,768,000 and other offering expenses of $1,222,000. We intend to continue to use the net proceeds of the offering for research and development, general corporate purposes and working capital and capital lease obligations. Rigel continually assesses the specific uses and allocations for these funds. As of March 31, 2002, approximately $25.9 million of the net proceeds remained available and were primarily invested in short-term marketable securities.

Item 6. Exhibits and Reports on Form 8-K.

a) Exhibits:

The exhibits listed on the accompanying index to exhibits are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

b) Reports on Form 8-K:

On January 16, 2002, Rigel filed a Current Report on Form 8-K announcing the sale of 7,000,000 shares of common stock.

On February 14, 2002, Rigel filed a Current Report on Form 8-K announcing the sale of 465,117 shares of common stock.

SIGNATURES

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

RIGEL PHARMACEUTICALS, INC.

By: /s/ JAMES H. WELCH
James H. Welch
Vice President, Chief Financial Officer and Corporate Secretary (Principal Financial and Accounting Officer)
Date: May 14, 2002

INDEX TO EXHIBITS

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation. (1)
3.2	Amended and Restated Bylaws. (1)
4.1	Specimen Common Stock Certificate. (1)
4.8	Warrant issued to TBCC Funding Trust II for the purchase of common stock.

(1) Filed with Rigel's Registration Statement on Form S-1, as amended (No. 333-45864), and incorporated herein by reference.

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

STOCK SUBSCRIPTION WARRANT

To Purchase Common Stock of

Rigel Pharmaceuticals, Inc.

DATE OF INITIAL ISSUANCE: January 24, 2002

THIS CERTIFIES THAT for value received, **TBCC FUNDING TRUST II** or its registered assigns (hereinafter called the "Holder") is entitled to purchase from Rigel Pharmaceuticals, Inc., a Delaware corporation (the "Company"), at any time during the Term of this Warrant, Twenty-three Thousand Eight Hundred Ten (23,810) shares of common stock of the Company (the "Common Stock"), at the Warrant Price, payable as provided herein. The exercise of this Warrant shall be subject to the provisions, limitations and restrictions herein contained. This Warrant may be exercised in whole or in part.

SECTION 1. Definitions.

For all purposes of this Warrant, the following terms shall have the meanings indicated:

Common Stock - shall mean and include the Company's authorized Common Stock, as constituted at the date hereof.

Exchange Act - shall mean the Securities Exchange Act of 1934, as amended from time to time.

Securities Act - the Securities Act of 1933, as amended from time to time.

Term of this Warrant - shall mean the period beginning on the date of initial issuance hereof and ending on January 31 , 2007.

Warrant Price — $4.20 per share, subject to adjustment in accordance with Section 6 hereof.

Warrants - this Warrant and any other Warrant or Warrants issued in connection with the Master Loan and Security Agreement dated January 24, 2002 executed by the Company and Transamerica Technology Finance Corporation (the "Loan Agreement") to the original holder of this Warrant, or any transferees from such original holder or this Holder.

Warrant Shares — 23,810 shares of Common Stock, subject to adjustment or change as herein provided, purchased or purchasable by the Holder of this Warrant upon the exercise hereof.

SECTION 2. Exercise of Warrant.

2.1 Procedure for Exercise of Warrant. To exercise this Warrant in whole or in part (but not as to any fractional share of Common Stock), the Holder shall deliver to the Company at its office referred to in Section 15hereof at any time and from time to time during the Term of this Warrant: (i) the Notice of Exercise in the form attached hereto, (ii) cash, certified or official bank check payable to the order of the Company, wire transfer of funds to the Company's account, or cancellation of any indebtedness of the Company to the Holder (or any combination of any of the foregoing) in the amount of the Warrant Price for each share being purchased, and (iii) this Warrant. Notwithstanding any provisions herein to the contrary, if the Current Market Price (as defined in Section 6) is greater than the Warrant Price (at the date of calculation, as set forth below), in lieu of exercising this Warrant as hereinabove permitted, the Holder may elect to receive shares of Common Stock equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the office of the Company referred to in Section 15 hereof, together with the Notice of Exercise, in which event the Company shall issue to the Holder that number of whole shares of Common Stock computed using the following formula:

$$CS = \frac{WCS \times (CMP-WP)}{CMP}$$

Where

CS equals the number of shares of Common Stock to be issued to the Holder

WCS equals the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised (at the date of such calculation)

