

**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 JUNE 30, 2003.

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
(State or other jurisdiction of incorporation or organization)

94-3248524
(I.R.S. Employer Identification No.)

1180 Veterans Blvd.
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

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

As of August 1, 2003, there were 14,785,300 shares of the registrant's common stock outstanding.

RIGEL PHARMACEUTICALS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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Item 1. Condensed Financial Statements

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

	June 30, 2003 (unaudited)	December 31, 2002 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 58,092	\$ 26,535
Available-for-sale securities	—	756
Accounts receivable	717	1,503
Receivable from landlord	—	6,175
Prepaid expenses and other current assets	1,796	1,894
Total current assets	<u>60,605</u>	<u>36,863</u>
Property and equipment, net	4,500	5,206
Other assets	2,150	2,273
	<u>\$ 67,255</u>	<u>\$ 44,342</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,031	\$ 3,460
Accrued compensation	860	799
Accrued liabilities	1,104	2,662
Deferred revenue	3,525	4,061
Capital lease obligations	2,760	3,388
Total current liabilities	<u>9,280</u>	<u>14,370</u>
Capital lease obligations	1,902	2,313
Long-term portion of deferred revenue	1,013	2,147
Deferred rent	2,408	71
Other long-term liabilities	400	—
Commitments		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 13,167,556 and 5,078,025 shares issued and outstanding on June 30, 2003 and December 31, 2002, respectively	13	5
Additional paid-in capital	185,690	141,023
Deferred stock compensation	(338)	(772)
Accumulated other comprehensive income	—	(1)
Accumulated deficit	<u>(133,080)</u>	<u>(114,814)</u>
	52,285	25,441
Less treasury stock, at cost: 4,525 and no shares at June 30, 2003 and December 31, 2002, respectively	<u>(33)</u>	<u>—</u>
Total stockholders' equity	<u>52,252</u>	<u>25,441</u>
	<u>\$ 67,255</u>	<u>\$ 44,342</u>

Note (1) The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date included in Rigel's Form 10-K, for the fiscal year ended December 31, 2002, as amended.

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003 (unaudited)	2002	2003 (unaudited)	2002
Revenues:				
Contract revenues from collaborations	\$ 2,349	\$ 4,337	\$ 6,846	\$ 8,435
Costs and expenses:				
Research and development	10,698	12,066	20,708	22,157
General and administrative	2,012	2,761	4,046	5,205
	<u>12,710</u>	<u>14,827</u>	<u>24,754</u>	<u>27,362</u>
Loss from operations	(10,361)	(10,490)	(17,908)	(18,927)
Loss on sale of property and equipment	—	—	(169)	—
Interest income	46	266	118	560
Interest expense	(151)	(222)	(307)	(451)
Net loss	<u>\$ (10,466)</u>	<u>\$ (10,446)</u>	<u>\$ (18,266)</u>	<u>\$ (18,818)</u>
Net loss per share, basic and diluted	<u>\$ (1.90)</u>	<u>\$ (2.07)</u>	<u>\$ (3.45)</u>	<u>\$ (3.81)</u>
Weighted average shares used in computing net loss per common share, basic and diluted	<u>5,496</u>	<u>5,038</u>	<u>5,296</u>	<u>4,933</u>

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

	Six Months Ended June 30,	
	2003	2002
	(unaudited)	
Operating activities:		
Net loss	\$ (18,266)	\$ (18,818)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,449	2,453
Amortization of deferred stock compensation	377	734
Non-cash stock compensation recovery	(599)	(10)
Issuances of equity instruments for non-cash benefits	24	9
Loss on sale of property and equipment	169	
Changes in assets and liabilities:		
Accounts receivable	786	(610)
Prepaid expenses and other current assets, including receivable from landlord	6,273	88
Other assets	123	(136)
Accounts payable	(2,429)	754
Accrued compensation	61	165
Accrued liabilities	(1,558)	556
Deferred revenue	(1,670)	(393)
Deferred rent	2,337	(431)
Net cash used in operating activities	<u>(12,923)</u>	<u>(15,639)</u>
Investing activities:		
Purchase of available-for-sale securities	—	(23,001)
Maturities of available-for-sale securities	757	19,325
Proceeds from the sale of property and equipment	71	—
Capital expenditures	(984)	(3,536)
Net cash used in investing activities	<u>(156)</u>	<u>(7,212)</u>
Financing activities:		
Proceeds from capital lease financing	867	1,564
Principal payments on capital lease obligations	(1,906)	(1,809)
Advance from landlord	400	—
Net proceeds from issuances of common stock and warrants	45,275	31,685
Net cash provided by financing activities	<u>44,636</u>	<u>31,440</u>
Net increase in cash and cash equivalents	31,557	8,589
Cash and cash equivalents at beginning of period	26,535	11,488
Cash and cash equivalents at end of period	<u>\$ 58,092</u>	<u>\$ 20,077</u>

See accompanying notes.

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

In this Quarterly Report, "Rigel," "we," "us" and "our" refer to Rigel Pharmaceuticals, Inc.

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

Our accompanying unaudited condensed financial statements 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 condensed financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary to fairly state our financial position and the results of our operations and cash flows. Interim-period results are not necessarily indicative of results of operations or cash flows for a full-year period. The balance sheet at December 31, 2002 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.

On June 24, 2003, we effected a 1-for-9 reverse stock split of our outstanding common stock, after our stockholders approved the proposal for a reverse split at our annual meeting of stockholders held on June 20, 2003. As a result of the reverse stock split, each outstanding share of common stock automatically converted into one-ninth of a share of common stock, with the par value of each share of common stock remaining at one tenth of one cent (\$.001) per share. Accordingly, common stock share and per share amounts for all periods presented have been adjusted to reflect the impact of the reverse stock split.

These unaudited condensed financial statements and the notes accompanying them should be read in conjunction with our Annual Report on Form 10-K, as amended, for the year ended December 31, 2002.

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

3. Stock Award Plans

We have elected to continue to follow Accounting Principles Board Opinion No. 25 (or APB 25), "Accounting for Stock Issued to Employees," to account for employee stock options because the alternative fair value method of accounting prescribed by Statement of Financial Accounting Standards (or FAS) No. 123, "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, the intrinsic value method of accounting, no compensation expense is recognized because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant.

