RIGEL PHARMACEUTICALS INC
Form 10-Q
August 01, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 0-29889

Rigel Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	94-3248524
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1180 Veterans Blvd.	
South San Francisco, CA	94080
(Address of principal executive offices)	(Zip Code)

(650) 624-1100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company"in Rule 12b-2 of the Exchange Act.

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

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 26, 2017, there were 124,392,998 shares of the registrant's Common Stock outstanding.

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RIGEL PHARMACEUTICALS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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PART I. FINANCIAL INFORMATION

Item 1.Financial Statements

RIGEL PHARMACEUTICALS, INC.

CONDENSED BALANCE SHEETS

(In thousands)

	June 30, 2017 (unaudited)	December 31, 2016(1)
Assets		
Current assets:		
Cash and cash equivalents	$ 32,591	$ 17,632
Short-term investments	49,711	57,134
Prepaid and other current assets	1,490	1,448
Total current assets	83,792	76,214
Property and equipment, net	982	1,156
Other assets	704	764
	$ 85,478	$ 78,134
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,066	$ 5,563
Accrued compensation	3,659	4,085
Accrued research and development	5,171	5,881
Other accrued liabilities	996	1,033
Deferred liability – sublease, current portion	2,196	3,222
Deferred rent, current portion	1,785	2,804
Total current liabilities	15,873	22,588
Long-term portion of deferred liability – sublease	—	238
Long-term portion of deferred rent	—	279
Other long-term liabilities	—	2
Commitments		

Stockholders' equity:		
Preferred stock	—	—
Common stock	124	100
Additional paid-in capital	1,164,823	1,115,807
Accumulated other comprehensive loss	(19)	(18)
Accumulated deficit	(1,095,323)	(1,060,862)
Total stockholders' equity	69,605	55,027
	$ 85,478	$ 78,134

(1) The balance sheet at December 31, 2016 has been derived from the audited financial statements included in Rigel's Annual Report on Form 10-K for the year ended December 31, 2016.

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Contract revenues from collaborations	$ —	$ 8,594	$ 3,584	$ 13,623
Costs and expenses:				
Research and development	11,524	17,468	23,900	35,641
General and administrative	7,820	4,774	15,230	9,197
Total costs and expenses	19,344	22,242	39,130	44,838
Loss from operations	(19,344)	(13,648)	(35,546)	(31,215)
Gain on disposal of assets	—	—	732	—
Interest income	197	115	353	218
Net loss	$ (19,147)	$ (13,533)	$ (34,461)	$ (30,997)
Net loss per share, basic and diluted	$ (0.16)	$ (0.15)	$ (0.29)	$ (0.34)
Weighted average shares used in computing net loss per share, basic and diluted	122,500	92,495	118,074	91,525

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$ (19,147)	$ (13,533)	$ (34,461)	$ (30,997)
Other comprehensive income (loss):				
Net unrealized gain (loss) on short-term investments	10	4	(1)	97
Comprehensive loss	$ (19,137)	$ (13,529)	$ (34,462)	$ (30,900)

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended June 30,	
	2017	2016
Operating activities		
Net loss	$ (34,461)	$ (30,997)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,055	3,452
Gain on disposal of assets	(732)	—
Loss on sublease	495	—
Depreciation and amortization	240	584
Net amortization of premium on short-term investment	(107)	—
Changes in assets and liabilities:		
Accounts receivable	—	108
Prepaid and other current assets	(42)	683
Other assets	60	88
Accounts payable	(3,508)	(1,263)
Accrued compensation	(426)	(3,132)
Accrued research and development	(710)	1,749
Other accrued liabilities	(37)	136
Deferred revenue	—	(9,667)
Deferred rent and other long term liabilities	(3,059)	(2,595)
Net cash used in operating activities	(40,232)	(40,854)
Investing activities		
Purchases of short-term investments	(44,920)	(67,895)
Maturities of short-term investments	52,449	80,818
Proceeds from disposal of assets	732	—
Capital expenditures	(55)	(546)
Net cash provided by investing activities	8,206	12,377
Financing activities		
Net proceeds from issuances of common stock upon exercise of options and participation in employee stock purchase plan	810	618
Proceeds from sale and issuance of common stock, net of offering costs	46,175	9,349
Net cash provided by financing activities	46,985	9,967
Net increase (decrease) in cash and cash equivalents	14,959	(18,510)
Cash and cash equivalents at beginning of period	17,632	43,456

Cash and cash equivalents at end of period	$ 32,591	$ 24,946

See Accompanying Notes.

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Rigel Pharmaceuticals, Inc.

Notes to Condensed Financial Statements

(unaudited)

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

1.Nature of Operations

We were incorporated in the state of Delaware on June 14, 1996. We are engaged in the discovery and development of novel small molecule drugs that significantly improve the lives of patients with immune and hematological disorders, cancer and rare diseases.

2.Basis of Presentation

Our accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Act of 1933, as amended (Securities Act). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed financial statements include only normal and recurring adjustments that we believe are necessary to fairly state our financial position and the results of our operations and cash flows. Interim-period results are not necessarily indicative of results of operations or cash flows for a full-year or any subsequent interim period. The balance sheet at December 31, 2016 has been derived from audited financial statements at that date, but does not include all disclosures required by U.S. GAAP for complete financial statements. Because all of the disclosures required by U.S. GAAP for complete financial statements are not included herein, these interim unaudited condensed financial statements and the notes accompanying them should be read in conjunction with our audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

3.Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09—Revenue from Contracts with Customers, which supersedes the revenue recognition requirements under ASC Topic 605, Revenue Recognition, and most industry-specific guidance under the ASC. The core principle of ASU No. 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 also requires additional disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. In July 2015, the FASB deferred by one year the effective date of ASU No. 2014-09 with the new effective date beginning after December 15, 2017, and the interim periods within that year and will allow early adoption for all entities as of the original effective date for public business entities, which was annual reporting periods beginning after December 15, 2016. We plan to adopt this new standard on January 1, 2018 using the modified retrospective approach. The adoption of ASU No. 2014-09 may have a material effect on our financial statements. To date, our revenues have been derived from license and collaboration agreements. The consideration we are eligible to receive under these agreements includes upfront payments, progress dependent contingent payments on events achieved by our collaboration partners, and royalties on net sales of products sold by such partners under the agreements. Each license and collaboration agreement is unique and will need to be assessed separately under the five-step process of the new standard. ASU No. 2014-09

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differs from the current accounting standard in many respects, such as in the accounting for variable consideration, including milestone payments or contingent payments. Under our current accounting policy, we recognize contingent payments as revenue in the period that the payment-triggering event occurred or is achieved. However, under the new accounting standard, it is possible to start to recognize contingent payments before the payment-triggering event is completely achieved, subject to management's assessment of whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We have performed a preliminary assessment of the impact of the new standard on our active license and collaboration agreements. Based on this preliminary assessment, we expect that the timing of recognition of certain future milestone payments may be impacted depending on the assessed probability of achievement for these milestones as of the date of adoption.

In February 2016, the FASB issued ASU No. 2016-02—Leases, which is aimed at making leasing activities more transparent, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The guidance is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. We plan to adopt this new standard on January 1, 2019. We are currently evaluating the potential impact of the adoption of ASU No. 2016-02 on our financial statements and cannot estimate the impact of adoption at this time.

In March 2016, the FASB issued ASU No. 2016-09—Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. We adopted ASU No. 2016-09 on January 1, 2017. Under this guidance, on a prospective basis, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital. Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. In addition, the guidance eliminates the requirement that excess tax benefits be realized before companies can recognize them. The ASU requires a cumulative-effect adjustment for previously unrecognized excess tax benefits in opening retained earnings in the annual period of adoption. Upon adoption, we recognized additional excess tax benefit as a deferred tax asset with a corresponding increase to our deferred tax asset valuation allowance, which did not result in a net impact to retained earnings. Additionally, as provided for under this new guidance, we elected to account for forfeitures as they occur. The adoption of this aspect of the guidance did not have a material impact on our financial statements.

4. Stock Award Plans

We have four stock option plans, our 2011 Equity Incentive Plan (2011 Plan), 2000 Equity Incentive Plan (2000 Plan), 2000 Non-Employee Directors' Stock Option Plan (Directors' Plan) and the Inducement Plan, that provide for granting to our officers, directors and all other employees and consultants options to purchase shares of our common stock. We also have our Employee Stock Purchase Plan (Purchase Plan), wherein eligible employees can purchase shares of our common stock at a price per share equal to the lesser of 85% of the fair market value on the first day of the offering period or 85% of the fair market value on the purchase date. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model which considered our stock price, as well as assumptions

regarding a number of complex and subjective variables. These variables include, but are not limited to, volatility, expected term, risk-free interest rate and dividends. We estimate volatility over the expected term of the option using historical share price performance. For expected term, we take into consideration our historical data of options exercised, cancelled and expired. The risk-free rate is based on the U.S. Treasury constant maturity rate. We have not paid and do not expect to pay dividends in the foreseeable future. We use the straight-line attribution method over the requisite employee service period for the entire award in recognizing stock-based compensation expense. In connection with the adoption of ASU No. 2016-09—Improvements to Employee Share-Based Payment Accounting, on January 1, 2017, we have elected to account for forfeitures as they occur.

We granted performance-based stock options to purchase shares of our common stock which will vest upon the achievement of certain corporate performance-based milestones. We determined the fair values of these performance-based stock options using the Black-Scholes option pricing model at the date of grant. For the portion of the performance-based stock options of which the performance condition is considered probable of achievement, we

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recognize stock-based compensation expense on the related estimated fair value of such options on a straight-line basis from the date of grant up to the date when we expect the performance condition will be achieved. For the performance conditions that are not considered probable of achievement at the grant date or upon quarterly re-evaluation, prior to the event actually occurring, we recognize the related stock-based compensation expense when the event occurs or when we can determine that the performance condition is probable of achievement. In those cases, we recognize the change in estimate at the time we determine the condition is probable of achievement (by recognizing stock-based compensation expense as cumulative catch-up adjustment as if we had estimated at the grant date that the performance condition would have been achieved) and recognize the remaining compensation cost up to the date when we expect the performance condition will be achieved, if any.

5.Net Loss Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Outstanding stock options	21,958	22,232	21,958	22,232
Warrant to purchase common stock	—	200	—	200
Purchase Plan	187	247	124	156
	22,145	22,679	22,082	22,588

6.Stock-based Compensation

Total stock-based compensation expense related to all of our share-based payments that we recognized for the three and six months ended June 30, 2017 and 2016 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
General and administrative	$ 764	$ 604	$ 1,359	$ 1,349
Research and development	336	1,410	696	2,103
Total stock-based compensation expense	$ 1,100	$ 2,014	$ 2,055	$ 3,452

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

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

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

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

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

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

In connection with the adoption of ASU No. 2016-09 on January 1, 2017, we have elected to account for forfeitures as they occur and its adoption did not have a material impact on our financial statements.

The following table summarizes the weighted-average assumptions relating to options granted pursuant to our equity incentive plans, including the performance-based stock option awards which will vest upon the achievement of certain corporate performance-based milestones or corporate sales target, for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Risk-free interest rate	2.1 %	1.5 %	2.2 %	1.7 %

Expected term (in years)	6.6		7.0		6.8		6.4	
Dividend yield	0.0	%	0.0	%	0.0	%	0.0	%
Expected volatility	63.7	%	76.9	%	63.0	%	63.3	%

The exercise price of stock options is at the market price of our common stock on the date immediately preceding the date of grant. Options become exercisable at varying dates and generally expire 10 years from the date of grant.