CMP equals the Current Market Price (at the date of such calculation)

WP equals the Warrant Price (as adjusted to the date of such calculation)

In the event of any exercise of the rights represented by this Warrant, a certificate or certificates for the shares of Common Stock so purchased, registered in the name of the Holder or such other name or names as may be designated by the Holder, shall be delivered to the Holder hereof within a reasonable time, not exceeding five (5) days, after the rights represented by this Warrant shall have been so exercised; and, unless this Warrant has expired, a new Warrant representing the number of shares (except a remaining fractional share), if any, with respect to which this Warrant shall not then have been exercised shall also be issued to the Holder hereof within such time. The person in whose name any certificate for shares of Common Stock is issued upon exercise of this Warrant shall for all purposes be deemed to have become the holder of record of such shares on the date on which the Holder shall have complied with the conditions for exercise of this Warrant set forth above, irrespective of the date of delivery of such certificate, except that, if the date of such compliance is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

To the extent this Warrant is not previously exercised as to all Common Stock subject hereto prior to the expiration of the term of this Warrant, and if the Current Market Price (as defined in Section 6) of one share of the Common Stock is greater than the Warrant Price then in effect, this Warrant shall be deemed automatically exercised pursuant to the net issuance (cashless exercise) provisions set forth above (even if not surrendered) immediately before its expiration. For purposes of such automatic exercise, the Current Market price (as defined in Section 5) of one share of the Common Stock upon such expiration shall be determined pursuant to Section 6. To the extent this Warrant or any portion thereof is deemed automatically exercised pursuant to this paragraph, the Company agrees to promptly notify the Holder of the number of shares of Common Stock, if any, the Holder is to receive by reason of such automatic exercise and shall send such certificates representing the shares that the Holder is entitled, to the Holder within a reasonable time not to exceed fifteen (15) days.

2.2 Transfer Restriction Legend. Each certificate for Warrant Shares shall bear the following legend (and any additional legend required by (i) any applicable state securities laws and (ii) any securities exchange upon which such Warrant Shares may, at the time of such exercise, be listed) on the face thereof unless at the time of exercise such Warrant Shares shall be registered under the Securities Act:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be sold or transferred in the absence of such registration or an exemption therefrom under said Act."

Any certificate issued at any time in exchange or substitution for any certificate bearing such legend (except a new certificate issued upon completion of a public distribution under a registration statement of the securities represented thereby) shall also bear such legend unless, in the opinion of counsel for the Holder thereof (which counsel shall be reasonably satisfactory to the Company) the securities represented thereby are not, at such time, required by law to bear such legend.

SECTION 3. Covenants as to Common Stock. The Company covenants and agrees that all shares of Common Stock that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued, fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that it will pay when due and payable any and all federal and state taxes which may be payable in respect of the issue of this Warrant or any Common Stock or certificates therefor issuable upon the exercise of this Warrant other than taxes based on the gross or net income of the Holder. The Company further covenants and agrees that the Company will at all times have authorized and reserved, free from preemptive rights, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant. The Company further covenants and agrees that if any shares of capital stock to be reserved for the purpose of the issuance of shares upon the exercise of this Warrant require registration with or approval of any governmental authority under any federal or state law before such shares may be validly issued or delivered upon exercise, then the Company will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be. If and so long as the Common Stock issuable upon the exercise of this Warrant is listed on any national securities exchange, the Company will, if permitted by the rules of such exchange, list and keep listed on such exchange, upon official notice of issuance, all shares of such Common Stock issuable upon exercise of this Warrant.

SECTION 4. Intentionally deleted.

SECTION 5. Adjustment of Number of Shares. Upon each adjustment of the Warrant Price as provided in Section 6, the Holder shall thereafter be entitled to purchase, at the Warrant Price

resulting from such adjustment, only the number of shares (calculated to the nearest tenth of a share) obtained by multiplying the Warrant Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Warrant Price resulting from such adjustment.