Pro forma information regarding net loss and net loss per share has been determined as if we had accounted for our employee stock options and employee stock purchase plan under the fair value method prescribed by SFAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes model. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options. Our pro forma information follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss—as reported:	\$ (10,466)	\$ (10,446)	\$ (18,266)	\$ (18,818)
Add back: Total stock-based employee compensation determined under APB 25	(8)	(290)	203	(723)
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards	660	979	1,265	1,773
Pro forma net loss	<u>(11,118)</u>	<u>(11,135)</u>	<u>(19,734)</u>	<u>(19,868)</u>
Basic and diluted net loss per common share:				
As reported	\$ (1.90)	\$ (2.07)	\$ (3.45)	\$ (3.81)
Pro forma	\$ (2.04)	\$ (2.21)	\$ (3.73)	\$ (4.03)

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4. Net Loss Per Share

Basic earnings per share excludes any dilutive effects of options or warrants. The calculation of diluted net loss per share excludes shares of potential common stock if the effect is anti-dilutive.

5. 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. Under these agreements, we are required to perform research and development activities as specified in each respective agreement. The payments received are not refundable and are generally based on a contractual cost per full-time equivalent employee working on the project. 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.

Milestone payments are recognized pursuant to collaborative agreements upon the achievement of these specified at-risk milestones and upon acknowledgement by the collaborator.

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.

6. Reduction in Force

On January 31, 2003, we implemented a restructuring plan to reduce the rate of our cash consumption and better align our operating structure with current and expected future economic conditions. The restructuring plan included an immediate reduction in force of approximately 16%, or 25 employees, to 135 employees, with reductions occurring in all functional areas. Two of our officers were included in this reduction in force. All employees were given severance payments based on length of service at Rigel. All severance payments were made prior to March 31, 2003 except for one payment which was made in April 2003. During the six months ended June 30, 2003, we recognized approximately \$599,000 of stock-based compensation recovery associated with the unvested options of the terminated employees that were cancelled which had previously been recognized under the graded vesting method of deferred compensation amortization.

7. Equipment Financing Amendment

On March 17, 2003, we amended a certain equipment lease agreement to allow for the buyout provision to be paid over a period of months rather than in a lump sum. The buyout provision of this amendment relates to approximately \$2.9 million of original equipment and tenant improvement purchases. As a result of this amendment, we are committed to an additional \$370,000 of payments through January 2004.

8. Equity Financing

On June 26, 2003, we completed a private placement with net proceeds of \$45.0 million led by MPM Capital that included Frazier Healthcare, Alta Partners and HBM BioVentures. In the private placement, we issued 7,986,110 shares of our common stock at a price of \$5.76 per share and warrants to purchase an additional 1,597,221 shares of our common stock at an exercise price of \$5.76 per share. The fair value of these warrants, as determined by the Black-Scholes valuation model, was approximately \$11.0 million. This amount has been allocated within "Additional paid-in capital" in our financial statements. For so long as MPM Capital holds at least 10% of the outstanding shares of our common stock, we will use our commercially reasonable best efforts to (i) cause two designees of MPM Capital to be nominated and elected to our board of directors; (ii) appoint one designee to serve on the nominating committee of our board of directors; and (iii) appoint one designee to serve on the compensation committee of our board of directors. These board appointments were completed in conjunction with the closing of the financing on June 26, 2003.

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9. Subsequent Events

On June 27, 2003 we initiated an offer to exchange options to purchase shares of our common stock with exercise prices equal to or greater than \$9.00 per share currently outstanding under our 2000 Equity Incentive Plan (or 2000 Plan), 2001 Non-Officer Equity Incentive Plan and 2000 Non-Employee Directors' Stock Option Plan, for replacement options to purchase shares of our common stock to be granted under the 2000 Plan. There were outstanding eligible options to purchase an aggregate of 367,961 shares of our common stock as of June 26, 2003. Only officers, employees not on certain leaves of absence, consultants, and non-employee members of Rigel's board of directors as of June 27, 2003, who continued to be employed through the offer expiration date of July 25, 2003, were eligible to participate in the offer. We offered to conduct the exchange with respect to eligible options on a one-for-one (1:1) basis. Our option exchange offer expired at 11:59 PM, Pacific Daylight Time, on Friday, July 25, 2003. On July 28, 2003, we accepted for cancellation options to purchase an aggregate of 344,207 shares of our common stock. On July 28, 2003, we granted replacement options to purchase an aggregate of 344,207 shares of our common stock at an exercise price of \$9.20 per share, the fair market value on the date of the grant. Subject to the continuation of the optionholders' employment, service as a consultant or service as a non-employee member of our board of directors, the replacement options will vest as follows: one-fifth (1/5th) of the shares covered by the replacement options will vest on the six-month anniversary of the date of grant; one-fifth (1/5th) of the shares covered by the replacement options will vest on the twelve-month anniversary of the date of grant; and three-fifths (3/5ths) of the shares covered by the replacement options will vest in twenty-four (24) equal monthly installments over the following two (2) years. The replacement options will expire, at the latest, on the day three (3) years and five (5) business days after the date of grant (if it has not expired earlier due to the optionholders' termination of employment, service as a consultant or service as a non-employee member of our board of directors). All replacement options, as well as the eligible options that were not surrendered under the original offer to exchange, will be treated for financial reporting purposes as variable awards. Therefore, we will record a non-cash charge reflecting increases and decreases (down to, but not below, the exercise price) in the price of our common stock in compensation expense in connection with the replacement options and the eligible options that were not exchanged. We will continue to reflect decreases and increases in the price of our common stock in our statement of operations with respect to these options until they are exercised, forfeited or terminated. The higher the market value of our common stock, the greater the compensation expense.

Rights Offering

On June 27, 2003, we initiated a rights offering pursuant to which non-transferable rights to purchase up to an aggregate of 1,736,111 shares of our common stock at a purchase price of \$5.76 per share were offered to our stockholders of record as of April 29, 2003, other than certain stockholders affiliated with the investors in the private placement completed on June 26, 2003. Each such stockholder of record received one basic subscription right to purchase 0.4508 of a share of Rigel common stock at \$5.76 per share for each share owned as of the record date. By July 25, 2003, the expiration of the rights offering period, our stockholders had elected to purchase an aggregate of 1.6 million shares of our common stock for aggregate gross proceeds to us of \$9.3 million. The shares were issued to the participating stockholders on July 31, 2003.