We granted options to purchase 2,992,675 shares of common stock during the six months ended June 30, 2017 with a grant-date weighted-average fair value of $1.35 per share. Of the 2,992,675 common stock options granted, 1,025,000 shares related to outstanding performance-based stock option awards with a grant date fair value of $1.3 million will vest upon the achievement of a corporate performance-based milestone and 75,000 shares related to performance-based stock option awards with a grant date fair value of $111,000 will vest upon achievement of certain corporate sales targets. We did not consider the corporate-based milestone nor the corporate sales targets as probable of

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achievement as of June 30, 2017. Accordingly, no stock-based compensation cost was recognized during the three and six months ended June 30, 2017 for these performance-based stock option awards.

We granted options to purchase 3,833,435 shares of common stock during the six months ended June 30, 2016, with a grant-date weighted-average fair value of $1.59 per share. Of the 3,833,435 common stock options granted, 700,000 shares related to outstanding performance-based stock option awards with a grant date fair value of $1.1 million which vested upon the achievement of a corporate performance-based milestone as of December 31, 2016. Accordingly, we recognized the $1.1 million as stock-based compensation expense during the fourth quarter of 2016. In addition, as of June 30, 2017, we have 200,000 shares of outstanding performance-based stock option awards granted in the fourth quarter of 2016, wherein 100,000 shares with a grant date fair value of $232,000 will vest upon achievement of a corporate performance-based milestone and 100,000 shares with a grant date fair value of $240,000 will vest upon achievement of certain corporate sales targets. We did not consider the corporate-based milestone nor the corporate sales targets as probable of achievement as of June 30, 2017. Accordingly, for these performance-based option awards, no stock-based compensation expense was recognized during the three and six months ended June 30, 2017.

As of June 30, 2017, there was approximately $7.5 million of total unrecognized stock-based compensation cost related to all unvested options granted under our equity incentive plans.

At June 30, 2017, there were 10,244,931 shares of common stock available for future grant under our equity incentive plans and 166,796 options to purchase shares were exercised during the six months ended June 30, 2017.

Employee Stock Purchase Plan

Our Purchase Plan permits eligible employees to purchase common stock at a discount through payroll deductions during defined offering periods. The price at which the stock is purchased is equal to the lesser of 85% of the fair market value of the common stock on the first day of the offering or 85% of the fair market value of our common stock on the purchase date. The initial offering period commenced on the effective date of our initial public offering.

The fair value of awards granted under our Purchase Plan is estimated on the date of grant using the Black-Scholes option pricing model, which uses weighted-average assumptions. Our Purchase Plan provides for a twenty-four month offering period comprised of four six-month purchase periods with a look-back option. A look-back option is a provision in our Purchase Plan under which eligible employees can purchase shares of our common stock at a price per share equal to the lesser of 85% of the fair market value on the first day of the offering period or 85% of the fair market value on the purchase date. Our Purchase Plan also includes a feature that provides for a new offering period to begin when the fair market value of our common stock on any purchase date during an offering period falls below the fair market value of our common stock on the first day of such offering period. This feature is called a “reset.” Participants are automatically enrolled in the new offering period. We had a “reset” on July 1, 2016 because the fair

market value of our stock on June 30, 2016 was lower than the fair market value of our stock on January 5, 2015, the first day of the offering period. We applied modification accounting in accordance with ASC Topic No. 718, Stock Compensation, to determine the incremental fair value associated with this Purchase Plan "reset" and will recognize the related stock-based compensation expense according to FASB ASC Subtopic No. 718-50, Employee Share Purchase Plans. The total incremental fair value for this Purchase Plan "reset" was approximately $1.0 million and will be recognized from July 1, 2016 to June 30, 2018.

As of June 30, 2017, there were approximately 2,324,942 shares reserved for future issuance under the Purchase Plan. The following table summarizes the weighted-average assumptions related to our Purchase Plan for the six months ended June 30, 2017 and 2016. Expected volatilities for our Purchase Plan are based on the historical volatility of our stock. Expected term represents the weighted-average of the purchase periods within the offering period. The risk-free interest rate for periods within the expected term is based on U.S. Treasury constant maturity rates.

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	Six Months Ended June 30,			
	2017		2016	
Risk-free interest rate	0.5	%	0.7	%
Expected term (in years)	1.5		1.8	
Dividend yield	0.0	%	0.0	%
Expected volatility	63.1	%	61.5	%

7.Research and Development Accruals

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

In the first quarter of 2017, we entered into a consulting agreement with a third party, pursuant to which we may be required to pay amounts ranging from $1.5 million to $4.0 million if certain future regulatory milestone events occur. As of June 30, 2017, we do not consider any of the future regulatory milestone events as probable of occurring. As such, no expense was recognized for the three and six months ended June 30, 2017.

8.Sponsored Research and License Agreements

We conduct research and development programs independently and in connection with our corporate collaborators. We are a party to a collaboration agreement with Bristol-Myers Squibb Company (BMS) for the discovery, development and commercialization of cancer immunotherapies based on our small molecule TGF beta receptor kinase inhibitors, as discussed below. Our participation in the collaboration during the research term was limited to the Joint Research Committee and the performance of research activities based on billable full-time equivalent fees as specified in the collaboration agreement. We do not have ongoing participation obligations under our agreements with Aclaris Therapeutics International Limited (Aclaris) for the development and commercialization of certain janus kinase (JAK) inhibitors for the treatment of alopecia areata and other dermatological conditions, AstraZeneca (AZ) for the development and commercialization of R256, an inhaled JAK inhibitor, BerGenBio AS (BerGenBio) for the development and commercialization of an oncology program, and Daiichi Sankyo (Daiichi) to pursue research related

to a specific target from a novel class of drug targets called ligases. Under these agreements, which we entered into in the ordinary course of business, we received or may be entitled to receive upfront cash payments, progress dependent contingent payments on events achieved by such partners and royalties on any net sales of products sold by such partners under the agreements. Total future contingent payments to us under all of these current agreements could exceed $533.3 million if all potential product candidates achieved all of the payment triggering events under all of our current agreements (based on a single product candidate under each agreement). Of this amount, up to $146.4 million relates to the achievement of development events, up to $345.6 million relates to the achievement of regulatory events and up to $41.3 million relates to the achievement of certain commercial or launch events. This estimated future contingent amount does not include any estimated royalties that could be due to us if the partners successfully commercialize any of the licensed products. Future events that may trigger payments to us under the agreements are based solely on our partners' future efforts and achievements of specified development, regulatory and/or commercial events.

In February 2015, we entered into a collaboration agreement with BMS for the discovery, development and commercialization of cancer immunotherapies based on our extensive portfolio of small molecule TGF beta receptor kinase inhibitors. Under the collaboration agreement, BMS will have exclusive rights and will be solely responsible for the clinical development and commercialization of any products. Pursuant to the collaboration agreement with BMS, we received a noncreditable and non-refundable upfront payment of $30.0 million in March 2015. We are also entitled to receive development and regulatory contingent fees that could exceed $309.0 million for a successful compound

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approved in certain indications. In addition, we are also eligible to receive tiered royalties on the net sales of any products from the collaboration. BMS shall also reimburse us for agreed upon costs based on a contractual cost per full-time equivalent employee in connection with the performance of research activities during the research term. Under the collaboration agreement, we were obligated to provide the following deliverables: (i) granting of license rights to our program, (ii) participation in the Joint Research Committee, and (iii) performance of research activities. We concluded that these deliverables were a single unit of accounting as the license did not have stand-alone value apart from the other deliverables. Accordingly, the $30.0 million upfront payment was recognized ratably as revenue from the effective date of the agreement and was fully amortized in September 2016, the end of the research term. We believed that straight-line recognition of this revenue was appropriate as the research was performed ratably over the research period. During the three and six months ended June 30, 2016, we recognized revenue of $4.8 million and $9.7 million, respectively, relating to the upfront payment and $95,000 and $290,000, respectively, relating to the research activities we performed. At the end of the initial research term, we were not notified by BMS of its intention to extend the initial research term under which we would perform research activities. However, BMS does continue to evaluate compounds from the extensive portfolio under the agreement, on its own. As of September 30, 2016, all deliverables under the agreement have been delivered.

In June 2011, we entered into an exclusive license agreement with BerGenBio for the development and commercialization of an oncology program. BerGenBio is responsible for all activities it wishes to perform under the license we granted to it. In February 2017, we received $3.3 million from BerGenBio as a result of BerGeBio advancing BGB324, an AXL kinase inhibitor licensed under the agreement, to a Phase 2 clinical study. In June 2016, we received contingent payments of $1.7 million relating to a time-based non-refundable fee and $2.0 million relating to BerGenBio’s exercise of certain option rights before the prescription period to exercise the rights expired. All deliverables under the agreement had been previously delivered, as such, the above payments of $3.3 million in 2017 and $3.7 million in 2016, triggered by the above time-based and contingent events were recognized as revenue in the first quarter of 2017 and second quarter of 2016, respectively.

9.Cash, Cash Equivalents and Short-Term Investments

Cash, cash equivalents and short-term investments consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Cash	$ 352	$ 240
Money market funds	6,750	9,496
U.S. treasury bills	—	4,300
Government-sponsored enterprise securities	9,062	16,459
Corporate bonds and commercial paper	66,138	44,271
	$ 82,302	$ 74,766
Reported as:		
Cash and cash equivalents	$ 32,591	$ 17,632

Short-term investments	49,711	57,134
	$ 82,302	$ 74,766

Cash equivalents and short-term investments include the following securities with gross unrealized gains and losses (in thousands):

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprise securities	$ 9,067	$ —	$ (5)	$ 9,062
Corporate bonds and commercial paper	66,152	—	(14)	66,138
Total	$ 75,219	$ —	$ (19)	$ 75,200

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December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury bills	$ 4,300	$ —	$ —	$ 4,300
Government-sponsored enterprise securities	16,457	3	(1)	16,459
Corporate bonds and commercial paper	44,291	2	(22)	44,271
Total	$ 65,048	$ 5	$ (23)	$ 65,030

As of June 30, 2017, our cash equivalents and short-term investments, which have contractual maturities within one year, had a weighted-average time to maturity of approximately 83 days. We view our short-term investments portfolio as available for use in current operations. We have the ability to hold all investments as of June 30, 2017 through their respective maturity dates. At June 30, 2017, we had no investments that had been in a continuous unrealized loss position for more than 12 months. As of June 30, 2017, a total of 30 individual securities had been in an unrealized loss position for 12 months or less, and the losses were determined to be temporary. The gross unrealized losses above were caused by interest rate increases. No significant facts or circumstances have arisen to indicate that there has been any significant deterioration in the creditworthiness of the issuers of the securities held by us. Based on our review of these securities, including the assessment of the duration and severity of the unrealized losses and our ability and intent to hold the investments until maturity, there were no other-than-temporary impairments for these securities at June 30, 2017.

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

June 30, 2017	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 6,663	$ (5)
Corporate bonds and commercial paper	32,716	(14)
Total	$ 39,379	$ (19)

10.Fair Value

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

valuation models are applied.

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

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

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

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

The fair valued assets we hold that are generally assessed under Level 2 included government-sponsored enterprise securities, U.S. treasury bills and corporate bonds and commercial paper. We utilize third party pricing services in developing fair value measurements where fair value is based on valuation methodologies

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such as models using observable market inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers and other reference data. We use quotes from external pricing service providers and other on-line quotation systems to verify the fair value of investments provided by our third party pricing service providers. We review independent auditor's reports from our third party pricing service providers particularly regarding the controls over pricing and valuation of financial instruments and ensure that our internal controls address certain control deficiencies, if any, and complementary user entity controls are in place.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

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

Fair Value on a Recurring Basis

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

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 6,750	$ —	$ —	$ 6,750
Government-sponsored enterprise securities	—	9,062	—	9,062
Corporate bonds and commercial paper	—	66,138	—	66,138
Total	$ 6,750	$ 75,200	$ —	$ 81,950

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 9,496	$ —	$ —	$ 9,496
U.S. treasury bills	—	4,300	—	4,300
Government-sponsored enterprise securities	—	16,459	—	16,459
Corporate bonds and commercial paper	—	44,271	—	44,271
Total	$ 9,496	$ 65,030	$ —	