SECTION 6. Adjustment of Warrant Price. The Warrant Price shall be subject to adjustment from time to time as follows:

(i) If, at any time during the Term of this Warrant, the number of shares of Common Stock outstanding is increased by a stock dividend payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, then, following the record date fixed for the determination of holders of Common Stock entitled to receive such stock dividend, subdivision or split-up, the Warrant Price shall be appropriately decreased so that the number of shares of Common Stock issuable upon the exercise hereof shall be increased in proportion to such increase in outstanding shares.

(ii) If, at any time during the Term of this Warrant, the number of shares of Common Stock outstanding is decreased by a combination of the outstanding shares of Common Stock, then, following the record date for such combination, the Warrant Price shall appropriately increase so that the number of shares of Common Stock issuable upon the exercise hereof shall be decreased in proportion to such decrease in outstanding shares.

(iii) In case, at any time during the Term of this Warrant, the Company shall declare a cash dividend upon its Common Stock payable otherwise than out of earnings or earned surplus or shall distribute to holders of its Common Stock shares of its capital stock (other than Common Stock), stock or other securities of other persons, evidences of indebtedness issued by the Company or other persons, assets (excluding cash dividends and distributions) or options or rights (excluding options to purchase and rights to subscribe for Common Stock or other securities of the Company convertible into or exchangeable for Common Stock), then, in each such case, immediately following the record date fixed for the determination of the holders of Common Stock entitled to receive such dividend or distribution, the Warrant Price in effect thereafter shall be determined by multiplying the Warrant Price in effect immediately prior to such record date by a fraction of which the numerator shall be an amount equal to the difference between (x) the Current Market Price of one share of Common Stock and (y) the fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive) of the amount of cash, stock, securities, evidences of indebtedness, assets, options or rights, as the case may be, so distributed in respect of one share of Common Stock, and of which the denominator shall be such Current Market Price.

(iv) All calculations under this Section 6 shall be made to the nearest cent or to the nearest one-tenth (1/10) of a share, as the case may be.

(v) For the purpose of any computation pursuant to this Section 6, the Current Market Price at any date of one share of Common Stock shall be deemed to be the average of the daily closing prices for the 5 consecutive business days ending on the last business day before the day in question (as adjusted for any stock dividend, split, combination or reclassification that took effect during such 5 business day period). The closing price for each day shall be the last reported sales price regular way or, in case no such reported sales took place on such day, the average of the last reported bid and asked prices regular way, in either case on the principal national securities exchange on which the Common Stock is listed or admitted to trading or as reported by Nasdaq (or if the Common Stock is not at the time listed or admitted for trading on any such exchange or if prices of the Common Stock are not reported by Nasdaq then such price shall be equal to the average of the last reported bid and asked prices on such day as reported by The National Quotation Bureau Incorporated or any similar reputable quotation and reporting service, if such

quotation is not reported by The National Quotation Bureau Incorporated); provided, however, that if the Common Stock is not traded in such manner that the quotations referred to in this clause (v) are available for the period required hereunder, the Current Market Price shall be determined in good faith by the Board of Directors of the Company.

(vi) Whenever the Warrant Price shall be adjusted as provided in Section 6, the Company shall prepare a statement showing the facts requiring such adjustment and the Warrant Price that shall be in effect after such adjustment. The Company shall cause a copy of such statement to be sent by mail, first class postage prepaid, to each Holder of this Warrant at its, his or her address appearing on the Company's records. Where appropriate, such copy may be given in advance and may be included as part of the notice required to be mailed under the provisions of subsection (x) of this Section 6.

(vii) Adjustments made pursuant to clauses (i), (ii) and (iii) above shall be made on the date such dividend, subdivision, split-up, combination or distribution, as the case may be, is made, and shall become effective at the opening of business on the business day next following the record date for the determination of stockholders entitled to such dividend, subdivision, split-up, combination or distribution.

(viii) In the event the Company shall propose to take any action of the types described in clauses (i), (ii) and (iii) of this Section 6, the Company shall forward, at the same time and in the same manner, to the Holder of this Warrant such notice, if any, which the Company shall give to the holders of capital stock of the Company.

