DEUTSCHE BANK AKTIENGESELLSCHAFT
Form FWP
July 30, 2014

Term Sheet
To product supplement B dated September 28, 2012,
prospectus supplement dated September 28, 2012
and prospectus dated September 28, 2012

Term Sheet No. 2124B/A†
Registration Statement No. 333-184193
Dated July 30, 2014; Rule 433

Deutsche Bank

Structured Investments

Deutsche Bank AG
$ Notes Linked to an Unequally Weighted Basket of Sixteen Equity Securities due August 19*, 2015

General

- The notes are designed for investors who seek a return linked to the performance of an unequally weighted basket of sixteen equity securities issued by companies in the healthcare industry (the "Basket"). The notes do not pay any coupons or dividends and investors should be willing to lose some or all of their investment if the level of the Basket decreases or fails to increase sufficiently to offset the effect of the Adjustment Factor. Any payment on the notes is subject to the credit of the Issuer.
- Senior unsecured obligations of Deutsche Bank AG maturing August 19*, 2015†.
- Minimum purchase of $10,000. Minimum denominations of $1,000 (the "Face Amount") and integral multiples thereof.
- The notes are expected to price on or about August 1*, 2014 (the "Trade Date") and are expected to settle on or about August 6*, 2014 (the "Settlement Date").

Key Terms

Issuer:	Deutsche Bank AG, London Branch
Issue Price:	100% of the Face Amount
Basket:	The notes are linked to an unequally weighted basket of sixteen equity securities issued by companies in the healthcare industry (each a "Basket Component" and collectively, the "Basket Components"), as listed in the table below.
Payment at Maturity:	At maturity, you will receive a cash payment per $1,000 Face Amount of notes, calculated as follows: $1,000 x (1 + Basket Return) x Adjustment Factor Your investment will be fully exposed to any negative Basket Return. The Adjustment Factor will reduce your return regardless of whether the level of the Basket increases or decreases over the term of the notes. You will lose some or all of your initial investment if the level of the Basket as measured from the Initial Basket Level to the Final Basket Level decreases or fails to increase sufficiently to offset the effect of the Adjustment Factor. Any payment at maturity is subject to the credit of the Issuer.
Basket Return:	$\frac{\text{Final Basket Level} - \text{Initial Basket Level}}{\text{Initial Basket Level}}$
Adjustment Factor:	0.9952
Initial Basket Level:	Set equal to 100 on the Trade Date
Final Basket Level:	The arithmetic average of the Basket Levels on the Averaging Dates
Basket Level:	The Basket Level on each Averaging Date will be calculated as follows:

$$100 \times [1 + \text{the aggregate sum, for all Basket Components, of } (\text{Basket Component Return on such Averaging Date} \times \text{Basket Component Weighting})]$$

Basket Component Return:	With respect to each Basket Component, the performance of such Basket Component from its Initial Stock Price to its Final Stock Price on the applicable Averaging Date, calculated as follows:

$$\frac{\text{Final Stock Price} - \text{Initial Stock Price}}{\text{Initial Stock Price}}$$

(Key Terms continued on next page)

†This amended and restated term sheet amends and restates term sheet No. 2124B in its entirety. We refer to this amended and restated term sheet as "term sheet."

Investing in the notes involves a number of risks. See "Risk Factors" beginning on page 7 of the accompanying product supplement and "Selected Risk Considerations" beginning on page 5 of this term sheet.

The Issuer's estimated value of the notes on the Trade Date is approximately $972.50 to $992.50 per $1,000 Face Amount of notes, which is less than the Issue Price. Please see "Issuer's Estimated Value of the Notes" on page 3 of this term sheet for additional information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or passed upon the accuracy or the adequacy of this term sheet or the accompanying product supplement, prospectus supplement or prospectus. Any representation to the contrary is a criminal offense.

	Price to Public(1)	Fees(1)(2)	Proceeds to Issuer
Per note	$1,000.00	$7.50	$992.50
Total	$	$	$

(1) JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC, which we refer to as JPMS LLC, or one of its affiliates will act as placement agents for the notes. The placement agents will forego fees for sales to fiduciary accounts. The total fees represent the amount that the placement agents receive from sales to accounts other than such fiduciary accounts.

(2) Please see "Supplemental Plan of Distribution" in this term sheet for more information about fees.

The notes are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

JPMorgan
Placement Agent

July 30, 2014

(Key Terms continued from previous page)

Basket:	Basket Component	Ticker Symbol	Basket Component Weighting	Initial Stock Price**
	The common stock of Pfizer Inc.	PFE	6 2/3%	
	The common stock of Merck & Co., Inc.	MRK	6 2/3%	
	The American depositary shares of Sanofi	SNY	6 2/3%	
	The common stock of Bristol-Myers Squibb Company	BMY	6 2/3%	
	The common stock of Walgreen Co.	WAG	6 2/3%	
	The common stock of Eli Lilly and Company	LLY	6 2/3%	
	The common stock of Mylan Inc.	MYL	6 2/3%	
	The ordinary shares of Perrigo Company plc	PRGO	6 2/3%	
	The common stock of Zoetis Inc.	ZTS	6 2/3%	
	The common stock of Biogen Idec Inc.	BIIB	5 5/7%	
	The common stock of Celgene Corporation	CELG	5 5/7%	
	The common shares of Valeant Pharmaceuticals International, Inc.	VRX	5 5/7%	
	The common stock of Illumina, Inc.	ILMN	5 5/7%	
	The common stock of Endo Health Solutions Inc.	ENDP	5 5/7%	
	The common stock of Impax Laboratories, Inc.	IPXL	5 5/7%	
	The common stock of Gilead Sciences, Inc.	GILD	5 5/7%	

**The Initial Stock Price for each Basket Component will be determined on the Trade Date.

Initial Stock Price:	With respect to each Basket Component, the Closing Price of such Basket Component on the Trade Date, as set forth in the table above.
Final Stock Price:	With respect to each Basket Component, the Closing Price of such Basket Component on the applicable Averaging Date.
Closing Price:	With respect to each Basket Component, on any trading day, the last reported sale price of one share of the Basket Component on its relevant exchange multiplied by the then-current Stock Adjustment Factor, as determined by the calculation agent.
Stock Adjustment	With respect to each Basket Component, initially 1.0, subject to adjustment upon the occurrence of certain corporate events affecting such Basket Component. See “Description of Securities —

Factor:	Anti-Dilution Adjustments for Reference Stock" in the accompanying product supplement.
Trade Date:	August 1*, 2014
Settlement Date:	August 6*, 2014
Averaging Dates†:	August 10*, 2015, August 11*, 2015, August 12*, 2015, August 13*, 2015 and August 14*, 2015,
Maturity Date†:	August 19*, 2015
Listing:	The notes will not be listed on any securities exchange.
CUSIP/ISIN:	25152RNC3 / US25152RNC33

* Expected. In the event that we make any change to the expected Trade Date or Settlement Date, the Averaging Dates and Maturity Date may be changed so that the stated term of the notes remains the same.

† Subject to postponement as described under "Description of Securities — Adjustments to Valuation Dates and Payment Dates" in the accompanying product supplement.

Issuer's Estimated Value of the Notes

The Issuer's estimated value of the notes is equal to the sum of our valuations of the following two components of the notes: (i) a bond and (ii) an embedded derivative(s). The value of the bond component of the notes is calculated based on the present value of the stream of cash payments associated with a conventional bond with a principal amount equal to the Face Amount of notes, discounted at an internal funding rate, which is determined primarily based on our market-based yield curve, adjusted to account for our funding needs and objectives for the period matching the term of the notes. The internal funding rate is typically lower than the rate we would pay when we issue conventional debt securities on equivalent terms. This difference in funding rate, as well as the agent's commissions, if any, and the estimated cost of hedging our obligations under the notes, reduces the economic terms of the notes to you and is expected to adversely affect the price at which you may be able to sell the notes in any secondary market. The value of the embedded derivative(s) is calculated based on our internal pricing models using relevant parameter inputs such as expected interest and dividend rates and mid-market levels of price and volatility of the assets underlying the notes or any futures, options or swaps related to such underlying assets. Our internal pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect.

The Issuer's estimated value of the notes on the Trade Date (as disclosed on the cover of this term sheet) is less than the Issue Price of the notes. The difference between the Issue Price and the Issuer's estimated value of the notes on the Trade Date is due to the inclusion in the Issue Price of the agent's commissions, if any, and the cost of hedging our obligations under the notes through one or more of our affiliates. Such hedging cost includes our or our affiliates' expected cost of providing such hedge, as well as the profit we or our affiliates expect to realize in consideration for assuming the risks inherent in providing such hedge.

The Issuer's estimated value of the notes on the Trade Date does not represent the price at which we or any of our affiliates would be willing to purchase your notes in the secondary market at any time. Assuming no changes in market conditions or our creditworthiness and other relevant factors, the price, if any, at which we or our affiliates would be willing to purchase the notes from you in secondary market transactions, if at all, would generally be lower than both the Issue Price and the Issuer's estimated value of the notes on the Trade Date. Our purchase price, if any, in secondary market transactions will be based on the estimated value of the notes determined by reference to (i) the then-prevailing internal funding rate (adjusted by a spread) or another appropriate measure of our cost of funds and (ii) our pricing models at that time, less a bid spread determined after taking into account the size of the repurchase, the nature of the assets underlying the notes and then-prevailing market conditions. The price we report to financial reporting services and to distributors of our notes for use on customer account statements would generally be determined on the same basis. However, during the period of approximately three months beginning from the Trade Date, we or our affiliates may, in our sole discretion, increase the purchase price determined as described above by an amount equal to the declining differential between the Issue Price and the Issuer's estimated value of the notes on the Trade Date, prorated over such period on a straight-line basis, for transactions that are individually and in the aggregate of the expected size for ordinary secondary market repurchases.

Additional Terms Specific to the Notes

You should read this term sheet together with product supplement B dated September 28, 2012, the prospectus supplement dated September 28, 2012 relating to our Series A global notes of which these notes are a part and the prospectus dated September 28, 2012. You may access these documents on the website of the Securities and Exchange Commission (the "SEC") at.www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Product supplement B dated September 28, 2012:
http://www.sec.gov/Archives/edgar/data/1159508/000095010312005077/crt_dp33020-424b2.pdf

Prospectus supplement dated September 28, 2012:
http://www.sec.gov/Archives/edgar/data/1159508/000119312512409437/d414995d424b21.pdf

Prospectus dated September 28, 2012:
http://www.sec.gov/Archives/edgar/data/1159508/000119312512409372/d413728d424b21.pdf

Our Central Index Key, or CIK, on the SEC website is 0001159508. As used in this term sheet, "we," "us" or "our" refers to Deutsche Bank AG, including, as the context requires, acting through one of its branches.

The trustee has appointed Deutsche Bank Trust Company Americas as its authenticating agent with respect to our Series A global notes.

This term sheet, together with the documents listed above, contains the terms of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in this term sheet and in "Risk Factors" in the accompanying product supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before deciding to invest in the notes.

Deutsche Bank AG has filed a registration statement (including a prospectus) with the Securities and Exchange Commission for the offering to which this term sheet relates. Before you invest, you should read the prospectus in that registration statement and the other documents relating to this offering that Deutsche Bank AG has filed with the SEC for more complete information about Deutsche Bank AG and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at.www.sec.gov. Alternatively, Deutsche Bank AG, any agent or any dealer participating in this offering will arrange to send you the prospectus, prospectus supplement, product supplement and this term sheet if you so request by calling toll-free 1-800-311-4409.

You may revoke your offer to purchase the notes at any time prior to the time at which we accept such offer by notifying the applicable agent. We reserve the right to change the terms of, or reject any offer to purchase, the notes prior to their issuance. We will notify you in the event of any changes to the terms of the notes, and you will be asked to accept such changes in connection with your purchase of any notes. You may also choose to reject such changes, in which case we may reject your offer to purchase the notes.

What Are the Possible Payments on the Notes at Maturity, Assuming a Range of Hypothetical Performances for the Basket?

The table below illustrates a range of hypothetical payments at maturity on the notes. These examples illustrate that you will lose some or all of your initial investment if the level of the Basket as measured from the Initial Basket Level to the Final Basket Level decreases or fails to increase sufficiently to offset the effect of the Adjustment Factor. The hypothetical returns set forth below reflect the Adjustment Factor of 0.9952. The table and hypothetical examples set forth below are for illustrative purposes only. The actual return applicable to a purchaser of the notes will be based on the performances of the Basket Components, determined using the Closing Prices of the Basket Components on the specified Averaging Dates. The numbers appearing in the table and examples below have been rounded for ease of analysis. You should consider carefully whether the notes are suitable to your investment goals.

Hypothetical Basket Return (%)	Hypothetical Return on Notes (%)	Hypothetical Payment at Maturity ($)
100.00%	99.04%	$1,990.40
90.00%	89.09%	$1,890.88
80.00%	79.14%	$1,791.36
70.00%	69.18%	$1,691.84
60.00%	59.23%	$1,592.32
50.00%	49.28%	$1,492.80
40.00%	39.33%	$1,393.28
30.00%	29.38%	$1,293.76
20.00%	19.42%	$1,194.24
10.00%	9.47%	$1,094.72
0.48%	0.00%	$999.98
0.30%	-0.18%	$998.19
0.00%	-0.48%	$995.20
-10.00%	-10.43%	$895.68
-20.00%	-20.38%	$796.16
-30.00%	-30.34%	$696.64
-40.00%	-40.29%	$597.12
-50.00%	-50.24%	$497.60
-60.00%	-60.19%	$398.08
-70.00%	-70.14%	$298.56
-80.00%	-80.10%	$199.04
-90.00%	-90.05%	$99.52
-100.00%	-100.00%	$0.00

Hypothetical Examples of Amounts Payable at Maturity

The following hypothetical examples illustrate how the payments on the notes at maturity set forth in the table above are calculated.

Example 1: The Final Basket Level is greater than the Initial Basket Level, resulting in a Basket Return of 20.00%. Because the Final Basket Level is greater than the Initial Basket Level, the Basket Return is positive and the investor receives a Payment at Maturity of $1,194.24 per $1,000 Face Amount of notes, representing a return on the notes of approximately 19.42%, calculated as follows:

$1,000 x (1 + Basket Return) x Adjustment Factor
$1,000 x (1 + 20.00%) x 0.9952 = $1,194.24

Example 2: The Final Basket Level is greater than the Initial Basket Level, resulting in a Basket Return of 0.30%. In this case, even though the Final Basket Level is greater than the Initial Basket Level and the Basket Return is positive, the investor receives a Payment at Maturity that is less than $1,000 per $1,000 Face Amount of notes because the increase in the level of the Basket as measured from the Initial Basket Level to the Final Basket Level is not sufficient to offset the effect of the Adjustment Factor. The investor receives a Payment at Maturity of $998.19 per $1,000 Face Amount of notes, representing a return on the notes of approximately -0.18%, calculated as follows:

$1,000 x (1 + Basket Return) x Adjustment Factor
$1,000 x (1 + 0.30%) x 0.9952 = $998.19

Example 3: The Final Basket Level is less than the Initial Basket Level, resulting in a Basket Return of -40.00%. Because the Final Basket Level is less than the Initial Basket Level, the Basket Return is negative and the investor will lose approximately 40.29% of its investment due to the exposure to the Basket performance and the deduction of the Adjustment Factor. Therefore, the investor receives a Payment at Maturity of $597.12 per $1,000 Face Amount of notes, representing a return on the notes of -40.29%, calculated as follows:

$1,000 x (1 + Basket Return) x Adjustment Factor
$1,000 x (1 + -40.00%) x 0.9952 = $597.12

Selected Purchase Considerations

- THE ADJUSTMENT FACTOR REDUCES THE PAYMENT AT MATURITY — Because the Adjustment Factor is applied to the Basket Return at maturity, the Adjustment Factor will reduce the return on the notes regardless of whether the Final Basket Level is greater than, equal to or less than the Initial Basket Level.

- FULL DOWNSIDE EXPOSURE – You will lose some or all of your investment at maturity if the Final Basket Level decreases or fails to increase sufficiently from the Initial Basket Level to offset the effect of the Adjustment Factor. Because the notes are our senior unsecured obligations, payment of any amount at maturity is subject to our ability to meet our obligations as they become due.

- RETURN LINKED TO THE PERFORMANCE OF AN UNEQUALLY WEIGHTED BASKET OF SIXTEEN EQUITY SECURITIES ISSUED BY COMPANIES IN THE HEALTHCARE INDUSTRY — The return on the notes, which may be positive, zero or negative, is linked to the performance of an unequally weighted basket of sixteen equity securities issued by companies in the healthcare industry that consists of the common stock of Pfizer Inc., the common stock of Merck & Co., Inc., the American depositary shares of Sanofi, the common stock of Bristol-Myers Squibb Company, the common stock of Walgreen Co., the common stock of Eli Lilly and Company, the common stock of Mylan Inc., the ordinary shares of Perrigo Company plc, the common stock of Zoetis Inc., the common stock of Biogen Idec Inc., the common stock of Celgene Corporation, the common shares of Valeant Pharmaceuticals International, Inc., the common stock of Illumina, Inc., the common stock of Endo Health Solutions Inc., the common stock of Impax Laboratories, Inc. and the common stock of Gilead Sciences, Inc. For more information on each Basket Component, please see “The Basket Components” in this term sheet.

- TAX CONSEQUENCES — In the opinion of our special tax counsel, Davis Polk & Wardwell LLP, which is based on prevailing market conditions, it is more likely than not that the notes will be treated for U.S. federal income tax purposes as prepaid financial contracts that are not debt. Generally, if this treatment is respected, (i) you should not recognize taxable income or loss prior to the taxable disposition of your notes (including at maturity) and (ii) the gain or loss on your notes should be capital gain or loss and should be long-term capital gain or loss if you have held the notes for more than one year. The Internal Revenue Service (the “IRS”) or a court might not agree with this treatment, however, in which case the timing and character of income or loss on your notes could be materially and adversely affected.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether beneficial owners of these instruments should be required to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; the relevance of factors such as the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S.

persons should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose a notional interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect.

You should review carefully the section of the accompanying product supplement entitled "U.S. Federal Income Tax Consequences." The preceding discussion, when read in combination with that section, constitutes the full opinion of our special tax counsel regarding the material U.S. federal income tax consequences of owning and disposing of the notes.

Under current law, the United Kingdom will not impose withholding tax on payments made with respect to the notes.

For a discussion of certain German tax considerations relating to the notes, you should refer to the section in the accompanying prospectus supplement entitled "Taxation by Germany of Non-Resident Holders."

You should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the notes (including possible alternative treatments and the issues presented by the 2007 notice), as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Selected Risk Considerations

An investment in the notes involves significant risks. Investing in the notes is not equivalent to investing directly in the Basket Components. In addition to these selected risk considerations, you should review the "Risk Factors" section of the accompanying product supplement.

- YOUR INVESTMENT IN THE NOTES MAY RESULT IN A LOSS — The notes do not pay any coupons or dividends and do not guarantee any return of your investment. The return on the notes at maturity is linked to the performance of the Basket and will depend on whether, and the extent to which, the Basket Return is positive, zero or negative. In addition, the Adjustment Factor will reduce your return regardless of whether the level of the Basket increases or decreases from the Initial Basket Level to the Final Basket Level. If the Final Basket Level decreases or fails to increase sufficiently from the Initial Basket Level to offset the effect of the Adjustment Factor, you will lose some or all of your initial investment. Any payment at maturity is subject to our ability to meet our obligations as they become due.

- THE NOTES DO NOT PAY ANY COUPONS — Unlike ordinary debt securities, the notes do not pay any coupons and do not guarantee any return of the initial investment at maturity.

- NO DIVIDEND PAYMENTS OR VOTING RIGHTS — As a holder of the notes, you will not have any voting rights or rights to receive cash dividends or other distributions or other rights that holders of the Basket Components would have.

- THE NOTES ARE SUBJECT TO OUR CREDITWORTHINESS — The notes are senior unsecured obligations of the Issuer, Deutsche Bank AG, and are not, either directly or indirectly, an obligation of any third party. Any payment(s) to be made on the notes, depends on the ability of Deutsche Bank AG to satisfy its obligations as they come due. An actual or anticipated downgrade in Deutsche Bank AG's credit rating or increase in the credit spreads charged by the market for taking our credit risk will likely have an adverse effect on the value of the notes. As a result, the actual and perceived creditworthiness of Deutsche Bank AG will affect the value of the notes and in the event Deutsche Bank AG were to default on its obligations, you might not receive any amount(s) owed to you under the terms of the notes and you could lose your entire investment.

- THE ISSUER'S ESTIMATED VALUE OF THE NOTES ON THE TRADE DATE WILL BE LESS THAN THE ISSUE PRICE OF THE NOTES — The Issuer's estimated value of the notes on the Trade Date (as disclosed on the cover of this term sheet) is less than the Issue Price of the notes. The difference between the Issue Price and the Issuer's estimated value of the notes on the Trade Date is due to the inclusion in the Issue Price of the agent's commissions, if any, and the cost of hedging our obligations under the notes through one or more of our affiliates. Such hedging cost includes our or our affiliates' expected cost of providing such hedge, as well as the profit we or our affiliates expect to realize in consideration for assuming the risks inherent in providing such hedge. The Issuer's estimated value of the notes is determined by reference to an internal funding rate and our pricing models. The internal funding rate is typically lower than the rate we would pay when we issue conventional debt securities on equivalent terms. This difference in funding rate, as well as the agent's commissions, if any, and the estimated cost of hedging our obligations under the notes, reduces the economic terms of the notes to you and is expected to adversely affect the price at which you may be able to sell the notes in any secondary market. In addition, our internal pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be

incorrect. If at any time a third party dealer were to quote a price to purchase your notes or otherwise value your notes, that price or value may differ materially from the estimated value of the notes determined by reference to our internal funding rate and pricing models. This difference is due to, among other things, any difference in funding rates, pricing models or assumptions used by any dealer who may purchase the notes in the secondary market.

- THE CORRELATION AMONG THE BASKET COMPONENTS COULD CHANGE UNPREDICTABLY — Correlation is the extent to which the prices of the Basket Components increase or decrease to the same degree at the same time. The value of the notes may be adversely affected by increased positive correlation between the Basket Components, in particular when the price of one Basket Component decreases. The value of the notes may also be adversely affected by increased negative correlation between the Basket Components, meaning the positive performance of one or more Basket Components could be entirely offset by the negative performance of one or more other Basket Components.

- CHANGES IN THE VALUE OF THE BASKET COMPONENTS MAY OFFSET EACH OTHER — The notes are linked to an unequally weighted basket of sixteen equity securities issued by companies in the healthcare industry. Price movements in the Basket Components may not correlate with each other. At a time when the prices of some of the Basket Components increase, the prices of other Basket Components may not increase as much or may decrease in value. Therefore, in calculating the Final Basket Level, increases in the Closing Prices of some of the Basket Components on the Averaging

Dates may be moderated, offset or more than offset by lesser increases or decreases in the Closing Prices of the other Basket Components on the Averaging Dates.

- THE BASKET COMPONENTS ARE UNEQUALLY WEIGHTED — The Basket Components are unequally weighted. Accordingly, the performance of the Basket Components with the higher weighting will influence the Payment at Maturity to a greater degree than the performance of the Basket Components with the lower weighting. If the Basket Components with the higher weighting perform poorly, that poor performance could negate or diminish the effect on the Payment at Maturity of any positive performance by the lower-weighted Basket Components.

- INVESTING IN THE NOTES IS NOT THE SAME AS INVESTING IN THE BASKET COMPONENTS — The return on your notes may not reflect the return you would realize if you directly invested in the Basket Components. For instance, your return on the notes is linked to the performance of the Basket and not the performance of any one Basket Component. Thus, the positive performance of one Basket Component may be moderated, offset or more than offset by the negative performance of the other Basket Components.

- IF THE PRICES OF THE BASKET COMPONENTS CHANGE, THE VALUE OF YOUR NOTES MAY NOT CHANGE IN THE SAME MANNER — Your notes may trade quite differently from the Basket Components. Changes in the prices of the Basket Components may not result in comparable changes in the value of your notes.

- ANTI-DILUTION PROTECTION IS LIMITED, AND THE CALCULATION AGENT MAY MAKE ADJUSTMENTS IN ADDITION TO, OR THAT DIFFER FROM, THOSE SET FORTH IN THE ACCOMPANYING PRODUCT SUPPLEMENT — The calculation agent will make adjustments to the Stock Adjustment Factor of a Basket Component, which will initially be set at 1.0, for certain events affecting the relevant Basket Component. The calculation agent is not required, however, to make adjustments in response to all corporate actions, including if the issuer of the relevant Basket Component or another party makes a partial tender or partial exchange offer for the Basket Component. If such an event occurs that does not require the calculation agent to make an adjustment, the value of the notes may be materially and adversely affected. In addition, you should be aware that the calculation agent may, at its sole discretion, make adjustments to the Stock Adjustment Factor of a Basket Component or any other terms of the notes that are in addition to, or that differ from, those described in the accompanying product supplement to reflect changes occurring in relation to the relevant Basket Component in circumstances where the calculation agent determines that it is appropriate to reflect those changes to ensure an equitable result. Any alterations to the specified anti-dilution adjustments for the Basket Components described in the accompanying product supplement may be materially adverse to investors in the notes. You should read “Description of Securities — Anti-Dilution Adjustments for Reference Stock” in the accompanying product supplement in order to understand the adjustments that may be made to the notes.

- WE HAVE NO AFFILIATION WITH THE ISSUERS OF THE BASKET COMPONENTS — The issuers of the Basket Components are not affiliates of ours and are not involved in any way in any of our offerings of the notes pursuant to this term sheet. Consequently, we have no control over the actions of the issuers of the Basket Components, including any corporate actions of the type that would require the calculation agent to adjust the Stock Adjustment Factors, which may adversely affect the value of your notes. The issuers of the Basket Components have no obligation to consider your interest as an investor in the notes in taking any corporate actions that might affect the value of your notes. None of the money you pay for the notes will go to the issuers of the Basket Components.

- RISKS ASSOCIATED WITH INVESTMENTS IN STOCKS WITH CONCENTRATION IN THE HEALTHCARE INDUSTRY— The Basket Components are securities of companies whose primary business is directly associated with the healthcare industry. The Basket Components may be subject to increased price volatility as they are linked to a single industry and may be more susceptible to economic, market, political or regulatory occurrences affecting that

industry. In particular, the healthcare industry is significantly affected by:

- current and future regulations affecting the healthcare industry;
- cost of development of new pharmaceutical medicines;
- changes in the coverage of and requirement to obtain health insurance plans; and
- compliance costs in response to regulatory oversight.

These or other factors or the absence of such factors could adversely affect the healthcare industry and could cause the price of some or all of the Basket Components to decrease during the term of the notes. For more information on each Basket Component, please see "The Basket Components" in the term sheet and the information filed by the issuers of the Basket Components with the SEC. You should make your own investigation into the Basket Components.

- THERE ARE RISKS ASSOCIATED WITH INVESTMENTS IN NOTES LINKED TO THE VALUE OF EQUITY SECURITIES ISSUED BY A NON-U.S. COMPANY — Three of the Basket Components (the American depositary shares ("ADSs") of Sanofi, the ordinary shares of Perrigo Company plc and the common shares of Valeant Pharmaceuticals International, Inc.) are issued by companies which are incorporated outside of the U.S. There are risks associated with investments in notes linked to the value of equity securities issued by a non-U.S. company. Because a Basket Component is linked

to the ADSs of Sanofi, the notes are subject to the risks associated with the non-U.S. securities markets where the equity securities of Sanofi are traded. Generally, non-U.S. securities markets may be more volatile than U.S. securities markets, and market developments may affect non-U.S. securities markets differently than U.S. securities markets, which may adversely affect the value of the ADSs of Sanofi, the ordinary shares of Perrigo Company plc and the common shares of Valeant Pharmaceuticals International, Inc. and, therefore, the value of your notes. Furthermore, there is generally less publicly available information about non-U.S. companies than about those U.S. companies that are subject to the reporting requirements of the Securities and Exchange Commission, and non-U.S. companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies. In addition, the price of equity securities issued by a non-U.S. company may be adversely affected by political, economic, financial and social factors that may be unique to the particular country in which the non-U.S. company is incorporated. These factors include the possibility of recent or future changes in the non-U.S. government's economic and fiscal policies (including any direct or indirect intervention to stabilize the economy and/or securities market of the country of such non-U.S. government), the presence, and extent, of cross shareholdings in non-U.S. companies, the possible imposition of, or changes in, currency exchange laws or other non-U.S. laws or restrictions applicable to non-U.S. companies or investments in non-U.S. securities and the possibility of fluctuations in the rate of exchange between currencies. Moreover, certain aspects of a particular non-U.S. economy may differ favorably or unfavorably from the U.S. economy in important respects, such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

- FLUCTUATIONS IN EXCHANGE RATES MAY AFFECT YOUR INVESTMENT — One of the Basket Components is the ADSs of Sanofi. There are significant risks related to an investment linked to an ADS (as evidenced by American depositary receipts), which is quoted and traded in U.S. dollars, representing an equity security that is quoted and traded in a foreign currency. An ADS, which is quoted and traded in U.S. dollars, may trade differently from its underlying equity security. In recent years, the rates of exchange between the U.S. dollar and some other currencies have been highly volatile, and this volatility may continue in the future. These risks generally depend on economic and political events over which we have no control. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur during the term of the notes. Changes in the exchange rate between the U.S. dollar and a foreign currency may affect the U.S. dollar equivalent of the price of the underlying equity security on non-U.S. securities markets and, as a result, may affect the market price of the ADSs of Sanofi, which may consequently affect the level of the Basket and the value of the notes.

- THERE ARE IMPORTANT DIFFERENCES BETWEEN THE RIGHTS OF HOLDERS OF AMERICAN DEPOSITARY SHARES AND THE RIGHTS OF HOLDERS OF THE ORDINARY SHARES OF A FOREIGN COMPANY — You should be aware that one of the Basket Components is the ADSs of Sanofi and not the equity securities represented by the ADSs, and there exist important differences between the rights of holders of ADSs and the rights of holders of the corresponding equity securities. Each ADS is a security evidenced by American depositary receipts that represents a certain number of equity securities of a foreign company. Generally, ADSs are issued under a deposit agreement which sets forth the rights and responsibilities of the depositary, the foreign issuer and holders of the ADSs, which may be different from the rights of holders of equity securities of the foreign issuer. For example, the foreign issuer may make distributions in respect of its equity securities that are not passed on to the holders of its ADSs. Any such differences between the rights of holders of ADSs and holders of the corresponding equity securities may be significant and may materially and adversely affect the price of the ADSs and thus the value of the notes.

- PAST PERFORMANCE OF THE BASKET COMPONENTS IS NO GUIDE TO FUTURE PERFORMANCE — The actual performance of the Basket Components over the term of the notes may bear little relation to the historical closing prices of the Basket Components and may bear little relation to the hypothetical return examples set forth

elsewhere in this term sheet. We cannot predict the future performance of the Basket Components or whether the performance of the Basket Components will result in the return of any of your investment. The common stock of Zoetis Inc. commenced trading on February 1, 2013 and therefore has a limited performance history.

- ASSUMING NO CHANGES IN MARKET CONDITIONS AND OTHER RELEVANT FACTORS, THE PRICE YOU MAY RECEIVE FOR YOUR NOTES IN SECONDARY MARKET TRANSACTIONS WOULD GENERALLY BE LOWER THAN BOTH THE ISSUE PRICE AND THE ISSUER'S ESTIMATED VALUE OF THE NOTES ON THE TRADE DATE — While the payment(s) on the notes described in this term sheet is based on the full Face Amount of your notes, the Issuer's estimated value of the notes on the Trade Date (as disclosed on the cover of this term sheet) is less than the Issue Price of the notes. The Issuer's estimated value of the notes on the Trade Date does not represent the price at which we or any of our affiliates would be willing to purchase your notes in the secondary market at any time. Assuming no changes in market conditions or our creditworthiness and other relevant factors, the price, if any, at which we or our affiliates would be willing to purchase the notes from you in secondary market transactions, if at all, would generally be

lower than both the Issue Price and the Issuer's estimated value of the notes on the Trade Date. Our purchase price, if any, in secondary market transactions would be based on the estimated value of the notes determined by reference to (i) the then-prevailing internal funding rate (adjusted by a spread) or another appropriate measure of our cost of funds and (ii) our pricing models at that time, less a bid spread determined after taking into account the size of the repurchase, the nature of the assets underlying the notes and then-prevailing market conditions. The price we report to financial reporting services and to distributors of our notes for use on customer account statements would generally be determined on the same basis. However, during the period of approximately three months beginning from the Trade Date, we or our affiliates may, in our sole discretion, increase the purchase price determined as described above by an amount equal to the declining differential between the Issue Price and the Issuer's estimated value of the notes on the Trade Date, prorated over such period on a straight-line basis, for transactions that are individually and in the aggregate of the expected size for ordinary secondary market repurchases.

In addition to the factors discussed above, the value of the notes and our purchase price in secondary market transactions after the Trade Date, if any, will vary based on many economic market factors, including our creditworthiness, and cannot be predicted with accuracy. These changes may adversely affect the value of your notes, including the price you may receive in any secondary market transactions. Any sale prior to the Maturity Date could result in a substantial loss to you. The notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your notes to maturity.

- LACK OF LIQUIDITY — The notes will not be listed on any securities exchange. We or our affiliates intend to offer to purchase the notes in the secondary market but are not required to do so and may cease such market making activities at any time. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the notes easily. Because other dealers are not likely to make a secondary market for the notes, the price at which you may be able to trade or sell your notes is likely to depend on the price, if any, at which we or our affiliates are willing to buy the notes. If you have to sell your notes prior to maturity, you may not be able to do so or you may have to sell them at a substantial loss.

- MANY ECONOMIC AND MARKET FACTORS WILL AFFECT THE VALUE OF THE NOTES — While we expect that, generally, the prices of the Basket Components will affect the value of the notes more than any other single factor, the value of the notes will also be affected by a number of other factors that may either offset or magnify each other, including:

  - the expected volatility of the Basket Components and the equity securities represented by the ADSs of Sanofi;
  - the dividend rates on the Basket Components and changes that affect the Basket Components and their issuers;
  - the time remaining to the maturity of the notes;
  - the real and anticipated results of operations of the issuers of the Basket Components;
  - actual or anticipated corporate reorganization events, such as mergers or takeovers, which may affect the issuers of the Basket Components;
  - currency of the country in which the equity securities represented by the ADSs of Sanofi are traded;
  - interest rates and yields in the market generally;

- geopolitical conditions and a variety of economic, financial, political, regulatory or judicial events that affect the Basket Components or markets generally;
- supply and demand for the notes; and
- our creditworthiness, including actual or anticipated downgrades in our credit ratings.

- TRADING AND OTHER TRANSACTIONS BY US OR OUR AFFILIATES IN THE EQUITY AND EQUITY DERIVATIVE MARKETS MAY IMPAIR THE VALUE OF THE NOTES — We or one or more of our affiliates expect to hedge our exposure from the notes by entering into equity and equity derivative transactions, such as over-the-counter options or exchange-traded instruments. Such trading and hedging activities may affect the Basket Components and make it less likely that you will receive a positive return on your investment in the notes. It is possible that we or our affiliates could receive substantial returns from these hedging activities while the value of the notes declines. We or our affiliates may also engage in trading in instruments linked to the Basket Components on a regular basis as part of our general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for customers, including block transactions. We or our affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to the Basket Components. By introducing competing products into the marketplace in this manner, we or our affiliates could adversely affect the

value of the notes. Any of the foregoing activities described in this paragraph may reflect trading strategies that differ from, or are in direct opposition to, investors' trading and investment strategies related to the notes.

- WE, OUR AFFILIATES OR OUR AGENTS, OR JPMORGAN CHASE & CO. OR ITS AFFILIATES, MAY PUBLISH RESEARCH, EXPRESS OPINIONS OR PROVIDE RECOMMENDATIONS THAT ARE INCONSISTENT WITH INVESTING IN OR HOLDING THE NOTES. ANY SUCH RESEARCH, OPINIONS OR RECOMMENDATIONS COULD ADVERSELY AFFECT THE PRICES OF THE BASKET COMPONENTS TO WHICH THE NOTES ARE LINKED OR THE VALUE OF THE NOTES — We, our affiliates or our agents, or JPMorgan Chase & Co. or its affiliates, may publish research from time to time on financial markets and other matters that could adversely affect the value of the notes, or express opinions or provide recommendations that are inconsistent with purchasing or holding the notes. Any research, opinions or recommendations expressed by us, our affiliates or our agents, or JPMorgan Chase & Co. or its affiliates, may not be consistent with each other and may be modified from time to time without notice. You should make your own independent investigation of the merits of investing in the notes and the Basket Components to which the notes are linked.

- POTENTIAL CONFLICTS — We and our affiliates play a variety of roles in connection with the issuance of the notes, including acting as calculation agent, hedging our obligations under the notes and determining the Issuer's estimated value of the notes on the Trade Date and the price, if any, at which we or our affiliates would be willing to purchase the notes from you in secondary market transactions. In performing these duties, our economic interests and those of our affiliates are potentially adverse to your interests as an investor in the notes. The calculation agent will determine, among other things, the Final Stock Prices of the Basket Components on the specified Averaging Dates, the Basket Component Returns, the Final Basket Level, the Basket Return and the amount, if any, that Deutsche Bank AG will pay you at maturity. The calculation agent will also be responsible for determining whether a market disruption event has occurred. In addition, the calculation agent retains a degree of discretion about certain adjustments to the Stock Adjustment Factors upon the occurrence of certain corporate events. Any determination by the calculation agent could adversely affect the return on the notes.

- THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES ARE UNCERTAIN — There is no direct legal authority regarding the proper U.S. federal income tax treatment of the notes, and we do not plan to request a ruling from the IRS. Consequently, significant aspects of the tax treatment of the notes are uncertain, and the IRS or a court might not agree with the treatment of the notes as prepaid financial contracts that are not debt. If the IRS were successful in asserting an alternative treatment for the notes, the tax consequences of ownership and disposition of the notes could be materially and adversely affected. In addition, as described above under "Tax Consequences," in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. Any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect. You should review carefully the section of the accompanying product supplement entitled "U.S. Federal Income Tax Consequences," and consult your tax adviser regarding the U.S. federal tax consequences of an investment in the notes (including possible alternative treatments and the issues presented by the 2007 notice), as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Use of Proceeds and Hedging

Part of the net proceeds we receive from the sale of the notes will be used in connection with hedging our obligations under the notes through one or more of our affiliates. The hedging or trading activities of our affiliates on or prior to the Trade Date or the Averaging Dates could adversely affect the prices of the Basket Components and the level of the Basket, which could decrease the amount you may receive on the notes at maturity.

Historical Performance of the Basket

The following graph sets forth the historical performance of the Basket from February 1, 2013 through July 25, 2014 assuming the Basket Level on June 25, 2014 was 100 and the Basket Component Weightings were as specified in the Key Terms. The closing level of the Basket on any day during this period is calculated as if such day were an Averaging Date (except that the Initial Basket Level would be 66.45 on February 1, 2013 if we assume the Basket Level on July 25, 2014 was 100). The common stock of Zoetis Inc. commenced trading on February 1, 2013 and therefore the Basket has a limited performance history.

The Basket Components

All disclosures contained in this term sheet regarding the Basket Components are derived from publicly available information. Neither Deutsche Bank AG nor any of its affiliates have participated in the preparation of, or independently verified, such information about any Basket Component contained in this term sheet. You should make your own investigation into the Basket Components.

Included below is a brief description of the issuer of each Basket Component. Each of the Basket Components is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Companies with securities registered under the Exchange Act are required to file financial and other information specified by the SEC periodically. Information filed by the issuers of the Basket Components with the SEC can be reviewed electronically through a web site maintained by the SEC. The address of the SEC's web site is.http://www.sec.gov. Information filed with the SEC by the issuers of the Basket Components under the Exchange Act can be located by reference to their respective SEC file numbers provided below.

In addition, information filed with the SEC can be inspected and copied at the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of this material can also be obtained from the Public Reference Section, at prescribed rates.

Historical Performance of the Basket Components

The following graphs set forth the historical performance of each Basket Component based on its daily closing prices from July 25, 2009 through July 25, 2014. We obtained the historical closing prices of each Basket Component below from Bloomberg, and we have not participated in the preparation of, or verified, such information. The historical closing prices of each Basket Component should not be taken as an indication of future performance, and no assurance can be given as to the Closing Price of such Basket Component on any Averaging Date. We cannot give you assurance that the performance of any Basket Component will result in the return of any of your initial investment.

Pfizer Inc.

According to publicly available information, Pfizer Inc. is a research-based biopharmaceutical company. Information filed by Pfizer Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-03619, or its CIK Code: 0000078003. The common stock of Pfizer Inc. is traded on the New York Stock Exchange under the ticker symbol "PFE." The closing price of Pfizer Inc. on July 25, 2014 was $30.19.

Merck & Co., Inc.

According to publicly available information, Merck & Co., Inc. is a health care company that delivers health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer products, which it markets directly and through its joint ventures. Information filed by Merck & Co., Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-06571, or its CIK Code: 0000310158. The common stock of Merck & Co., Inc. is traded on the New York Stock Exchange under the ticker symbol “MRK.” The closing price of Merck & Co., Inc. on July 25, 2014 was $58.15.

Sanofi

According to publicly available information, Sanofi is a healthcare company engaged in the research, development, manufacture and marketing of healthcare products. Information filed by Sanofi with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-31368, or its CIK Code: 0001121404. The American depositary shares of Sanofi are traded on the New York Stock Exchange under the ticker symbol “SNY.” Each American depositary share represents one half of an ordinary share of Sanofi, par value €2 each. The principal market for Sanofi ordinary shares is Euronext Paris. The closing price of Sanofi on July 25, 2014 was $50.97.

Bristol-Myers Squibb Company

According to publicly available information, Bristol-Myers Squibb Company is engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of biopharmaceutical products. Information filed by Bristol-Myers Squibb Company with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-01136, or its CIK Code: 0000014272. The common stock of Bristol-Myers Squibb Company is traded on the New York Stock Exchange under the ticker symbol “BMY.” The closing price of Bristol-Myers Squibb Company on July 25, 2014 was $49.39

Walgreen Co.

According to publicly available information, Walgreen Co., together with its subsidiaries, operates drugstores in the United States, providing access to consumer goods and services, pharmacy, and health and wellness services. Information filed by Walgreen Co. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-00604, or its CIK Code: 0000104207. The common stock of Walgreen Co. is traded on the New York Stock Exchange, NASDAQ Stock Market and Chicago Stock Exchange under the ticker symbol “WAG.” The closing price of Walgreen Co. on July 25, 2014 was 73.29.

Eli Lilly and Company

According to publicly available information, Eli Lilly and Company discovers, develops, manufactures, and markets human pharmaceutical products and animal health products. Information filed by Eli Lilly and Company with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-06351, or its CIK Code: 0000059478. The common stock of Eli Lilly and Company is traded on the New York Stock Exchange under the ticker symbol "LLY." The closing price of Eli Lilly and Company on July 25, 2014 was $63.78.

Mylan Inc.

According to publicly available information, Mylan Inc. is a pharmaceutical company, which develops, licenses, manufactures, markets and distributes generic, branded generic and specialty pharmaceuticals. Information filed by Mylan Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-09114, or its CIK Code: 0000069499. The common stock of Mylan Inc. is traded on the NASDAQ Stock Market under the ticker symbol "MYL." The closing price of Mylan Inc. on July 25, 2014 was $51.74.

Perrigo Company plc

According to publicly available information, Perrigo Company plc is a provider of over-the-counter and generic prescription pharmaceuticals, nutritional products and active pharmaceutical ingredients. Information filed by Perrigo Company plc with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-36353, or its CIK Code: 0001585364. The common shares of Perrigo Company plc is traded on the New York Stock Exchange under the ticker symbol "PRGO." Perrigo Company plc (formerly known as Perrigo Company Limited, and prior thereto, Blisfont Limited) was incorporated under the laws of Ireland on June 28, 2013 and became the successor registrant to Perrigo Company on December 18, 2013 in connection with the consummation of the acquisition of Elan Corporation plc. The closing price of Perrigo Company plc on July 25, 2014 was $154.99.

Zoetis Inc.

According to publicly available information, Zoetis Inc. is engaged in the discovery, development, manufacture and commercialization of animal health medicines and vaccines, with a focus on both livestock and companion animals. Information filed by Zoetis Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-35797, or its CIK Code: 0001555280. The common stock of Zoetis Inc. is traded on the New York Stock Exchange under the ticker symbol "ZTS." The closing price of Zoetis Inc. on July 25, 2014 was $32.82. The common stock of Zoetis Inc. commenced trading on February 1, 2013 and therefore has a limited performance history.

Biogen Idec Inc.

According to publicly available information, Biogen Idec Inc. is a biotechnology company focused on discovering, developing, manufacturing and marketing therapies for the treatment of multiple sclerosis and other autoimmune disorders, neurodegenerative diseases and hemophilia. Information filed by Biogen Idec Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 000-19311, or its CIK Code: 0000875045. The common stock of Biogen Idec Inc. is traded on the NASDAQ Stock Market under the ticker symbol “BIIB.” The closing price of Biogen Idec Inc. on July 25, 2014 was $335.45.

Celgene Corporation

According to publicly available information, Celgene Corporation, together with its subsidiaries, is a biopharmaceutical company engaged in the discovery, development and commercialization of therapies designed to treat cancer and immune-inflammatory related diseases. Information filed by Celgene Corporation with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-34912, or its CIK Code: 0000816284. The common stock of Celgene Corporation is traded on the NASDAQ Stock Market under the ticker symbol “CELG.” The closing price of Celgene Corporation on July 25, 2014 was $87.16.

Valeant Pharmaceuticals International, Inc.

According to publicly available information, Valeant Pharmaceuticals International, Inc. is a specialty pharmaceutical and medical device company that develops, manufactures, and markets a range of branded, generic and branded generic pharmaceuticals, over-the-counter products, and medical devices. Information filed by Valeant Pharmaceuticals International, Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-14956, or its CIK Code: 0000885590. The common shares of Valeant Pharmaceuticals International, Inc. are traded on the New York Stock Exchange and Toronto Stock Exchange under the ticker symbol “VRX.” The closing price of Valeant Pharmaceuticals International, Inc. on July 25, 2014 was $123.52.

Illumina, Inc.

According to publicly available information, Illumina, Inc. is a developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. Information filed by Illumina, Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-35406, or its CIK Code: 0001110803. The common stock of Illumina, Inc. is traded on the NASDAQ Stock Market under the ticker symbol “ILMN.” The closing price of Illumina, Inc. on July 25, 2014 was $171.03.

Endo Health Solutions Inc.

According to publicly available information, Endo Health Solutions Inc. is a specialty healthcare company focused on branded and generic pharmaceuticals and devices. Information filed by Endo Health Solutions Inc with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-15989, or its CIK Code: 0001100962. The common stock of Endo Health Solutions Inc. is traded on the NASDAQ Stock Market under the ticker symbol “ENDP.” The closing price of Endo Health Solutions Inc. on July 25, 2014 was $68.53.

Impax Laboratories, Inc.

According to publicly available information, Impax Laboratories, Inc. is technology-based, specialty pharmaceutical company applying formulation and development experiences, as well as its drug delivery technology, to the development, manufacture and marketing of bioequivalent pharmaceutical products, commonly referred to as “generics,” in addition to the development and marketing of branded products. Information filed by Impax Laboratories, Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 001-34263, or its CIK Code: 0001003642. The common stock of Impax Laboratories, Inc. is traded on the NASDAQ Stock Market under the ticker symbol “IPXL.” The closing price of Impax Laboratories, Inc. on July 25, 2014 was $27.87.

Gilead Sciences, Inc.

According to publicly available information, Gilead Sciences, Inc. is a research-based biopharmaceutical company that discovers, develops and commercializes medicines. Information filed by Gilead Sciences, Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 000-19731, or its CIK Code: 0000882095. The common stock of Gilead Sciences, Inc. is traded on the NASDAQ Stock Market under the ticker symbol “GILD.” The closing price of Gilead Sciences, Inc. on July 25, 2014 was $89.84.

Supplemental Plan of Distribution

JPMorgan Chase Bank, N.A. and JPMS LLC or one of its affiliates will act as placement agents for the notes. The placement agents will receive a fee from the Issuer that will not exceed $7.50 per $1,000 Face Amount of notes, but will forgo any fees for sales to certain fiduciary accounts.

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September 30,

2007

2006

2007

2006

Risk-free interest rate

4.5

%

4.8

%

4.7

%

4.7

%

Expected life (in years)

4.0

4.0

4.1

4.4

Dividend yield

0.0

%

0.0

%

0.0

%

0.0

%

Expected volatility

71.1

%

90.0

%

79.2

%

95.7

%

Option exercise prices are set at not less than the closing price of our common stock on the trading day immediately preceding the date of grant, become exercisable at varying dates and generally expire ten years from the date of grant. At September 30, 2007, options to purchase 2,519,714 shares of common stock were available for future grant under our stock option plans.

Employee Stock Purchase Plan (ESPP)

The fair value of awards granted under our ESPP is estimated on the date of grant using the Black-Scholes option pricing model, which uses the weighted-average assumptions set forth in the table below. Our ESPP 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 ESPP where eligible employees can purchase shares of our common stock at a price per share equal to the lesser of 85% of the fair market value on the first day of the offering period or 85% of the fair market value on the purchase date. The 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. Participants are automatically enrolled in the new offering. Expected volatilities are based on historical volatility of our stock. Expected term represents the purchase periods within our offering period. The risk-free rate for periods within the expected life is based on U.S. Treasury constant maturity rates. Stock-based compensation expense relating to our ESPP is recognized according to the FASB Technical Bulletin No. 97-1, Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-back Option, or FTB 97-1. As of September 30, 2007, there were approximately 6,600 shares in reserve for future issuance under the ESPP. The following table summarizes the weighted-average assumptions relating to our ESPP for the nine months ended September 30, 2007 and 2006:

	Employee Stock Purchase Plan Nine Months Ended September 30,	
	2007	**2006**
Risk-free interest rate	4.7%	4.6%
Expected life (in years)	0.6	1.2
Dividend yield	0.0%	0.0%
Expected volatility	45.5%	109.9%

6. Revenue Recognition

We recognize revenue from our contract arrangements. Our revenue arrangements with multiple elements are evaluated under EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables,* and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria is applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

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. When a research term is not specified, we estimate the time it will take us to complete our deliverables under the contract and recognize the upfront fee using the straight-line method over that time period. We review our estimates every quarter for reasonableness.

Revenue related to collaborative research with our corporate collaborators is recognized as research services are performed over the related development funding periods for each contract. Under these agreements, we are required to perform research and development activities as specified in the applicable 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, except for the

Merck collaboration signed in November 2004 related to ubiquitin ligases, approximate or exceed the revenue recognized under such agreements over the term of the respective agreements. For the Merck collaboration, we recognized a pro-rata portion of the invoiced amounts for funding of our research scientists based on the headcount dedicated to the project for the quarter. When the research portion of the collaboration ended in May 2007, we recognized the full amount of the deferred revenue related to the contract as we had no further obligations. It is our policy to recognize revenue based on our level of effort expended, and that revenue recognized will not exceed amounts billable under the arrangement.

Revenue associated with at-risk milestones pursuant to collaborative agreements is recognized based upon the achievement of the milestones as set forth in the applicable agreement.

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.

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

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

	September 30, 2007	December 31, 2006
Checking account	$ 1,083	$ 332
Money market funds	9,616	4,441
Federal agency securities	14,730	13,463
Corporate bonds and notes	87,071	86,235
	$ 112,500	$ 104,471
Reported as:		
Cash and cash equivalents	$ 38,769	$ 47,727
Available-for-sale securities	73,731	56,744
	$ 112,500	$ 104,471

Available-for-sale securities consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2007				
Federal agency securities	$ 14,717	$ 13	$	$ 14,730
Corporate bonds and notes	58,900	114	(13)	59,001
Total	$ 73,617	$ 127	$ (13)	$ 73,731

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006				
Federal agency securities	$ 9,497	$	$ (8)	$ 9,489
Corporate bonds and notes	47,232	21		47,253
Total	$ 56,729	$ 21	$ (8)	$ 56,742

At September 30, 2007, the above available-for-sale securities had a weighted average maturity of approximately 131 days. Two securities with a combined fair market value of approximately $4.2 million had maturities greater than 360 days.

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

	Fair Value	Unrealized Losses

September 30, 2007		
Federal agency securities	$	$
Corporate bonds and notes	11,624	(13)
Total	$ 11,624	$ (13)

	Fair Value	Unrealized Losses
December 31, 2006		
Federal agency securities	$ 9,474	$ (8)
Corporate bonds and notes		
Total	$ 9,474	$ (8)

At September 30, 2007 and December 31, 2006, we had no investment that had been in a continuous unrealized loss position for more than twelve months.

As of September 30, 2007, a total of four individual securities were in an unrealized loss position for twelve months or less and deemed to be temporary. As of December 31, 2006, five individual securities were in an unrealized loss position for less than twelve months and deemed to be temporary.

Investment Grade Debt Securities. Our investments in investment grade debt securities consist primarily of investments in federal agency securities and corporate bonds and notes. The unrealized losses on our investments in investment grade debt securities were caused by interest rate increases. Due to the fact that the decline in market value is attributable to changes in interest rates and not credit quality, and because the severity and duration of the unrealized losses were not significant, we considered these unrealized losses to be temporary at September 30, 2007.

8. Income Taxes

We adopted SFAS Interpretation 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48), on January 1, 2007. We did not recognize any adjustment to the liability for uncertain tax positions nor did we have any unrecognized tax benefits and therefore did not record any adjustment to the beginning balance of retained earnings on the balance sheet.

We file income tax returns in the U.S. federal jurisdiction and in California, and the tax returns filed for the years 2002 through 2006 have not been examined and have not expired by the statute of limitations. Because of net operating loss and research credit carryovers, substantially all of the Company s tax years remain open to examination.

Our policy is that we recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, we did not have any accrued interest or penalties associated with any unrecognized tax benefits.

9. Equipment Lease Line

In June 2006, we obtained a new borrowing limit of $1.5 million under our equipment lease line. This equipment lease line was originally scheduled to terminate in June 2007, however, the termination date was extended to December 2007 in June 2007. We have the ability to draw down on this line through the termination date and the repayment period will be for three years beginning on the date of each draw down, with the interest rate on the line fixed at each draw down. Each line has a bargain purchase buyout provision of $101. During the nine months ended September 30, 2007, we drew down approximately $640,000, which is included in our capital lease obligation on our balance sheet. Approximately $446,000 remained available under the equipment lease line as of September 30, 2007.

10. Equity Financings

On May 8, 2007, we completed a public offering in which we sold 5,000,000 shares of common stock at a price of $9.75 per share. We received net proceeds of approximately $45.5 million after deducting commissions, underwriting discounts and offering costs. On June 1, 2007, we issued an additional 750,000 shares of our common stock at $9.75 per share pursuant to the full exercise of the underwriters overallotment option. We received net proceeds of approximately $6.8 million after deducting commissions as a result of the exercise of the over-allotment option.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Rigel Pharmaceuticals, Inc.

We have reviewed the accompanying condensed balance sheet of Rigel Pharmaceuticals, Inc. as of September 30, 2007, the related condensed statements of operations for the three-month and nine-month periods ended September 30, 2007 and 2006, and the condensed statements of cash flows for the nine-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of 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 condensed interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Rigel Pharmaceuticals, Inc. as of December 31, 2006, and the related statements of operations, stockholders equity, and cash flows for the year then ended (not presented herein), and in our report dated March 6, 2007, we expressed an unqualified opinion on those financial statements and included an explanatory paragraph referencing Rigel Pharmaceuticals, Inc. s change in method of accounting for stock-based compensation in 2006 and Note 1 to the financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2006, 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
November 2, 2007

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 audited financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2006. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of results that may occur in future periods.

This report contains statements that involve expectations, plans or intentions. These statements are forward-looking and are subject to risks and uncertainties, so actual results may vary materially. We usually use words such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, intend, or the negative of these terms or similar expressions to identify these forward-looking statements. These statements appear throughout this quarterly report on Form 10-Q and are statements regarding our current expectation, belief or intent, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: our business and scientific strategies; the progress of our product development programs, including clinical testing; our corporate collaborations, including revenues that may be received from these collaborations; our drug discovery technologies; our research and development expenses; protection of our intellectual property; sufficiency of our cash resources; and our operations and legal risks. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including as a result of the risks and uncertainties discussed in the Risk Factors in Item 1A of Part II of this quarterly report on Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Overview

We are a clinical-stage drug development company that discovers and develops novel, small-molecule drugs for the treatment of inflammatory/autoimmune diseases and cancer, as well as viral and metabolic diseases. Our goal is to file one new investigative new drug, or IND, application in a significant indication each year. We have achieved this goal each year beginning in 2002. Our pioneering research focuses on intracellular signaling pathways and related targets that are critical to disease mechanisms. Our productivity has resulted in strategic collaborations with large pharmaceutical partners to develop and market our product candidates. We have internal product development programs in inflammatory/autoimmune diseases, such as rheumatoid arthritis and thrombocytopenia, and cancer, as well as partnered product development programs relating to asthma and cancer.

Rigel has the following product candidates in development:

*R788 Product Candidate for Rheumatoid Arthritis (RA).*R788 is our lead product candidate. It has a novel mechanism of action-blocking IgG receptor signaling in macrophages and B-cells. Previously, we studied R788 in a Phase 1 single center, double-blind, randomized, placebo-controlled clinical trial evaluating the safety and pharmacokinetics of escalating single and multiple doses of R788. We also completed a clinical trial of R788 to evaluate its safety and pharmacokinetics in combination with methotrexate, a commonly prescribed treatment for RA. Results of this clinical trial suggested that there is not an adverse interaction between R788 and methotrexate. In September 2006, we initiated a 90-day Phase 2, multicenter, ascending dose, randomized, double-blind,

placebo-controlled, dose ranging clinical trial to evaluate up to three doses of R788 in RA patients who were taking methotrexate. We have completed enrollment and dosing in all three groups and expect to receive initial results by the end of 2007.

R788 Product Candidate for Immune Thombocytopenic Purpura (ITP). Platelet destruction from ITP is mediated by IgG signaling, and R788 is a potent inhibitor of IgG signaling. In preclinical studies, R788 was shown to improve thrombocytopenia in an ITP mouse model. We initiated an exploratory Phase 2 clinical trial of R788 in January 2007 to evaluate its safety and efficacy in chronic ITP patients. In this clinical trial, R788 was orally administered in varying doses for 30 or more days. We have observed encouraging preliminary drug activity in raising platelet counts in a number of the patients studied to date. Based on these initial results, we submitted an amended protocol to the Food and Drug Administration, or FDA, and expanded this trial to allow for a greater range of dose regimens and to continue to treat those patients that are responding beyond 90 days. We expect to receive initial results from this clinical trial by the end of 2007.

*R788 Product Candidate for B-Cell Lymphoma.*Research has shown that overactivity of the signaling enzyme spleen tyrosine kinase, or Syk, is an essential mechanism in several types of B-cell lymphoma survival and that R788 inhibits the growth of B-cell lymphoma driven by Syk overactivity. We filed an IND for this indication in December 2006. In April 2007, we began enrolling patients in a multicenter, open label Phase 1/2 clinical trial to evaluate the safety and efficacy of R788 for the treatment of patients with B-cell lymphoma. The clinical trial is expected to enroll a total of approximately 60 patients at 10 major treatment centers in the United States and will focus on certain types of B-cell lymphomas. We expect to receive initial results from this clinical trial in 2008.

R763 Product Candidate for Oncology. We have identified R763 as a lead compound in our aurora kinase inhibition program targeting cancer cell proliferation. R763 is a potent, highly-selective, small-molecule inhibitor of aurora kinase. In October 2005, we signed a licensing agreement with Merck Serono that granted to Merck Serono an exclusive license to develop and commercialize inhibitors in our aurora kinase program, including R763. Under the agreement, we were responsible for filing an IND for R763, which we filed with the FDA in December 2005, and were allowed to proceed under the IND in January 2006. In October 2007, Merck Serono elected to secure Japanese rights for R763, which will result in a $3.0 million milestone payment to Rigel. Merck Serono is responsible for the further development and commercialization of R763. In September 2006, Merck Serono initiated a Phase 1 multicenter clinical trial to evaluate R763 for the treatment of patients with refractory solid tumors. In February 2007, Merck Serono began an additional Phase 1 clinical trial evaluating R763 on patients with hematological malignancies. In July 2007, Merck Serono began a Phase 1 clinical trial evaluating R763 in combination with a standard of care therapy in patients with advanced malignancies. We expect initial results from these clinical trials in 2008.

In the first quarter of 2005, we announced that we entered into a collaborative research and license agreement with Pfizer for the development of inhaled products for the treatment of allergic asthma and other respiratory diseases, such as chronic obstructive pulmonary disease, or COPD. The collaboration is focused on our preclinical small molecule compounds, which inhibit IgE receptor signaling in respiratory tract mast cells by blocking the signaling enzyme Syk, a novel drug target for respiratory diseases. Mast cells play important roles in both early and late phase allergic reactions, and Syk inhibitors could prevent both phases. In May 2006, Pfizer nominated R343 to commence advanced preclinical development in allergic asthma. We expect R343 to be delivered using Pfizer s dry powder inhaler and to enter into a Phase 1 clinical trial by the end of 2007.

In October 2006, we announced that we selected R348, an orally-available, potent and selective inhibitor of Janus Kinase 3, or JAK3, to enter preclinical studies to support an IND application. We plan to initiate a Phase 1 clinical trial of R348 by the end of 2007. We are also studying Axl and JAK2 inhibition in oncology. In addition to the aforementioned product candidates, we have ongoing research programs involving back-up candidates for the product candidates set forth above and drug discovery efforts in our immunology/inflammation, virology, oncology, and metabolism programs.

Corporate Collaborations

We conduct research and development programs in connection with our corporate collaborations. As of September 30, 2007, we had collaborations with the following six major pharmaceutical/biotech companies: one with Janssen Pharmaceutica N.V., a division of Johnson & Johnson, relating to oncology therapeutics and diagnostics; two with Pfizer Inc., one initiated in 1999 in immunology and the other in 2005, relating to intrapulmonary asthma and allergy therapeutics; one with Novartis Pharma AG with respect to four different programs relating to immunology, oncology and chronic bronchitis; one with Daiichi Pharmaceuticals Co., Ltd. relating to oncology; one with Merck, also relating to

oncology; and one with Merck Serono relating to oncology. All of these collaborations, other than the recent Pfizer and Merck Serono collaborations, had a research phase during which we received funding based on the level of headcount allocated to the program. None of these programs currently provides regular research reimbursement. The research phase of the Merck collaboration ended in May 2007. In all of these collaborations, if certain conditions are met, we are entitled to receive future milestone payments and royalties. We cannot guarantee that these conditions will be met or that research and development efforts will be successful. As a result, we may not receive any further milestone payments or royalties under these agreements.

We are exploring new opportunities with existing and potential collaborators. Our earliest partnerships focused on the early stages of drug discovery, specifically on target discovery and validation. Our collaborations with Daiichi and Merck are both later stage, focusing on drug discovery and development. Our 2005 collaboration with Pfizer covers a compound that Pfizer is expected to take into the clinic by the end of 2007, while our 2005 collaboration with Merck Serono covers a compound that began clinical trials in September 2006. We currently anticipate that in order to support our current research programs, we will need to self-fund our own research programs, which involves an increased rate of spending on later stages

of development prior to partnering with collaborative partners. Therefore, it is expected that future collaborations may have an expanded focus and could include high throughput screening, combinatorial and medicinal chemistry, preclinical evaluations and/or clinical development of compounds we have discovered. In addition, we believe these future collaborations could be structured to consist of upfront payments, the purchase of our common stock, milestone payments upon meeting certain conditions, research or development reimbursement payments and/or royalties upon commercialization of products resulting from the collaboration.

Equity Financings

On May 8, 2007, we completed a public offering in which we sold 5,000,000 shares of common stock at a price of $9.75 per share. We received net proceeds of approximately $45.5 million after deducting commissions, underwriting discounts and offering costs. On June 1, 2007, we issued an additional 750,000 shares of our common stock at $9.75 per share pursuant to the full exercise of the underwriters overallotment option. We received net proceeds of approximately $6.8 million after deducting commissions as a result of the exercise of the over-allotment option.

Critical Accounting Policies and the Use of Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with U.S generally accepted accounting principles. 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. We evaluate our estimates, including those related to terms of the research collaborations (i.e., amortization of upfront fees and certain milestone payments), investments, stock compensation, impairment issues, the estimated useful life of assets and contingencies, on an on-going basis. Our estimates are based 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. There have been no significant changes in our critical accounting policies during the period ended September 30, 2007 as compared to those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

Recent Accounting Pronouncements

On June 27, 2007, the Financial Accounting Standards Board (FASB) ratified the consensus reached by the Emerging Issues Task Force (EITF) on EITF Issue No. 07-3, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires companies to defer and capitalize prepaid, nonrefundable research and development payments to third parties, and amortize them over the period that the research and development activities are performed or the services are provided, subject to an assessment of recoverability. EITF 07-3 is effective for new contracts entered into during fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. We are currently evaluating the impact of adopting EITF 07-3 on our financial statements and can not estimate the impact of adoption at this time.

Revenue Recognition

Our revenue from contractual arrangements with multiple elements are evaluated under EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables,* and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

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. When a research term is not specified, we estimate the time it will take us to complete our deliverables under the contract and recognize the upfront fee using the straight-line method over that time period. We review our estimates every quarter for reasonableness.

Revenue related to collaborative research with our corporate collaborators is recognized as research services are performed over the related development funding periods for each contract. Under these agreements, we are required to perform research and development activities as specified in the applicable 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, except for the Merck collaboration signed in November 2004 related to ubiquitin ligases, approximate or exceed the revenue recognized under such agreements over the term of the respective agreements. For the Merck collaboration, we recognized a pro-rata portion of the invoiced amounts for funding of our research scientists based on the headcount dedicated to the project for the quarter. When the research portion of the collaboration ended in May 2007, we recognized the full amount of the deferred revenue related to the contract as we had no further obligations. It is our policy to recognize revenue based on our level of effort expended and that revenue recognized will not exceed amounts billable under the arrangement.

Revenue associated with at-risk milestones pursuant to collaborative agreements is recognized based upon the achievement of the milestones as set forth in the applicable agreement.

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

The determination of the fair value of share-based payment awards on the date of grant using the Black-Scholes option-pricing model is affected by 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 using our historical share price performance over the expected life of the option up to the point where we have historical market data. For expected term, among other things, 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 order to calculate share-based expense, we also estimate the forfeiture rate using our historical experience with options that cancel before they vest.

If these factors change and we employ different assumptions in the application of SFAS 123(R) in future periods, the compensation expense that we record under SFAS 123(R) may differ significantly from what we have recorded in the current period. Therefore, we believe it is important to be aware of the high degree of subjectivity involved when using option pricing models to estimate share-based compensation under SFAS 123(R).

Results of Operations

Three and Nine Months Ended September 30, 2007 and 2006

Revenues

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Aggregate Change	2007	2006	Aggregate Change
	(in thousands)					
Contract revenues	$	$ 6,127	$ (6,127)	$ 4,600	$ 30,345	$ (25,745)

Contract revenues by collaborator were:

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Aggregate Change	2007	2006	Aggregate Change
	(in thousands)					
Merck Serono	$	$ 3,000	$ (3,000)	$	$ 15,527	$ (15,527)
Merck		1,877	(1,877)	3,841	6,068	(2,227)
Pfizer		1,250	(1,250)	759	8,750	(7,991)
Total	$	$ 6,127	$ (6,127)	$ 4,600	$ 30,345	$ (25,745)

There were no contract revenues reported during the three months ended September 30, 2007. Contract revenues from collaborations for the three months ended September 2006 and for the nine months ended September 30, 2007 and 2006 consisted primarily of research support and amortization of upfront fees and milestone payments from our collaborations.

Contract revenues for the three months ended September 30, 2006 included a $3.0 million milestone payment from Merck Serono upon the initiation of a Phase 1 study for R763. Contract revenues for the nine months ended September 30, 2007 included the recognition of approximately $1.0 million of deferred revenue from the Merck collaboration due to the ending of the research phase of the collaboration in May 2007. Contract revenues for the nine months ended September 30, 2006 included a $5.0 million milestone payment and $3.8 million amortization of license payments from Pfizer, as well as $7.5 million related to the amortization of upfront payments and $8.0 million milestone payment from Merck Serono. We have no deferred revenue as of September 30, 2007. Our potential revenues for the remainder of 2007 may include certain milestone payments from Pfizer and Merck Serono.

Research and Development Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Aggregate Change	2007	2006	Aggregate Change
			(in thousands)			
Research and development expenses	$ 15,372	$ 14,050	$ 1,322	$ 48,404	$ 41,966	$ 6,438
Stock-based compensation expense included in research and development expenses	$ 1,294	$ 1,734	$ (440)	$ 4,212	$ 5,198	$ (986)

The increase in research and development expenses for the three and nine months ended September 30, 2007, as compared to the same periods in 2006, was primarily due to an increase in preclinical and clinical costs attributable to running our ongoing Phase 2 clinical trials of R788 in the three different indications. We expect that our research and development expenses will continue at this level for the remainder of 2007 as we continue our Phase 2 clinical trials of R788 for RA, ITP and lymphoma and initiate clinical trials for our Jak3 inhibitor, R348.

The scope and magnitude of future research and development expenses are difficult to predict given the number of studies that we will need to conduct 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 1, 2 and 3 clinical studies in humans. Each of these steps 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, sponsored research, allocated facility costs, costs related to preclinical and clinical trials, and stock-based compensation.

General and Administrative Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Aggregate Change	2007	2006	Aggregate Change
			(in thousands)			
General and administrative expenses	$ 5,054	$ 4,804	$ 250	$ 15,466	$ 14,532	$ 934
Stock-based compensation expense included in	$ 1,500	$ 1,715	$ (215)	$ 4,909	$ 4,939	***$ (30)***

general and administrative expenses

The increase in general and administrative expenses for the three and nine months ended September 30, 2007, as compared to the same periods in 2006, is primarily attributable to increased legal costs associated with the expansion of our patent estate.

Stock-Based Compensation

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Aggregate Change	2007	2006	Aggregate Change
			(in thousands)			
Stock-based compensation expense from:						
Officer, director and employee options	$ 2,739	$ 3,438	$ (699)	$ 9,011	$ 9,942	$ (931)
Consultant options	55	11	44	110	195	(85)
Other employee options						
Total	$ 2,794	$ 3,449	$ (655)	$ 9,121	$ 10,137	$ (1,016)

The decrease in stock-based compensation expense for the three months ended September 30, 2007, as compared to the same period in 2006, is due to fewer unvested options granted prior to 2006 for which the expense is recognized using the accelerated method. The decrease in stock-based compensation expense for the nine months ended September 30, 2007, as compared to the same period in 2006, is due to the same reason, partially offset by the recording of a $924,000 adjustment to our stock compensation expense in the second quarter of 2007. The $924,000 adjustment corrected the misapplication of our estimated forfeiture rate to stock-based compensation expense in 2006. In 2006, our quarterly reported amounts of stock compensation expense were inadvertently reduced by the effect of the expected forfeitures which had already been taken into account in the preceding quarters. The impact of this adjustment was not material to 2006 and prior reporting periods.

Interest Income

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Aggregate Change	2007	2006	Aggregate Change
			(in thousands)			
Interest income	$ 1,538	$ 1,447	$ 91	$ 4,172	$ 4,287	$ (115)

Interest income results from our interest-bearing cash and investment balances. The amounts were relatively flat for the periods presented.

Interest Expense

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Aggregate Change	2007	2006	Aggregate Change
			(in thousands)			
Interest expense	$ 56	$ 102	$ (46)	$ 172	$ 315	$ (143)

Interest expense is the result of our capital lease obligations associated with fixed asset acquisitions. Interest expense decreased for the three and nine months ended September 30, 2007, as compared to the same periods in 2006, due to the decrease in capital lease obligations outstanding

during those periods.

Liquidity and Capital Resources

Cash Requirements

We have financed our operations from inception primarily through sales of equity securities, contract payments under our collaboration agreements and equipment financing arrangements. We have consumed substantial amounts of capital to date, and our operating expenditures are expected to increase over the next several years.

We believe that our existing capital resources and anticipated proceeds from current collaborations will be sufficient to support our current operating plan through at least the next 12 months. In the foreseeable future, our operations will require significant additional funding, in large part due to our research and development expenses, future preclinical and clinical testing costs and the absence of any meaningful revenues from product sales. The amount of future funds needed will depend largely on the timing and structure of potential future collaborations. 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.

To the extent we raise additional capital by issuing equity securities, our stockholders could at that time 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 upon many factors, including, but not limited to:

the progress and success of clinical trials and preclinical activities (including studies and manufacture of materials) of our product candidates conducted by us or our collaborative partners or licensees;

our ability to establish new collaborations and to maintain our existing collaboration relationships;

the progress of research programs carried out by us;

any changes in the breadth of our research and development programs;

our ability to meet the milestones identified in our collaborative agreements that trigger payments;

the progress of the research and development efforts of our collaborative partners or licensees;

our ability to acquire or license other technologies or compounds that we seek to pursue;

our ability to manage our growth;

competing technological and market developments;

the costs and timing of obtaining, enforcing and defending our patent and intellectual property rights;

the costs and timing of regulatory approvals and filings by us and our collaborators; 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. As of September 30, 2007, we had approximately $112.5 million in cash, cash equivalents and available-for-sale securities, as compared to $104.5 million as of December 31, 2006, an increase of approximately $8.0 million. The increase was primarily attributable to net proceeds of approximately $52.3 million from our public offering in the second quarter of 2007, offset by operating spending for the nine months ended September 30, 2007. For the three and nine months ended September 30, 2007 and 2006, we maintained an investment portfolio primarily in money market funds, federal agency securities and corporate bonds and notes. 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.

Contractual Obligations

As of September 30, 2007, we had the following contractual commitments (by fiscal year):

	Total	2007	2008-2010	2011-2013	2014-2018
			(in thousands)		
Capital lease obligations(1)	$ 2,021	$ 256	$ 1,765	$	$
Facilities lease	152,894	1,591	44,988	44,001	62,314
Total	$ 154,915	$ 1,847	$ 46,753	$ 44,001	$ 62,314

(1) As of September 30, 2007, we had approximately $2.0 million in capital lease obligations (including the interest portion) associated with our equipment additions. All existing capital lease agreements as of September 30, 2007 are secured by the equipment financed, bearing interest at rates between 9.2% and 12.2% and are due in monthly installments through 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities in which we invest may have market risk. This means that a change in prevailing interest rates may cause the fair value amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the market value amount of our investment will decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and available-for-sale securities in a variety of securities, including money market funds and government and non-government debt securities. For the three and nine months ended September 30, 2007 and 2006, we maintained an investment portfolio primarily in money market funds, federal agency securities and corporate bonds and notes. Due to the short-term nature of the majority 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 operate primarily in the United States, and all funding activities with our collaborators to date have been made in U.S. dollars. Accordingly, we have had minimal exposure to foreign currency rate fluctuations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on our management s evaluation (with the participation of our chief executive officer and chief financial officer), our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), were effective as of September 30, 2007.

Changes in Internal Controls. There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2007 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. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our chief executive officer and chief financial officer have concluded, based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, that our disclosure controls and procedures were sufficiently effective to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

In evaluating our business, you should carefully consider the following risks, as well as the other information contained in our Quarterly Report on Form 10-Q. If any of the following risks actually occurs, our business could be harmed. 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.

We have marked with an asterisk (*) those risk factors below that reflect material changes from the risk factors included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2007.

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

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 research and development activities. We believe that our existing capital resources and anticipated proceeds from current collaborations will be sufficient to support our current operating plan through at least the next 12 months. In the foreseeable future, our operations will require significant additional funding in large part due to our research and development expenses, future preclinical and clinical-testing costs, and the absence of any meaningful revenues. The amount of future funds needed will depend largely on the timing and structure of potential future collaborations. 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. As of September 30, 2007 and December 31, 2006, our cash, cash equivalents and available-for-sale securities were $112.5 million and $104.5 million, respectively.

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

the progress and success of clinical trials and preclinical activities (including studies and manufacture of materials) of our product candidates conducted by us or our collaborative partners or licensees;

our ability to establish new collaborations and to maintain our existing collaboration partnerships;

the progress of research programs carried out by us;

any changes in the breadth of our research and development programs;

our ability to meet the milestones identified in our collaborative agreements that trigger payments;

the progress of the research and development efforts of our collaborative partners;

our ability to acquire or license other technologies or compounds that we seek to pursue;

our ability to manage our growth;

competing technological and market developments;

the costs and timing of obtaining, enforcing and defending our patent and intellectual property rights;

the costs and timing of regulatory approvals and filings by us and our collaborators; 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 success as a company is uncertain due to 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 product candidates and pursue our development efforts, we have not been profitable and have incurred 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 incurred net losses of approximately $18.9 million and $55.3 million for the three and nine months ended September 30, 2007, $37.6 million for the year ended December 31, 2006 and $45.3 million for the year ended December 31, 2005. Currently, our revenues are generated solely from payments pursuant to our collaboration agreements and licenses and are insufficient to generate profitable operations. As of September 30, 2007, we had an accumulated deficit of approximately $350.4 million. We expect to incur losses for at least the next several years and expect that these losses could increase as we expand our research and development activities and incur significant clinical and testing costs.

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

At the present time, the majority of our operations are in various stages of drug identification and development. We currently have two product compounds in the clinical testing stage: one with indications for RA, ITP and B-Cell lymphoma, which is proprietary to our company, and the other with three indications for oncology, which is subject to a collaboration agreement with Merck Serono. In our industry, it is statistically unlikely that the limited number of compounds that we have identified as potential product candidates will actually lead to successful product development efforts, and we do not expect any drugs resulting from our research to be commercially available for several years, if at all. Our compounds in clinical trials and our future leads for potential drug compounds are subject to the risks and failures inherent in the development of pharmaceutical products. These risks include, but are not limited to, the inherent difficulty in selecting the right drug and drug target and avoiding unwanted side effects as well as unanticipated problems relating to product development, testing, regulatory compliance, manufacturing, competition and costs and expenses that may exceed current estimates. The results of preliminary studies do not necessarily predict clinical or commercial success, and larger later-stage clinical trials may fail to confirm the results observed in the preliminary studies. With respect to our own compounds in development, we have established anticipated timelines with respect to the initiation or completion of clinical studies based on existing knowledge of the compound. However, we cannot provide assurance that we will meet any of these timelines for clinical development.

Because of the uncertainty of whether the accumulated preclinical evidence (pharmacokinetic, pharmacodynamic, safety and/or other factors) or early clinical results will be observed in later clinical trials, we can make no assurances regarding the likely results from our future clinical trials or the impact of those results on our business.

We might not be able to commercialize our product 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 trials already concluded and the trials currently in process. It will 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, we or our collaborative partners or regulators 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 and timing. We do not know whether planned clinical trials will begin on time, will need to be halted or revamped or will be completed on schedule, or at all. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a study, delays from scale up, 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.

We lack the capability to manufacture compounds for development and rely on third parties to manufacture our product candidates, and we may be unable to obtain required material in a timely manner, at an acceptable cost or at a quality level required to receive regulatory approval.*

We currently do not have manufacturing capabilities or experience necessary to produce our product candidate R788. We rely on a single manufacturer for the R788 product for clinical trials. We will rely on manufacturers to deliver materials on a timely basis and to comply with applicable regulatory requirements, including the FDA s current Good Manufacturing Practices, or GMP. These outsourcing efforts with respect to manufacturing preclinical and clinical supplies will result in a dependence on our suppliers to timely manufacture and deliver sufficient quantities of materials produced under GMP conditions to enable us to conduct planned preclinical studies, clinical trials and, if possible, to bring products to market in a timely manner.

Our current and anticipated future dependence upon these third-party manufacturers may adversely affect our ability to develop and commercialize product candidates on a timely and competitive basis. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet our development timelines and applicable regulatory requirements. We may not be able to maintain or renew our existing third-party manufacturing arrangements, or enter into new arrangements, on acceptable terms, or at all. Our third-party manufacturers could terminate or decline to renew our manufacturing arrangements based on their own business priorities, at a time that is costly or inconvenient for us. If we are unable to contract for the production of materials in sufficient quantity and of sufficient quality on acceptable terms, our planned clinical trials may be significantly delayed. Manufacturing delays could postpone the filing of our IND applications and/or the initiation of clinical trials that we have currently planned.

Our third-party manufacturers may not be able to comply with the GMP regulations, other applicable FDA regulatory requirements or similar regulations applicable outside of the United States. Additionally, if we are required to enter into new supply arrangements, we may not be able to obtain approval from the FDA of any alternate supplier in a timely manner, or at all, which could delay or prevent the clinical development and commercialization of any related product candidates. Failure of our third-party manufacturers or us to obtain approval from the FDA or to comply with applicable regulations could result in sanctions being imposed on us, including fines, civil penalties, delays in or failure to grant marketing approval of our product candidates, injunctions, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products and compounds, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect our business.

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 revenue 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 revenues 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 revenues 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. In addition, we have subsequently received milestone payments from Novartis, Daiichi, Merck, Merck Serono and Pfizer. Under many agreements, however, milestone payments may not be earned until the collaborator has advanced product candidates into clinical testing, which may never occur or may not occur until some time well into the future. If we are not able to generate 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 for any reason including corporate restructuring, 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.

The research phase of our collaboration with Johnson & Johnson ended in 2003, and the research phases conducted at our facilities under our broad collaboration with Novartis ended in 2004. The research phase of our corporate collaboration agreement with Daiichi ended in 2005. In 2004, we signed a new corporate collaboration with Merck, and the research phase of this collaboration ended in May 2007. In 2005, we signed additional collaborations with Pfizer and Merck Serono. Each of our collaborations could be terminated by the other party at any time, and 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. If these collaborations terminate or are not renewed, any resultant loss of revenues from these collaborations or loss of the expertise of our collaborative partners could adversely affect our business.

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 our stockholders 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 or may be acquired or merged with a company having a competing program. 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.

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 160 pending patent applications and over 90 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. For example, we may be involved

in interferences before the United States Patent and Trademark Office. Interferences are complex and expensive legal proceedings and there is no assurance we will be successful in such proceedings. An interference could result in our losing our patent rights and/or our freedom to operate and/or require us to pay significant royalties. Additional uncertainty may result 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;

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. Certain of our in-licenses may be terminated if we fail to meet specified obligations. If we fail to meet such obligations and any of our licensors exercise their termination rights, we could lose our rights under those agreements. If we lose any of our rights, it may adversely affect the way we conduct our business. In addition, because certain of our licenses are sublicenses, the actions of our licensors may affect our rights under those licenses.

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 and partnering.

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

require our collaborators or us to obtain a license to continue to use, manufacture or market the affected products, methods or processes, which may not be available on commercially reasonable terms, if at all;

prevent us from using the subject matter claimed in the patents held by others;

subject us to potential liability for damages;

consume a substantial portion of our managerial and financial resources; and

result in litigation or administrative proceedings that may be costly, whether we win or lose.

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 product 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, our collaborators 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 approval to market a product, we must demonstrate that the product is safe and effective in the patient population and the indication that will be treated. Data obtained from preclinical and clinical activities are susceptible to varying interpretations that could delay, limit or prevent regulatory approvals. 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 approval of a product is granted, this approval will be limited to those indications or 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 approval.

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 approval 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.

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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 collaborators 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 product 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 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 or government agencies.

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 although we are not currently aware of any specific causes for concern with respect to clinical liability claims. 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 154 employees as of September 30, 2007, 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 development, 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 and development efforts.

We work extensively with various scientific consultants and advisors. The potential success of our drug discovery and development 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 our employees 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 also 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 our losses resulting from disasters or other business interruptions.

Our stock price may be volatile, and our stockholders 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 progress and success of clinical trials and preclinical activities (i.e., studies, manufacture of materials) of our product candidates conducted by us or our collaborative partners or licensees;

the receipt or failure to receive the additional funding necessary to conduct our business;

selling by large stockholders;

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 a majority 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;

provide for a board of directors with staggered terms; and

provide that the authorized number of directors may be changed only by a resolution of our board of directors.

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 6. **Exhibits**

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

Exhibit Number	**Description of Document**
3.1	Amended and Restated Certificate of Incorporation.(1)
3.2	Amended and Restated Bylaws.(2)
10.34	Rigel Pharmaceuticals, Inc. 2000 Non-Employee Directors Stock Option Plan, as amended.
15.1	Letter re: unaudited interim financial information.
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2	Certification 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).

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

(2) Filed as an exhibit to Rigel s Current Report on Form 8-K filed on February 2, 2007 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, 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: November 6, 2007

By: /s/ RYAN D. MAYNARD
Ryan D. Maynard
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: November 6, 2007

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