Independent Accountants' Review Report

The Board of Directors
Rigel Pharmaceuticals, Inc.

We have reviewed the accompanying condensed balance sheet of Rigel Pharmaceuticals, Inc. as of June 30, 2003, and the related condensed statements of operations for the three and six-month periods ended June 30, 2003 and 2002, and the condensed statements of cash flows for the six-month periods ended June 30, 2003 and 2002. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of Rigel Pharmaceuticals, Inc. as of December 31, 2002, and the related statements of operations, stockholders' equity, and cash flows for the year then ended and in our report dated January 24, 2003 (except for note 9, as to which the date is January 31, 2003), we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2002, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Palo Alto, California
July 22, 2003

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 2002 audited financial statements and accompanying notes included in our 2002 Annual Report on Form 10-K, as amended. Operating results for the three and six months ended June 30, 2003 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 2002 Annual Report on Form 10-K, as amended, 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

Rigel's mission is to become a source of novel, small-molecule drugs to meet large, unmet medical needs. Our business model is to develop a portfolio of drug candidates and to take these through Phase II clinical trials, after which we intend to seek partners for completion of clinical trials, regulatory approval and marketing. We have identified three lead product development programs: mast cell inhibition to treat immunologic diseases such as asthma/allergy and autoimmune disorders, antiviral agents to treat Hepatitis C and ubiquitin ligases, a new class of cancer drug targets. Rigel has begun clinical testing of its first product candidate, R112, for allergic rhinitis, and plans to begin clinical trials of three additional drug candidates for the treatment of hepatitis C, rheumatoid arthritis and asthma through the end of 2004. We have incurred net

losses since inception and expect to incur substantial and increasing losses for the next several years as we continue 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 June 30, 2003, our accumulated deficit was approximately \$133.0 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 four major pharmaceutical companies: Johnson & Johnson, Pfizer, Inc., Novartis Pharma AG, and Daiichi Pharmaceuticals Co. Ltd. Johnson & Johnson, Pfizer and Novartis have provided all of our revenues over the last three years. The Daiichi collaboration was entered into in the last half of 2002.

A summary of these partnerships is as follows:

Partner	Research Program	Commencement Date	Research Phase Termination Date
Johnson & Johnson	Tumor Growth—Cell Cycle Inhibition	December 4, 1998	December 2003
Pfizer	Asthma/Allergy—IgE Production in B Cells	January 31, 1999	February 2002
Novartis	Transplant Rejection—T Cell Activation	May 26, 1999	November 2002
Novartis	Autoimmunity Disease—B Cell Activation	August 1, 1999	February 2003
Novartis	Chronic Bronchitis (conducted at Novartis)	January 1, 2000	Ongoing at Novartis
Novartis	Tumor Growth—Inhibition of Tumor Angiogenesis	July 6, 2001	July 2004
Daiichi	Tumor Growth—Protein Degradation Oncology Target	August 1, 2002	August 2005

Under the terms of these collaborations, Johnson & Johnson, Novartis and Daiichi have agreed to provide up to approximately \$6.1 million in future research funding over the next three years, none of which is cancelable at the option of these partners. In addition, both during the research phase and subsequent to the termination of the research phase, we may receive additional payments upon the achievement of specific research and development milestones and royalties upon commercialization of any products.

During March 2003, we recognized a milestone with Daiichi for approximately \$1.9 million associated with the completion of a

certain research phase of our ongoing collaboration. The full amount was collected during March 2003.

In order to maintain and increase proceeds from collaborations, we are exploring new opportunities with existing and new potential collaborators. Our earliest partnerships 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 (or HTS), and our recent collaboration with Daiichi focuses on drug discovery and development. We currently anticipate that in order to support our current research programs we will need to 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 may have an expanded focus and could include HTS, combinatorial and medicinal chemistry, preclinical 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 collaborations 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 remaining Novartis program focuses on angiogenesis and is a multiple-year agreement with the research phase terminating in 2004, the Johnson & Johnson collaboration concludes its research phase at the end of 2003 and the Daiichi collaboration concludes its research phase in August 2005. 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.

Recent Developments

On June 24, 2003, we effected a 1-for-9 reverse stock split of our outstanding common stock, after our stockholders approved the proposal for a reverse split at our annual meeting of stockholders held on June 20, 2003. Immediately following the reverse split we had a total of 5,159,519 shares of common stock outstanding.

On June 26, 2003, we completed a private placement with net proceeds of \$45.0 million led by MPM Capital that included Frazier Healthcare, Alta Partners and HBM BioVentures. In the private placement, we issued 7,986,110 shares of our common stock at a price of \$5.76 per share and warrants to purchase an additional 1,597,221 shares of our common stock at an exercise price of \$5.76 per share. As a result of their combined approximate 70.5% ownership (without giving effect to the exercise of the warrants and based on 13,167,556 shares outstanding as of June 30, 2003), the investors obtained control over Rigel. The investors hold the requisite percentage of our outstanding shares so as to permit them, if they choose to act in concert, to take actions requiring stockholder approval without obtaining the approval of our other stockholders. For so long as MPM Capital holds at least 10% of the outstanding shares of our common stock, we will use our commercially reasonable best efforts to (i) cause two designees of MPM Capital to be nominated and elected to our board of directors; (ii) appoint one designee to serve on the nominating committee of our board of directors; and (iii) appoint one designee to serve on the compensation committee of our board of directors. These board appointments were completed in conjunction with the closing of the financing on June 26, 2003.

On June 27, 2003 we initiated an offer to exchange options to purchase shares of our common stock with exercise prices equal to or greater than \$9.00 per share currently outstanding under our 2000 Equity Incentive Plan (or 2000 Plan), 2001 Non-Officer Equity Incentive Plan and 2000 Non-Employee Directors' Stock Option Plan, for replacement options to purchase shares of our common stock to be granted under the 2000 Plan. There were outstanding eligible options to purchase an aggregate of 367,961 shares of our common stock as of June 26, 2003. Only officers, employees not on certain leaves of absence, consultants, and non-employee members of Rigel's board of directors as of June 27, 2003, who continued to be employed through the offer expiration date of July 25, 2003, were eligible to participate in the offer. We offered to conduct the exchange with respect to eligible options on a one-for-one (1:1) basis. Our option exchange offer expired at 11:59 PM, Pacific Daylight Time, on Friday, July 25, 2003. On July 28, 2003, we accepted for cancellation options to purchase an aggregate of 344,207 shares of our common stock. On July 28, 2003, we granted replacement options to purchase an aggregate of 344,207 shares of our common stock at an exercise price of \$9.20 per share, the fair market value on the date of grant. Subject to the continuation of the optionholders' employment, service as a consultant or service as a non-employee member of our board of directors, the replacement options will vest as follows: one-fifth (1/5th) of the shares covered by the replacement options will vest on the six-month anniversary of the date of grant; one-fifth (1/5th) of the shares covered by the replacement options will vest on the twelve-month anniversary of the date of grant; and three-fifths (3/5ths) of the shares covered by the replacement options will vest in twenty-four (24) equal monthly installments over the following two (2) years. The replacement options will expire, at the latest, on the day three (3) years and five (5) business days after the date of grant (if it has not expired earlier due to the optionholders' termination of employment, service as a consultant or service as a non-employee member of our board of directors). All replacement options, as well as the eligible options that were not surrendered under the original offer to exchange, will be treated for financial reporting purposes as variable awards. Therefore, we will record a non-cash charge reflecting increases and decreases (down to, but not below, the

exercise price) in the price of our common stock in compensation expense in connection with the replacement options and the eligible options that were not exchanged. We will continue to reflect decreases and increases in the price of our common stock in our statement of operations with respect to these options until they are exercised, forfeited or terminated. The higher the market value of our common stock, the greater the compensation expense.

On June 27, 2003, we initiated a rights offering pursuant to which non-transferable rights to purchase up to an aggregate of 1,736,111 shares of our common stock at a purchase price of \$5.76 per share were offered to our stockholders of record as of April 29, 2003, other than certain stockholders affiliated with the investors in the private placement completed on June 26, 2003. Each such stockholder of record received one basic subscription right to purchase 0.4508 of a share of Rigel common stock at \$5.76 per share for each share owned as of the record date. By July 25, 2003, the expiration of the rights offering period, our stockholders had elected to purchase an aggregate of 1.6 million shares of our common stock for aggregate gross proceeds to us of \$9.3 million. The shares were issued to the participating stockholders on July 31, 2003.

Critical Accounting Policies and the Use of Estimates

Our discussion and analysis of our financial condition and results of operations are 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 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. Under these agreements, we are required to perform research and development activities as specified in each respective agreement. The payments received are not refundable and are generally based on a contractual cost per full-time equivalent employee working on the project. 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.

Milestone payments are recognized pursuant to collaborative agreements upon the achievement of 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

As a result of our reduction in force on January 31, 2003, we recognized approximately \$599,000 of stock-based compensation recovery associated with the unvested and cancelled options of the terminated employees which had previously been recognized under the graded vesting method of deferred compensation amortization. We amortized deferred stock compensation of \$0.4 million and \$0.7 million for the six months ended June 30, 2003 and 2002, respectively. At June 30, 2003, we had a total of \$0.3 million remaining to be amortized over the remaining vesting periods of the stock options.

Three Months Ended June 30, 2003 and 2002

Revenues. Contract revenues from collaborations were \$2.3 million and \$4.3 million for the three months ended June 30, 2003 and 2002, respectively. Revenues in both three-month periods consisted primarily of research support and amortization of upfront fees from the continuation of our collaborations with Johnson & Johnson, Novartis and, in 2003 only, Daiichi. In the three months ended June 30, 2002, revenues included a \$500,000 milestone payment for a target accepted in accordance with our transplant rejection research program with Novartis and a \$100,000 milestone payment for target accepted in accordance with our Pfizer collaboration. The decrease in 2003 revenues of \$2.0 million was primarily due to the termination of the research phase of the Novartis T-Cell and B-Cell programs as well as the milestones that were recognized in the three months ended June 30, 2002. We expect contract revenues from collaborations, for at least the third quarter of 2003, will be in-line with the revenues for the second quarter of 2003 as revenue is expected to be comprised of only research support and the amortization of upfront fees associated with our Novartis angiogenesis, Johnson & Johnson and Daiichi collaborations.

Research and Development. Research and development expenses were \$10.7 million and \$12.1 million for the three months ended June 30, 2003 and 2002, respectively. The decrease in 2003 research and development expenses of \$1.4 million was primarily due to a reduction in contract chemistry, lab supplies, costs associated with our intellectual property and employee costs offset by an increase in pre-clinical and clinical costs and facility costs. In September 2002, we began the Phase I clinical trial of our lead compound, R112, in the United Kingdom and subsequently filed an investigational new drug (or IND) application for this compound with the United States Food and Drug Administration (or FDA) for the clinical indication of allergic rhinitis. Approval to proceed was received from the FDA in December 2002, and a Phase I/II clinical trial was recently completed at National Jewish Medical Center in Denver, Colorado. The clinical trial evaluated the safety and effectiveness of R112 in patients with documented allergies. We believe that preliminary initial results of this clinical trial, announced on July 20, 2003, indicate that the mechanism of action of this compounds is to comprehensively inhibit the chemical mediators associated with mast cell activation as well as validate R112's potential as a therapeutic for allergy. We expect research and development expenses to increase in the future, particularly as we continue to move our solely-owned drug candidates through preclinical 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 as well as our limited capital resources. 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, allocated facility costs and 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. As a result, the costs allocated to a project 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 \$2.0 million and \$2.8 million for the three months ended June 30, 2003 and 2002, respectively. The decrease of \$0.8 million in 2003 was primarily attributable to a reduction in employee costs as a result of cost-cutting measures that were initiated in September 2002 and January 2003. We expect that general and administrative expenses will remain relatively flat for the remainder of 2003.

Net Interest Expense. Net interest expense was \$105,000 for the three months ended June 30, 2003, compared with net interest income of \$44,000 for the three months ended June 30, 2002. Interest income is earned from our interest-bearing cash and investment balances, whereas we incur interest expense on our capital lease obligations associated with capital asset purchases. In 2003, interest expense exceeded interest income due primarily to a reduction in interest rates on our owned securities coupled with a decrease in the average balances of those securities.

Six Months Ended June 30, 2003 and 2002

Revenues. Contract revenues from collaborations were \$6.8 million and \$8.4 million for the six months ended June 30, 2003 and 2002, respectively. Revenues in both six-month periods consisted primarily of research support and amortization of upfront fees from the continuation of our collaborations with Johnson & Johnson, Novartis and, in 2003 only, Daiichi. In the six months ended June 30, 2003, revenues included a \$1.9 million milestone payment from Daiichi for the completion of a certain screening phase of the collaboration. In the six months ended June 30, 2002, revenues included \$600,000 of milestone payments for targets delivered and accepted in accordance with our Pfizer collaboration and a \$500,000 milestone payment for a target accepted in accordance with our transplant rejection research program with Novartis. The decrease in 2003 revenues of \$1.6 million was primarily due to the termination of the research phase of the Novartis T-Cell and B-Cell programs as well as the termination of the research phase of the Pfizer program offset by the increased milestone payment associated with Daiichi.

Research and Development. Research and development expenses were \$20.7 million and \$22.2 million for the six months ended June 30, 2003 and 2002, respectively. The decrease in 2003 research and development expenses of \$1.5 million was primarily due to a reduction in contract chemistry, lab supplies, costs associated with our intellectual property, and employee costs offset by an increase in pre-clinical and clinical costs and facility costs.

General and Administrative Expenses. General and administrative expenses were \$4.0 million and \$5.2 million for the six months ended June 30, 2003 and 2002, respectively. The decrease of \$1.2 million in 2003 was primarily attributable to a reduction in employee costs as a result of cost-cutting measures that were initiated in September 2002 and January 2003.

Loss on Sale of Property and Equipment. In conjunction with our move to our new facilities in February 2003, we sold to the

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new tenant of our previous facility certain furniture and equipment that would no longer be needed at our new location. This sale resulted in cash proceeds of approximately \$71,000 and a loss on sale of \$169,000. The loss represents the remaining net book value of those assets less the cash received on the sale.

Net Interest Expense. Net interest expense was \$189,000 for the six months ended June 30, 2003, compared with net interest income of \$109,000 for the six months ended June 30, 2002.

Liquidity and Capital Resources

We have financed our research and development operations from inception primarily through sales of equity securities, contract payments payable to us under our collaboration agreements and equipment financing arrangements. As of June 30, 2003, we had received \$172.1 million in gross proceeds from the sale of equity securities, including \$20.0 million from collaborators, and had received \$63.7 million in research funding from collaborators. In addition, as of June 30, 2003, we had financed, through leases and loans, the purchase of equipment and leasehold improvements totaling approximately \$18.0 million.

As of June 30, 2003, we had \$58.1 million in cash, cash equivalents and available-for-sale securities, as compared to \$27.3 million as of December 31, 2002, an increase of \$30.8 million. The increase was attributable to net proceeds of \$45.0 million, after deducting offering costs, from the sale of 7,986,110 shares of our common stock and warrants to purchase 1,597,221 shares of our common stock to MPM Capital, Frazier Healthcare, Alta Partners and HBM BioVentures in a private placement completed in June 2003. We also invested \$1.0 million in capital equipment and had debt service payments of \$1.9 million in conjunction with our equipment financing arrangements. These payments were offset by \$0.9 million of proceeds from a lease financing and \$0.4 million from a cash advance from our landlord. For the three and six months ended June 30, 2003 and 2002, we maintained an investment portfolio primarily in depository accounts and corporate commercial paper. Cash in excess of immediate requirements is invested with regard to liquidity and capital preservation. Wherever possible, we seek to minimize the potential effects of concentration and degrees of risk.

As of June 30, 2003, we had \$4.7 million in capital lease obligations associated with our financed purchase of equipment and leasehold improvements. All existing equipment financing agreements as of June 30, 2003 are secured by the equipment financed, bear interest rates in a range of 7% to 15% and are due in monthly installments through 2006. 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. On March 17, 2003, we amended an equipment lease agreement to allow for the buyout provision to be paid over a period of months rather than in a lump sum. The buyout provision of this amendment relates to approximately \$2.9 million of original equipment and tenant improvement purchases. As a result of this amendment, we are committed to an additional \$370,000 of payments through January 2004. As of June 30, 2003, we had a total of \$1.1 million available for draw down under all financing agreements.

During 2002, our office and research facility located at 240 East Grand in South San Francisco was leased under an operating lease that terminated in conjunction with a 15-year lease, signed in May 2001, for our current office and research facilities located at 1180 Veterans Blvd. in South San Francisco. Under the terms of the lease signed in 2001, we were to occupy our new facilities in late 2002 and were to concurrently terminate the lease of our former facility at 240 East Grand in South San Francisco. We determined that the 2001 lease for our current facility was an operating lease in accordance with FAS 13. In connection with the termination of the current 240 East Grand lease, we accelerated the amortization of tenant improvements and accrued rent charges over the expected remaining life of the lease and incurred minimal costs in connection with the terminated lease. The 1180 Veterans Blvd. research and office facilities were constructed as a build-to-suit facility. Under the original lease, we were obligated to fund approximately \$18.0 million of the total tenant improvement obligations. In October 2002, we amended this original lease to provide for a delay of the rent commencement date until February 1, 2003 and an increase in the tenant improvement allowance to cover all of the expected remaining construction obligations on the facility. The lease was also amended to increase the future rental commitments to compensate for the delay of the rent commencement and the increase in the tenant improvement allowance. Since the amendment was considered a material change to the original lease, we reviewed the accounting treatment for this amended lease and again determined the lease to be an operating lease. We moved into the new facility during February 2003.

Prior to the signing of the amendment, we had been directly paying a portion of the pre-construction and construction costs related to the new facility. These costs were being capitalized on our balance sheet as construction-in progress. Per the terms of the amendment, we have estimated that the landlord will be responsible for reimbursing to us all of the costs that we had previously capitalized. Therefore, we have reclassified these costs into a short-term asset "Receivable from Landlord" in our financial statements. This receivable has been fully paid as of June 30, 2003.

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The following are our contractual commitments (by fiscal year,) as of June 30, 2003 associated with debt obligations and lease obligations (note that 2003 only includes commitments for the last six months of the year):

	Total	2003	2004 - 2005 (in thousands)	2006 - 2007	2008 - 2018
Capital leases	\$ 5,518	\$ 2,022	\$ 3,370	\$ 126	\$ —
Facilities leases	194,661	3,702	21,438	26,546	142,975
Total	\$ 200,179	\$ 5,724	\$ 24,808	\$ 26,672	\$ 142,975

On January 31, 2003, we implemented a restructuring plan to reduce the rate of our cash consumption and better align our operating structure with current and expected future economic conditions. The restructuring plan included an immediate reduction in force of approximately 16%, or 25 employees, to 135 employees, with reductions occurring in all functional areas. Two of our officers were included in this reduction in force. We also deferred a portion of certain officers' salaries until July 2003.

We believe that our existing capital resources, together with the anticipated proceeds from current collaborations will be sufficient to support our current operating plan for at least the next 12 months. We will require additional financing in the future to fund our research and development operations. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risk and uncertainties, and actual results could vary as a result of a number of factors. We have based this estimate on assumptions that may prove to be wrong. 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 scope of research programs carried out at Rigel;
- the progress of the research and development efforts of our collaborators;
- 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;
- 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 acquire or license other technologies or compounds, if any;
- any changes in the breadth of our research and development programs;
- 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. We expect to finance future cash needs through the sale of equity securities, strategic collaborations and debt financing. We cannot assure you that additional financing or collaboration and licensing arrangements will be available when needed or that, if available, such 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.

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 on Form 10Q. 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.

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

Our operations will 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 for 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.

To the extent we raise additional capital by issuing equity securities, our stockholders would at that time would 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.

Our future funding requirements will depend on many uncertain factors.

Our future funding requirements will depend upon 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 scope of research programs carried out at Rigel;
- the progress of the research and development efforts of our collaborators;
- 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;
- 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 acquire or license other technologies or compounds, if any;
- any changes in the breadth of our research and development programs;
- 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.

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.

Our workforce reduction announced in January 2003 and any future workforce and expense reductions may have an adverse impact on our ability to make significant progress on our internal programs.

In January 2003, we announced a workforce reduction of 25 employees in order to reduce expenses. In light of our continued need for funding and expense control, we may be required to implement further workforce and expense reductions this year. Workforce and expense reductions have resulted, and further reductions could result, in reduced progress on our internal programs. In addition, employees, whether or not directly affected by a reduction, may seek future employment with our business partners or competitors. Although our employees are required to sign a confidentiality agreement at the time of hire, the confidential nature of certain proprietary information may not be maintained in the course of any such future employment. Further, we believe that our future success will depend in large part upon our ability to attract and retain highly skilled personnel. We may have difficulty attracting such personnel as a result of a perceived risk of future workforce and expense reductions. In addition, the implementation of expense reduction programs may result in the diversion of efforts of our executive management team and other key employees, which could adversely affect our business.

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 into clinical testing, we have not been profitable and have generated operating losses since we were incorporated in June 1996. The extent of our future losses and the timing of potential profitability are highly uncertain, and we may never achieve profitable operations. We have incurred net losses of \$37.0 million in 2002, \$23.8 million in 2001 and \$25.3 million in 2000. Currently, our revenues are generated solely from research payments from our collaboration agreements and licenses and are insufficient to generate profitable operations. As of June 30, 2003, we had an accumulated deficit of approximately \$133.1 million. We expect to incur losses for at least the next several years and expect that these losses will increase as we expand our research and development activities and incur significant clinical and testing costs.

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

At the present time, the majority of our operations are in the early stages of drug identification and development. To date, only one of our drug compounds has made it into the clinical testing stage. In our industry, it is statistically unlikely that the limited number of 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 one drug compound in the clinic and our future 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, competition and costs and expenses that may exceed current estimates.

For example, we began a Phase I clinical trial of R112 in September 2002 in Britain. In this initial safety study, conducted with healthy volunteers, no significant adverse events were observed. The data from this trial was incorporated into an investigational new drug, or IND, application that was filed with the United States Food and Drug Administration, or FDA, in November 2002. Approval to proceed was received from the FDA in December 2002, and a Phase I/II clinical trial was recently completed at National Jewish Medical Center in Denver, Colorado. The clinical trial evaluated the safety and effectiveness of R112 in patients with documented allergies. While we believe that the preliminary initial results of this clinical trial, announced on July 20, 2003, indicate that the mechanism of action of this class of compounds is to comprehensively inhibit the chemical mediators associated with mast cell activation as well as validate R112's potential as a therapeutic for allergy, interim results of trials do not necessarily predict final results, and acceptable preliminary results may not be repeated in later trials. Because of the preliminary nature of these data and the need for further clinical testing, we cannot predict the impact that these preliminary results will have on our business.

We might not be able to commercialize our drug candidates successfully if problems arise in the clinical 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. We do not know whether we, or any of our collaborative partners, will be permitted to undertake clinical trials of potential products beyond the one trial already concluded and the trial currently in process. 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, 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.

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

Significant delays in clinical testing could materially impact our product development costs. We do not know whether planned clinical trials will begin on time, will need to be revamped or will be completed on schedule, or at all. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a study, delays in reaching agreement on acceptable clinical study agreement terms with prospective clinical sites, delays in obtaining institutional review board approval to conduct a study at a prospective clinical site or delays in recruiting subjects to participate in a study.

In addition, we typically rely on third-party clinical investigators to conduct our clinical trials and other third-party organizations to oversee the operations of such trials and to perform data collection and analysis. As a result, we may face additional delaying factors outside our control if these parties do not perform their obligations in a timely fashion. While we have not yet experienced delays that have materially impacted our clinical trials or product development costs, delays of this sort could occur for the reasons identified above or other reasons. If we have delays in testing or approvals, our product development costs will increase. For example, we may need to make additional payments to third-party investigators and organizations to retain their services or we may need to pay recruitment incentives. If the delays are significant, our financial results and the commercial prospects for our product candidates will be harmed, and our ability to become profitable will be delayed.

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. During 2002, we recorded our first milestone for both Novartis and Daiichi. Under many agreements, however, 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. If we are not able to recognize revenue under our collaborations when and in accordance with our expectations or the expectations of industry analysts, this failure could harm our business and have an immediate adverse effect on the trading price of our stock.

Our business requires us to generate meaningful revenue from royalties and licensing agreements. To date, we have not received any revenue from royalties for the commercial sale of 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.

If our current corporate collaborations or license agreements are unsuccessful, 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 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, such failure might delay ongoing research and development efforts at Rigel because we might not receive any future milestone payments and we would 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. In

addition, in May 2002, Novartis elected to conclude the research phases of our two initial joint projects in the autoimmunity and transplant rejection areas, after 42 months, effective November 2002 and February 2003, respectively. Pursuant to the collaboration agreement, Novartis had the option to end the research phase on these programs after 24 months or 42 months. More generally, our current corporate collaboration agreements may terminate 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.

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.

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.

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 any of our corporate collaborators were to breach or terminate its 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.

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 in the future. 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. We entered into only one collaboration, with Daiichi, in 2002. 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.

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. We have over 150 pending patent applications and 31 issued patents in the United States that are owned or exclusively licensed in our field as well as pending corresponding foreign patent applications. In the future, our patent position might be highly uncertain and involve complex legal and factual questions. Additional uncertainty may result from because no consistent policy regarding the breadth of legal claims allowed in biotechnology patents has emerged to date. Accordingly, we cannot predict the breadth of claims allowed in our or other companies' patents.

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

- we were the first to make the inventions covered by each of our pending patent applications;

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- 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. For example, in June 2002, we resolved a dispute with Innoxell A/S (formed as a spinout from Pharmexa—formally M&E Biotech) by entering into a global patent settlement concerning certain drug target identification technologies, which includes both cross-licensing and joint ownership to certain patents and allows for worldwide freedom of operation for both companies. 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.

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 and development.

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 that 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 relating to research and development and testing.

Before commencing clinical trials in humans in the United States, we, or our collaborative partners, will need to submit and receive approval from the FDA of an IND. Clinical trials are subject to oversight by institutional review boards and the FDA and:

- must be conducted in conformance with the FDA's good clinical practices and other applicable regulations;
- must meet requirements for institutional review board oversight;
- must meet requirements for informed consent;
- are subject to continuing FDA oversight;
- may require large numbers of test subjects; and
- may be suspended by us or the FDA at any time if it is believed that the subjects participating in these trials are being exposed to unacceptable health risks or if the FDA finds deficiencies in the IND or the conduct of these trials.

While we have stated that we intend to file additional INDs, this is only a statement of intent, and we may not be able to do so because we may not be able to identify potential product candidates. In addition, the FDA may not approve any IND in a timely manner, or at all.

Before receiving FDA clearance to market a product, we must demonstrate that the product is safe and effective on the patient population that will be treated. Data obtained from preclinical and clinical activities are susceptible to varying interpretations that could delay, limit or prevent regulatory clearances. In addition, delays or rejections may be encountered based upon additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review. Failure to comply with applicable FDA or other applicable regulatory requirements may result in criminal prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other regulatory action against our potential products or us. Additionally, we have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approval.

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.

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 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.

As a small company with only 133 employees as of June 30, 2003, 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. Our employees can terminate their employment with us at any time.

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, principal stockholders and their affiliates beneficially owned approximately 72.0% of our common stock as of June 30, 2003. Accordingly, they collectively 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.

On June 26, 2003, we completed a private placement with net proceeds of \$45.0 million led by MPM Capital that included Frazier Healthcare, Alta Partners and HBM BioVentures. In the private placement, we issued 7,986,110 shares of our common stock at a price of \$5.76 per share and warrants to purchase an additional 1,597,221 shares of our common stock at an exercise price of \$5.76 per share. As a result of their combined approximate 70.5% ownership (without giving effect to the exercise of the warrants and based on 13,167,556 shares outstanding as of June 30, 2003), the investors obtained control over Rigel. The investors hold the requisite percentage of our outstanding shares so as to permit them, if they choose to act in concert, to take actions requiring stockholder approval without obtaining the approval of our other stockholders. For so long as MPM Capital holds at least 10% of the outstanding shares of our common stock, we will use our commercially reasonable best efforts to (i) cause two designees of MPM Capital to be nominated and elected to our board of directors; (ii) appoint one designee to serve on the nominating committee of our board of directors; and (iii) appoint one designee to serve on the compensation committee of our board of directors. These board appointments were completed in conjunction with the closing of the financing on June 26, 2003.

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:

- the receipt or failure to receive the significant amount of additional funding necessary to conduct our business;
- the progress and success of preclinical studies and clinical trials of our drug candidates conducted by us or our collaborative partners or licensees;
- 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 assist us in funding our research and development activities by preserving 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. For the three and six months ended June 30, 2003 and 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer, with the participation of our management, have concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), were sufficiently effective to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and Form 10-Q..

Changes in Internal Controls. There were no changes in our internal controls over financial reporting during the quarter ended June 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the controls are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

- a) On June 24, 2003, we effected a 1-for-9 reverse stock split of our outstanding common stock, after our stockholders approved the proposal for a reverse split at our annual meeting of stockholders held on June 20, 2003. As a result of the reverse stock split, each outstanding share of common stock automatically converted into one-ninth of a share of common stock, with the par value of each share of common stock remaining at one tenth of one cent (\$.001) per share.
- c) On June 26, 2003, we completed a private placement led by MPM Capital that included Frazier Healthcare, Alta Partners and HBM BioVentures. In the private placement, we issued 7,986,110 shares of our common stock at a price of \$5.76 per share and warrants to purchase an additional 1,597,221 shares of our common stock at an exercise price of \$5.76 per share. The common stock and warrants were issued in a private transaction pursuant to an exemption from registration in reliance upon Section 4(2) of the Securities Act of 1934, as amended.
- 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 used the net proceeds of the offering for research and development, general corporate purposes and working capital and capital lease obligations. As of June 30, 2003, we had used all such net proceeds.

Item 4. Submission of Matters to a Vote of Security Holders

We held our 2003 annual meeting of stockholders on June 20, 2003. At such meeting, the following actions were voted upon. Note that the proposals and share vote amounts are reflective of the 1 for 9 reverse split of our outstanding common stock effected on June 24, 2003.

- (a) To approve the terms of a private placement to investors of 7,986,110 shares of our common stock at a purchase price of \$5.76 per share and warrants to purchase an additional 1,597,221 shares of our common stock at an exercise price of \$5.76 per share.

Votes in Favor	Votes Against	Abstentions
4,232,485	113,183	3,496

- (b) To approve amendments to our current amended and restated certificate of incorporation to effect a reverse stock split of our outstanding common stock of not less than 1-for-2 and not more than 1-for-20 and to authorize our board of directors to select and file one such amendment to effect a reverse stock split within these parameters.

Votes in Favor	Votes Against	Abstentions
4,228,900	117,600	2,665

- (c) To approve an amendment to our 2000 Equity Incentive Plan to: (a) increase the aggregate number of shares of common stock authorized for issuance under such plan by 1,600,000 shares (before giving effect to the proposed combination of our 2001 Non-Officer Equity Incentive Plan with our 2000 Equity Incentive Plan); (b) add an evergreen feature that provides for automatic annual increases in the total number of shares authorized for issuance under such plan; and (c) combine our 2001 Non-Officer Equity Incentive Plan with our 2000 Equity Incentive Plan and terminate our 2001 Non-Officer Equity Incentive Plan.

Votes in Favor	Votes Against	Abstentions
3,700,731	643,154	5,279

- (d) To approve an amendment to our 2000 Non-Employee Directors' Stock Option Plan to: (a) increase the aggregate number of shares of common stock authorized for issuance under such plan by 66,667 shares; and (b) increase the size of the automatic initial and annual option grants under such plan to 6,667 shares and 1,667 shares, respectively.

Votes in Favor	Votes Against	Abstentions
3,767,919	575,366	5,879

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- (e) To approve an amendment to our 2000 Employee Stock Purchase Plan to: (a) increase the aggregate number of shares of common stock authorized for issuance under such plan by 66,667 shares; and (b) amend the evergreen feature of such plan to increase the annual increase limits.

Votes in Favor	Votes Against	Abstentions
3,948,583	398,073	2,509

- (f) To approve the repricing, in the discretion of our board of directors, of outstanding options to purchase shares of our common stock issued pursuant to our 2000 Equity Incentive Plan, 2001 Non-Officer Equity Incentive Plan and 2000 Non-Employee Directors' Stock Option Plan.

Votes in Favor	Votes Against	Abstentions
3,698,022	645,130	6,012

- (g) To elect two Class III directors, James M. Gower and Stephen A. Sherwin, MD, to hold office until our 2006 Annual Meeting of Stockholders.

Votes in Favor	Votes Against	Abstentions
4,707,422	932	255,972

- (h) To ratify the selection by the audit committee of our board of directors of Ernst & Young LLP as independent auditors of Rigel for our fiscal year ending December 31, 2003.

Votes in Favor	Votes Against	Abstentions
4,960,331	2,061	1,933

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

a) Exhibits:

The exhibits listed on the accompanying index to exhibits accompany or 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 May 2, 2003, we filed a Current Report on Form 8-K announcing the signing of a definitive agreement for the sale of \$46 million of newly issued shares of common stock and warrants to purchase common stock in a private placement led by MPM Capital, L.P. that included Frazier & Co., Alta Partners and HBM BioVentures.

On May 7, 2003, we filed a Current Report on Form 8-K announcing the press release of financial results for the quarter ended March 31, 2003.

On June 24, 2003, we filed a Current Report on Form 8-K announcing a 1-for-9 reverse stock split of our outstanding common stock, after our stockholders approved the proposal for a reverse split at our annual meeting of stockholders held on June 20, 2003.

On June 27, 2003, we filed a Current Report on Form 8-K announcing on June 26, 2003, we completed the previously-announced private placement of an aggregate of 7,986,110 shares of our common stock and warrants to purchase an aggregate of 1,597,221 shares of our common stock, for gross proceeds of approximately \$46,000,000.

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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 M. GOWER
James M. Gower
Chief Executive Officer

Date: August 14, 2003

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

Date: August 14, 2003

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INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
3.1	Amended and Restated Certificate of Incorporation. (1)
3.2	Amended and Restated Bylaws. (2)
4.1	Specimen Common Stock Certificate. (1)
15.1	Letter re unaudited interim financial information.
31.1	Certifications required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2	Certifications required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) (3)

(1) Filed as an exhibit to Rigel's Current Report on Form 8-K on June 24, 2003 and incorporated herein by reference.

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

(3) This certification accompanies this Quarterly Report on Form 10-Q, and shall not be deemed "filed" by Rigel for purposes of Section 18 of the Exchange Act. This certification is not to be incorporated by reference into any filing of Rigel under the Securities Act or the Exchange Act (whether made before or after the date of this Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

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August 13, 2003

The Board of Directors and Stockholders of Rigel Pharmaceuticals, Inc.

We are aware of the incorporation by reference in the Registration Statements (Forms S-8 No. 333-51184, No. 333-72492, No. 333-106532, and No. 333-107062) pertaining to the Rigel Pharmaceuticals, Inc. 1999 Stock Plan, the 2001 Non-Officer Equity Incentive Plan, 2000 Equity Incentive Plan, 2000 Employee Stock Purchase Plan, and the 2000 Non-Employee Directors' Stock Option Plan, and the Registration Statements (Forms S-3 No. 333-87276, No. 333-74906, No. 333-105431, and No. 333-106942) related to the sale of common shares, and in the related prospectuses, as applicable, contained in such Registration Statements of our report dated July 22, 2003 relating to the unaudited condensed interim financial statements of Rigel Pharmaceuticals, Inc. that are included in its Form 10-Q for the quarter ended June 30, 2003.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statement prepared or certified by accountants within the meaning of section 7 or 11 of the Securities Act of 1933.

Very truly yours,

/s/ERNST & YOUNG LLP

CERTIFICATIONS

I, James M. Gower, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rigel Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ JAMES M. GOWER
James M. Gower
Chief Executive Officer

CERTIFICATIONS

I, James H. Welch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rigel Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ JAMES H. WELCH
James H. Welch
Chief Financial Officer

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. § 1350, as adopted), James M. Gower, Chief Executive Officer of Rigel Pharmaceuticals, Inc. (the "Company"), and James H. Welch, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the periods covered by the Periodic Report and the results of operations of the Company for the periods covered by the Periodic Report.

In Witness Whereof, the undersigned have set their hands hereto as of August 14, 2003.

/s/ JAMES M. GOWER
James M. Gower
Chief Executive Officer

/s/ JAMES H. WELCH
James H. Welch
Chief Financial Officer