(ix) In any case in which the provisions of this Section6shall require that an adjustment shall become effective immediately after a record date for an event, the Company may defer until the occurrence of such event issuing to the Holder of all or any part of this Warrant which is exercised after such record date and before the occurrence of such event the additional shares of capital stock issuable upon such exercise by reason of the adjustment required by such event over and above the shares of capital stock issuable upon such exercise before giving effect to such adjustment exercise; provided, however, that the Company shall deliver to such Holder a due bill or other appropriate instrument evidencing such Holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

SECTION 7. Ownership.

7.1 Ownership of This Warrant. The Company may deem and treat the person in whose name this Warrant is registered as the holder and owner hereof (notwithstanding any notations of ownership or writing hereon made by anyone other than the Company) for all purposes and shall not be affected by any notice to the contrary until presentation of this Warrant for registration of transfer as provided in this Section 7.

7.2 Transfer and Replacement. This Warrant and all rights hereunder are transferable in whole or in part upon the books of the Company by the Holder hereof in person or by duly authorized attorney, and a new Warrant or Warrants, of the same tenor as this Warrant but registered in the name of the transferee or transferees (and in the name of the Holder, if a partial transfer is effected) shall be made and delivered by the Company upon surrender of this Warrant duly endorsed, at the office of the Company referred to in Section 15 hereof. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft or destruction, and, in such case, of indemnity or security reasonably satisfactory to it, and upon surrender of this Warrant if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu of this Warrant. This Warrant shall be promptly cancelled by the Company upon the surrender hereof in connection with any transfer or replacement. Except as otherwise provided above, in the case of the loss, theft or destruction of a Warrant, the Company shall pay all expenses, taxes

and other charges payable in connection with any transfer or replacement of this Warrant, other than stock transfer taxes (if any) payable in connection with a transfer of this Warrant, which shall be payable by the Holder. Holder will not transfer this Warrant and the rights hereunder except in compliance with federal and state securities laws.

SECTION 8. Mergers, Consolidation, Sales. In the case of any proposed consolidation or merger of the Company with another entity, or the proposed sale of all or substantially all of its assets to another person or entity, or any proposed reorganization or reclassification of the capital stock of the Company, then, as a condition of such consolidation, merger, sale, reorganization or reclassification, the Company shall give 10 days' prior written notice thereof to the Holder hereof and lawful and adequate provision shall be made whereby the Holder of this Warrant shall thereafter have the right to receive upon the basis and upon the terms and conditions specified herein, in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable hereunder, such shares of stock, securities or assets as may (by virtue of such consolidation, merger, sale, reorganization or reclassification) be issued or payable with respect to or in exchange for the number of shares of such Common Stock purchasable hereunder immediately before such consolidation, merger, sale, reorganization or reclassification. In any such case appropriate provision shall be made with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof shall thereafter be applicable as nearly as may be practicable, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of this Warrant.

Notwithstanding the term of this Warrant fixed pursuant to Section 1 above and the provisions of this Section 8, the right to purchase Common Stock as granted herein shall expire, to the extent not previously exercised, immediately upon the closing of a merger or consolidation of the Company with or into another corporation when the Company is not the surviving corporation (other than a merger or consolidation for the principal purpose of changing the domicile of the Company), provided (1) that any securities received in such merger or consolidation are publicly traded or all or substantially all of the Company's capital stock, properties and assets are sold to any other person, in each case where the stockholders of the Company immediately prior to such merger, consolidation or sale of assets own (directly or indirectly) less than 50% of the voting securities of the surviving entity or purchaser of assets in such transaction (collectively, a "Merger") and (2) that the Company has given thirty (30) days written notice to the Holder stating that a Merger is to be completed and that this Warrant will expire unless exercised prior to or in connection with the Merger, except to the extent assumed by the successor corporation (or parent thereof) in connection with such Merger. In the event that any outstanding warrants to purchase equity securities of the Company are assumed, this Warrant shall also be similarly assumed.

