RIGEL PHARMACEUTICALS INC
Form 10-Q
May 03, 2016
Table of Contents

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 MARCH 31, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer

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

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 April 28, 2016, there were 92,144,382 shares of the registrant's Common Stock outstanding.

Table of Contents

RIGEL PHARMACEUTICALS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1.Financial Statements

RIGEL PHARMACEUTICALS, INC.

CONDENSED BALANCE SHEETS

(In thousands)

	March 31, 2016 (unaudited)	December 31, 2015(1)
Assets		
Current assets:		
Cash and cash equivalents	$ 14,269	$ 43,456
Short-term investments	89,363	82,820
Accounts receivable	195	203
Prepaid and other current assets	1,779	2,545
Total current assets	105,606	129,024
Property and equipment, net	1,610	1,613
Other assets	1,064	1,110
	$ 108,280	$ 131,747
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,424	$ 2,763
Accrued compensation	3,152	6,251
Accrued research and development	7,239	4,953
Other accrued liabilities	847	1,133
Deferred revenue	8,593	13,427
Deferred liability – sublease, current portion	3,058	3,005
Deferred rent, current portion	2,398	2,264
Total current liabilities	27,711	33,796
Long-term portion of deferred liability – sublease	2,675	3,460
Long-term portion of deferred rent	2,421	3,083
Other long-term liabilities	21	27

Commitments		
Stockholders' equity:		
Preferred stock	—	—
Common stock	91	91
Additional paid-in capital	1,084,422	1,082,980
Accumulated other comprehensive gain (loss)	49	(44)
Accumulated deficit	(1,009,110)	(991,646)
Total stockholders' equity	75,452	91,381
	$ 108,280	$ 131,747

(1) The balance sheet at December 31, 2015 has been derived from the audited financial statements included in Rigel's Annual Report on Form 10-K for the year ended December 31, 2015.

See Accompanying Notes.

Table of Contents

RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Contract revenues from collaborations	$ 5,029	$ 2,178
Costs and expenses:		
Research and development	18,173	15,702
General and administrative	4,423	4,717
Total costs and expenses	22,596	20,419
Loss from operations	(17,567)	(18,241)
Interest income	103	48
Net loss	$ (17,464)	$ (18,193)
Net loss per share, basic and diluted	$ (0.19)	$ (0.21)
Weighted average shares used in computing net loss per share, basic and diluted	90,555	88,043

See Accompanying Notes.

Table of Contents

RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Net loss	$ (17,464)	$ (18,193)
Other comprehensive income:		
Net unrealized gain on short-term investments	93	24
Comprehensive loss	$ (17,371)	$ (18,169)

See Accompanying Notes.

Table of Contents

RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Operating activities		
Net loss	$ (17,464)	$ (18,193)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	324	435
Stock-based compensation expense	1,438	2,054
Changes in assets and liabilities:		
Accounts receivable	8	5,644
Prepaid and other current assets	766	367
Other assets	46	28
Accounts payable	(339)	(477)
Accrued compensation	(3,099)	882
Accrued research and development	2,286	455
Other accrued liabilities	(286)	458
Deferred revenue	(4,834)	27,928
Deferred rent and other long term liabilities	(1,266)	(1,594)
Net cash provided by (used in) operating activities	(22,420)	17,987
Investing activities		
Purchases of short-term investments	(47,446)	(49,977)
Maturities of short-term investments	40,996	59,520
Capital expenditures	(321)	(32)
Net cash provided by (used in) investing activities	(6,771)	9,511
Financing activities		
Net proceeds from issuances of common stock upon exercise of options and participation in Purchase Plan	4	17
Net cash provided by financing activities	4	17
Net increase (decrease) in cash and cash equivalents	(29,187)	27,515
Cash and cash equivalents at beginning of period	43,456	15,203
Cash and cash equivalents at end of period	$ 14,269	$ 42,718

See Accompanying Notes.

Table of Contents

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, targeted drug candidates in the therapeutic areas of immunology, oncology and immuno-oncology.

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, 2015 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, 2015.

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 August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-15—Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, under Accounting Standards Codification (ASC) Subtopic 205-40, Presentation of Financial Statements—Going Concern. ASU No. 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued when applicable). Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). ASU No. 2014-15 is effective for the annual period ending after December 15, 2016 and early adoption is permitted. We plan to adopt this new standard in our annual financial statements for the year ending December 31, 2016. We will continue to evaluate the guidance under ASU No. 2014-15 and present the required disclosures within our financial statements at the time of adoption. The actual impact will be dependent upon our liquidity and the nature or significance of future events or conditions that exist upon the adoption of this new standard.

Table of Contents

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, and we have not yet determined which approach we will apply. 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. We are currently evaluating the potential impact of the adoption of ASU No. 2014-09 on our financial statements and cannot estimate the impact of adoption at this time.

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—Stock Compensation, 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. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. We plan to adopt this new standard on January 1, 2017. We are currently evaluating the potential impact of the adoption of ASU No. 2016-09 on our financial statements and cannot estimate the impact of adoption at this time.

4. Stock Award Plans

We have three stock option plans, our 2011 Equity Incentive Plan (2011 Plan), 2000 Equity Incentive Plan (2000 Plan) and 2000 Non-Employee Directors' Stock Option Plan (Directors' Plan), that provide for granting to our officers, directors and all other employees and consultants options to purchase shares of our common stock. We also have our Employee Stock Purchase Plan (Purchase Plan), 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. In order to calculate stock-based compensation expense, we also estimate the forfeiture rate using our historical experience with options that cancel before they vest. We review our forfeiture rates each quarter and make any necessary changes to our estimates. We use the straight-line attribution method over the requisite employee service period for the entire award in recognizing stock-based compensation expense.

Table of Contents

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 recognized 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 will recognize the related stock-based compensation expense when the event occurs or when we can determine that the performance condition is probable of achievement. In those cases, we will recognize the change in estimate at the time we determine the condition is probable of achievement (by recognizing stock-based compensation expense as cumulative catch-up 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	
	2016	2015
Outstanding stock options	21,856	20,077
Warrant to purchase common stock	200	200
Purchase Plan	97	79
	22,153	20,356

6.Stock-based Compensation

Total stock-based compensation expense related to all of our share-based payments that we recognized for the three months ended March 31, 2016 and 2015 were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Research and development	$ 693	$ 1,160
General and administrative	745	894
Total stock-based compensation expense	$ 1,438	$ 2,054

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.

Table of Contents

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

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

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

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

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

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

The following table summarizes the weighted-average assumptions relating to options granted pursuant to our equity incentive plans, including the performance-based stock option awards which will vest upon the achievement of a corporate performance-based milestone, for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015

Risk-free interest rate	1.8	%	1.8	%
Expected term (in years)	6.6		6.5	
Dividend yield	0.0	%	0.0	%
Expected volatility	60.5	%	64.9	%

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

We granted options to purchase 3,184,250 shares of common stock during the three months ended March 31, 2016, with a grant-date weighted-average fair value of $1.60 per share. Of the 3,184,250 common stock options granted, 1,015,000 shares with a grant date fair value of $1.7 million were related to performance-based stock option awards which will vest upon the achievement of a corporate performance-based milestone which we did not consider probable

Table of Contents

as of March 31, 2016. Accordingly, no stock-based compensation cost was recognized during the three months ended March 31, 2016 for these performance-based stock option awards.

We granted options to purchase 3,505,125 shares of common stock during the three months ended March 31, 2015, with a grant-date weighted-average fair value of $1.31 per share. Of the 3,505,125 common stock options granted, 1,175,000 shares were related to performance-based stock option awards which vested upon the achievement of a corporate performance-based milestone in the first quarter of 2016.

As of March 31, 2016, there was approximately $7.9 million of total unrecognized stock-based compensation cost, net of estimated forfeitures, related to all unvested options granted under our equity incentive plans. Of this amount, approximately $2.5 million of unrecognized stock compensation expense relate to the performance-based stock option awards, of which the underlying corporate performance-based milestone was not probable of achievement as of March 31, 2016.

At March 31, 2016, there were 2,494,985 shares of common stock available for future grant under our equity incentive plans and 1,666 options to purchase shares were exercised during the three months ended March 31, 2016.

Employee Stock Purchase Plan

Our Employee Stock Purchase Plan (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 January 2, 2015 because the fair market value of our stock on December 31, 2014 was lower than the fair market value of our stock on July 1, 2014, 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 $792,000 and is being recognized from January 2, 2015 to December 31, 2016.

As of March 31, 2016, there were approximately 3,001,616 shares reserved for future issuance under the Purchase Plan. The following table summarizes the weighted-average assumptions related to our Purchase Plan for the three months ended March 31, 2016 and 2015. 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.

	Three Months Ended March 31,			
	2016		2015	
Risk-free interest rate	0.7	%	0.6	%
Expected term (in years)	1.8		1.5	
Dividend yield	0.0	%	0.0	%
Expected volatility	61.5	%	61.2	%

Table of Contents

7.Research and Development Accruals

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

8.Sponsored Research and License Agreements

We conduct research and development programs independently and in connection with our corporate collaborators. We are a participant in our 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 is limited to the Joint Research Committee and the performance of research activities based on billable full-time equivalent fees as specified in the 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 $533.6 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 $150.5 million relates to the achievement of development events, up to $345.6 million relates to the achievement of regulatory events and up to $37.5 million relates to the achievement of certain commercial or launch events. This estimated future contingent amount does not include any estimated royalties that could be due to us if 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 October 2015, we entered into a non-exclusive license agreement with a third party, pursuant to which we received a payment in the single-digit millions in exchange for granting a non-exclusive license to certain limited intellectual property rights. We concluded that the granting of the license, which was fully delivered to such third party in the fourth quarter of 2015, represents the sole deliverable under this agreement. Accordingly, we recognized the payment as revenue during the fourth quarter of 2015.

In August 2015, we entered into a license agreement with Aclaris, pursuant to which Aclaris will have exclusive rights and will assume responsibility for the continued development of certain JAK inhibitor compounds for the treatment of alopecia areata and other dermatological conditions. Under the license agreement, we received a noncreditable and non-refundable upfront payment of $8.0 million in September 2015. We are also entitled to receive development and regulatory contingent fees that could exceed $80.0 million for a successful compound approved in certain indications. In addition, we are also eligible to receive tiered royalties on the net sales of any products under the agreement. We concluded that the granting of the license, which has been fully delivered to Aclaris in the third quarter of 2015, represents the sole deliverable under this agreement. Accordingly, we recognized the $8.0 million payment as revenue during the third quarter of 2015.

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

Table of Contents

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 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 are a single unit of accounting as the license does not have stand-alone value apart from the other deliverables. Accordingly, the $30.0 million upfront payment is being recognized ratably as revenue from the effective date of the agreement through September 2016, the end of the estimated research term. We believe that straight-line recognition of this revenue is appropriate as the research is expected to be performed ratably over the research period. During the three months ended March 31, 2016 and 2015, we recognized revenue of $4.8 million and $2.1 million, respectively, relating to the upfront payment and $195,000 and $106,000, respectively, relating to the research activities we performed. As of March 31, 2016, deferred revenue related to the $30.0 million upfront payment was $8.6 million.

9.Cash, Cash Equivalents and Short-Term Investments

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

	March 31, 2016	December 31, 2015
Cash	$ 338	$ 2,118
Money market funds	4,883	26,291
U. S. treasury bills	9,062	9,048
Government-sponsored enterprise securities	29,236	48,613
Corporate bonds and commercial paper	60,113	40,206
	$ 103,632	$ 126,276
Reported as:		
Cash and cash equivalents	$ 14,269	$ 43,456
Short-term investments	89,363	82,820
	$ 103,632	$ 126,276

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

	Amortized	Gross Unrealized	Gross Unrealized

March 31, 2016	Cost	Gains	Losses	Fair Value
U. S. treasury bills	$ 9,057	$ 5	$ —	$ 9,062
Government-sponsored enterprise securities	29,231	9	(4)	29,236
Corporate bonds and commercial paper	60,074			