SECTION 9. Notice of Dissolution or Liquidation. In case of any distribution of the assets of the Company in dissolution or liquidation (except under circumstances when the foregoing Section 8 shall be applicable), the Company shall give 10 days' notice thereof to the Holder hereof and shall make no distribution to shareholders until the expiration of thirty (30) days from the date of mailing of the aforesaid notice and, in any case, the Holder hereof may exercise this Warrant within thirty ten (10) days from the date of the receipt of such notice, and all rights herein granted not so exercised within such ten-day period shall thereafter become null and void.

SECTION 10. Notice of Extraordinary Dividends. If the Board of Directors of the Company shall declare any dividend or other distribution on its Common Stock except out of earned surplus or by way of a stock dividend payable in shares of its Common Stock, the Company shall mail notice thereof to the Holder hereof not less than ten (10) days prior to the record date fixed for determining shareholders entitled to participate in such dividend or other distribution, and the Holder hereof shall not participate in such dividend or other distribution

unless this Warrant is exercised prior to such record date. The provisions of this Section 10shall not apply to distributions made in connection with transactions covered by

Section 8.

SECTION 11. Fractional Shares. Fractional shares shall not be issued upon the exercise of this Warrant but in any case where the Holder would, except for the provisions of this Section 11, be entitled under the terms hereof to receive a fractional share upon the complete exercise of this Warrant, the Company shall, upon the exercise of this Warrant for the largest number of whole shares then called for, pay a sum in cash equal to the excess of the value of such fractional share (determined in such reasonable manner as may be prescribed in good faith by the Board of Directors of the Company) over the Warrant Price for such fractional share.

SECTION 12. Special Arrangements of the Company. The Company covenants and agrees that during the Term of this Warrant, unless otherwise approved by the Holder of this Warrant

12.1 Will Not Amend Certificate. The Company will not amend its Articles or Certificate of Incorporation to eliminate as an authorized class of capital stock that class denominated as "Common Stock" on the date hereof.

12.2 Will Bind Successors. This Warrant shall be binding upon any corporation or other person or entity succeeding to the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets.

SECTION 13. Registration Rights; Etc. Intentionally omitted.

SECTION 14. Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Securities and Exchange Commission (the "Commission") which may permit the sale of the Warrant Shares to the public without registration, the Company agrees to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times that the Holder holds Warrant Shares from and after ninety (90) days following the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) File with the Commission in a timely manner all reports and other documents required of the Company under the Exchange Act at any time after it has become subject to such reporting requirements; and

(c) So long as the Holder owns any Warrant Shares, furnish to the Holder forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time from and after the end of the ninety (90) day period referred to in clause (i)), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed as the Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing the Holder to sell any such securities without registration.

SECTION 15. Notices. Any notice or other document required or permitted to be given or delivered to the Holder shall be delivered at, or sent by certified or registered mail to, the Holder at Transamerica Technology Finance Division, 76 Batterson Park Road, Farmington, Connecticut 06032, Attention: Assistant Vice President, Loan Administration, with a copy to the Lender at Riverway II, West Office Tower, 9399 West Higgins Road, Rosemont, Illinois 60018, Attention: Legal Department or to such other address as shall have been furnished to the Company in

writing by the Holder. Any notice or other document required or permitted to be given or delivered to the Company shall be delivered at, or sent by certified or registered mail to, the Company at 240 East Grand Avenue, South San Francisco, California 94080, or to such other address as shall have been furnished in writing to the Holder by the Company. Any notice so addressed and mailed by registered or certified mail shall be deemed to be given when so mailed. Any notice so addressed and otherwise delivered shall be deemed to be given when actually received by the addressee.

SECTION 16. No Rights as Stockholder; Limitation of Liability. This Warrant shall not entitle the Holder to any of the rights of a shareholder of the Company except upon exercise in accordance with the terms hereof. No provision hereof, in the absence of affirmative action by the Holder to purchase shares of Common Stock, and no mere enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the Warrant Price hereunder or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

SECTION 17. Law Governing. THE VALIDITY, INTERPRETATION, AND ENFORCEMENT OF THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

SECTION 18. Miscellaneous.

(a) This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by both parties (or any respective predecessor in interest thereof). The headings in this Warrant are for purposes of reference only and shall not affect the meaning or construction of any of the provisions hereof.

(b) All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement.

SECTION 19. Representations of Holder.

(a) Investment Representation. Holder is aware that the Warrant and the Warrant Shares have not been registered under the Securities Act, or qualified under the California Corporate Securities Law of 1968, as amended, or any other state securities of "blue sky" laws. The Warrant and the Warrant Shares are being acquired by it for investment purposes only and not for sale or with a view to distribution of all or any part of such Warrant or Warrant Shares.

(b) Access to Information. Holder has had an opportunity to ask questions and receive answers from the Company regarding the business, financial affairs and other aspects of the Company, and it has further had the opportunity to obtain any information (to the extent the Company possesses or can acquire such information without unreasonable effort or expense) which it deems necessary to evaluate its investment or to verify the accuracy of information otherwise provided to it.

(c) Investment Experience. Holder is experienced in evaluating and investing in companies such as the Company, is capable of evaluating the merits and risks of its investment in the Warrant and the Warrant Shares, is able to bear the economic risk of the investment and is prepared to hold the Warrant and the Warrant Shares for an indefinite period of time. Holder is an "accredited investor," within the meaning of Regulation D under the Securities Act.

(d) **Restricted Securities**. Holder understands that the Warrant and the Warrant Shares will be characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering, and that under such laws and applicable regulations such securities may be resold without registration under the Act only in certain limited circumstances. In this connection, Holder represents that it is familiar with Rule 144 under the Securities Act, as presently in effect, and the conditions which must be met in order for that Rule to be available for resale of restricted securities, and understands the resale limitations imposed by the Securities Act.

Signature page to follow.

Signature page to Stock Subscription Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer on the 24th day of January, 2002.

Rigel Pharmaceuticals, Inc.

By: /s/ James H. Welch
Title: Chief Financial Officer

FORM OF NOTICE OF EXERCISE

[To be signed only upon exercise of the Warrant]

TO BE EXECUTED BY THE REGISTERED HOLDER

TO EXERCISE THE WITHIN WARRANT

The undersigned hereby exercises the right to purchase shares of Common Stock which the undersigned is entitled to purchase by the terms of the within Warrant according to the conditions thereof, and herewith

[check appropriate box(es)]

☐ makes payment of $ therefor in cash;

☐ makes payment of $ therefor through cancellation of indebtedness; or

☐ directs the Company to issue shares, and to withhold shares in lieu of payment of the Warrant Price, as described in Section 2.1 of the Warrant.

All shares to be issued pursuant hereto shall be issued in the name of and the initial address of such person to be entered on the books of shall be:

The shares are to be issued in certificates of the following denominations:

[Type Name of Holder]

By:
Title:

Dated:

FORM OF ASSIGNMENT

(ENTIRE)

[To be signed only upon transfer of entire Warrant]

TO BE EXECUTED BY THE REGISTERED HOLDER

TO TRANSFER THE WITHIN WARRANT

FOR VALUE RECEIVED hereby sells, assigns and transfers unto all rights of the undersigned under and pursuant to the within Warrant, and the undersigned does hereby irrevocably constitute and appoint Attorney to transfer the said Warrant on the books of , with full power of substitution.

[Type Name of Holder]

By: _____
Title: _____

Dated: _____

NOTICE

The signature to the foregoing Assignment must correspond to the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatsoever.

FORM OF ASSIGNMENT

(PARTIAL)

[To be signed only upon partial transfer of Warrant]

TO BE EXECUTED BY THE REGISTERED HOLDER

TO TRANSFER THE WITHIN WARRANT

FOR VALUE RECEIVED hereby sells, assigns and transfers unto (i) the rights of the undersigned to purchase shares of Common Stock under and pursuant to the within Warrant, and (ii) on a non-exclusive basis, all other rights of the undersigned under and pursuant to the within Warrant, it being understood that the undersigned shall retain, severally (and not jointly) with the transferee(s) named herein, all rights assigned on such non-exclusive basis. The undersigned does hereby irrevocably constitute and appoint Attorney to transfer the said Warrant on the books of , with full power of substitution.

_____
[Type Name of Holder]

By: _____
Title: _____

Dated: _____

NOTICE

The signature to the foregoing Assignment must correspond to the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatsoever.