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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES AND EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-30235

EXELIXIS, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-3257395
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

170 Harbor Way
P.O. Box 511
South San Francisco, CA 94083
(Address of principal executive offices, including zip code)
(650) 837-7000
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock $.001 Par Value per Share
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Form 10-K. [X]

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity

was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $359,717,031.

As of February 28, 2003, there were 59,649,585 shares of the registrant's common stock outstanding. As of that date, there were approximately 50,879,244 shares held by non-affiliates of the registrant, with an approximate aggregate market value of $293,573,238 based upon the $5.77 closing price of the registrant's common stock listed on the Nasdaq National Market on February 28, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than April 30, 2003, in connection with the registrant's 2003 Annual Meeting of Stockholders, are incorporated herein by reference into Part III of this Annual Report on Form 10-K.

EXELIXIS, INC.

FORM 10-K

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PART I

The following discussion and analysis contains forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "should," "estimate," "predict," "potential," "continue" or the negative of such terms or other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of several factors more fully described under the caption "Risk Factors" as well as those discussed elsewhere in this document. These and many other factors could affect the future financial and operating results of Exelixis. Exelixis undertakes no obligation to update any forward-looking statement to reflect events after the date of this report.

ITEM 1. BUSINESS

Overview

We believe that we are a leader in the discovery and validation of high-quality

novel targets for several major human diseases and a leader in the discovery of potential new drug therapies, specifically for cancer and other proliferative diseases. Our primary mission is to develop proprietary human therapeutics by leveraging our integrated discovery platform to increase the speed, efficiency and quality of pharmaceutical product discovery and development.

Through our expertise in comparative genomics and model system genetics, we are able to find new drug targets that we believe would be difficult or impossible to uncover using other experimental approaches. Our research is designed to identify novel genes and proteins expressed by those genes that, when changed, either decrease or increase the activity in a specific disease pathway in a therapeutically relevant manner. These genes and proteins represent either potential product targets or drugs that may treat disease or prevent disease initiation or progression.

Specifically in cancer, the remarkable evolutionary conservation of biochemical pathways strongly supports the use of simple model systems, such as fruit flies, nematode worms, zebrafish and mice, to identify key components of critical cancer pathways that can then be targeted for drug discovery. We expect to develop new cancer drugs by exploiting the underlying "genetic liabilities" of tumor cells to provide specificity in targeting these cells for destruction, while leaving normal cells unharmed. We have discovered and are further developing a number of small molecule drug targets in addition to monoclonal antibody drug targets. Molecules directed against these targets may selectively kill cancer cells while leaving normal cells unharmed, and may provide alternatives to current cancer therapies.

While our primary focus is on drug discovery and development, we believe that our proprietary technologies are valuable to other industries whose products can be enhanced by an understanding of DNA or proteins, including the agrochemical, agricultural and diagnostic industries. Many of these industries have shorter product development cycles and lower risk than the pharmaceutical industry, while at the same time generating significant sales with attractive profit margins. By partnering with companies in multiple industries, we believe that we are able to diversify our business risk, while at the same time maximizing our future revenue stream opportunities.

Clinical Pipeline

In 2002, we made considerable progress in advancing our clinical development pipeline. We entered into relationships providing for clinical supplies of our rebeccamycin analogue in anticipation of initiating Company sponsored clinical studies. In addition, we continued to advance preclinical candidates, including XL 784, in anticipation of filing our first investigational new drug ("IND") application for a proprietary compound.

Rebeccamycin Analogue (XL 119). Our most advanced clinical program is the rebeccamycin analogue, an anticancer compound that we in-licensed from Bristol-Myers Squibb Company ("Bristol-Myers Squibb" or "BMS") in 2001. The rebeccamycin analogue has completed Phase I clinical testing. The Phase II clinical testing program, which is being conducted by the National Cancer Institute ("NCI"), is well advanced. The compound has been studied in a broad range of tumors. The safety profile appears manageable and consistent with that of other cytotoxic agents, and generally includes myelosuppression and neutropenia. These side effects are largely transient and reversible when treatment is stopped. To date, the most pronounced antitumor activity was observed in upper gastrointestinal tumors (most prominently in bile duct tumors), where several partial responses and instances of prolonged disease stabilization occurred. Based on these results, we believe that the compound deserves further development efforts, as there is currently no approved standard therapy for these rapidly progressing tumors. We anticipate initiating next development steps, if any, following discussions with the Food and Drug Administration ("FDA"). The NCI may also expand its Phase II program to include additional tumor types or combination studies. Drug substance to be used in Company-sponsored clinical trials has been manufactured in bulk supply by third-party suppliers. We expect that the available supply of the compound will be sufficient to support our clinical needs as well as any trials that may be initiated by the NCI.

XL 784. XL 784 is the first small molecule compound developed from our proprietary drug discovery platform. The target against which XL 784 is directed was originally discovered in our anti-angiogenesis research program, although the actual mechanism by which the compound exerts its anti-tumor effects is still being explored. We are currently completing regulatory toxicology studies, and if the safety profile continues to look acceptable, we expect to file an IND

in 2003. Our clinical plans include initiating Phase I first-in-man studies, to be conducted in healthy volunteers, while we continue to explore the therapeutic utility of the compound in various animal models of disease, including cardiovascular disease.

2002 Corporate Collaborations

We have established several commercial collaborations with leading pharmaceutical and biotechnology companies as well as agriculture companies. In October 2002, Exelixis and SmithKlineBeecham Corporation ("GlaxoSmithKline" or "GSK") formed a broad alliance to discover, develop and commercialize novel therapeutics in the areas of vascular biology, inflammatory disease and cancer. The alliance combines our powerful gene-to-drug discovery platform and GSK's strengths in development and commercialization by means of an innovative model for sharing risks and potential rewards in a research and development collaboration. Under the terms of the arrangement, we will have responsibility for the delivery to GSK of small molecule compounds that have met agreed-upon criteria in early Phase II clinical testing. GSK will have the right to further develop these compounds and exclusive, worldwide commercialization and manufacturing rights. We retain co-promotion rights in North America for molecules selected for development by GSK.

In August 2002, we agreed to a two-year extension of our mechanism of action ("MOA") collaboration with BMS, which was established in 1999. Under this collaboration, we identify and validate important biological targets directly affected by selected BMS compounds. This collaboration is in addition to the broad alliance established with BMS in 2001 focused on cancer target discovery, which is ongoing.

In December 2002, our joint venture with Bayer CropScience LP ("Bayer CropScience," formerly, Aventis CropScience USA LP, "Aventis CropScience"), Agrinomics LLC, established a collaboration with Renessen LLC to enhance seed oil content in commercially valuable seed oil crops. Renessen is a joint venture between Monsanto Company and Cargill, Inc. The collaboration combines Agrinomics' technological leadership in agricultural functional genomics, high-throughput gene screening and seed trait identification, developed by Exelixis, with Renessen's global expertise in quality trait crop development and commercialization, with the goal of accelerating the development of novel proprietary crops with improved seed composition traits. This collaboration leverages the unique capabilities of Agrinomics' powerful ACTTAG trait selection platform to rapidly discover and validate genes that can optimize important seed traits and potentially increase the commercial value of many of the world's most significant agricultural crops.

At the beginning of 2002, we established a combinatorial chemistry collaboration with Merck & Co., Inc. ("Merck") for the joint design and generation of small molecular compound libraries for high-throughput drug screening. The collaboration pairs our expertise in combinatorial library design with Merck's synthetic chemistry expertise with the goal of achieving optimal diversity, density, novelty and quality in library production. This collaboration is similar to our other combinatorial chemistry collaborations with Cytokinetics, Inc., Elan Pharmaceuticals, Inc., Scios Inc. and Schering-Plough Research Institute, Inc., and provides licensing fees and payments for delivery of specified numbers of compounds meeting certain quality-assurance criteria.

In addition to our commercial collaborations, we have relationships with other biotechnology companies, academic institutions and universities that provide us access to specific technology or intellectual property for the enhancement of our business. These include collaborations with leading biotechnology product developers and solutions providers, among them Affymetrix Inc., GeneMachines, AVI BioPharma, Inc., Silicon Genetics, Galapagos NV, Genomics Collaborative Inc., Accelrys, Inc., Akceli, Inc., Ardais Corp., Cogen BioCognetics, Inc., Impath Predictive Oncology, Inc. and Virtual Arrays, Inc.

In June 2002, we established a collaboration with Merck for the creation of customized genetically engineered mouse models of disease based on our proprietary Conditional gene targeting technology. Under the agreement, we will seek to create a specified number of customized mouse models based on Merck's genetic specifications. Conditional gene targeting permits highly specific temporal and spatial control over gene inactivation for the creation of precisely controlled, information-rich mammalian models of disease.

Following the completion of our acquisition of Genomica Corporation in January 2002, we granted exclusive third- party commercial and development rights to Genomica's software assets to Visualize, Inc., a provider of sophisticated,

interactive data visualization software serving the financial services industry. We have a revenue sharing agreement with Visualize, pursuant to which we retain the right to receive and use the Genomica software as well as any derivative works created by Visualize for our internal use.

Industry Background

Conventional chemical drug discovery involves a series of steps, many years of work and substantial resources. Initially, scientists identify potential molecular targets for therapeutic intervention. These targets must then be validated, or demonstrated to be able to affect the disease biochemistry. Next, the validated target is put through a series of assays, or tests, to identify chemical compounds that would modulate the activity of the target. Once chemical compounds that modify the activity of the target are identified, they must then be iteratively optimized through synthetic chemistry processes. After several iterations, the resulting compounds are tested in animal models of disease, and selected lead compounds are then considered for preclinical development.

Many of the principal products of the pharmaceutical and biotechnology industries were developed without knowledge about the underlying genetic and biochemical causes of disease, or without knowledge of how the drug works in the body. This limited knowledge about the target or MOA of the product can lead to somewhat random and/or suboptimal product candidates. Similar issues are problems for the agrochemical, agricultural and diagnostic industries. As a result, product development in all of these industries is costly, time consuming, inefficient and characterized by high failure rates. Many companies have turned to genomic technologies, primarily for DNA sequence information, to help address these problems with respect to the selection of molecular or gene-based targets.

Despite significant investment in genomics and the recent availability of the human genome sequence, there has not been appreciable improvement in selecting high quality molecular targets for drug development. Notwithstanding the tremendous advances in providing genomic data, it is clear that a rational selection of molecular targets requires more detailed or specific knowledge about the function of genes and their encoded proteins as well as their interaction with other components of signaling networks, or biochemical pathways. Since the complete human sequence and the sequences of other commercially important genomes are now available, we believe that the competitive advantage for companies going forward will be the ability to identify the small number of significant gene targets, within the very large number of genes, which when modulated will result in a therapeutically and commercially valuable outcome. By integrating our superior ability to select biological targets with a state-of-the-art drug discovery platform, we expect our platform and biological insights to produce novel targets and potentially innovative products.

Our Strategy

Our business strategy is to leverage our biological expertise and integrated drug discovery capabilities to improve the speed, efficiency and quality of the discovery, development and commercialization process for human therapeutics and other products. Specifically our business strategy includes the following key elements:

MAINTAIN AND AUGMENT BIOLOGICAL EXPERTISE: Our biological expertise is a key competitive advantage that we believe applies throughout all aspects of our collaborative relationships and drug discovery efforts. We seek to continually enhance our technology platform through building, in-licensing or acquiring technologies that complement our fundamental knowledge and capabilities as well as through protecting our proprietary technologies with patents and trade secrets.

SELECTIVELY DEVELOP THERAPEUTIC PRODUCTS: We have invested and plan to continue to invest significant funds in discovering and developing proprietary products, particularly in the area of cancer. We have committed substantial resources to building a world-class drug discovery effort that is integrated with our unique understanding of the biological basis of disease, and we expect to generate a pipeline of compounds to move into clinical trials.

LEVERAGE STRATEGIC COLLABORATIONS: We have established and intend to continue to pursue commercial relationships and key partnerships with major pharmaceutical, biotechnology and agrochemical companies based on the strength of our technologies, biological expertise and drug discovery capabilities. These collaborations provide us with a substantial committed revenue stream in

addition to opportunities to receive significant future payments, if our collaborators successfully develop and market products that result from our collaborative work. In addition, many of our collaborations have been structured strategically so that we gain access to technology or product opportunities. Technology access allows us to more rapidly advance our internal programs, saving both time and money, while at the same time retaining rights to use the same information or tools in different industries or for different development opportunities.

ACQUIRE PRODUCTS AND TECHNOLOGIES OPPORTUNISTICALLY: We continually evaluate opportunities that may provide us with key personnel, intellectual property, technologies and products that will enhance our development capabilities and product pipeline. We believe that through the acquisition of strategic products and technologies we will be able to create additional value in our internal and collaborative programs. In addition, we believe that many of these strategic relationships will permit us to obtain co-development, co-promotion or other rights to products identified or developed in such collaborative relationships as a result of our efforts.

Integrated Research And Discovery Technologies

We have developed an integrated research and discovery platform that includes proprietary technologies and know-how. This platform includes model system genetics and comparative genomics, libraries of modified model organisms, specialized reagents, assay biology, informatics databases and software, MOA technology, automated high-throughput screening, a growing compound library in excess of approximately three million small molecule compounds and extensive medicinal/combinatorial chemistry capabilities. Using this integrated platform, we are able to effectively and rapidly identify novel targets and develop proprietary compounds. We believe that a key competitive advantage is the breadth of our platform as well as our ability to apply the tools of modern biology and chemistry to address commercially relevant questions.

Model System Genetics and Comparative Genomics. Model system genetics is the study of simple biological systems to discover genes, proteins and biochemical pathways that may be useful in the development of new pharmaceutical or agricultural products. Our primary model systems are the fruit fly, D. melanogaster; the nematode worm, C. elegans; the zebrafish, D. rerio, corn smut, Ustilago maydis; Arabidopsis thaliana; and the micro-tomato, Lycopersicon esculentum. Empirical evidence has provided us with accurate benchmarks for applying biological and biochemical discoveries from these model systems to more developed organisms, such as humans or commercial crops.

Model System	Lifecycle	Selected Applications
Drosophila melanogaster	10 days	Cancer, angiogenesis, diabetes, inflammation, CNS disorders
C. elegans	3 days	Diabetes, Alzheimer's disease
D. rerio	90 days	Angiogenesis, cancer, inflammation
Arabidopsis thaliana	10 days	Plant traits
Lycopersicon esculentum	98 days	Nutraceuticals
Ustilago maydis	10 days	Plant pathology

Scientists have used these organisms as research tools for several decades. We have industrialized the analysis of these model systems by developing a suite of proprietary tools and reagents that allow us to perform systematic genetic analyses at a larger scale and with substantially greater speed than otherwise are currently available. Among other proprietary tools, we have exclusively licensed the U.S. patent covering P-element, which is a genetic element essential for performing modern fruit fly genetics.

Comparative genomics is the application of data learned from one biological system to another system. For example, the use of the angiogenesis pathway data learned from a zebrafish can be applied to studying human angiogenesis. Application of comparative genomics relies on the use of our extensive libraries of model organisms, the proprietary databases of information and informatics

methods generated by our scientists, as well as access to state-of-the-art technological tools such as RNA interference (RNAi). Each of our model systems has unique advantages that can be applied in different ways to address commercially relevant questions in a rapid manner. Our expertise allows us to use knowledge across species and to select the best model systems for a particular commercial application.

Proprietary Model Organism Libraries. We have produced and maintain as key strategic assets populations of well-characterized genetically modified organism libraries, and the process for their production and use is a core technology. We have libraries of these organisms that have been modified and catalogued in a systematic fashion, so that comprehensive pair-wise breeding can allow us to test the effects of gene alteration or modulation on a specified disease condition. Through the use of these libraries, we are able to rapidly assess the effect of increasing or decreasing the output of each gene in the model organism. The availability of these assets significantly enhances the efficiency of research directed at drug or agricultural product target identification, as our model systems permit results to be obtained in a period of weeks or months from the inception of the research effort. We believe that our ability to rapidly and selectively move from an alteration in a gene directly to the identification of validated targets that can reverse or enhance the effects of that alteration is an extremely powerful, rapid and direct route to new pharmaceuticals and agricultural products.

High-throughput Screening (HTS) Assays for Target and Lead Discovery. We also develop proprietary genetic, biochemical and cell-based assays for use in screening for potential targets, proteins and products. An HTS assay is a test that may include a biochemical reaction or cell-signaling event that is readily measured, miniaturizable to a specific format and subject to automation. HTS assays must meet these criteria in order to address the large numbers of experimental measurements that we have identified in order to screen our extensive collection of compounds. We believe that we have also established world-class expertise in gene cloning, protein expression, scale-up fermentation and protein purification necessary to meet these needs. Genetic assays are used to measure the ability of a particular gene or protein to change or regulate the disease pathway of interest, which leads to the identification of disease pathway genes as well as those genes that may be product targets. The development of biochemical assays requires the production of target gene products (proteins) in sufficient quantity to support hundreds of thousands of individual measurements. Cell-based assays may also require genetically engineered cells that over-express the target gene of interest.

Informatics. We have state-of-the-art informatics tools, many of which are proprietary, and expertise that have been developed as an integral part of our model systems genetics and comparative genomics capabilities. These tools include a broad range of applications such as: tracking samples and harvesting data in the context of high-throughput, automated data collection systems; creating discovery platforms for storing, managing and querying large data sets; and analysis, curation and prediction of function relative to compounds and macromolecules. We believe that these tools are essential to developing our target and drug discovery pipelines and represent a substantial competitive advantage. Specific examples include extensive databases and software tools related to: DNA sequencing and gene discovery; generation of comprehensive genetic knockout collections; functional identification and classification of novel protein sequences; and design, characterization and selection of compound libraries. Our informatics capabilities provide an extensive and readily accessed informational base for analyzing and comparing data produced using our core technologies, allowing us to optimize and prioritize among potential targets and, downstream, drugs directed against those targets.

Sequencing, Proteomics and Transcriptional Profiling. We have built or in-licensed significant expertise in sequencing, proteomics and transcriptional profiling. Our sequencing capacity is currently 1.5 million lanes per year, scalable to ten million lanes in our current facility. We have state-of-the-art robotics, advanced laboratory information management systems, polymerase chain reaction, or PCR, mass spectrometry and gene cloning expertise as well as a significant proteomics effort to complement the existing proficiency in genetic target discovery. We have brought in several different methods of transcriptional profiling, both to validate our biological target discovery and to screen for toxicities.

HTS, Combinatorial and Medicinal Chemistry. Our gene discovery platform provides novel, biologically validated therapeutic and agricultural targets without bias towards conventional target classes. Thus, in addition to targets that are known in the industry to be "druggable," such as protein kinases,

proteases and g-protein coupled receptors, or GPCRs, many other novel classes are identified in genetic screens that may require specialized assay technology. We focus on finding diverse drug discovery targets in multiple assay formats. We have established a high-throughput screening laboratory in which we conducted 22 target screens against millions of compounds in 2002. Through our relationship with BMS, we have gained access to their proprietary combinatorial hardware and software systems. We are currently synthesizing hundreds of thousands of compounds per month. In addition, we have built extensive capabilities into our high-throughput drug discovery platform, including crystallography, cell biology, medicinal chemistry, ADME, pharmacokinetics, pharmacodynamics, pharmacology and chemi-informatics, to potentially identify and develop innovative drugs.

Extensive Compound Library. We have rapidly assembled a growing collection of over approximately three million highly diverse, quality controlled, drug-like, small molecule compounds for lead discovery by high-throughput screening. Today, these compounds are largely derived from internal combinatorial synthesis. We believe that we are capable of generating approximately one million new compounds per year to add to our highly diverse screening library. In prior years, compounds were identified for acquisition from external vendors based on structural complexity and diversity, purity and price. Over one million compounds were originally selected for acquisition using this analysis. We believe that the continued expansion of our compound library will increase the frequency and quality of generating highly active lead compounds.

Clinical Development Capabilities. In 2002, we significantly expanded our clinical development capabilities, staffing and infrastructure. Our development group is comprised of experienced professionals with the expertise and experience to quickly move our development candidate compounds from preclinical testing to IND status and through "proof of concept" Phase II clinical trials. The development group possesses critical expertise in the areas of chemistry, manufacturing and controls ("CMC"), pre-clinical testing, clinical trial design, management and analysis and regulatory affairs. Therapeutic expertise within the group includes major disease areas such as allergy-immunology, anti-infectives, cardiovascular, central nervous system, metabolic diseases and oncology. The development group has primary responsibility for advancing and managing the progress of our clinical pipeline, including possibly initiating Phase II trials for our rebeccamycin analogue as a potential treatment for upper gastrointestinal tumors, advancing XL 784 into Phase I, first-in-man trials, and preparing for filing additional INDs, consistent with our corporate goals and corporate collaboration obligations.

Areas Of Expertise

Human Therapeutics

ANGIOGENESIS AND VASCULAR BIOLOGY. Angiogenesis is the formation of blood vessels. The ability to block the formation of new blood vessels could be used to kill cancer cells by depriving them of nutrients. Similarly, anti-angiogenic agents can be used to treat or prevent diabetic retinopathy, macular degeneration and psoriasis. Products that promote angiogenesis could be used to treat coronary heart disease and stroke. We have an active program to study the zebrafish and Drosophila (fruit fly) model systems in order to identify key angiogenic and anti-angiogenic gene targets and proteins. Our lead proprietary compound, XL 784, was discovered in our angiogenesis research program. In 2002, we entered into a significant small molecule discovery and development collaboration with GlaxoSmithKline that includes angiogensis, vascular biology, inflammation and areas of cancer that are not otherwise subject to existing collaborations.

CANCER. Cancer is a leading cause of death in developed countries. Cancer is caused by a number of genetic defects in cells resulting in unregulated cell growth. We have discovered and are further developing a number of small molecule drug targets, in addition to monoclonal antibody drug targets, that may selectively kill cancer cells while leaving normal cells unharmed, and may provide alternatives to current cancer therapies. By exploiting the underlying "genetic liabilities" of tumor cells, we have identified numerous targets within specific cell growth and proliferation regulatory pathways and are in the process of validating these targets in cell-based assays. In 2002, we completed 22 high-throughput screens directed against proprietary cancer targets. We have established major cancer research collaborations with Bristol-Myers Squibb and Protein Design Labs ("PDL"). Our lead compound, XL 784, has demonstrated anti-tumor activity and is advancing toward clinical study. In 2001, through our cancer collaboration with BMS, we in-licensed an anticancer compound, the

rebeccamycin analogue, that is in Phase II clinical trials in upper gastrointestinal tumors being conducted by the National Cancer Institute and for which we expect to possibly initiate Company-sponsored trials.

INFLAMMATION. Our inflammation program focuses on the role of the innate immune system, especially macrophages, in mediating the inflammatory response. Misregulation of the innate immune system is of central importance in diseases of inflammation, such as asthma and arthritis. Drosophila displays a robust innate immune response, and their macrophages are regulated by the same effector molecules and pathways that regulate human macrophages. Unlike vertebrates, however, they lack an adaptive immune system, which allows for more straightforward analysis of the innate response. Drosophila is therefore useful for rapidly identifying prospective targets for treating immunological disease. Novel targets can also be validated in zebrafish, which has all the immune cell types of mammals, with the advantage of more rapid analysis. We are working in collaboration with various universities to identify targets that control inflammation and have identified several targets to date.

METABOLIC DISEASES. Metabolic diseases include such important conditions as cardiovascular diseases, diabetes and obesity, which represent significant unmet medical needs. We have an internal program focusing on metabolic diseases as the result of the conclusion of a three-year sponsored research program with Pharmacia Corporation (Pharmacia), which formally ended in February 2002 by mutual consent. The most advanced targets from that program were focused on optimizing the levels of both cholesterol and fat in the bloodstream, and we have identified several targets for ourselves that may be useful in developing products to control Type II diabetes. We have exclusive rights to the research work done under the program with Pharmacia outside of certain targets that they have selected under the program, for which we will receive milestone payments and royalties for further development by Pharmacia.

CENTRAL NERVOUS SYSTEMS (CNS) DISORDERS. CNS disorders include cognitive disorders such as Parkinson's disease, depression, schizophrenia and Alzheimer's disease. In our collaboration with Pharmacia, we were applying our genetics technologies to understand the causes of Alzheimer's disease. As a result of genetic screens performed to date, Pharmacia selected a number of targets for which we have received milestone payments and may receive royalties in the future. In 2002, we published in Developmental Cell a seminal paper concerning the discovery of two proteins, aph-1 and pen-2, that may play a role in the production of beta-amyloid, the main constituent of senile plaques associated with Alzheimer's disease.

MECHANISM OF ACTION PROGRAM. In this program, we identify the MOA for pharmaceutical compounds that have interesting biological activity but for which the molecular target is unknown. The targets are identified through the analysis of model organisms that are either resistant or hypersensitive to the biological activity produced by the compound. Following identification, the targets are confirmed using biochemical assays. Targets and other components of the signaling pathways are then identified as candidates for further compound development. We have an ongoing MOA collaboration with BMS pursuant to which we would receive milestone payments and royalties for further development of the BMS compounds against the targets identified.

Agriculture

FUNGICIDES AND HERBICIDES. We are developing fungal and herbicidal model systems, which we intend to use to identify targets that will potentially lead to the development of new, more effective fungicides and herbicides. We have entered into a MOA agreement with Dow AgroSciences pursuant to which we identify targets for specific fungicide and herbicide compounds with unknown molecular targets.

INSECTICIDES AND NEMATICIDES. Currently, there are no products that effectively and safely control nematodes and their effects on plant crops. In collaboration with Bayer, we are applying our model systems platform and assay development capabilities to identify unique targets that may be used to develop new, more effective, broad-spectrum insecticides as well as nematicides. As a result of screening targets both from de novo targets as well as from determining the MOA of an existing compound, we have delivered to Bayer numerous targets and high-throughput screening assays that may be useful in identifying new insecticides for which we have received milestone payments. Under our collaborative arrangement (through our joint venture, Genoptera LLC), Bayer retains exclusive rights to insecticides and nematicides for crop protection. We remain free to conduct research in pesticides other than insecticides or nematicides, as well as in the development of pest-resistant crops.

PLANT TRAIT DISCOVERY. We have developed plant model systems to identify genes that may be used to develop crops with improved internal and external traits, including superior yield, improved nutritional profiles and higher oil content. In collaboration with Bayer CropScience, through an equally-owned subsidiary, Agrinomics LLC, we are working to research, develop and commercialize novel genes found through the proprietary ACTTAG gene expression technology in Arabidopsis thaliana, a plant whose genome has been fully sequenced. ACCTAG gene expression technology represents a method of identifying genes associated with gain-of-function and loss-of-function phenotypes. Agrinomics has characterized and catalogued more than 250,000 lines of Arabidopsis, identifying nearly its entire genome. The collection of transgenic Arabidopsis, which we believe is one of the largest gene libraries for this plant in the world, has the potential to provide extremely important leads for significant improvements in the large commercial seed, oil, protein and crop protection markets.

Corporate Collaborations

Our strategy is to establish collaborations with major pharmaceutical, biotechnology and agrochemical companies based on the strength of our technologies and biological expertise as well as to support additional development of our proprietary products. Through these collaborations, we obtain license fees and research funding, together with the opportunity to receive milestone payments and royalties from research results and subsequent product development. In addition, many of our collaborations have been structured strategically to provide us access to technology to advance our internal programs, saving both time and money, while at the same time retaining rights to use the same information in different industries. Our collaborations with leading companies in the agrochemical industries allow us to continue to expand our internal development capabilities, while providing our partners with novel targets and assays, and to diversify our revenue stream. For the year ended December 31, 2002, revenue from two of our collaborators represented approximately 39% and 25% of total revenue, respectively. For the year ended December 31, 2001, revenue from three of our collaborators represented approximately 32%, 31% and 15% of total revenue, respectively. For the year ended December 31, 2000, revenue from two of our collaborators represented approximately 53% and 36% of total revenue, respectively.

Bayer Corporation

In December 1999, we established Genoptera LLC, a Delaware limited liability company, with Bayer Corporation to develop insecticides and nematicides for crop protection. As part of the formation of this joint venture, Bayer has paid us, through Genoptera, license fees and research commitment fees of $20.0 million and has agreed to provide eight years of research funding through 2007 at a minimum level of $10.0 million per year (for a total of $100.0 million of committed fees and research support). Bayer owns 60% of Genoptera, and we own the remaining 40%. We did not make any capital contributions for our ownership interest and have no obligation to fund future losses. The formation of this joint venture is an outgrowth of, and replaces, the contractual collaboration first established with Bayer AG (the corporate parent of Bayer Corporation) in May 1998. Bayer will pay Genoptera milestones and royalties on products developed by it resulting from the Genoptera research, and we will pay Genoptera royalties on certain uses of technology arising from such research.

Either Bayer or Exelixis may terminate the Genoptera research efforts after 2007. In addition, Bayer may terminate the joint venture prior to 2007 or buy out our interest in the joint venture under specified conditions, including, by way of example, failure to agree on key strategic issues after a period of years, the acquisition of Exelixis by another company or the loss of key personnel that we are unable to replace with individuals acceptable to Bayer.

In July 2002, Bayer completed the acquisition of Aventis S.A., including Aventis CropScience. We each own 50% of Agrinomics LLC, which was established in July 1999 to enable the funding of a collaboration originally entered into with Aventis CropScience. Agrinomics focuses on research, development and commercialization of products in the field of agricultural functional genomics. Under the terms of the Agrinomics joint venture agreement, Bayer has agreed to make capital contributions to Agrinomics in cash totaling $20.0 million over a five-year period. Funding by Bayer for the collaboration is scheduled to expire in July 2004. We contributed the ACTTAG gene identification and activation technology, a collection of seeds generated using the ACTTAG gene identification and activation technology techniques and expertise in molecular and cell biology to the joint venture. In addition, we perform research work for this collaboration. Bayer CropScience currently provides high-throughput screening,

robotics, microarray and bioinformatics technologies and support work for the collaborative research efforts.

Bristol-Myers Squibb

In August 2002, we extended our MOA research collaboration with BMS through August 2004. The collaboration was initially established in September 1999, and seeks to leverage our proprietary platform and expertise in comparative genetics and functional genomics to identify the targets of compounds delivered by Bristol-Myers Squibb. This information may enable Bristol-Myers Squibb to enhance the potency, specificity and selectivity of drug candidates and may lead to the discovery of new generations of compounds with attractive drug properties. In connection with the collaboration, BMS originally transferred to us certain combinatorial chemistry hardware and software and paid us a technology access fee. Under the terms of the extension, BMS will continue to provide research support payments, as well as pay milestones and royalties based on achievements in the research and commercialization of products based on BMS compounds that are the subject of the collaboration.

In July 2001, we entered into a second collaboration with BMS focused on cancer target identification. The collaboration involves three agreements: (a) a Stock Purchase Agreement; (b) a Cancer Collaboration Agreement; and (c) a License Agreement. Under the terms of the collaboration, BMS (i) purchased 600,600 shares of our common stock in a private placement at a purchase price of $33.30 per share, for cash proceeds to us of approximately $20.0 million; (ii) agreed to pay us a $5.0 million upfront license fee and provide us with $3.0 million per year in research funding for a minimum of three years; and (iii) granted to us a worldwide, fully-paid, exclusive license to the rebeccamycin analogue developed by BMS, which is currently in Phase II clinical studies for cancer and which we may take into further clinical studies. BMS has exclusive rights to certain potential small molecule compound drug targets in cancer selected by BMS during the term of the research collaboration.

Dow Agrosciences

In July 2000, we established a three-year research collaboration with Dow AgroSciences to identify the MOA of herbicides and fungicides delivered to us by Dow AgroSciences. We do not know the identity and function of these compounds prior to their delivery. Under this agreement, we received access to a collection of proprietary compounds from Dow AgroSciences that may be useful in our human therapeutic drug discovery programs. We have identified targets to certain Dow AgroSciences compounds that will be used to develop new classes of fungicides and herbicides. Dow AgroSciences pays us research funding as well as milestone payments and royalties based on achievements in the research and commercialization of these products. Unless otherwise renewed, the collaboration will expire in July 2003.

Protein Design Labs

In May 2001, we entered into a collaboration with PDL to discover and develop humanized antibodies for the diagnosis, prevention and treatment of cancer. The collaboration will utilize our model organism genetics technology for the identification of new cancer targets and PDL's antibody and clinical development expertise to create and develop new antibody drug candidates. PDL provided us with $4.0 million in annual research funding, which will expire as scheduled in June 2003 and has purchased a $30.0 million convertible note. The five-year note bears interest at 5.75%, and the interest thereon is payable annually. The note is convertible into our common stock at a conversion price per share equal to the lower of (i) $28.175 or (ii) 110% of the Fair Market Value (as defined in the note) of a share of our common stock at the time of the conversion.

Pharmacia

Our collaboration with Pharmacia was originally established in February 1999 to identify targets in the fields of Alzheimer's disease, Type II diabetes and associated complications of metabolic syndrome. We mutually agreed to terminate further research in February 2002. Under the arrangement, Pharmacia purchased a $7.5 million equity interest, paid us a license fee of $5.0 million and milestone payments based on target selection, provided ongoing research support and has agreed to pay us royalties in the event that products result from the targets that we identified. Upon termination, we reacquired rights to the research programs in metabolism and Alzheimer's disease previously licensed exclusively to Pharmacia. Pharmacia retains rights to certain targets selected prior to the reacquisition date, subject to the payment of milestones for certain of those targets selected, and royalties for future development of

products against or using those targets, but Pharmacia has no other obligations to make payments to us, including approximately $9.0 million in annual funding that would otherwise be payable for an additional two years if we had not mutually agreed to terminate the arrangement.

Renessen

In December 2002, Agrinomics established an alliance to enhance seed oil content in commercially valuable crops with Renessen LLC. Renessen is a joint venture between Monsanto Company and Cargill, Inc. The collaboration combines Agrinomics' technological leadership in agricultural functional genomics, high-throughput gene screening and seed trait identification with Renessen's global expertise in quality trait crop development and commercialization, with the goal of accelerating the development of novel proprietary crops with improved seed composition traits. This collaboration leverages the unique capabilities of Agrinomics' powerful ACTTAG gene activation and selection platform to rapidly discover and validate genes that can optimize important seed traits in order to increase the commercial value of many of the world's most significant agricultural crops.

SmithKlineBeecham Corporation / GlaxoSmithKline plc

In October 2002, we entered into a broad collaboration with GSK for the discovery, development and commercialization of novel small molecule therapeutics in the areas of vascular biology, inflammatory disease and cancer, to the extent not previously partnered. The collaboration involves three agreements: (a) a Product Development and Commercialization Agreement; (b) a Stock Purchase and Stock Issuance Agreement; and (c) a Loan and Security Agreement. Under the Product Development and Commercialization Agreement, we will conduct research and development with the objective of delivering to GlaxoSmithKline a specified number of compounds that have met agreed-upon criteria through Phase IIa human clinical testing. GSK has an exclusive option to further develop, manufacture and commercialize each of these compounds on a worldwide basis, subject to the payment of an option exercise fee as well as milestone payments and royalties for further development of the compound selected. We retain co-promotion rights in North America for these compounds. Depending on the continued successful development of these compounds by GSK up to and including commercialization and the achievement of certain net sales levels, we could receive a payment upon option exercise, as well as clinical, regulatory and commercialization milestone payments, which could collectively exceed $105.0 million. We would also receive royalty payments on net sales of the compounds commercialized by GSK, if any, at rates that are dependent upon the number and timing of compounds delivered to GSK under the alliance.

Under the terms of the Product Development and Commercialization Agreement, GSK has paid us $30.0 million as an upfront fee and $10.0 million in annual research funding, and has agreed to pay a minimum of an additional $80.0 million in research and development funding over the first six years of the collaboration, subject to GSK's right to terminate the collaboration in the event of a material breach by us of certain provisions of the agreement, our failure to meet certain performance requirements after the third year of the collaboration or in the event of a change of control of Exelixis by a major pharmaceutical company. On or about the second anniversary of the collaboration, GSK has an option to expand the collaboration. If this expansion occurs, we would expand our research efforts to deliver additional compounds to GSK in the same fields. In exchange, GSK's research payments and the loan facility would increase significantly and GSK's option exercise fee for these additional compounds would increase significantly over the originally contemplated levels without the expansion.

Under the terms of the Stock Purchase and Stock Issuance Agreement, GSK purchased 2,000,000 shares of our common stock in a private placement at a purchase price of $7.00 per share, for cash proceeds to us of approximately $14.0 million. Under the agreement, we also have an option to sell, and GSK has an obligation to purchase, additional shares of our common stock at a specified time in the future and at a price that is at a premium to the then current market price of our common stock. Under the Loan and Security Agreement, GSK provided a loan facility of up to $85.0 million for use in our efforts under the collaboration, and we borrowed $25.0 million under that agreement in December 2002. All loan amounts bear interest at a rate of 4% per annum and are secured by the intellectual property, technology and equipment created or utilized pursuant to the collaboration. Principal and accrued interest become due in installments, beginning on or about the sixth anniversary of the collaboration, unless the collaboration is earlier terminated by GSK. Repayment of all or any of the amounts advanced to us under this agreement may, at our election, be in the form of our common stock, subject to certain conditions.

Chemistry Collaborations

In 2001 and 2002, we entered into collaboration agreements with each of Elan Pharmaceuticals, Inc., Scios Inc., Cytokinetics, Inc., Schering-Plough Research Institute, Inc. and Merck & Co., Inc. to jointly design custom high-throughput screening compound libraries that we will synthesize and qualify. Each collaborator has agreed to pay us a per-compound fee for compounds delivered meeting certain agreed-upon acceptance criteria. Each party also paid an upfront technology access fee that is creditable towards the future purchase of compounds. Revenue recognition of upfront fees has been deferred, and revenue under these collaboration agreements will generally be recorded upon delivery and acceptance of compounds. Each party retains rights to use the compounds developed and delivered in its own proprietary drug discovery programs and in its collaborative efforts with third parties.

Biotech Collaborations

We enjoy collaborations with leading biotechnology product developers and solutions providers, among them Affymetrix, GeneMachines, AVI BioPharma, Inc., Silicon Genetics, Galapagos NV, Genomics Collaborative Inc., Accelrys, Inc., Akceli, Inc., Ardais Corp., Cogen BioCognetics, Inc., Impath Predictive Oncology, Inc. and Virtual Arrays, Inc. These relationships enable us to continuously update and enhance our technology base at a minimal cost, and at the same time facilitate our research and development efforts.

Academic and Government Collaborations

In order to enhance our research and technology access, we have established key relationships with government agencies and major academic centers in the U.S. and Europe. Our government collaborators include a number of U.S. Department of Agriculture campuses, and we maintain over ten academic collaborations with investigators at such institutions as: Children's Hospital, Boston; Institute of Molecular and Cellular Biology, CNRS, Strasbourg, France; Middle Tennessee Research Institute; Stanford University; University of British Columbia; University of California, San Francisco; and University of Georgia. The purpose of these government and academic collaborations is to continuously improve our core technology and to facilitate the establishment of new discovery programs.

We will continue to pursue strategic collaborations with government agencies and academic centers. We will seek to retain significant rights to develop and market products arising from our strategic alliances. In addition, we will continue to invest our own funds in certain specific areas and product opportunities with the aim of maintaining, enhancing and extending our core technology, as well as increasing our opportunities to generate greater revenue from such activities.

Acquisitions

We have used acquisitions to strategically position and advance our leadership as a genomics-based drug discovery company. In May 2001, we acquired Artemis Pharmaceuticals GmbH, a privately-held genetics and functional genomics company, in a stock-for-stock transaction valued at approximately $28.2 million. Located in Koln and Tubingen, Germany, Artemis is focused on the use of vertebrate model genetic systems such as mice and zebrafish as tools for target identification and validation.

In December 2001, we acquired Genomica Corporation, a publicly-traded bioinformatics company, in a stock-for-stock transaction valued at $110.0 million. The transaction was structured as a tender offer for 100% of Genomica's outstanding common stock and was followed by a merger of Genomica with a wholly-owned subsidiary of Exelixis. The exchange offer was closed on December 28, 2001, and the subsequent merger completing the transaction occurred on January 8, 2002. Genomica had cash and investments of approximately $109.6 million, which enhanced our ability to move our drug discovery programs forward.

Competition

We face intense competition in the different market segments we are pursuing. There are many companies that have or are developing capabilities in the use of model systems to identify new products. In addition, there are many companies focused on the development of small molecule pharmaceuticals. Many genomics companies are expanding their capabilities, using a variety of techniques, to determine gene function and to develop products based on gene function. Our potential competitors in the field are many in number and include major

pharmaceutical and agricultural companies, diagnostic companies, specialized biotechnology companies, genomics companies and academic institutions and universities.

Many of our potential competitors have significantly more financial, technical and other resources than we do, which may allow them to have a competitive advantage. We are aware that companies focused specifically on other model systems such as mice and yeast have alternative methods for identifying product targets. In addition, pharmaceutical, biotechnology and genomics companies and academic institutions are conducting work in this field. In the future, we expect the field to become more competitive with companies and academic institutions seeking to develop competing technologies.

Any products that we may develop or discover through application of our technologies will compete in highly competitive markets. Many of our potential competitors in these markets have substantially greater financial, technical and personnel resources than we do, and they may succeed in developing technologies and products that may render our technologies and products and those of our collaborators obsolete or noncompetitive. In addition, many of our competitors have significantly greater experience than we do in their respective fields.

Research and Development Expenses

Research and development expenses consist primarily of salaries and other personnel-related expenses, facilities costs, supplies, licenses and depreciation of facilities and laboratory equipment. Research and development expenses were $112.0 million for the year ended December 31, 2002, compared to $82.7 million for 2001 and $51.7 million for 2000.

Proprietary Rights

We seek patent protection in the United States and international markets for the plant and animal genes and gene functions, proteins, antibodies, biotherapeutics and small molecule pharmaceutical and agricultural products that we discover, as well as genetic methods and technology improvements for discovering such genes, functions, proteins, antibodies, biotherapeutics and small molecule pharmaceutical and agricultural products. Our intellectual property strategy is designed to provide us with freedom to operate and facilitate commercialization of our current and future products. Our patent portfolio includes a total of 47 issued U.S. patents. Our p-element patent, U.S. patent no. 4,670,388, exclusively licensed from Carnegie Institution of Washington, has the earliest patent expiration date, which is June 2, 2004. We are the assignee or exclusive licensee of four allowed and 209 pending U.S. patent applications and corresponding international or foreign patent applications related to our genetic and comparative genomic technologies, gene and protein targets and specialized screens, and the application of these technologies to diverse industries including agriculture, pharmaceuticals and diagnostics. One additional U.S. patent has been issued, one U.S. patent application has been allowed and 44 U.S. patent applications are pending as part of the Agrinomics joint venture with Bayer CropScience. An additional 11 U.S. patent applications are pending as part of the Genoptera joint venture with Bayer.

We also rely in part on trade secret protection of our intellectual property. We try to protect our trade secrets by entering into confidentiality agreements with third parties, employees and consultants. Our employees and consultants also sign agreements requiring that they assign to us their interests in patents and other intellectual property arising from their work for us. All employees sign an agreement not to engage in any conflicting employment or activity during their employment with us and not to disclose or misuse our confidential information. However, it is possible that these agreements may be breached or invalidated, and if so, there may not be an adequate corrective remedy available. Accordingly, we cannot ensure that employees, consultants or third parties will not breach the confidentiality provisions in our contracts or infringe or misappropriate our patents, trade secrets and other proprietary rights, or that measures we are taking to protect our proprietary rights will be adequate.

In the future, third parties may file claims asserting that our technologies or products infringe on their intellectual property. We cannot predict whether third parties will assert such claims against us or against the licensors of technology licensed to us, or whether those claims will harm our business. If we are forced to defend ourselves against such claims, whether they are with or without merit and whether they are resolved in favor of, or against, our licensors or us, we may face costly litigation and the diversion of management's attention and resources. As a result of such disputes, we may have to develop

costly non-infringing technology or enter into licensing agreements. These agreements, if necessary, may be unavailable on terms acceptable to us, or at all, which could seriously harm our business or financial condition.

Employees

As of December 31, 2002, we had 550 full-time employees worldwide, 220 of whom hold Ph.D. and/or M.D. degrees and 476 of whom were engaged in full-time research and development activities. In 2002, we added several senior executives to our management team. We plan to expand our preclinical and clinical development programs, as well as our corporate development programs, and hire additional staff as corporate collaborations are established and we expand our internal development efforts to include clinical programs. Our success will depend upon our ability to attract and retain employees. We face competition in this regard from other companies in the biotechnology, pharmaceutical and high technology industries as well as research and academic institutions. None of our employees are represented by a labor union, and we consider our employee relations to be good.

Available Information

We were incorporated in Delaware in November 1994 as Exelixis Pharmaceuticals, Inc., and we changed our name to Exelixis, Inc. in February 2000.

We maintain a site on the world wide web at www.exelixis.com; however, information found on our website is not incorporated by reference into this report. We make available free of charge on or through our website our SEC filings, including our annual report of Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

In 2003, we plan to adopt a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We intend to post the text of our code of ethics on our website at www.exelixis.com in connection with "Investor" materials. In addition, we intend to promptly disclose (1) the nature of any amendment to our code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (2) the nature of any waiver, including an implicit waiver, from a provision of our code of ethics that is granted to one of these specified officers, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

Risk Factors

EXELIXIS HAS A HISTORY OF NET LOSSES. WE EXPECT TO CONTINUE TO INCUR NET LOSSES, AND WE MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY.

We have incurred net losses each year since our inception, including a net loss of approximately $86.1 million for the year ended December 31, 2002. As of that date, we had an accumulated deficit of approximately $287.4 million. We expect these losses to continue and anticipate negative operating cash flow for the foreseeable future. The size of these net losses will depend, in part, on the rate of growth, if any, in our license and contract revenues and on the level of our expenses. Our research and development expenditures and general and administrative costs have exceeded our revenues to date, and we expect to spend significant additional amounts to fund research and development in order to enhance our core technologies and undertake product development. In 2001, we acquired a rebeccamycin analogue that is in Phase II clinical development. We anticipate initiating next development steps, if any, following discussions with the FDA. Drug substance to be used in Company-sponsored clinical trials has been manufactured in bulk supply by third-party suppliers. In addition, we are also preparing to file our first IND for a proprietary compound. As a result, we expect that our operating expenses will increase significantly in the near term, and consequently, we will need to generate significant additional revenues to achieve profitability. Even if we do increase our revenues and achieve profitability, we may not be able to sustain or increase profitability.

WE WILL NEED ADDITIONAL CAPITAL IN THE FUTURE, WHICH MAY NOT BE AVAILABLE TO US.

Our future capital requirements will be substantial and will depend on many

factors, including:

- payments received under collaborative agreements;
- the progress and scope of our collaborative and independent research and development projects;
- our need to expand our product development efforts as well as develop manufacturing and marketing capabilities to commercialize products;
- the filing, prosecution and enforcement of patent claims; and
- increased costs for clinical activities.

We anticipate that our current cash and cash equivalents, short-term investments and funding to be received from collaborators will enable us to maintain our currently planned operations for at least the next two years. Changes to our current operating plan may require us to consume available capital resources significantly sooner than we expect. We may be unable to raise sufficient additional capital when we need it, on favorable terms or at all. If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. The sale of equity or convertible debt securities in the future may be dilutive to our stockholders, and debt financing arrangements may require us to pledge certain assets and enter into covenants that would restrict our ability to incur further indebtedness. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

DIFFICULTIES WE MAY ENCOUNTER MANAGING OUR GROWTH MAY DIVERT RESOURCES AND LIMIT OUR ABILITY TO SUCCESSFULLY EXPAND OUR OPERATIONS.

We have experienced a period of rapid and substantial growth that has placed, and our anticipated growth in the future will continue to place, a strain on our research, administrative and operational infrastructure. As our operations expand domestically and internationally, we will need to continue to manage multiple locations and additional relationships with various collaborative partners, suppliers and other third parties. Our ability to manage our operations and growth effectively requires us to continue to improve our operational, financial and management controls, reporting systems and procedures. We may not be able to successfully implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls. In addition, acquisitions involve the integration of different financial and management reporting systems. We may not be able to successfully integrate the administrative and operational infrastructure without significant additional improvements and investments in management systems and procedures.

WE ARE DEPENDENT ON OUR COLLABORATIONS WITH MAJOR COMPANIES. IF WE ARE UNABLE TO ACHIEVE MILESTONES, DEVELOP PRODUCTS OR RENEW OR ENTER INTO NEW COLLABORATIONS, OUR REVENUES MAY DECREASE AND OUR ACTIVITIES MAY FAIL TO LEAD TO COMMERCIALIZED PRODUCTS.

Substantially all of our revenues to date have been derived from collaborative research and development agreements. Revenues from research and development collaborations depend upon continuation of the collaborations, the achievement of milestones and royalties derived from future products developed from our research. If we are unable to successfully achieve milestones or our collaborators fail to develop successful products, we will not earn the revenues contemplated under such collaborative agreements. In addition, some of our collaborations are exclusive and preclude us from entering into additional collaborative arrangements with other parties in the area or field of exclusivity.

We currently have collaborative research agreements with Bayer, Bristol-Myers Squibb (two agreements), SmithKlineBeecham, Protein Design Labs, Dow AgroSciences, Renessen and Bayer CropScience. Our current collaborative agreement with Bayer is scheduled to expire in 2008, after which it will automatically be extended for one-year terms unless terminated by either party upon 12-months written notice. Our agreement permits Bayer to terminate our collaborative activities prior to 2008 upon the occurrence of specified conditions, such as the failure to agree on key strategic issues after a period of years or the acquisition of Exelixis by certain specified third parties. Our agreement with Bayer is subject to termination at an earlier date if two or more of our Chief Executive Officer, Chief Scientific Officer, Agricultural Biotechnology Program Leader and Chief Informatics Officer cease to have a relationship with us within nine months of each other. Our MOA collaborative agreement with Bristol-Myers Squibb expires in September 2004. Our cancer collaborative agreement with Bristol-Myers Squibb expires in July 2004. Our

recent alliance with SmithKlineBeecham is scheduled to expire in October 2008, but is subject to earlier termination at the discretion of SmithKlineBeecham starting in 2005 if Exelixis fails to meet certain diligence obligations. Research funding under our collaborative agreement with Protein Design Labs will expire in June 2003. Similarly, funding under our arrangement with Dow AgroSciences is scheduled to expire in July 2003, after which Dow AgroSciences has the option to renew on an annual basis. Our collaborative research arrangement with Bayer CropScience is scheduled to expire in September 2004. The Bayer CropScience arrangement is conducted through a limited liability company, Agrinomics, which is owned equally by Bayer CropScience and Exelixis. Bayer CropScience may surrender its interest in Agrinomics and terminate the related research collaboration prior to the scheduled expiration upon the payment of the subsequent year's funding commitment. Agrinomics is party to a recent collaborative agreement with Renessen, which expires in December 2005 but is subject to earlier termination at the discretion of Renessen prior to October 2003.

If these existing agreements are not renewed or if we are unable to enter into new collaborative agreements on commercially acceptable terms, our revenues and product development efforts may be adversely affected. For example, our agreement with Pharmacia terminated by mutual agreement in February 2002, eliminated the opportunity for us to earn approximately $9.0 million in research revenue in each of the next two years. Although we expect to enter into other collaborations that may offset this loss of revenue, we may not be able to enter into a new collaborative agreement on similar or superior financial terms than those under the Pharmacia arrangement, and the timing of new collaborative agreements may have a significant effect on our ability to continue to successfully meet our corporate goals and milestones.

CONFLICTS WITH OUR COLLABORATORS COULD JEOPARDIZE THE OUTCOME OF OUR COLLABORATIVE AGREEMENTS AND OUR ABILITY TO COMMERCIALIZE PRODUCTS.

We are conducting proprietary research programs in specific disease and agricultural product areas that are not covered by our collaborative agreements. Our pursuit of opportunities in agricultural and pharmaceutical markets could, however, result in conflicts with our collaborators in the event that any of our collaborators take the position that our internal activities overlap with those areas that are exclusive to our collaborative agreements, and we should be precluded from such internal activities. Moreover, disagreements with our collaborators could develop over rights to our intellectual property. In addition, our collaborative agreements may have provisions that give rise to disputes regarding the rights and obligations of the parties, including the rights of collaborators with respect to our internal programs and disease area research. Any conflict with or among our collaborators could lead to the termination of our collaborative agreements, delay collaborative activities, reduce our ability to renew agreements or obtain future collaboration agreements or result in litigation or arbitration and would negatively impact our relationship with existing collaborators.

We have limited or no control over the resources that our collaborators may choose to devote to our joint efforts. Our collaborators may breach or terminate their agreements with us or fail to perform their obligations thereunder. Further, our collaborators may elect not to develop products arising out of our collaborative arrangements or may fail to devote sufficient resources to the development, manufacture, marketing or sale of such products. Certain of our collaborators could also become our competitors in the future. If our collaborators develop competing products, preclude us from entering into collaborations with their competitors, fail to obtain necessary regulatory approvals, terminate their agreements with us prematurely or fail to devote sufficient resources to the development and commercialization of our products, our product development efforts could be delayed and may fail to lead to commercialized products.

OUR POTENTIAL THERAPEUTIC PRODUCTS ARE SUBJECT TO A LENGTHY AND UNCERTAIN REGULATORY PROCESS THAT MAY NOT RESULT IN THE NECESSARY REGULATORY APPROVALS, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO COMMERCIALIZE PRODUCTS.

The U.S. Food and Drug Administration, or FDA, must approve any drug or biologic product before it can be marketed in the U.S. Any products resulting from our research and development efforts must also be approved by the regulatory agencies of foreign governments before the product can be sold outside of the U.S. Before a new drug application or biologics license application can be filed with the FDA, the product candidate must undergo extensive clinical trials, which can take many years and may require substantial expenditures. The regulatory process also requires preclinical testing. Data obtained from

preclinical and clinical activities are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in regulatory policy for product approval during the period of product development and regulatory agency review. Completion of clinical trials may take several years or more, but the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product candidate. We estimate that typical clinical trials are completed over the following timelines:

CLINICAL PHASE	ESTIMATED COMPLETION PERIOD
Phase I	1 Year
Phase II	1-2 Years
Phase III	2-4 Years

However, the duration and the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during the clinical trial protocol, including, among others, the following:

- the number of patients that ultimately participate in the trial;
- the duration of patient follow-up that seems appropriate in view of the results;
- the number of clinical sites included in the trials; and
- the length of time required to enroll suitable patient subjects.

Any clinical trial may fail to produce results satisfactory to the FDA. The FDA could determine that the design of a clinical trial is inadequate to produce reliable results. Negative or inconclusive results or adverse medical events during a clinical trial could cause a clinical trial to be repeated or development of a product or clinical trial to be terminated. The clinical development and regulatory approval process is expensive and time consuming. Any failure to obtain regulatory approval could delay or prevent us from commercializing products.

Our efforts to date have been primarily limited to identifying targets and developing small molecule compounds against those targets. Significant research and development efforts will be necessary before any of our products directed against such targets can be commercialized. If regulatory approval is granted to any of our products, the approval may impose limitations on the uses for which a product may be marketed. Further, even if regulatory approval is obtained, a marketed product and its manufacturer are subject to continual review, and discovery of previously unknown problems with a product or manufacturer may result in restrictions and sanctions with respect to the product, manufacturer and relevant manufacturing facility, including withdrawal of the product from the market.

CLINICAL TESTING OF OUR POTENTIAL PRODUCTS MAY FAIL TO DEMONSTRATE SAFETY AND EFFICACY, WHICH COULD PREVENT OR SIGNIFICANTLY DELAY REGULATORY APPROVAL.

Clinical trials are inherently risky and may reveal that our potential products are ineffective or have unacceptable toxicity or other side effects that may significantly limit the possibility of regulatory approval of the potential product. The regulatory review and approval process is extensive and uncertain and typically takes many years to complete. The FDA requires submission of extensive preclinical, clinical and manufacturing data for each indication for which approval is sought in order to assess the safety and efficacy of the potential product. In addition, 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 proprietary compounds in development, we have established timelines for manufacturing and clinical development based on existing knowledge of the compound and industry metrics. We have limited experience in conducting clinical studies and may not be able to assure that any specified timelines with respect to the initiation or completion of clinical studies may be achieved.

In July 2001, we acquired a cancer compound, a rebeccamycin analogue, currently in Phase II clinical studies. This compound was manufactured by Bristol-Myers

Squibb, and clinical trials to date have been conducted by the National Cancer Institute, or NCI. We will have to conduct additional clinical testing in order to meet FDA requirements for regulatory approval. We have no prior experience in conducting clinical trials, and, in conjunction with the NCI, we expect to undertake further clinical development of this compound under our own IND in order to obtain regulatory approval. We may not be able to rapidly or effectively assume responsibility for further development of this compound. We do not know whether planned clinical trials will begin on time, will be completed on schedule, or at all, will be sufficient for registration or will result in approvable products. Our product development costs will increase if we have delays in testing or approvals or if we need to perform more or larger clinical trials than planned. If the delays are significant, our financial results and the commercial prospects for our products will be harmed, and our ability to become profitable will be delayed.

WE LACK THE CAPABILITY TO MANUFACTURE COMPOUNDS FOR CLINICAL TRIALS AND WILL RELY ON THIRD PARTIES TO MANUFACTURE OUR POTENTIAL PRODUCTS, AND WE MAY BE UNABLE TO OBTAIN REQUIRED MATERIAL IN A TIMELY MANNER OR AT A QUALITY LEVEL REQUIRED TO RECEIVE REGULATORY APPROVAL.

We currently do not have manufacturing capabilities or experience necessary to produce materials for clinical trials, including for our Phase II clinical compound, a rebeccamycin analogue. We intend to rely on collaborators and third-party contractors to produce materials necessary for preclinical and clinical testing. We will rely on selected 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 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. If we are unable to contract for production of sufficient quantity and quality of materials on acceptable terms, our planned clinical trials may be delayed. Delays in preclinical or clinical testing could delay the filing of our INDs and the initiation of clinical trials that we have currently planned. In addition, our outsourcing efforts with respect to manufacturing 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 clinical trials, and if possible to bring products to market in a timely manner.

WE HAVE NO EXPERIENCE IN DEVELOPING, MANUFACTURING AND MARKETING PRODUCTS AND MAY BE UNABLE TO COMMERCIALIZE PROPRIETARY PRODUCTS.

Initially, we relied on our collaborators to develop and commercialize products based on our research and development efforts. We have limited or no experience in using the targets that we identify to develop our own proprietary products, or developing small molecule compounds against those targets. Our recent efforts in applying our drug development capabilities to our proprietary targets in cancer are subject to significant risk and uncertainty, particularly with respect to our ability to meet currently estimated timelines and goals for completing preclinical development efforts and filing an IND for compounds developed. In order for us to commercialize products, we would need to significantly enhance our capabilities with respect to product development and establish manufacturing and marketing capabilities, either directly or through outsourcing or licensing arrangements. We may not be able to enter into such outsourcing or licensing agreements on commercially reasonable terms, or at all.

SINCE OUR TECHNOLOGIES HAVE MANY POTENTIAL APPLICATIONS AND WE HAVE LIMITED RESOURCES, OUR FOCUS ON A PARTICULAR AREA MAY RESULT IN OUR FAILURE TO CAPITALIZE ON MORE PROFITABLE AREAS.

We have limited financial and managerial resources. This requires us to focus on product candidates in specific industries and forego opportunities with regard to other products and industries. For example, depending on our ability to allocate resources, a decision to concentrate on a particular agricultural program may mean that we will not have resources available to apply the same technology to a pharmaceutical project. While our technologies may permit us to work in both areas, resource commitments may require trade-offs resulting in delays in the development of certain programs or research areas, which may place us at a competitive disadvantage. Our decisions impacting resource allocation may not lead to the development of viable commercial products and may divert resources from more profitable market opportunities.

OUR COMPETITORS MAY DEVELOP PRODUCTS AND TECHNOLOGIES THAT MAKE OUR PRODUCTS AND TECHNOLOGIES OBSOLETE.

The biotechnology industry is highly fragmented and is characterized by rapid technological change. In particular, the area of gene research is a rapidly evolving field. We face, and will continue to face, intense competition from large biotechnology and pharmaceutical companies, as well as academic research institutions, clinical reference laboratories and government agencies that are pursuing research activities similar to ours. Some of our competitors have entered into collaborations with leading companies within our target markets, including some of our existing collaborators. Our future success will depend on our ability to maintain a competitive position with respect to technological advances.

Any products that are developed through our technologies will compete in highly competitive markets. Further, our competitors may be more effective at using their technologies to develop commercial products. Many of the organizations competing with us have greater capital resources, larger research and development staffs and facilities, more experience in obtaining regulatory approvals and more extensive product manufacturing and marketing capabilities. As a result, our competitors may be able to more easily develop technologies and products that would render our technologies and products, and those of our collaborators, obsolete and noncompetitive.

IF WE ARE UNABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY, THIRD PARTIES MAY BE ABLE TO USE OUR TECHNOLOGY, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO COMPETE IN THE MARKET.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of the intellectual property related to our technologies and products. The patent positions of biotechnology companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the U.S., and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. We will continue to apply for patents covering our technologies and products as and when we deem appropriate. However, these applications may be challenged or may fail to result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patents. In addition, our patents may be challenged, invalidated or fail to provide us with any competitive advantages.

We rely on trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information and trade secrets, but these measures may not provide adequate protection. While we seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants, we cannot assure you that our proprietary information will not be disclosed, or that we can meaningfully protect our trade secrets. In addition, our competitors may independently develop substantially equivalent proprietary information or may otherwise gain access to our trade secrets.

LITIGATION OR THIRD-PARTY CLAIMS OF INTELLECTUAL PROPERTY INFRINGEMENT COULD REQUIRE US TO SPEND SUBSTANTIAL TIME AND MONEY AND ADVERSELY AFFECT OUR ABILITY TO DEVELOP AND COMMERCIALIZE PRODUCTS.

Our commercial success depends in part on our ability to avoid infringing patents and proprietary rights of third parties and not breaching any licenses that we have entered into with regard to our technologies. Other parties have filed, and in the future are likely to file, patent applications covering genes and gene fragments, techniques and methodologies relating to model systems and products and technologies that we have developed or intend to develop. If patents covering technologies required by our operations are issued to others, we may have to rely on licenses from third parties, which may not be available on commercially reasonable terms, or at all.

Third parties may accuse us of employing their proprietary technology without authorization. In addition, third parties may obtain patents that relate to our technologies and claim that use of such technologies infringes these patents. Regardless of their merit, such claims could require us to incur substantial costs, including the diversion of management and technical personnel, in defending ourselves against any such claims or enforcing our patents. In the event that a successful claim of infringement is brought against us, we may be

required to pay damages and obtain one or more licenses from third parties. We may not be able to obtain these licenses at a reasonable cost, or at all. Defense of any lawsuit or failure to obtain any of these licenses could adversely affect our ability to develop and commercialize products.

THE LOSS OF KEY PERSONNEL OR THE INABILITY TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL COULD IMPAIR OUR ABILITY TO EXPAND OUR OPERATIONS.

We are highly dependent on the principal members of our management and scientific staff, the loss of whose services might adversely impact the achievement of our objectives and the continuation of existing collaborations. In addition, recruiting and retaining qualified scientific and clinical personnel to perform future research and development work will be critical to our success. We do not currently have sufficient executive management and technical personnel to fully execute our business plan. There is currently a shortage of skilled executives and employees with technical expertise, and this shortage is likely to continue. As a result, competition for skilled personnel is intense, and turnover rates are high. Although we believe we will be successful in attracting and retaining qualified personnel, competition for experienced scientists from numerous companies and academic and other research institutions may limit our ability to do so.

Our business operations will require additional expertise in specific industries and areas applicable to products identified and developed through our technologies. These activities will require the addition of new personnel, including management and technical personnel and the development of additional expertise by existing employees. The inability to attract such personnel or to develop this expertise could prevent us from expanding our operations in a timely manner, or at all.

OUR COLLABORATIONS WITH OUTSIDE SCIENTISTS MAY BE SUBJECT TO RESTRICTION AND CHANGE.

We work with scientific and clinical advisors and collaborators at academic and other institutions that assist us in our research and development efforts. These scientists and advisors are not our employees and may have other commitments that would limit their availability to us. Although our advisors and collaborators generally agree not to do competing work, if a conflict of interest between their work for us and their work for another entity arises, we may lose their services. In addition, although our advisors and collaborators sign agreements not to disclose our confidential information, it is possible that valuable proprietary knowledge may become publicly known through them.

SOCIAL ISSUES MAY LIMIT THE PUBLIC ACCEPTANCE OF GENETICALLY ENGINEERED PRODUCTS, WHICH COULD REDUCE DEMAND FOR OUR PRODUCTS.

Although our technology is not dependent on genetic engineering, genetic engineering plays a prominent role in our approach to product development. For example, research efforts focusing on plant traits may involve either selective breeding or modification of existing genes in the plant under study. Public attitudes may be influenced by claims that genetically engineered products are unsafe for consumption or pose a danger to the environment. Such claims may prevent our genetically engineered products from gaining public acceptance. The commercial success of our future products will depend, in part, on public acceptance of the use of genetically engineered products, including drugs and plant and animal products.

The subject of genetically modified organisms has received negative publicity, which has aroused public debate. For example, certain countries in Europe are considering regulations that may ban products or require express labeling of products that contain genetic modifications or are "genetically modified." Adverse publicity has resulted in greater regulation internationally and trade restrictions on imports of genetically altered products. If similar action is taken in the U.S., genetic research and genetically engineered products could be subject to greater domestic regulation, including stricter labeling requirements. To date, our business has not been hampered by these activities. However, such publicity in the future may prevent any products resulting from our research from gaining market acceptance and reduce demand for our products.

LAWS AND REGULATIONS MAY REDUCE OUR ABILITY TO SELL GENETICALLY ENGINEERED PRODUCTS THAT WE OR OUR COLLABORATORS DEVELOP IN THE FUTURE.

We or our collaborators may develop genetically engineered agricultural and animal products. The field-testing, production and marketing of genetically engineered products are subject to regulation by federal, state, local and

foreign governments. Regulatory agencies administering existing or future regulations or legislation may prevent us from producing and marketing genetically engineered products in a timely manner or under technically or commercially feasible conditions. In addition, regulatory action or private litigation could result in expenses, delays or other impediments to our product development programs and the commercialization of products. The FDA has released a policy statement stating that it will apply the same regulatory standards to foods developed through genetic engineering as it applies to foods developed through traditional plant breeding. Genetically engineered food products will be subject to premarket review, however, if these products raise safety questions or are deemed to be food additives. Our products may be subject to lengthy FDA reviews and unfavorable FDA determinations if they raise questions regarding safety or our products are deemed to be food additives.

The FDA has also announced that it will not require genetically engineered agricultural products to be labeled as such, provided that these products are as safe and have the same nutritional characteristics as conventionally developed products. The FDA may reconsider or change its policies, and local or state authorities may enact labeling requirements, either of which could have a material adverse effect on our ability or the ability of our collaborators to develop and market products resulting from our efforts.

WE USE HAZARDOUS CHEMICALS AND RADIOACTIVE AND BIOLOGICAL MATERIALS IN OUR BUSINESS. ANY CLAIMS RELATING TO IMPROPER HANDLING, STORAGE OR DISPOSAL OF THESE MATERIALS COULD BE TIME CONSUMING AND COSTLY.

Our research and development processes involve the controlled use of hazardous materials, including chemicals and radioactive and biological materials. Our operations produce hazardous waste products. We cannot eliminate the risk of accidental contamination or discharge and any resultant injury from these materials. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of hazardous materials. We may be sued for any injury or contamination that results from our use or the use by third parties of these materials, and our liability may exceed our insurance coverage and our total assets. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair our research, development and production efforts.

In addition, our collaborators may use hazardous materials in connection with our collaborative efforts. To our knowledge, their work is performed in accordance with applicable biosafety regulations. In the event of a lawsuit or investigation, however, we could be held responsible for any injury caused to persons or property by exposure to, or release of, these hazardous materials used by these parties. Further, we may be required to indemnify our collaborators against all damages and other liabilities arising out of our development activities or products produced in connection with these collaborations.

WE EXPECT THAT OUR QUARTERLY RESULTS OF OPERATIONS WILL FLUCTUATE, AND THIS FLUCTUATION COULD CAUSE OUR STOCK PRICE TO DECLINE, CAUSING INVESTOR LOSSES.

Our quarterly operating results have fluctuated in the past and are likely to fluctuate in the future. A number of factors, many of which we cannot control, could subject our operating results and stock price to volatility, including:

- recognition of upfront licensing or other fees;
- payments of non-refundable upfront or licensing fees to third parties;
- acceptance of our technologies and platforms;
- the success rate of our discovery efforts leading to milestone payments and royalties;
- the introduction of new technologies or products by our competitors;
- the timing and willingness of collaborators to commercialize our products;
- our ability to enter into new collaborative relationships;
- the termination or non-renewal of existing collaborations;
- the timing and amount of expenses incurred for clinical development and manufacturing of our products;
- the impairment of acquired goodwill and other assets; and
- general and industry-specific economic conditions that may affect our collaborators' research and development expenditures

A large portion of our expenses, including expenses for facilities, equipment and personnel, are relatively fixed in the short term. In addition, we expect operating expenses to increase significantly during the next year. Accordingly, if our revenues decline or do not grow as anticipated due to the expiration of

existing contracts or our failure to obtain new contracts, our inability to meet milestones or other factors, we may not be able to correspondingly reduce our operating expenses. Failure to achieve anticipated levels of revenues could therefore significantly harm our operating results for a particular fiscal period.

Due to the possibility of fluctuations in our revenues and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. As a result, in some future quarters, our operating results may not meet the expectations of stock market analysts and investors, which could result in a decline in the price of our stock.

OUR STOCK PRICE MAY BE EXTREMELY VOLATILE.

We believe the trading price of our common stock will remain highly volatile and may fluctuate substantially due to factors such as the following:

- the announcement of new products or services by us or our competitors;
- the failure of new products in clinical trials by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- failure to achieve operating results projected by securities analysts;
- changes in earnings estimates or recommendations by securities analysts;
- developments in the biotechnology industry;
- acquisitions of other companies or technologies; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

These factors and fluctuations, as well as general economic, political and market conditions, may materially adversely affect the market price of our common stock.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and divert management's attention and resources, which could have a material and adverse effect on our business.

WE ARE EXPOSED TO RISKS ASSOCIATED WITH ACQUISITIONS.

We have made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. Acquisitions involve numerous risks, including, but not limited to:

- difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired companies;
- diversion of management's attention from other operational matters;
- the potential loss of key employees of acquired companies;
- the potential loss of key collaborators of the acquired companies;
- lack of synergy, or the inability to realize expected synergies, resulting from the acquisition; and
- acquired intangible assets becoming impaired as a result of technological advancements or worse-than-expected performance of the acquired company.

Mergers and acquisitions are inherently risky, and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations.

IF PRODUCT LIABILITY LAWSUITS ARE SUCCESSFULLY BROUGHT AGAINST US, WE COULD FACE SUBSTANTIAL LIABILITIES THAT EXCEED OUR RESOURCES.

We may be held liable if any product our collaborators or we develop causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. Although we intend to obtain general liability and product liability insurance, this insurance may be prohibitively expensive, or may not fully cover our potential liabilities. Inability to obtain sufficient insurance coverage at an acceptable cost or to otherwise protect ourselves against potential product liability claims could prevent or inhibit the commercialization of products developed by our collaborators or us.

OUR HEADQUARTERS 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.

Given our headquarters location in South San Francisco, our facilities are vulnerable to damage from earthquakes. We are also vulnerable worldwide to damage from other types of disasters, including fire, 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. In addition, the unique nature of our research activities could cause significant delays in our programs and 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. Accordingly, an earthquake or other disaster could materially and adversely harm our ability to conduct business.

FUTURE SALES OF OUR COMMON STOCK MAY DEPRESS OUR STOCK PRICE.

If our stockholders sell substantial amounts of our common stock (including shares issued upon the exercise of outstanding options and warrants) in the public market, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deemed appropriate. For example, following an acquisition, a significant number of shares of our common stock held by new stockholders may become freely tradable. Similarly, shares of common stock held by existing stockholders prior to our initial public offering became freely tradable in 2000, subject in some instances to the volume and other limitations of Rule 144 of the Securities Act. Sales of these shares and other shares of common stock held by existing stockholders could cause the market price of our common stock to decline.

SOME OF OUR EXISTING STOCKHOLDERS CAN EXERT CONTROL OVER US, AND THEIR INTERESTS COULD CONFLICT WITH THE BEST INTERESTS OF OUR OTHER STOCKHOLDERS.

Due to their combined stock holdings, our officers, directors and principal stockholders (stockholders holding more than 5% of our common stock) acting together, may be able to exert significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change in control of our company, even when a change may be in the best interests of our stockholders. In addition, the interests of these stockholders may not always coincide with our interests as a company or the interests of other stockholders. Accordingly, these stockholders could cause us to enter into transactions or agreements that you would not approve of.

ITEM 2. PROPERTIES

We currently have commitments to lease an aggregate of 213,967 square feet of office and laboratory facilities in four buildings in South San Francisco, California. The first building lease, for 33,000 square feet, expires on July 31, 2005. The second building lease covers three buildings, one for 70,000 square feet, another for 50,000 square feet and the third for 60,967 square feet. The portion of the lease for the third building is expected to begin in March 2003. The lease for these three buildings expires in 2017, not including two five-year options to extend the term prior to expiration. During 2002, we also subleased two additional facilities totaling 12,000 square feet in South San Francisco for continued expansion. Leases for these two facilities are set to expire in 2003.

We lease approximately 17,000 square feet of office and laboratory space in Portland, Oregon and own a 15-acre farm in Woodburn, Oregon. Greenhouse capacity at the farm currently totals 50,000 square feet. The lease in Portland expires on February 28, 2006, and there is an option to renew for an additional five years.

We lease approximately 2,200 square feet of office and laboratory space in Koln, Germany and an additional 1,300 square feet of laboratory space in Tubingen, Germany. These leases expire at dates ranging from March 31, 2004 to October 31, 2007. There is an option to renew all leases for a period ranging from three to five years.

We lease approximately 41,700 square feet of office and research and development space in Boulder, Colorado, of which 24,000 is sublet for the remaining term of the lease. This lease expires in July 2005, and there are two options to renew

for additional five-year terms. We are currently attempting to sublease these facilities.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has traded on the Nasdaq National Market under the symbol "EXEL" since April 11, 2000. The following table sets forth, for the periods indicated, the high and low bid quotations for our common stock as reported by the Nasdaq National Market:

	Common Stock Price	
	High	Low
Quarter ended December 31, 2002	$9.41	$2.95
Quarter ended September 30, 2002	$7.45	$3.50
Quarter ended June 30, 2002	$13.56	$5.63
Quarter ended March 31, 2002	$16.72	$10.88
Quarter ended December 31, 2001	$17.47	$10.60
Quarter ended September 30, 2001	$19.28	$9.61
Quarter ended June 30, 2001	$19.00	$7.25
Quarter ended March 31, 2001	$16.25	$6.00

On March 5, 2003, the last reported sale price on the Nasdaq National Market for our common stock was $5.84 per share.

Holders

As of March 5, 2003, there were approximately 1,125 stockholders of record of Exelixis common stock.

Dividends

Since inception, we have not paid dividends on our common stock. We currently intend to retain all future earnings, if any, for use in our business and currently do not plan to pay any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors.

Recent Sales of Unregistered Securities

On October 29, 2002, Exelixis entered into a stock purchase agreement with SmithKlineBeecham Corporation ("GSK") as part of a corporate alliance. Pursuant to the terms of the stock purchase agreement, on November 1, 2002, Exelixis issued 2,000,000 shares of common stock at a purchase price of $7.00 per share to GSK in exchange for $14.0 million in cash. The shares were issued to GSK in a private placement pursuant to an exemption from registration in reliance upon Section 4(2) and Rule 506 of Regulation D of the Securities Act of 1933.

Uses of Proceeds from Registered Securities

In May 2000, we completed our initial public offering for aggregate proceeds of approximately $136.0 million. In connection with the offering, we paid a total of approximately $9.5 million in underwriting discounts and commissions and $2.0 million in other offering costs and expenses. After deducting the underwriting discounts and commissions and the offering costs and expenses, our net proceeds from the offering were approximately $124.5 million.

From the time of receipt through December 31, 2002, the proceeds from the

offering were used for research and development activities, capital expenditures, working capital, merger and acquisition expenses and other general corporate purposes. All remaining proceeds from the offering were expended during the fourth quarter of 2002.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated historical information has been derived from the audited consolidated financial statements of Exelixis. The financial information as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 are derived from audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The following Selected Consolidated Financial Data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Consolidated Financial Statements and Supplementary Data" included elsewhere in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results of operations to be expected in the future.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per share data)				
Statement of Operations Data:					
Total revenues	44,322	41,006	24,759	10,510	2,272
Operating expenses:					
Research and development	112,014	82,700	51,685	21,653	12,096
Selling, general and administrative	18,758	19,166	15,678	7,624	5,472
Acquired in-process research and development	-	6,673	38,117	-	-
Impairment of goodwill	-	2,689	-	-	-
Amortization of goodwill and intangibles	666	5,092	260	-	-
Restructuring charge	708	-	-	-	-
Total operating expenses	132,146	116,320	105,740	29,277	17,568
Loss from operations	(87,824)	(75,314)	(80,981)	(18,767)	(15,296)
Interest and other income (expense), net	3,290	4,128	5,569	46	(50)
Equity in net loss of affiliated company	-	-	-	-	(320)
Minority interest in subsidiary net loss	-	-	101	-	-
Net loss from continuing operations before income tax	(84,534)	(71,186)	(75,311)	(18,721)	(15,666)
Provision for income taxes	345	-	-	-	-
Loss from continuing operations	(84,879)	(71,186)	(75,311)	(18,721)	(15,666)
Loss from operations of discontinued segment	(1,251)	-	-	-	-
Net loss	$ (86,130)	$ (71,186)	$ (75,311)	$(18,721)	$(15,666)
Loss per share from continuing operations	$ (1.50)	$ (1.53)	$ (2.43)	$ (4.60)	$ (7.88)
Loss per share from discontinued operations	(0.02)	-	-	-	-
Net loss per share, basic and diluted	$ (1.52)	$ (1.53)	$ (2.43)	$ (4.60)	$ (7.88)
Shares used in computing basic and diluted net loss per share	56,615	46,485	31,031	4,068	1,988

	December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents, short-term investments and restricted cash	$ 221,987	$ 227,700	$ 112,552	$ 6,904	$ 2,058
Working capital (deficit)	173,153	194,242	96,019	(672)	182
Total assets	339,113	346,614	204,914	18,901	8,981
Long-term obligations, less current portion	65,372	48,667	7,976	11,132	2,566
Deferred stock compensation, net	(977)	(4,137)	(10,174)	(14,167)	(1,803)
Accumulated deficit	(287,354)	(201,224)	(130,038)	(54,727)	(36,006)
Total stockholders' equity (deficit)	175,920	237,220	162,734	(49,605)	(35,065)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "should," "estimate," "predict," "potential," "continue" or the negative of such terms or other similar expressions, identify forward-looking statements. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" as well as those discussed elsewhere in this Annual Report on Form 10-K . You should read the following discussion and analysis in conjunction with the "Selected Consolidated Financial Data" and the financial statements and notes thereto included in this Annual Report on Form 10-K. Historical operating results are not necessarily indicative of results that may occur in future periods. Exelixis undertakes no obligation to update any forward-looking statement to reflect events after the date of this report.

Overview

We believe that we are a leader in the discovery and validation of high-quality novel targets for several major human diseases, and a leader in the discovery of potential new drug therapies, specifically for cancer and other proliferative diseases. Our primary mission is to develop proprietary human therapeutics by leveraging our integrated discovery platform to increase the speed, efficiency and quality of pharmaceutical product discovery and development.

Through our expertise in comparative genomics and model system genetics, we are able to find new drug targets that we believe would be difficult or impossible to uncover using other experimental approaches. Our research is designed to identify novel genes and proteins expressed by those genes that, when changed, either decrease or increase the activity in a specific disease pathway in a therapeutically relevant manner. These genes and proteins represent either potential product targets or drugs that may treat disease or prevent disease initiation or progression.

Our most advanced proprietary pharmaceutical program focuses on drug discovery and development of small molecules in cancer. Specifically, the remarkable evolutionary conservation of the biochemical pathways strongly supports the use of simple model systems, such as fruit flies, nematode worms, zebrafish and mice, to identify key components of critical cancer pathways that can then be targeted for drug discovery. We expect to develop new cancer drugs by exploiting the underlying "genetic liabilities" of tumor cells to provide specificity in targeting these cells for destruction, while leaving normal cells unharmed. We have discovered and are further developing a number of small molecule drug targets in addition to monoclonal antibody drug targets. Molecules directed against these targets may selectively kill cancer cells while leaving normal cells unharmed, and may provide alternatives or supplements to current cancer therapies.

We believe that our proprietary technologies are also valuable to other industries whose products can be enhanced by an understanding of DNA or proteins, including the agrochemical, agricultural and diagnostic industries. Many of these industries have shorter product development cycles and lower risk than the pharmaceutical industry, while at the same time generating significant sales with attractive profit margins. By partnering with companies in multiple industries, we believe that we are able to diversify our business risk, while at the same time maximizing our future revenue stream opportunities.

Our strategy is to establish collaborations with major pharmaceutical, biotechnology and agrochemical companies based on the strength of our technologies and biological expertise as well as to support additional development of our proprietary products. Through these collaborations, we obtain license fees and research funding, together with the opportunity to receive milestone payments and royalties from research results and subsequent product development. In addition, many of our collaborations have been structured strategically to provide us access to technology to advance our internal programs, saving both time and money, while at the same time retaining

rights to use the same information in different industries. Our collaborations with leading companies in the agrochemical industries allow us to continue to expand our internal development capabilities while providing our partners with novel targets and assays. Since we believe that agrochemical products have reduced development time and lower risk, we expect to be able to maximize our potential future revenue stream through partnering in multiple industries. We have active commercial collaborations with several leading pharmaceutical, biotechnology and agrochemical companies: Bayer CropScience LP (formerly Aventis USA LP), Bayer Corporation, Bristol-Myers Squibb Company (two collaborations), Cytokinetics, Inc., Dow AgroSciences LLC, Elan Pharmaceuticals, Inc., Merck & Co., Inc. (two collaborations), Protein Design Labs, Inc., Renessen LLC, Scios Inc., Schering-Plough Research Institute, Inc. and SmithKlineBeecham Corporation.

In addition to our commercial collaborations, we have relationships with other biotechnology companies, academic institutions and universities that provide us access to specific technology or intellectual property for the enhancement of our business. These include collaborations with leading biotechnology product developers and solutions providers, among them Affymetrix, GeneMachines, AVI BioPharma, Inc., Silicon Genetics, Galapagos NV, Genomics Collaborative Inc., Accelrys, Inc., Akceli, Inc., Ardais Corp., Cogen BioCognetics, Inc., Impath Predictive Oncology, Inc., and Virtual Arrays, Inc..

We have a history of operating losses resulting principally from costs associated with research and development activities, investment in core technologies and general and administrative functions. As a result of planned expenditures for future research and development activities, including manufacturing and development expenses for compounds in pre-clinical and clinical studies, we expect to incur additional operating losses for the foreseeable future.

Acquisition of Genomica Corporation

On December 28, 2001, we acquired approximately 94% of the outstanding common stock of Genomica Corporation ("Genomica"), a bio-informatics software company. The acquisition of Genomica was completed in January 2002. Upon the effectiveness of the merger, Genomica became our wholly-owned subsidiary. The transaction, which was accounted for under the purchase method of accounting, was effected through the exchange of 0.28309 of a share of our common stock for each outstanding share of Genomica common stock. A total of approximately 6.9 million shares of our common stock were issued for all of the outstanding shares of Genomica common stock.

The purchase price for Genomica, which for financial accounting purposes was valued at $110.0 million, was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition, as determined by management based on an independent valuation. As a result of this transaction, we recorded net tangible assets of $106.2 million (including cash and investments of $109.6 million), developed technology of $400,000, which will be amortized over two years, and goodwill of $3.4 million. At the same time, we recorded a goodwill impairment charge of $2.7 million, which was expensed in 2001 to operations. The impairment was calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), by estimating the present value of future cash flows for the ongoing Genomica licensing business using a risk adjusted discount rate. The impaired goodwill represented excess purchase price, which we viewed as economically equivalent to financing costs for the acquired cash and investments.

In December 2001, in connection with the acquisition of Genomica, Exelixis adopted an exit plan for Genomica. Under this exit plan, we terminated Genomica's entire workforce and abandoned its leased facilities in Boulder, Colorado and Sacramento, California. The estimated costs of the exit plan amounted to $2.9 million and were included as part of the liabilities assumed in the acquisition.

In April 2002, we transferred the Genomica software business to Visualize, Inc. ("Visualize") for future consideration of up to $2.4 million in license fees and royalty payments. Pursuant to the terms of the transaction, Visualize obtained a license with all rights and obligations to third parties currently licensing the Genomica software, including the sole right to further develop and license the software to other third parties. Royalties that Exelixis receives, if any, will be recorded in the period they are earned as a gain from discontinued operations. In addition, Visualize assumed our lease obligation for Genomica's

abandoned facility in Sacramento, California. Exelixis retains an internal use license for the software. As a result of this transaction, we reported the operating results of Genomica and the estimated loss on the sale of Genomica as discontinued operations. For the period beginning January 1, 2002 to its disposal in April 2002, Genomica's operating results consisted of revenues of approximately $58,000 and an operating loss of approximately $456,000. The loss on the sale of Genomica includes the write-off of goodwill of approximately $971,000, partially offset by an adjustment to the estimated lease obligation by approximately $176,000 related to the Sacramento facility assumed by Visualize.

As of December 31, 2002, the remaining actions to be taken under the exit plan consisted primarily of residual payments related to the lease obligation for the facility in Boulder, Colorado, which are expected to continue until the termination of the lease in 2005, unless the facility is subleased earlier.

Beginning in the first quarter of 2002, we have applied the new rules of accounting for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Accordingly, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests.

Acquisition of Artemis Pharmaceuticals

In May 2001, we acquired a majority of the outstanding capital stock of Artemis Pharmaceuticals GmbH, a privately held genetics and functional genomics company organized under the laws of Germany. The transaction, which was accounted for under the purchase method of accounting, was effected through the exchange of shares of our common stock for Deutschmark 1.00 of nominal value of Artemis capital stock, using an exchange ratio of 4.064 to one. Approximately 1.6 million shares of our common stock were issued in exchange for 78% of the outstanding capital stock of Artemis held by Artemis stockholders. In addition, we received a call option (the "Call Option") from, and issued a put option (the "Put Option") to, certain stockholders of Artemis (the "Option Holders") for the issuance of approximately 460,000 additional shares of our common stock in exchange for the remaining 22% of the outstanding capital stock of Artemis held by the Option Holders. We could have exercised the Call Option at any time from May 14, 2001 through January 31, 2002, and the Option Holders could have exercised their rights under the Put Option at any time from April 1, 2002 through May 15, 2002. We exercised the Call Option for 131,674 shares and 329,591 shares in December 2001 and January 2002, respectively, which resulted in an increase to goodwill of approximately $1.9 million and $4.0 million, respectively, related to the additional purchase price. In addition, we issued fully vested rights to purchase approximately 187,000 additional shares of our common stock to Artemis employees in exchange for such employees' vested options formerly representing the right to purchase shares of Artemis capital stock pursuant to the Artemis Employee Phantom Stock Option Program. Artemis provides us with technologies related to the following two species: zebrafish and mice. These technologies are used in our research and development efforts.

The purchase price for Artemis, which for financial accounting purposes was valued at $28.2 million, was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition, as determined by management based upon an independent valuation. As a result of this transaction, we recorded expense associated with the purchase of in-process research and development of $6.7 million, net tangible assets of $2.8 million and intangible assets (including goodwill) of $18.7 million, the majority of which was being amortized over 15 years until December 31, 2001. Under SFAS 142, we have applied the new rules of accounting for goodwill and other intangible assets. Accordingly, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with SFAS 142.

Since the third quarter of 2002, we have undertaken a strategic initiative with respect to our mouse business at Artemis, and intend to split off the entity, including all personnel, and create a separate independent company. This activity is expected to occur in 2003.

Acquisition of Exelixis Plant Sciences (Formerly Agritope)

In December 2000, we completed our acquisition of Agritope, Inc. As a result of the acquisition, Agritope became our wholly-owned subsidiary, and we subsequently changed its name to Exelixis Plant Sciences, Inc. The transaction, which was accounted for under the purchase method of accounting, was effected through the exchange of 0.35 of a share of our common stock for each outstanding share of Agritope capital stock. Approximately 1.7 million shares of our common

stock were issued in connection with the transaction. In addition, unexpired and unexercised options and warrants to purchase shares of Agritope capital stock were assumed by us pursuant to the transaction and converted into fully vested options and warrants to purchase approximately 880,000 shares of our common stock.

The purchase price for Agritope, which for financial accounting purposes was valued at $93.5 million, was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition, as determined by an independent valuation. As a result of this transaction, we recorded expense associated with the purchase of in-process research and development of $38.1 million, net tangible liabilities of $3.6 million and intangible assets (including goodwill) of $58.9 million, the majority of which was being amortized over 15 years until December 31, 2001. Under SFAS 142, we have applied the new rules of accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Accordingly, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with SFAS 142.

We acquired Vinifera, Inc. ("Vinifera") in connection with the purchase of Agritope (which was the parent company of Vinifera). Vinifera was organized as a majority-owned subsidiary and was engaged in the grape vine propagation business. Because this business did not fit our strategic objectives, at the date of the acquisition of Agritope, we committed to a plan to sell the Vinifera operations. On March 31, 2001, we reduced our ownership interest in Vinifera from 57% to 19% by selling 3.0 million shares of Vinifera common stock back to Vinifera in consideration for $2.1 million in interest bearing promissory notes. As a result of the sale of Vinifera common stock back to Vinifera, we deconsolidated Vinifera, excluded our share of Vinifera's operating losses for the first quarter of 2001 of $275,000 and recorded the following amounts as an adjustment to goodwill recorded in connection with the acquisition of Agritope: a write-down of the value of acquired developed technology attributable to Vinifera of $435,000, a gain on sale of Vinifera shares of $590,000 and a promissory note reserve of $1,700,000. The net adjustment was an increase to goodwill in the amount of $675,000. Beginning April 1, 2001, we accounted for our remaining investment in Vinifera using the cost method.

Due to risks associated with collection, as of December 31, 2001, we reserved for 100% of these promissory notes. Due to a significant decline in the operating performance of Vinifera, in December 2001, we wrote down our remaining cost-basis investment in Vinifera to zero. Vinifera ceased operations in 2002.

Critical Accounting Policies

We believe the following are our critical accounting policies:

Revenue Recognition

Most of our revenues are generated from complex research and licensing arrangements. These research and licensing arrangements may include up-front non-refundable payments. Although these up-front payments are generally non-refundable, under U.S. generally accepted accounting principles ("GAAP") we defer the revenues under these arrangements and recognize the revenues on a straight-line basis over the relevant periods specified in the agreements, generally the research term. Our research and license arrangements may also include milestone payments. Although these milestone payments are generally non-refundable once the milestone is achieved, we recognize the milestone revenues on a straight-line basis over the research term of the arrangement. This typically results in a portion of the milestone being recognized at the date the milestone is achieved, and the balance being recognized over the remaining research term of the agreement. It is our understanding that there is diversity in practice on the recognition of milestone revenue. Other companies have adopted an alternative acceptable milestone revenue recognition policy whereby the full milestone fee is recognized upon completion of the milestone. If we had adopted such a policy, our revenues recorded to date would have increased and our deferred revenues would have decreased by an immaterial amount compared to total revenue recognized. Revenues from chemistry collaborations are generally recognized upon the delivery of accepted compounds.

Exit Costs

Prior to the completion of the December 28, 2001 acquisition of Genomica, we formulated an exit plan for Genomica to improve the operating efficiency of the combined company. This plan called for the reduction of substantially all of

Genomica's workforce and the abandonment of leased facilities in Boulder, Colorado and Sacramento, California. These activities were completed during the first half of 2002. The actual costs related to the remaining exit activities may differ from the amounts recorded as of December 31, 2002. For example, we have reserved $825,000 as of December 31, 2002 for our estimated maximum obligation under Genomica's remaining operating lease commitment. However, these operating lease commitments may be resolved in a more favorable manner, such as the possibility of successfully subleasing the abandoned space.

Goodwill and Intangible Impairment

As of December 31, 2002, our consolidated balance sheet included approximately $72.2 million of goodwill and other intangible assets. Under U.S. generally accepted accounting principles, we will evaluate goodwill for impairment on an annual basis and on an interim basis if events or changes in circumstances between annual impairment tests indicate that the asset might be impaired. We will also evaluate other intangible assets for impairment when impairment indicators are identified. In assessing the recoverability of our goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. These estimates include forecasted revenues, which are inherently difficult to predict. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets. Furthermore, our impairment evaluation of goodwill will require management to exercise judgment in the identification of our reporting units. The impairment test for goodwill will be performed at the reporting unit level, which may be one level below the single operating segment disclosed in our current financial statements, depending upon whether certain criteria are met.

Results of Operations

Comparison of Fiscal Years Ended December 31, 2002, 2001 and 2000

Total Revenues

Total revenues were $44.3 million for the year ended December 31, 2002, compared to $41.0 million for 2001 and $24.8 million for 2000. The increase from 2001 to 2002 resulted primarily from the impact of our corporate collaborations with SmithKlineBeecham Corporation ("GlaxoSmithKline" or "GSK"), Bristol-Myers Squibb Company ("BMS") and Protein Design Labs, Inc. ("PDL") and from compound deliveries under our chemistry collaborations established with Cytokinetics, Inc., Elan Pharmaceuticals, Inc., Scios Inc. and Schering-Plough Research Institute, Inc. to jointly design custom high-throughput screening compound libraries. This increase was partially offset by a reduction of revenue from Pharmacia due to the February 2002 conclusion of our collaboration. The increase from 2000 to 2001 resulted principally from license and contract revenues earned from the signing of new collaboration agreements with PDL and BMS, additional revenues under our existing collaborative agreements with Bayer, BMS, Dow AgroSciences LLC and Bayer CropScience and, to a lesser extent, recognition of the remaining deferred revenue related to the mutually agreed termination of our collaboration with Pharmacia, which terminated in February 2002.

Research and Development Expenses

Research and development expenses consist primarily of salaries and other personnel-related expenses, facilities costs, supplies, licenses and depreciation of facilities and laboratory equipment. Research and development expenses were $112.0 million for the year ended December 31, 2002, compared to $82.7 million for 2001 and $51.7 million for 2000. The increase in 2002 over 2001 resulted primarily from the following costs:

- Increased Personnel - Staffing costs in 2002 increased by approximately 34% from 2001 levels to approximately $43.0 million. The increase was to support new collaborative arrangements and our internal proprietary research efforts. Salary, bonuses, related fringe benefits, recruiting and relocation costs are included in personnel costs. We expect these personnel costs to increase further as we continue to build our organization.

- Increased Lab Supplies - As a result of the increase in personnel, our compound collaborations and the significant expansion of our drug discovery operations, lab supplies expense increased 41% to $21.8 million during 2002.

- Increased Licenses and Consulting - In order to support new

collaborative arrangements, manufacture the rebeccamycin analog to ensure adequate clinical supply, complete data analysis for the ongoing NCI-sponsored Phase II trials, plan for registration trials of the rebeccamycin analog and to advance XL 784, our lead IND candidate, through preclinical toxicology testing in anticipation of filing an IND, license and consulting expenses increased 128% to $12.8 million during 2002.

We expect that research and development expenses will continue to increase in absolute dollar amounts in the future, as we continue to advance drug discovery and development programs, including manufacturing and clinical development efforts on our maturing pipeline of products.

With respect to the rebeccamycin analogue and our own proprietary compounds, we are currently relying on collaborators and third-party contractors to produce materials for clinical trials. We expect clinical costs will increase in the future as we enter clinical trials for proprietary product candidates and additional trials for our rebeccamycin analogue, if any. We currently do not have estimates of total costs to reach the market by a particular drug candidate or in total. Our potential therapeutic products are subject to a lengthy and uncertain regulatory process that may not result in the necessary regulatory approvals, which could adversely affect our ability to commercialize products. In addition, clinical trials of our potential products may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval.

Our most advanced clinical program is the rebeccamycin analogue ("XL 119"), an anticancer compound that we in-licensed from BMS in 2001. The rebeccamycin analogue has completed Phase I testing. The Phase II clinical testing program, which is being conducted by the National Cancer Institute ("NCI"), is well advanced. To date, the most pronounced antitumor activity was observed in upper gastrointestinal tumors (most prominently in bile duct tumors), where several partial responses and instances of prolonged disease stabilization occurred. We believe that the compound deserves further development efforts, as there is currently no approved standard therapy for these rapidly progressing tumors. We anticipate initiating next development steps, if any, following discussions with the Food and Drug Administration ("FDA").

XL 784 is the first small molecule compound developed from our proprietary drug discovery platform. We are currently completing regulatory toxicology studies, and if the safety profile continues to look acceptable, we expect to file an IND in 2003.

The increase in research and development expenses from 2001 and 2000 was due primarily to increased staffing and other personnel-related costs and non-cash stock compensation expense (as described below). These expenses were incurred to support new collaborative arrangements and proprietary programs.

- Increased Personnel - Staffing costs in 2001 increased by approximately 69% to approximately $32.0 million from 2000. The increase was to support new collaborative arrangements and our internal proprietary research efforts, including increased expenses related to staff hired with the acquisition of Artemis in May 2001 and Agritope in December 2000. Salary, bonuses, related fringe benefits, recruiting and relocation costs are included in personnel costs.

- Increased Lab Supplies - As a result of the increase in personnel and the significant expansion of our drug discovery operations, lab supplies increased 85% to approximately $15.5 million during 2001.

- Increased Licenses and Consulting - To support new collaborative arrangements and further development of proprietary programs, license and consulting expenses increased 100% to approximately $5.6 million during 2001.

General and Administrative Expenses

General and administrative expenses consist primarily of staffing costs to support our research activities, facilities costs and professional expenses, such as legal fees. General and administrative expenses were $18.8 million for the year ended December 31, 2002, compared to $19.2 million for 2001 and $15.7 million for 2000. The decrease in 2002 from 2001 was primarily due to a decrease in non-cash stock compensation expense of $1.5 million (as described below), partially offset by costs associated with personnel and facilities to support expansion in our research and development operations. The increase in

general and administrative expenses in 2001 compared to 2000 was primarily due to increased staffing in support of our expanded research and development activities, partially offset by a decrease in non-cash stock compensation expense of $2.2 million (as described below).

Stock Compensation Expense

Deferred stock compensation for options granted to our employees is the difference between the fair value for financial reporting purposes of our common stock on the date such options were granted and their exercise price. Deferred stock compensation for options granted to consultants has been determined based upon estimated fair value, using the Black-Scholes option valuation model. As of December 31, 2002, we have approximately $1.0 million of remaining deferred stock compensation, related to stock options granted to consultants and employees. In connection with the grant of stock options to employees and consultants, we recorded no deferred stock compensation in the years ended December 31, 2002 and 2001 and $10.0 million in 2000. This amount was recorded as a component of stockholders' equity and is being amortized as stock compensation expense over the vesting periods of the options, which is generally four years. We recognized stock compensation expense of $2.5 million for the year ended December 31, 2002, compared to $7.4 million for 2001 and $14.0 million for 2000. These amounts are included within research and development and general and administrative expenses. The decreases in stock compensation expense in 2002 compared to 2001 and in 2001 compared to 2000 primarily result from the accelerated amortization method used for accounting purposes.

During April 2001, we granted approximately 545,000 supplemental stock options ("Supplemental Options") under the 2000 Equity Incentive Plan to certain employees (excluding officers and directors) who had stock options with exercise prices greater than $16.00 per share under the 2000 Equity Incentive Plan. The number of Supplemental Options granted was equal to 50% of the corresponding original grant held by each employee. The Supplemental Options have an exercise price of $16.00, vest monthly over a two-year period beginning April 1, 2001, and have a 27-month term. The vesting on the corresponding original stock options was suspended and will resume in April 2003 following the completion of vesting of the Supplemental Options. This new grant constitutes a synthetic repricing as defined in Financial Accounting Standards Board ("FASB") Interpretation Number 44, "Accounting for Certain Transactions Involving Stock Compensation," and results in certain options being reported using the variable plan method of accounting for stock compensation expense until those options are exercised, forfeited or expire. For the year ended December 31, 2001, we recorded compensation expense related to these Supplemental Options of $246,000, of which $242,000 was reversed in 2002 due to a decrease in the market value of our common stock.

Acquired In-Process Research and Development

The valuation of the purchased in-process research and development related to the Artemis acquisition of $6.7 million was determined by management based upon the results of an independent valuation using the income approach for each of the three significant in-process projects. The in-process projects relate primarily to the development of technologies that use vertebrate genetic model organisms, zebra-fish and mice, to identify and functionally validate novel genes in vivo. These genes can be used as novel screening targets or as the basis for secreted proteins in clinically and commercially relevant diseases. The in-process projects have been abandoned or are expected to be completed over approximately the next two years. The income approach estimates the value of each acquired in-process project based on its expected future cash flows. The valuation analysis considered the contribution of the core technology as well as the percent complete of each in-process research and development project. The expected present value of the cash flows associated with the in-process research and development projects was computed using a risk adjusted rate of return of 30%, which is considered commensurate with the overall risk and percent complete of the in-process projects. The purchased in-process technology was not considered to have reached technological feasibility, and it has no alternative future use, and accordingly, it was recorded as a component of operating expenses.

In connection with the Agritope purchase in fiscal year 2000, we recorded expense of $38.1 million relating to acquired in-process research and development. The valuation of the purchased in-process research and development was based upon the results of an independent valuation using the income approach for each of the ten projects in-process. The in-process projects relate primarily to the development of disease and insect resistant fruits and vegetables and have been abandoned or are expected to be completed over

approximately the next three and one-half years. The income approach estimates the value of each acquired in-process project based on its expected future cash flows. The valuation analysis considered the contribution of the core technology as well as the percent complete of each in-process research and development project. The expected present value of the cash flows associated with the in-process research and development projects was computed using a risk adjusted rate of return of 35%, which is considered commensurate with the overall risk and percent complete of the in-process projects. The purchased technology was not considered to have reached technological feasibility, and it has no alternative future use, accordingly, it was recorded as a component of operating expense.

Impairment of Goodwill

In 2001, we acquired $3.4 million of goodwill in connection with our Genomica acquisition. At the same time, we recorded a goodwill impairment charge of $2.7 million, which was expensed in 2001 to operations. The impairment was calculated in accordance with SFAS 121, by estimating the present value of future cash flows for the ongoing Genomica licensing business using a risk adjusted discount rate. The impaired goodwill represented excess purchase price, which we viewed as economically equivalent to financing costs for the acquired cash and investments.

We adopted SFAS 142 on January 1, 2002. This accounting standard requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis. We completed a transitional impairment test during the first quarter of 2002, which did not result in impairment of recorded goodwill. We adopted an annual goodwill impairment test date as of the beginning of the fourth quarter of 2002. Accordingly, we completed the annual impairment test as of October 1, 2002, which did not result in impairment of recorded goodwill.

Amortization of Goodwill and Other Intangibles

Goodwill and intangibles result from our acquisitions of Genomica, Artemis and Agritope (renamed Exelixis Plant Sciences). Amortization of intangibles was $666,000 for the year ended December 31, 2002, compared to amortization of goodwill and intangibles of $5.1 million for 2001 and $260,000 for 2000. The decrease in 2002 from 2001 was primarily related to our adoption of SFAS 142, whereby goodwill is no longer amortized. The increase in 2001 over 2000 was the result of amortization of goodwill and intangibles from the Agritope acquisition for 12 months compared to only one month in 2000 as well as the amortization of goodwill and intangibles from the acquisition of Artemis.

Restructuring Charge

During the fourth quarter of 2002, we implemented a restructuring plan, which resulted in a reduction in workforce of 40 employees primarily from our U.S. research operations. Accordingly, we recorded a restructuring charge of $708,000 comprised primarily of involuntary termination benefits. The restructuring plan was implemented in order to facilitate our evolution into a fully integrated drug discovery company and the reallocation of resources to permit greater focus on building our expanding portfolio of development programs.

Other Income (Expense), Net

Other income, net, was $3.3 million for the year ended December 31, 2002, compared to $4.1 million for 2001 and $5.6 million for 2000. Other income (expense) consists primarily of interest income earned on cash, cash equivalents and short-term investments, offset by interest expense incurred on notes payable, bank obligations and capital lease obligations. The decrease in 2002 from 2001 was the result of a decrease in interest income due to an overall decline in interest rates coupled with an increase in interest expense related to notes payable and bank obligations. The decrease in 2001 from 2000 was primarily attributable to an increase in interest expense related to notes payable and capital leases.

Discontinued Operations

In April 2002, we transferred the Genomica software business to Visualize for future consideration of up to $2.4 million in license fees and royalty payments. Pursuant to the terms of the transaction, Visualize obtained a license with all rights and obligations to third parties currently licensing the Genomica software, including the sole right to further develop and license the software to other third parties. Royalties that we receive, if any, will be recorded in

the period they are earned as a gain in discontinued operations. In addition, Visualize assumed the lease obligation for Genomica's abandoned facility in Sacramento, California. We retained an internal use license for the software. As a result of this transaction, we reported the operating results of Genomica and the estimated loss on the sale of Genomica as discontinued operations. For the period beginning January 1, 2002 and ending with the discontinuation of Genomica's operations in April 2002, Genomica's operating results consisted of revenues of approximately $58,000 and an operating loss of approximately $456,000. The loss on the sale of Genomica includes the write-off of goodwill of approximately $971,000, partially offset by a change in estimate for Genomica's lease obligation for the Sacramento facility assumed by Visualize of approximately $176,000.

Minority Interest and Equity in Net Loss of Affiliated Company

On March 31, 2001, we reduced our ownership interest in Vinifera, Inc. to 19%. Beginning April 1, 2001, we accounted for our remaining investment in Vinifera using the cost method. Due to a significant decline in the operating performance of Vinifera, we wrote down our investment in Vinifera to zero in December 2001.

For 2000, minority interest in subsidiary net loss represents the minority shareholders' portion of Vinifera's operating loss. Net loss reported by us, which is attributable to the minority shareholders, was approximately $100,000 in 2000. Since we owned in excess of 50% of Vinifera, we consolidated Vinifera's operating results, a portion of which was then allocated to the minority shareholders as minority interest in proportion to their ownership interest, partially offsetting our operating loss.

Income Taxes

We have incurred net losses since inception and, consequently, have not recorded any U.S. federal or state income taxes. We have recorded a tax provision of approximately $345,000 for the year ended December 31, 2002 related to income earned in our foreign operations.

As of December 31, 2002, we had federal and California net operating loss carryforwards of approximately $76.6 million and $36.7 million, respectively. We had federal research and development credit carryforwards of approximately $10.8 million in each jurisdiction. If not utilized, the net operating loss and credit carryforwards expire at various dates beginning in 2005. Under the Internal Revenue Code and similar state provisions, certain substantial changes in our ownership could result in an annual limitation on the amount of net operating loss and credit carryforwards that can be utilized in future years to offset future taxable income. Annual limitations may result in the expiration of net operating loss and credit carryforwards before they are used.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of equity, equipment lease financings and other loan facilities and payments from collaborators. Our initial public offering, completed in the second quarter of 2000, raised $124.5 million in net cash proceeds. In addition, we acquired Genomica in December 2001, including $109.6 million in cash and investments. As of December 31, 2002, we had approximately $222.0 million in cash, cash equivalents, short-term investments and restricted cash.

Our operating activities used cash of $30.9 million for the year ended December 31, 2002, compared to $23.8 million for 2001 and $12.9 million for 2000. Cash used in operating activities during each year related primarily to funding net losses, partially offset by an increase in deferred revenue from collaborators, non-cash charges related to acquired in-process research and development, depreciation and amortization of deferred stock compensation and intangibles.

Our investing activities provided cash of $46.8 million for the year ended December 31, 2002, compared to cash provided of $5.4 million for 2001 and cash used of $96.4 million for 2000. Cash provided in 2002 resulted primarily from the maturities and sales of short-term investments, offset by purchases of other short-term investments. The cash provided in 2001 consisted of cash resulting from the acquisitions of Artemis and Genomica and proceeds from maturities and sales of short-term investments, partially offset by purchases of short-term investments and property and equipment. The use of cash for 2000 consisted primarily of purchases of short-term investments and property and equipment, partially offset by proceeds from maturities of short-term investments and proceeds from sale-leaseback of equipment. We expect to continue to make

significant investments in research and development and our administrative infrastructure, including the purchase of property and equipment to support our expanding operations.

Our financing activities provided cash of $32.6 million for the year ended December 31, 2002, compared to $34.4 million for 2001 and $123.5 million for 2000. Cash provided from financing activities in 2002 resulted primarily from $25.0 million from a convertible note with GSK, in addition to $6.8 million from the issuance of common stock to GSK, both in accordance with an executed collaboration agreement. The cash provided from financing activities in 2002 was partially offset by principal payments on capital leases, bank obligations and notes payable. The cash provided in 2001 consisted of $10.0 million proceeds from the issuance of common stock to BMS as part of a collaboration agreement and $30.0 million proceeds from a convertible note with PDL, partially offset by principal payments on capital leases and notes payable. Cash provided from financing activities in 2000 consisted primarily of proceeds from our initial public offering.

We believe that our current cash and cash equivalents, short-term investments and funding to be received from collaborators, will be sufficient to satisfy our anticipated cash needs for at least the next two years. Changes in our operating plan as well as factors described in our "Risk Factors" elsewhere in this Annual Report on Form 10-K could require us to consume available resources much sooner than we expect. It is possible that we will seek additional financing within this timeframe. We may raise additional funds through public or private financing, collaborative relationships or other arrangements. In July 2001, we filed a registration statement on Form S-3 to offer and sell up to $150.0 million of common stock. We have no current commitments to offer or sell securities with respect to shares that may be offered or sold pursuant to that filing. We cannot assure you that additional funding, if sought, will be available or, even if available, will be available on terms favorable to us. Further, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Our failure to raise capital when needed may harm our business and operating results.

Commitments

We do not have any "special purpose entities" that are unconsolidated in our financial statements that are reasonably likely to materially affect liquidity or the availability or requirements of cash. We are also not involved with non-exchange traded commodity contracts accounted for at fair value. We have no commercial commitments with related parties, except for employee loans. We have contractual obligations in the form of operating and capital leases, notes payable and licensing agreements. These are described in further detail in Notes 8 and 12 of the Notes to Consolidated Financial Statements. The following chart details our contractual obligations (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Minimum purchase obligations	$ 1,150	$ 1,150	$ -	$ -	$ -
Notes payable and bank obligations	5,813	1,840	3,097	876	-
Licensing agreements	6,581	1,505	2,031	2,030	1,015
Capital lease obligations	14,103	7,321	6,716	66	-
Convertible promissory note and loan	55,000	-	30,000	-	25,000
Operating leases	153,899	11,408	23,768	20,951	97,772
Total contractual cash obligations	$ 236,546	$ 23,224	$ 65,612	$ 23,923	$ 123,787

We had outstanding loans aggregating $904,000 and $937,000 to certain officers and employees as of December 31, 2002 and 2001, respectively. The notes are general recourse or collateralized by certain real property assets, bear interest at rates ranging from 4.6% to 7.0% and have maturities through 2006. The principal plus accrued interest will be forgiven at various rates over three to four years from the employees' date of employment with us. If an employee leaves us, all unpaid and unforgiven principal and interest will be due and payable within 60 days.

As of December 31, 2002, we had outstanding loans aggregating $1.2 million to our stockholders. The loans were issued to enable certain employees to purchase

stock pursuant to their employee stock options. The loans bear interest at rates ranging from 6.13% to 6.50% and mature at various times through February 2004.

Recent Accounting Pronouncements

We implemented SFAS 142 on January 1, 2002. This accounting standard requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis. Accordingly, we completed a transitional impairment test during the first quarter of 2002, which did not result in impairment of recorded goodwill. We adopted an annual goodwill impairment test date as of the beginning of the fourth quarter of 2002. Following this approach, we completed the annual impairment test as of October 1, 2002, which did not result in impairment of recorded goodwill. We will continue to monitor asset-carrying values as of October 1, assess if there is a potential impairment and complete the measurement of impairment, if required. We will perform the impairment measurement procedures under SFAS No. 142 if it is determined that a potential impairment of goodwill exists.

We adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144") on January 1, 2002 . SFAS 144 supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"). The primary objectives of SFAS 144 were to develop one accounting model based on the framework established in SFAS 121 for long-lived assets to be disposed of by sale and to address significant implementation issues. The adoption of SFAS 144 did not have a material impact on our financial position or results of operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), which addresses accounting for restructuring, discontinued operations, plant closing or other exit or disposal activity. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002, although earlier adoption is permitted. We adopted SFAS 146 in the fourth quarter of 2002, with no significant impact on our financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. At December 31, 2002, and 2001, we had investments in debt securities of approximately $213.8 million and $223.2 million, respectively. Our investments are subject to interest rate risk, and our interest income may fluctuate due to changes in U.S. interest rates. By policy, we limit our investments to money market instruments, debt securities of U.S. government agencies and debt obligations of U.S. corporations. We manage market risk by our diversification requirements, which limit the amount of our portfolio that can be invested in a single issuer. We manage credit risk by limiting our purchases to high-quality issuers. Through our money managers, we maintain risk management control systems to monitor interest rate risk. The risk management control systems use analytical techniques, including sensitivity analysis. At December 31, 2002, and 2001, we had long-term debt outstanding of approximately $65.3 million and $41.8 million, respectively. Our payment commitments associated with these debt instruments are fixed during the corresponding terms and are comprised of interest payments, principal payments, or a combination thereof. The fair value of our long-term debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest, and declining in periods of increasing rates of interest.

We have estimated the estimated effects on our interest rate sensitive assets and liabilities based on a one percentage point hypothetical increase or decrease in interest rates as of December 31, 2002 and 2001. As of December 31, 2002, a decrease in the interest rates of one percentage point would have a net adverse change in the fair value of interest rate sensitive assets and liabilities of approximately $1.6 million. As of December 31, 2001, an increase in the interest rates of one percentage point would have a net adverse change in the fair value of interest rate sensitive assets and liabilities of approximately $0.1 million. It is assumed the changes occur immediately and uniformly to each category of instrument containing interest rate risks. Significant variations in market interest rates could produce changes in the timing of repayments due to available prepayment options. The fair value of such instruments could be affected and, therefore, actual results might differ from our estimate.

We are exposed to foreign currency exchange rate fluctuations related to the operations of our German subsidiaries. The revenues and expenses of our German subsidiaries are denominated in Euro. At the end of each reporting period, the revenues and expenses of these subsidiaries are translated into U.S. dollars using the average currency rate in effect for the period, and assets and liabilities are translated into U.S. dollars using the exchange rate in effect at the end of the period. Fluctuations in exchange rates, therefore, impact our financial condition and results of operations as reported in U.S. dollars.

In February 2002, we commenced using derivative financial instruments to reduce our exposure to foreign currency exchange rate movements on our consolidated operating results. As of December 31, 2002, we had outstanding an aggregate notional amount of $5.8 million of written foreign currency put option contracts and a notional amount of $2.9 million of purchased foreign currency call option contracts denominated in Euro. Both the put and call option contracts have an average exercise price of $1.0289 and expire no later than October 10, 2003. The fair value of these contracts at December 31, 2002 was approximately $119,000, which is reflected on the balance sheet as an asset. Our hedging strategy is designed such that any potential losses on these instruments will be materially offset in earnings by a reduction in Euro denominated costs for our German operations. We cannot give any assurance that our hedging strategies will be effective or that transaction losses can be minimized or forecasted accurately.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

EXELIXIS, INC.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Exelixis, Inc.

We have audited the accompanying consolidated balance sheets of Exelixis, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Exelixis, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles

generally accepted in the United States.

As discussed in Note 6 of the notes to consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets.

/s/ Ernst & Young LLP

Palo Alto, California
January 31, 2003

REPORT OF PRICEWATERHOUSECOOPERS LLP, INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Exelixis, Inc.

In our opinion, the accompanying consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Exelixis, Inc. and its subsidiaries at December 31, 2000, and the results of their operations and their cash flows for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 2, 2001

EXELIXIS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 84,522	$ 35,584
Short-term investments	131,704	192,116
Other receivables	3,325	4,026
Other current assets	3,841	2,873
Total current assets	223,392	234,599
Restricted cash	5,761	-
Property and equipment, net	32,406	36,500
Related-party receivables	904	937
Goodwill	67,364	62,357
Other intangibles, net	4,802	7,126
Other assets	4,484	5,095
Total assets	$ 339,113	$ 346,614
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,717	$ 4,996
Other accrued expenses	7,167	4,744
Accrued bonus	2,504	2,366
Accrued benefits	2,556	3,731

Obligation assumed to exit certain activities of Genomica	825	2,919
Accrued merger and acquisition costs	-	2,217
Current portion of capital lease obligations	6,840	5,947
Current portion of notes payable and bank obligations	1,840	1,200
Deferred revenue	23,790	12,237
Total current liabilities	50,239	40,357
Capital lease obligations	6,280	11,144
Notes payable and bank obligations	3,973	652
Convertible promissory note and loan	55,000	30,000
Acquisition liability	-	6,871
Other long-term liabilities	119	-
Deferred revenue	47,582	20,370
Total liabilities	163,193	109,394
Commitments		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized and no shares issued	-	-
Common stock, $0.001 par value; 100,000,000 shares authorized; issued and outstanding: 59,386,500 and 56,150,142 shares at December 31, 2002 and 2001, respectively	59	56
Additional paid-in-capital	463,764	444,229
Notes receivable from stockholders	(1,210)	(2,205)
Deferred stock compensation, net	(977)	(4,137)
Accumulated other comprehensive income	1,638	501
Accumulated deficit	(287,354)	(201,224)
Total stockholders' equity	175,920	237,220
Total liabilities and stockholders' equity	$ 339,113	$ 346,614

<FN>
The accompanying notes are an integral part of these consolidated financial statements.

EXELIXIS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2002	2001	2000
Revenues:			
Contract and government grants	$ 34,981	$ 33,518	$ 20,983
License	9,341	7,488	3,776
Total revenues	44,322	41,006	24,759
Operating expenses:			
Research and development (1)	112,014	82,700	51,685
Selling, general and administrative (2)	18,758	19,166	15,678
Acquired in-process research and development	-	6,673	38,117
Impairment of goodwill	-	2,689	-
Amortization of goodwill and intangibles	666	5,092	260
Restructuring charge	708	-	-
Total operating expenses	132,146	116,320	105,740
Loss from operations	(87,824)	(75,314)	(80,981)
Other income (expense):			
Interest income	5,916	6,316	6,225
Interest expense	(2,885)	(2,186)	(679)
Other income (expense), net	259	(2)	23
Total other income (expense)	3,290	4,128	5,569
Minority interest in consolidated subsidiary net loss	-	-	101

Net loss from continuing operations before income tax	(84,534)	(71,186)	(75,311)
Provision for income taxes	345	-	-
Net loss from continuing operations	(84,879)	(71,186)	(75,311)
Loss from operations of discontinued segment- Genomica Corporation (including loss on sale of $795)	(1,251)	-	-
Net loss	$(86,130)	$(71,186)	$(75,311)
Loss per share from continuing operations	$ (1.50)	$ (1.53)	$ (2.43)
Loss per share from discontinued operations	(0.02)	-	-
Net loss per share, basic and diluted	$ (1.52)	$ (1.53)	$ (2.43)
Shares used in computing basic and diluted net loss per share	56,615	46,485	31,031

<FN>

(1) Includes stock compensation expense of $1,559, $5,004 and $9,433 in 2002, 2001 and 2000, respectively.

(2) Includes stock compensation expense of $898, $2,360 and $4,589 in 2002, 2001 and 2000, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

EXELIXIS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share data)

	Common Stock Shares	Amount	Additional Paid-in Capital	Notes Receivable From Stockholders	Deferred Stock Compensation
Balance at December 31, 1999	6,258,805	$ 6	$ 19,523	$ (240)	$ (14,167)
Issuance of common stock under warrants and company stock plans, net of repurchases	4,928,299	5	3,782	(1,862)	-
Repayment of notes from stockholders for the exercise of stock options	-	-	-	297	-
Issuance of common stock, net of offering costs	10,465,000	10	124,514	-	-
Issuance of common stock for acquisition	1,721,776	2	92,235	-	-
Conversion of preferred stock	22,877,656	23	46,757	-	-
Conversion of promissory note	480,769	1	7,499	-	-
Deferred stock compensation	-	-	10,029	-	(10,029)
Amortization of deferred stock compensation	-	-	-	-	14,022
Comprehensive loss:					
Net loss	-	-	-	-	-
Unrealized gain on available-for-sale securities	-	-	-	-	-
Comprehensive loss					
Balance at December 31, 2000	46,732,305	47	304,339	(1,805)	(10,174)
Issuance of common stock under warrants and company stock plans, net of repurchases	708,205	-	4,890	-	-
Notes receivable from stockholders, net of repayments	-	-	-	(400)	-
Issuance of common stock, BMS collaboration	600,600	1	9,999	-	-
Issuance of common stock for acquisition	8,109,032	8	123,672	-	-
Variable compensation	-	-	1,761	-	-
Amortization of deferred stock compensation, net of terminations	-	-	(432)	-	6,037
Comprehensive loss:					
Net loss	-	-	-	-	-
Change in unrealized gain on available-for-sale securities	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Comprehensive loss					
Balance at December 31, 2001	56,150,142	56	444,229	(2,205)	(4,137)
Issuance of common stock under company stock plans, net of repurchases	487,905	-	2,764	-	-
Notes receivable from stockholders, net of repayments	-	-	-	995	-
Issuance of common stock, GSK collaboration	2,000,000	2	6,798	-	-
Issuance of common stock for acquisition	748,453	1	10,676	-	-
Amortization of deferred stock compensation, net of terminations	-	-	(703)	-	3,160
Comprehensive loss:					

Net loss	-	-	-	-	-
Change in unrealized gain on available-for-sale securities	-	-	-	-	-
Change in unrealized gain on derivative instruments	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Comprehensive loss					
Balance at December 31, 2002	59,386,500	$ 59	$ 463,764	$ (1,210)	$ (977)

	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance at December 31, 1999	$ (54,727)	$ -	$ (49,605)
Issuance of common stock under warrants and company stock plans, net of repurchases	-	-	1,925
Repayment of notes from stockholders for the exercise of stock options	-	-	297
Issuance of common stock, net of offering costs	-	-	124,524
Issuance of common stock for acquisition	-	-	92,237
Conversion of preferred stock	-	-	46,780
Conversion of promissory note	-	-	7,500
Deferred stock compensation	-	-	-
Amortization of deferred stock compensation	-	-	14,022
Comprehensive loss:			
Net loss	(75,311)	-	(75,311)
Unrealized gain on available-for-sale securities	-	365	365
Comprehensive loss			(74,946)
Balance at December 31, 2000	(130,038)	365	162,734
Issuance of common stock under warrants and company stock plans, net of repurchases	-	-	4,890
Notes receivable from stockholders, net of repayments	-	-	(400)
Issuance of common stock, BMS collaboration	-	-	10,000
Issuance of common stock for acquisition	-	-	123,680
Variable compensation	-	-	1,761
Amortization of deferred stock compensation, net of terminations	-	-	5,605
Comprehensive loss:			
Net loss	(71,186)	-	(71,186)
Change in unrealized gain on available-for-sale securities	-	236	236
Cumulative translation adjustment	-	(100)	(100)
Comprehensive loss			(71,050)
Balance at December 31, 2001	(201,224)	501	237,220
Issuance of common stock under company stock plans, net of repurchases	-	-	2,764
Notes receivable from stockholders, net of repayments	-	-	995
Issuance of common stock, GSK collaboration	-	-	6,800
Issuance of common stock for acquisition	-	-	10,677
Amortization of deferred stock compensation, net of terminations	-	-	2,457
Comprehensive loss:			
Net loss	(86,130)	-	(86,130)
Change in unrealized gain on available-for-sale securities	-	305	305
Change in unrealized gain on derivative instruments	-	119	119
Cumulative translation adjustment	-	713	713
Comprehensive loss			(84,993)
Balance at December 31, 2002	$ (287,354)	$ 1,638	$ 175,920

<FN>

The accompanying notes are an integral part of these consolidated financial statements.

EXELIXIS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net loss	$ (86,130)	$ (71,186)	$ (75,311)

Adjustments to reconcile net loss to net cash used in operating activities:			
Loss from discontinued operations	795	-	-
Depreciation and amortization	16,036	10,116	4,575
Stock compensation expense	2,457	7,364	14,022
Amortization of goodwill and intangibles	666	5,092	260
Impairment of goodwill	-	2,689	-
Acquired in-process research and development	-	6,673	38,117
Other	409	(23)	(101)
Changes in assets and liabilities:			
Other receivables	604	(75)	(1,043)
Other current assets	(734)	(1,689)	(2,206)
Related-party receivables	33	(454)	125
Other assets	(329)	(3,150)	(1,053)
Accounts payable and other accrued expenses	643	2,816	240
Obligation assumed to exit certain activities of Genomica Corporation	(2,212)	-	-
Accrued merger and acquisition costs	(1,810)	-	-
Other long-term liabilities	(117)	-	(104)
Deferred revenue	38,765	18,059	9,612
Net cash used in operating activities	(30,924)	(23,768)	(12,867)
Cash flows provided by (used in) investing activities:			
Cash acquired in acquisition	-	8,560	265
Purchases of property and equipment	(5,851)	(9,094)	(15,386)
Change in restricted cash	(5,761)	-	-
Proceeds from sale-leaseback of equipment	-	268	9,816
Proceeds from maturities of short-term investments	174,424	147,143	44,689
Proceeds from sale of investment before maturity	31,885	9,372	-
Purchases of short-term investments	(147,889)	(150,844)	(135,821)
Net cash provided by (used in) investing activities	46,808	5,405	(96,437)
Cash flows from financing activities:			
Proceeds from the issuance of common stock, net of offering costs	6,800	10,000	124,524
Proceeds from exercise of stock options and warrants, net of repurchases	33	555	427
Proceeds from convertible notes	25,000	30,000	-
Proceeds from employee stock purchase plan	2,322	2,372	980
Repayment of notes from stockholders	995	296	297
Principal payments on capital lease obligations	(6,427)	(4,519)	(1,212)
Proceeds from bank obligations	5,658	-	-
Principal payments on notes payable and bank obligations	(1,748)	(4,349)	(1,560)
Net cash provided by financing activities	32,633	34,355	123,456
Effect of foreign exchange rates on cash and cash equivalents	421	40	-
Net increase in cash and cash equivalents	48,938	16,032	14,152
Cash and cash equivalents, at beginning of year	35,584	19,552	5,400
Cash and cash equivalents, at end of year	$ 84,522	$ 35,584	$ 19,552
Supplemental cash flow disclosure:			
Property and equipment acquired under capital leases	$ 2,456	$ 11,175	$ 10,415
Cash paid for interest	2,798	1,041	679

<FN>
The accompanying notes are an integral part of these consolidated financial statements.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Exelixis, Inc. ("Exelixis" or the "Company") is a biotechnology company whose primary mission is to develop proprietary human therapeutics by leveraging its integrated discovery platform to increase the speed, efficiency and quality of pharmaceutical product discovery and development. The Company uses comparative genomics and model system genetics to find new drug targets that Exelixis believes would be difficult or impossible to uncover using other experimental approaches. The Company's research is designed to identify novel genes and proteins expressed by those genes, that, when changed, either decrease or increase the activity in a specific disease pathway in a therapeutically relevant manner. These genes and proteins represent either potential product targets or drugs that may treat disease or prevent disease initiation or progression. The Company's most advanced proprietary pharmaceutical program focuses on drug discovery and development of small molecules in cancer. While the Company's proprietary programs focus on drug discovery and development, Exelixis believes that its proprietary technologies are valuable to other industries whose products can be enhanced by an understanding of DNA or proteins, including the agrochemical, agricultural and diagnostic industries.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The Company records its minority ownership interests in Genoptera LLC and Agrinomics LLC using the equity method of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash, Cash Equivalents, Short-Term Investments and Restricted Cash

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company invests its excess cash in high-grade, short-term commercial paper and money market funds, which invest in United States ("U.S.") Treasury securities that are subject to minimal credit and market risk.

All short-term investments are classified as available-for-sale and therefore carried at fair value. The Company views its available-for-sale portfolio as available for use in current operations. Accordingly, the Company has classified all investments as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date. Available-for-sale securities are stated at fair value based upon quoted market prices of the securities. Unrealized gains and losses on such securities, when material, are reported as a separate component of stockholders' equity. Realized gains and losses, net, on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

The following summarizes available-for-sale securities included in cash and cash equivalents, short-term investments and restricted cash (in thousands):

	December 31,	
	2002	2001
Money market funds	$ 45,724	$ 3,823
Commercial paper	42,112	27,306
U.S. corporate bonds	82,211	157,000
Government debt	21,938	13,016
Market auction securities	27,555	22,100
Total	$219,540	$223,245
As reported:		
Cash equivalents	$ 82,075	$ 31,129
Short-term investments	131,704	192,116
Restricted cash	5,761	-
Total	$219,540	$223,245

The following is a reconciliation of cash and cash equivalents:

	December 31,	
	2002	2001
Cash equivalents	$82,075	$31,129
Cash	2,447	4,455

	$84,522	$35,584

Net unrealized gains were $906,000 and $601,000 as of December 31, 2002 and 2001, respectively. Gross unrealized gains and losses have not been shown separately as they were immaterial. Realized gains amounted to $65,000 in 2002, $84,000 in 2001 and none in 2000.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, generally three to seven years. Leasehold improvements are amortized over the shorter of their estimated useful life or the remaining term of the lease. Equipment held under capital lease is stated at the lower of the cost of the related asset or the present value of the minimum lease payments and is amortized on a straight-line basis over the estimated useful life of the related asset. Repairs and maintenance costs are charged to expense as incurred.

Intangible Assets

Intangible assets have been amortized using the straight-line method over the following estimated useful lives:

Developed technology	3 - 5 years
Patents/core technology	15 years
Assembled workforce (2001 and prior)	3 years
Goodwill (2001 and prior)	15 years

Beginning in 2002, the Company has applied the new rules of accounting for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Accordingly, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized and are subject to annual impairment tests.

Long-lived Assets

The Company accounts for its long-lived assets under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") adopted on January 1, 2002. SFAS 144 supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"). SFAS 144 retains the requirements of SFAS 121 to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows. During 2001, there was an impairment of goodwill under SFAS 121 related to the Genomica purchase as detailed in Note 2 of the Notes to Consolidated Financial Statements.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined on the basis of the difference between the income tax bases of assets and liabilities and their respective financial reporting amounts at enacted tax rates in effect for the periods in which the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Fair Value of Financial Instruments

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents and short-term investments approximate fair value due to their short maturities. Based on borrowing rates currently available to the Company for loans and capital lease obligations with similar terms, the carrying value of the Company's debt obligations approximates fair value.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and investments in marketable securities. Cash equivalents and marketable securities consist of money market funds, taxable commercial paper, corporate bonds with high credit quality, U.S. government agency obligations and auction rate securities. All cash, cash equivalents and marketable securities are

maintained with financial institutions that management believes are creditworthy. Accounts receivable are typically unsecured and are concentrated in the pharmaceutical and biotechnology industries. Accordingly, the Company may be exposed to credit risk generally associated with pharmaceutical and biotechnology companies. The Company has had no bad debt since inception.

For the year ended December 31, 2002, revenue from two of the Company's collaborators represented approximately 39% and 25% of total revenue, respectively. For the year ended December 31, 2001, revenue from three of the Company's collaborators represented approximately 32%, 31% and 15% of total revenue, respectively. For the year ended December 31, 2000, revenue from two of the Company's collaborators represented approximately 53% and 36% of total revenue, respectively.

Revenue Recognition

License, research commitment and other non-refundable payments received in connection with research collaboration agreements are deferred and recognized on a straight-line basis over the relevant periods specified in the agreements, generally the research term. Contract research revenues are recognized as services are performed pursuant to the terms of the agreements. Any amounts received in advance of performance are recorded as deferred revenue. Payments are not refundable if research is not successful.

Milestone payments are non-refundable and recognized as revenue over the period of the research arrangement. This typically results in a portion of the milestone being recognized at the date the milestone is achieved, and the balance being recognized over the remaining research term of the agreement.

Revenues from chemistry collaborations are generally recognized upon the delivery of accepted compounds.

Research and Development Expenses

Research and development costs are expensed as incurred and include costs associated with research performed pursuant to collaborative agreements. Research and development costs consist of direct and indirect internal costs related to specific projects as well as fees paid to other entities that conduct certain research activities on behalf of the Company.

Derivative Financial Instruments

The Company manages exposures to the changes in foreign currency exchange rates for its foreign operations through a program of risk management adopted in 2002 that includes the use of derivative financial instruments. The Company utilizes derivative financial instruments solely to hedge identified exposures and by policy prohibits the use of derivative instruments for speculative or trading purposes. The Company's derivative financial instruments are recorded at fair value and are included in other current assets or accrued expenses.

The Company enters into foreign currency exchange combination option contracts denominated in European Union Euro ("Euro") to minimize the effect of foreign exchange rate movements on the cash flows related to the Company's payments to one of its German subsidiaries for services provided by the subsidiary. The Company has designated these derivatives as foreign currency cash flow hedges. The effective portion of the gain or loss on the derivative instrument is reported as a separate component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction impacts earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any, is recognized in other income or expense in current earnings in each reporting period.

If a cash flow hedge were to be discontinued because it is probable that the original hedged transaction will not occur as anticipated, the unrealized gains or losses would be reclassified into earnings. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated or is sold.

During the year ended December 31, 2002, the Company did not recognize any gain or loss related to the ineffective portion of the hedging instruments and reclassified a gain of $227,000 from other comprehensive income into earnings under the caption, "Research and development expense." As of December 31, 2002, the Company expects to reclassify $119,000 of net gains on derivative instruments from accumulated other comprehensive income to earnings over the

next 12 months as a result of the payment of foreign currency to its German subsidiaries.

Net Loss Per Share

Basic and diluted net loss per share are computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period adjusted for shares that are subject to repurchase. The calculation of diluted net loss per share excludes potential common stock because their effect is antidilutive. Potential common stock consists of common stock subject to repurchase, incremental common shares issuable upon the exercise of stock options and warrants and shares issuable upon conversion of the convertible promissory note.

The following table sets forth potential shares of common stock that are not included in the computation of diluted net loss per share because to do so would be antidilutive for the periods indicated:

	Year Ended December 31,		
	2002	2001	2000
Preferred stock	-	-	6,599,324
Options to purchase common stock	9,005,171	5,198,676	2,187,836
Common stock subject to repurchase	751,054	1,793,627	3,596,114
Conversion of note and loan	6,740,464	783,504	588,942
Warrants	257,053	485,218	524,397
	16,753,742	8,261,025	13,496,613

Foreign Currency Translation

Exelixis' subsidiaries located in Germany operate primarily using local functional currency. Accordingly, all assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income.

Stock-based Compensation

The Company has employee and director stock option plans that are more fully described in Note 10 of the Notes to Consolidated Financial Statements. The Company recognizes employee stock-based compensation under the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion 25 ("APB 25"), "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no compensation expense is recognized in the Company's financial statements for the stock options granted to employees, which had an exercise price equal to the fair value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS 148") (in thousands, except per share amounts):

	Year Ended December 31,		
	2002	2001	2000
Net loss:			
As reported	$ (86,130)	$(71,186)	$(75,311)
Add: Stock-based employee compensation expense included in reported net loss	2,076	5,857	11,023
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards	(21,346)	(18,246)	(11,336)
Pro forma	$(105,400)	$(83,575)	$(75,624)

Net loss per share (basic and diluted):			
As reported	$ (1.52)	$ (1.53)	$ (2.43)
Pro forma	$ (1.86)	$ (1.80)	$ (2.44)

Since options vest over several years and additional option grants are expected to be made in future years, the pro forma impact on the results of operations for the three years ended December 31, 2002 is not representative of the pro forma effects on the results of operations for future periods.

For grants made in 2002 and 2001, the fair value of each option grant was determined using the Black-Scholes option pricing model with the following assumptions: volatility of 90% and 88%, respectively; 0% dividend yield; risk-free interest rate of 3.55% and 4.16%, respectively; and expected lives of four years. For grants made in 2000 prior to the initial public offering, the minimum value method was used with the following assumptions: 0% dividend yield; risk-free interest rate of 6.51%; and expected lives of five years. For grants made in 2000, subsequent to the initial public offering, the fair value of each option grant was determined using the Black-Scholes option pricing model with the following assumptions: volatility of 87%; 0% dividend yield; risk-free interest rate of 5.70%; and expected lives of four years. The fair value for shares purchased pursuant to the ESPP was determined using the Black-Scholes option pricing model with the following assumptions: volatility of 90%, 88% and 87% for 2002, 2001 and 2000, respectively; 0% dividend yield; risk-free interest rate of 1.99%, 5.74% and 6.08% for 2002, 2001 and 2000, respectively; and expected lives of six months.

The Company accounts for stock options issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with, Selling Goods or Services" ("EITF 96-18"). Compensation expense for stock options granted to non-employees has been determined as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured and is periodically re-measured as the underlying options vest.

Comprehensive Income

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities, unrealized gains and losses on cash flow hedges and cumulative translation adjustments. Comprehensive income (loss) for the years ended December 31, 2002, 2001 and 2000 are as follows (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Net loss	$(86,130)	$(71,186)	$(75,311)
Less: Gains reazlied on available-for-sale securities	(65)	(84)	-
Increase in unrealized gains on available-for-sale securities	370	320	365
Increase in unrealized gains on cash flow hedges	119	-	-
Increase (decrease) in cumulative translation adjustment	713	(100)	-
Comprehensive loss	$(84,993)	$(71,050)	$(74,946)

The components of accumulated other comprehensive income are as follows (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Unrealized gains on available-for-sale securities	$ 906	$ 601	$ 365
Unrealized gains on cash flow hedges	119	-	-
Cumulative translation adjustment	613	(100)	-

Accumulated other comprehensive income	$ 1,638	$ 501	$ 365

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 ACQUISITIONS

Genomica Corporation

On November 19, 2001, Exelixis and Genomica Corporation ("Genomica"), a bio-informatics software company, announced a definitive agreement pursuant to which Exelixis would acquire Genomica in a stock-for-stock transaction valued at $110.0 million. The transaction was structured as an offer for 100% of Genomica's outstanding common stock to be followed by a merger of Genomica with a wholly-owned subsidiary of Exelixis. On December 28, 2001, Exelixis accepted for payment 22,911,969 shares of Genomica common stock, or 93.94% of the total number of outstanding shares of common stock of Genomica. On January 8, 2002, the merger of Genomica was completed. Upon effectiveness of the merger, Genomica became a wholly-owned subsidiary of Exelixis. The transaction, which was accounted for under the purchase method of accounting in 2001, was effected through the exchange of 0.28309 of a share of Exelixis common stock for each outstanding share of Genomica common stock. A total of approximately 6.9 million shares of Exelixis common stock were issued for all of the outstanding shares of Genomica common stock.

The total consideration for the acquisition was approximately $110.0 million, which consisted of Exelixis common stock valued at $108.9 million and estimated Exelixis transaction costs of $1.1 million. As of December 31, 2001, Exelixis had issued only 93.94% of the total consideration; accordingly, the Company recorded the value of the remaining 6.06%, or $6.9 million, as a long-term liability.

The purchase price for Genomica was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition, as determined by management based on an independent valuation. As a result of this transaction, Exelixis recorded net tangible assets of $106.2 million (including cash and investments of $109.6 million), developed technology of $400,000, which would be amortized over three years, and goodwill of $3.4 million. At the same time, Exelixis recorded goodwill impairment charge of $2.7 million, which was expensed in 2001 to operations. The impairment of goodwill was calculated in accordance with SFAS 121 by estimating the present value of future cash flows for the ongoing Genomica licensing business using a risk adjusted discount rate. The goodwill impairment charge represented excess purchase price that Exelixis viewed as economically equivalent to financing costs for the acquired cash and investments. Information regarding goodwill is described in further detail in Note 6 of the Notes to Consolidated Financial Statements.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

	December 28, 2001
Cash, investments and interest receivable	$ 111,302
Other tangible assets (liabilities), net	(5,037)
Goodwill	3,382
Developed technologies	400
Net assets acquired	$ 110,047

Prior to the December 28, 2001 acquisition date, Exelixis adopted an exit plan for Genomica. Under this exit plan, the Company terminated Genomica's entire workforce and abandoned its leased facilities in Boulder, Colorado and Sacramento, California. The estimated costs of the exit plan amounted to $2.9 million and were included as part of the liabilities assumed in the acquisition.

As of December 31, 2002, the remaining actions to be taken under the exit plan consisted primarily of residual payments related to the lease obligation for the facility in Boulder, Colorado, which are expected to continue until the termination of the lease in 2005, unless the facility is subleased earlier.

The activity impacting the exit plan accrual during the year ended December 31, 2002, including changes in estimates made by management based on available information, is summarized in the table below (in thousands):

	Balance at December 31, 2001	Cash Payments	Change in Reserve Estimate	Assumed by Visualize	Balance at December 31, 2002
Severance and benefits	$ 1,216	(1,493)	277	-	$ -
Lease abandonment	1,703	(719)	17	(176)	825
Total exit costs	$ 2,919	(2,212)	294	(176)	$ 825

In April 2002, Exelixis transferred the Genomica software business to Visualize, Inc. ("Visualize") for future consideration of up to $2.4 million in license fees and royalty payments. Pursuant to the terms of the transaction, Visualize obtained a license with all rights and obligations to third parties currently licensing the Genomica software, including the sole right to further develop and license the software to other third parties. Royalties that Exelixis receives, if any, will be recorded in the period they are earned as a gain from discontinued operations. In addition, Visualize assumed the lease obligation for Genomica's abandoned facility in Sacramento, California. Exelixis retains an internal use license for the software. As a result of this transaction, the Company reported the operating results of Genomica and the estimated loss on the sale of Genomica as discontinued operations. For the period beginning January 1, 2002 to Genomica's disposal in April 2002, Genomica's operating results consisted of revenues of approximately $58,000 and an operating loss of approximately $456,000. The loss on the sale of Genomica includes the write-off of remaining goodwill of approximately $971,000, partially offset by the reversal of Genomica's lease obligation for the Sacramento facility assumed by Visualize of approximately $176,000.

Artemis Pharmaceuticals GmbH

In May 2001, the Company acquired a majority of the outstanding capital stock of Artemis Pharmaceuticals GmbH ("Artemis"), a privately held genetics and functional genomics company organized under the laws of Germany. The transaction, which was accounted for under the purchase method of accounting, was effected through the exchange of shares of Exelixis common stock for Deutschmark 1.00 of nominal value of Artemis capital stock, using an exchange ratio of 4.064 to one. Approximately 1.6 million shares of Exelixis common stock were issued in exchange for 78% of the outstanding capital stock of Artemis held by Artemis stockholders. In addition, Exelixis received a call option (the "Call Option") from, and issued a put option (the "Put Option") to, certain stockholders of Artemis (the "Option Holders") for the issuance of approximately 460,000 shares of Exelixis common stock in exchange for the remaining 22% of the outstanding capital stock of Artemis held by the Option Holders. Exelixis could exercise the Call Option at any time from May 14, 2001 through January 31, 2002, and the Option Holders could exercise their rights under the Put Option at any time from April 1, 2002 through May 15, 2002. Exelixis exercised the Call Option for 131,674 shares and 329,591 shares in December 2001 and January 2002, respectively, which resulted in an increase to goodwill of approximately $1.9 million and $4.0 million, respectively. In addition, Exelixis issued fully vested rights to purchase approximately 187,000 additional shares of Exelixis common stock to Artemis employees in exchange for such employees' vested options formerly representing the right to purchase shares of Artemis capital stock pursuant to the Artemis employee option program.

As of December 31, 2002, the total consideration for the acquisition was approximately $28.2 million, which consisted of Exelixis common stock and options valued at $27.3 million and estimated Exelixis transaction costs of $900,000. Exelixis' transaction costs include financial advisory, legal, accounting and other fees.

The total purchase price, which for financial accounting purposes was valued at $28.2 million, was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition, as determined by management based upon an independent valuation. As a result of this transaction, Exelixis recorded expense associated with the purchase of in-process research and development of $6.7 million, net tangible assets of $2.8 million and intangible assets (including goodwill) of $18.7 million, the majority of which was being amortized over 15 years until December 31, 2001.

The valuation of the purchased in-process research and development of $6.7 million was based upon the results of an independent valuation using the income approach for each of the three significant in-process projects. The in-process projects relate primarily to the development of technologies that use vertebrate genetic model organisms, zebrafish and mice, to identify and functionally validate novel genes in vivo. These genes can be used as novel screening targets or as the basis for secreted proteins in clinically and commercially relevant diseases. The in-process projects have been abandoned or are expected to be completed over approximately the next two years. The income approach estimates the value of each acquired in-process project based on its expected future cash flows. The valuation analysis considered the contribution of the core technology as well as the percent complete of each in-process research and development project. The expected present value of the cash flows associated with the in-process research and development projects was computed using a risk adjusted rate of return of 30%, which is considered commensurate with the overall risk and percent complete of the in-process projects. The purchased in-process research and development was not considered to have reached technological feasibility, and it has no alternative future use, and accordingly, it was recorded as a component of operating expense.

The revenues, expenses, cash flows and other assumptions underlying the estimated fair value of the acquired in-process research and development involve significant risks and uncertainties. The risks and uncertainties associated with completing the acquired in-process projects include the ability to reach future research milestones since the technologies being developed are unproven, the ability to retain key personal, the ability to obtain licenses to key technology and the ability to avoid infringing on patents and propriety rights of third parties.

Agritope, Inc.

In December 2000, Exelixis completed its acquisition of Agritope, Inc. ("Agritope"). As a result of the acquisition, Agritope became a wholly-owned subsidiary of Exelixis, and was subsequently renamed Exelixis Plant Sciences, Inc. ("Exelixis Plant Sciences"). The transaction, which was accounted for under the purchase method of accounting, was effected through the exchange of 0.35 of a share of Exelixis common stock for each outstanding share of Agritope capital stock. Approximately 1.7 million shares of Exelixis common stock were issued in connection with the transaction. In addition, unexpired and unexercised options and warrants to purchase shares of Agritope capital stock were assumed by Exelixis pursuant to the transaction and converted into fully vested options and warrants to purchase approximately 880,000 shares of Exelixis common stock.

The total consideration for the acquisition was approximately $93.5 million, which consists of Exelixis common stock, options and warrants valued at $92.2 million and estimated Exelixis transaction costs of $1.3 million. Exelixis' transaction costs include financial advisory, legal, accounting and other fees.

The purchase price for Agritope, which for financial accounting purposes was valued at $93.5 million, was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition, as determined by an independent valuation. As a result of this transaction, Exelixis recorded expense associated with the purchase of in-process research and development of $38.1 million, net tangible liabilities of $3.6 million and intangible assets (including goodwill) of $58.9 million, the majority of which was being amortized over 15 years until December 31, 2001.

The valuation of the purchased in-process research and development of $38.1 million was based upon the results of an independent valuation using the income approach for each of the ten projects in process. The in-process projects relate primarily to the development of disease and insect resistant fruits and vegetables and have been abandoned or are expected to be completed over approximately the next three and one-half years. The income approach estimates the value of each acquired in-process project based on its expected future cash flows. The valuation analysis considered the contribution of the core technology

as well as the percent complete of each in-process research and development project. The expected present value of the cash flows associated with the in-process research and development projects was computed using a risk adjusted rate of return of 35%, which is considered commensurate with the overall risk and percent complete of the in-process projects. The purchased technology was not considered to have reached technological feasibility, and it has no alternative future use, and accordingly, it was recorded as a component operating expense.

The revenues, expenses, cash flows and other assumptions underlying the estimated fair value of the acquired in-process research and development involve significant risks and uncertainties. The risks and uncertainties associated with completing the acquired in-process projects include obtaining the necessary regulatory approvals in a timely manner and being able to successfully and profitably produce, distribute and sell products.

The Company acquired Vinifera, Inc. ("Vinifera") in connection with the purchase of Agritope (the parent company of Vinifera) in 2000. Vinifera was organized as a majority-owned subsidiary and was engaged in the grape vine propagation business. On the date of acquisition, Exelixis committed to a plan to sell the Vinifera operations because this business did not fit with the strategic objectives of the Company. On March 31, 2001, the Company reduced its ownership interest in Vinifera from 57% to 19% by selling 3.0 million shares of Vinifera common stock back to Vinifera in consideration for $2.1 million in interest bearing promissory notes. As a result of the sale of Vinifera common stock back to Vinifera, Exelixis deconsolidated Vinifera, excluded its share of Vinifera's operating losses for the first quarter of 2001 of $275,000 and recorded the following amounts as an adjustment to goodwill recorded in connection with the acquisition of Agritope: a write-down of the value of acquired developed technology attributable to Vinifera of $435,000, a gain on sale of Vinifera shares of $590,000 and a promissory note reserve of $1,700,000. The net adjustment was an increase to goodwill in the amount of $675,000. Beginning April 1, 2001, the Company accounted for its remaining investment in Vinifera using the cost method.

As of December 31, 2001, the Company reserved for 100% of these promissory notes due to risks associated with collection. Due to a significant decline in the operating performance of Vinifera, in December 2001, the Company wrote down its remaining cost-basis investment in Vinifera to zero. Vinifera ceased operations in 2002.

In connection with the Agritope acquisition, Exelixis also acquired interests in Agrinomics LLC ("Agrinomics"), which is a 50% owned subsidiary that conducts a gene discovery program, and Superior Tomato Associates, LLC ("Superior Tomato"), which was a 66-2/3% owned subsidiary formed to develop and market longer-lasting tomatoes. The Company dissolved Superior Tomato during 2001, which resulted in no material impact to its financial results. Agrinomics continues in existence.

Pro Forma Results

The Company's audited historical statements of operations include the results of Genomica, Artemis and Agritope subsequent to the acquisition dates of December 28, 2001, May 14, 2001 and December 8, 2000, respectively. The following pro forma financial information for the years ended December 31, 2001 and 2000 presents the consolidated results of the Company as if the acquisition of Genomica, Artemis and Agritope had occurred at the beginning of 2000. The $4.3 million restructuring charge that Genomica recorded in October 2001 is included in the following pro-forma information since this charge was not related to the acquisition. All other non-recurring charges relating to the acquisitions, such as acquired in-process research and development charge and impairment of goodwill charge, are not reflected in the following pro forma financial information. This pro forma information is not intended to be indicative of future operating results (in thousands, except per share data):

	Year Ended December 31,	
	2001	2000
Total revenues	$ 42,858	$ 31,207
Net loss	(93,734)	(97,355)
Net loss per share, basic and diluted	(1.74)	(2.04)

NOTE 3 RESEARCH AND COLLABORATION AGREEMENTS

Bayer

In May 1998, the Company entered into a six-year research collaboration agreement with Bayer AG (including its affiliates, "Bayer") to identify novel screening targets for the development of new pesticides for use in crop protection. The Company provided research services directed towards identifying and investigating molecular targets in insects and nematodes that may be useful in developing and commercializing pesticide products. The Company received a $1.2 million license fee upon execution of the agreement that was deferred and will be recognized as revenue over the term of the agreement.

In December 1999, the Company significantly expanded its relationship with Bayer by forming a joint venture in the form of a new limited liability company, Genoptera LLC ("Genoptera"). Under the terms of the Genoptera operating agreement, Bayer provides 100% of the capital necessary to fund the operations of Genoptera and has the ability to control the entity with a 60% ownership interest. The Company owns the other 40% interest in Genoptera without making any capital contribution and reports its investment in Genoptera using the equity method of accounting. Bayer's initial capital contributions to Genoptera were $10.0 million in January 2000 and another $10.0 million in January 2001. Bayer is required to also contribute cash to Genoptera in amounts necessary to fund its ongoing operating expenses. Genoptera has incurred losses since inception. Since the carrying value of this investment is zero and there is no obligation to fund future losses, Exelixis has not recorded equity method losses to date for Genoptera.

In January 2000, the Company, Bayer and Genoptera entered into an exclusive eight-year research collaboration agreement, which superceded the 1998 agreement discussed above. The Company is required to provide Genoptera with expanded research services focused on developing insecticides and nematicides for crop protection. Under the terms of the collaboration agreement, Genoptera paid the Company a $10.0 million license fee and a $10.0 million research commitment fee. One-half of these fees were received in January 2000, and the remaining amounts were received in January 2001. Additionally, Genoptera is required to pay the Company approximately $10.0 million in annual research funding. The Company can earn additional payments under the collaboration agreement upon the achievement of certain milestones. The Company can also earn royalties on the future sale by Bayer of pesticide products incorporating compounds developed against targets and assays under the agreement. The agreement also provides Bayer an exclusive royalty-free option to use certain technology developed under the agreement in the development of fungicides and herbicides. To the extent permitted under the collaboration agreement, if the Company were to develop and sell certain human health or agrochemical products that incorporate compounds developed under the agreement, it would be obligated to pay royalties to Genoptera. No such activities are expected for the foreseeable future.

Bristol-Myers Squibb

In September 1999, the Company entered into a three-year research and technology transfer agreement with Bristol-Myers Squibb Company ("Bristol-Myers Squibb" or "BMS") to identify the mechanism of action ("MOA") of compounds delivered to the Company by BMS. In July 2002, the agreement was extended for an additional two years. BMS agreed to pay the Company a $250,000 technology access fee, which is being recognized as revenue over the term of the agreement. Under the terms of the agreement, the Company is entitled to receive research funding ranging from $1.3 million in the first year up to as much as $2.5 million annually in future years. The Company can also earn additional amounts under the agreement upon the achievement of certain milestones as well as earn royalties on the future sale by BMS of human products incorporating compounds developed under the agreement. The agreement also includes technology transfer and licensing terms, which call for BMS and the Company to license and share certain core technologies in genomics and lead optimization.

In July 2001, the Company and BMS entered into a collaboration involving three agreements: (a) a Stock Purchase Agreement; (b) a Cancer Collaboration Agreement; and (c) a License Agreement. Under the terms of the collaboration, BMS (i) purchased 600,600 shares of Exelixis common stock in a private placement at a purchase price of $33.30 per share, for cash proceeds to Exelixis of approximately $20.0 million; (ii) agreed to pay Exelixis a $5.0 million upfront license fee and provide Exelixis with $3.0 million per year in research funding for a minimum of three years; and (iii) granted to Exelixis a worldwide, fully-paid, exclusive license to an analogue to Rebeccamycin developed by BMS,

which is currently in Phase I and Phase II clinical trials for cancer. Due to risk and uncertainties with Rebeccamycin, and because the analogue had not reached technological feasibility and has no alternative use, the analogue was assigned no value for financial reporting purposes. Exelixis has agreed to provide BMS with exclusive rights to certain potential small molecule compound drug targets in cancer identified during the term of the research collaboration. The premium in excess of fair market value of $10.0 million paid for the common stock purchased by BMS is being accounted for similar to an upfront license fee and is being recognized ratably over the life of the contract.

SmithKlineBeecham Corporation

In October 2002, Exelixis and SmithKlineBeecham Corporation ("GSK") established a collaboration to discover and develop novel therapeutics in the areas of vascular biology, inflammatory disease and oncology. The collaboration involved three agreements: (a) a Product Development and Commercialization Agreement; (b) a Stock Purchase and Stock Issuance Agreement; and (c) a Loan and Security Agreement. Under the terms of the Product Development and Commercialization Agreement, GSK has paid the Company $30.0 million in an upfront fee and $10.0 million in annual research funding, and has agreed to pay a minimum of an additional $80.0 million in research and development funding over the first six years of the collaboration.

Under the terms of the Stock Purchase and Stock Issuance Agreement, GSK purchased two million shares of Exelixis' common stock in a private placement at a purchase price of $7.00 per share, which represented a premium of approximately 100% to the stock price on the effective date of the agreements. The Company received cash proceeds of approximately $14.0 million for the purchase of these shares. Exelixis has the option to sell additional common shares to GSK in the future.

Under the Loan and Security Agreement, GSK provided a loan facility of up to $85.0 million for use in the Company's efforts under the collaboration, and the Company borrowed $25.0 million under that agreement in December 2002. All loan amounts bear interest at a rate of 4% per annum and are secured by the intellectual property, technology and equipment created or utilized pursuant to the collaboration. Principal and accrued interest become due in installments, beginning on or about the sixth anniversary of the collaboration, unless the collaboration is earlier terminated by GSK. Repayment of all or any of the amounts advanced to the Company under this agreement may, at the Company's election, be in the form of Exelixis' common stock, subject to certain conditions.

The upfront fee and the premium portion of the equity purchase have been deferred and will be recognized as revenue over the development term. Exelixis may also receive clinical and developmental payments based on the number and timing of compounds reaching specified milestones. Based on the continued successful development of these compounds, these payments could range from $219.0 million to $369.0 million, through the compounds' commercialization. Two years from the start of the collaboration, GSK and Exelixis may elect to expand the collaboration, and under this option, Exelixis' milestone payments could double, and the development funding and the loan facility would also be significantly expanded.

Dow AgroSciences

In July 2000, the Company entered into a three-year research collaboration with Dow AgroSciences LLC ("Dow AgroSciences") to identify the MOA of herbicides and fungicides delivered to it under this agreement. The identity and function of these compounds are not known to the Company prior to their delivery.

Under this agreement, the Company receives access to a collection of proprietary compounds from Dow AgroSciences that may be useful in the Company's human therapeutic drug discovery programs.

The Company is required to identify and validate targets and format assays to be used by Dow AgroSciences to develop new classes of fungicides and herbicides. Dow AgroSciences will pay the Company research support fees, milestone payments and royalties based on achievements in the research and commercialization of any resultant new products.

Protein Design Labs

On May 22, 2001, the Company and Protein Design Labs, Inc. ("PDL") entered into a collaboration to discover and develop humanized antibodies for the diagnosis,

prevention and treatment of cancer. The collaboration will utilize Exelixis' model organism genetics technology for the identification of new cancer drug targets and PDL's antibody and clinical development expertise to create and develop new antibody drug candidates. PDL is required to provide Exelixis with $4.0 million in annual research funding until June 2003 and has purchased a $30.0 million convertible note. The note bears interest at 5.75%, and the interest thereon is payable annually. The note is convertible at PDL's option any time after the first anniversary of the note's issuance. The note is convertible into Exelixis common stock at a conversion price per share equal to the lower of (i) $28.175 or (ii) 110% of the Fair Market Value (as defined in the note) of a share of Exelixis common stock at the time of conversion.

Agrinomics

In July 1999, Agritope and Aventis CropScience USA. LP ("Aventis CropScience," now Bayer CropScience LP, "Bayer CropScience") formed Agrinomics LLC to conduct a research, development and commercialization program in the field of agricultural functional genomics. As a result of the Company's acquisition of Agritope, the Company owns a 50% interest in Agrinomics, while Bayer CropScience owns the remaining 50% interest. Bayer CropScience has agreed to make capital contributions to Agrinomics in cash totaling $20.0 million over a five-year period, of which $3.0 million and $4.0 million were contributed in 2002 and 2000, respectively. There were no capital contributions made by Bayer CropScience to Agrinomics in 2001. Agritope contributed certain technology and a collection of seeds generated using such technology. In connection with the Company's acquisition of Agritope, no portion of the purchase price was assigned to Agrinomics. Although the Company is required to account for its investment in Agrinomics under the equity method, the Company does not expect to include in its consolidated financial statements its proportionate share of the losses of Agrinomics until such time, if ever, that the Company makes a capital contribution to Agrinomics. There is no requirement for the Company to make capital contributions to Agrinomics.

In December 2002, Agrinomics established an alliance to enhance seed oil content in commercially valuable crops with Renessen LLC. Renessen is a joint venture between Monsanto Company and Cargill, Inc. The collaboration combines Agrinomics' technological leadership in agricultural functional genomics, high-throughput gene screening and seed trait identification, developed at Exelixis Plant Sciences, with Renessen's global expertise in quality trait crop development and commercialization, with the goal of accelerating the development of novel proprietary crops with improved seed composition traits. This collaboration leverages the unique capabilities of Agrinomics' powerful ACTTAG gene activation and selection platform to rapidly discover and validate genes that can optimize important seed traits in order to increase the commercial value of many of the world's most significant agricultural crops. Under the terms of the collaboration, Renessen will provide Agrinomics with committed annual research funding ranging from $1.3 million in the first year up to as much as $2.0 million annually in future years, in addition to payments for the selection of genes and other product options. Agrinomics can also earn additional amounts under the agreement upon the achievement of certain milestones, as well as royalties on commercialized products that may emerge from the collaboration. In addition, Renessen will contribute research and product development capabilities in taking gene candidates identified by Agrinomics into crop products that include leading commercial germplasm.

Pharmacia

In February 1999, the Company entered into a research collaboration agreement with Pharmacia Corporation ("Pharmacia") focused on the identification of novel targets that may be useful in the development of pharmaceutical products in the areas of Alzheimer's disease and metabolic syndrome. Pharmacia agreed to pay the Company a $5.0 million non-refundable license fee, which was being recognized as revenue over the term of the agreement. Under the terms of the agreement, as expanded and amended in October 1999, the Company also received an obligation from Pharmacia to provide future research funding. In July 2001, the Company announced the reacquisition, effective February 2002, of future rights to the research programs. Pharmacia retained rights to targets under the existing agreement selected prior to the reacquisition date, subject to the payment of milestones for certain of those targets selected and royalties for future development of products against or using those targets. Pharmacia will have no other obligations to make payments to the Company, including approximately $9.0 million in annual funding that would have otherwise been payable for an additional two years if the Company had not elected to reacquire rights to the research. As a result of this transaction, revenue recognition of upfront license fees and milestone payments was accelerated over the remaining term of

the agreement.

In connection with entering into the February 1999 agreement, Pharmacia also purchased 1,875,000 shares of Exelixis Series D preferred stock at $3.00 per share, resulting in net cash proceeds to the Company of $7.5 million. Further, Pharmacia loaned the Company $7.5 million in exchange for a non-interest bearing convertible promissory note. The convertible promissory note was converted into an aggregate of 480,769 shares of common stock of the Company in July 2000.

Compound Collaborations

The Company entered into collaboration agreements with Cytokinetics, Inc., Elan Pharmaceuticals, Inc., Schering-Plough Research Institute, Inc. and Scios Inc. in 2001 and Merck & Co., Inc. in 2002, to jointly design custom high-throughput screening compound libraries that Exelixis will synthesize and qualify. Each company is required to pay Exelixis a per-compound fee and has paid an upfront technology access fee that is creditable towards the future purchase of compounds. The upfront fees are initially deferred. Revenues under these collaboration agreements will generally be recognized upon delivery of the accepted compounds. Each party retains the rights to use the compounds in its own unique drug discovery programs and in its collaborative efforts with third parties.

NOTE 4 RELATED PARTY TRANSACTIONS

The Company had outstanding loans aggregating $904,000 and $937,000 to certain officers and employees at December 31, 2002 and 2001, respectively. The notes are general recourse or collateralized by certain real property assets, bear interest at rates ranging from 4.6% to 7.0% and have maturities through 2006. The principal plus accrued interest will be forgiven at various rates over three to four years from the employees' date of employment with Exelixis. If an employee leaves Exelixis, all unpaid and unforgiven principal and interest will be due and payable within 60 days.

As of December 31, 2002, the Company also had outstanding loans aggregating $1.2 million to its stockholders. The loans were issued to enable certain non-officer employees to purchase stock pursuant to their employee stock options. The loans bear interest at rates ranging from 6.13% to 6.50% and mature at various times through February 2004.

For the years ended, December 31, 2002, 2001 and 2000, the Company recognized revenues of $13.6 million, $13.1 million and $13.2 million, respectively, under a collaboration agreement with Bayer through the Company's joint venture with Genoptera.

For the years ended, December 31, 2001 and 2000, the Company recognized revenues of $3.8 million and $237,000, respectively, under a collaboration agreement with Aventis CropScience through the Company's joint venture with Agrinomics. During 2002, Bayer completed the acquisition of Aventis S.A., including Aventis CropScience. As a result, Bayer assumed Aventis' 50% ownership of Agrinomics. The Company recognized revenues of $3.8 million under the Agrinomics joint venture for the year ended, December 31, 2002.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31,	
	2002	2001
Laboratory equipment	$ 31,998	$ 24,884
Computer equipment and software	12,508	13,163
Furniture and fixtures	4,994	4,570
Leasehold improvements	15,810	15,410
Construction-in-progress	239	423
	65,549	58,450
Less accumulated depreciation and amortization	(33,143)	(21,950)
	$ 32,406	$ 36,500

Depreciation and amortization expense for the years ended December 31, 2002, 2001 and 2000 included amortization of $6.5 million, $4.6 million and $1.1 million, respectively, related to equipment under capital leases. Accumulated amortization for equipment under capital leases was $14.4 million, $7.9 million and $3.3 million at December 31, 2002, 2001 and 2000, respectively. The equipment under the capital leases collateralizes the related lease obligations.

NOTE 6 GOODWILL AND OTHER ACQUIRED INTANGIBLES

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which addresses the financial accounting and reporting standards for goodwill and other intangible assets subsequent to their acquisition. This accounting standard requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis.

In accordance with SFAS 142, the Company discontinued the amortization of goodwill effective January 1, 2002. In addition, the Company re-characterized any unamortized acquired assembled workforce as goodwill because it is no longer defined as an acquired intangible asset under SFAS No. 141, "Business Combinations". Accordingly, no goodwill or acquired workforce amortization was recognized during the year ended December 31, 2002. The provisions of SFAS 142 also required the completion of a transitional impairment test within 12 months of adoption, with any impairment treated as a cumulative effect of change in accounting principle. During the first quarter of 2002, the Company completed the transitional impairment test, which did not result in impairment of recorded goodwill.

The Company adopted an annual goodwill impairment test date as of the beginning of the fourth quarter of 2002. Following this approach, the Company will monitor asset-carrying values as of October 1, assess if there is a potential impairment and complete the measurement of impairment, if required. The Company will perform the impairment measurement procedures under SFAS 142 if it determines that a potential impairment of goodwill exists.

The Company completed the annual impairment test as of October 1, 2002, which did not result in impairment of recorded goodwill.

A reconciliation of previously reported net loss and net loss per share to the amounts adjusted for the exclusion of goodwill and assembled workforce amortization follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2002	2001	2000
Reported net loss	$ (86,130)	$ (71,186)	$ (75,311)
Add: Goodwill amortization	-	4,053	219
Assembled workforce amortization	-	592	20
Adjusted net loss	$ (86,130)	$ (66,541)	$ (75,072)
Net loss per share, basic and diluted	$ (1.52)	$ (1.53)	$ (2.43)
Add: Goodwill amortization	-	0.09	0.01
Assembled workforce amortization	-	0.01	0.00
Adjusted net loss per share, basic and diluted	$ (1.52)	$ (1.43)	$ (2.42)

Changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows (in thousands):

Balance as of December 31, 2001	$62,357
Reclassification of intangible asset - assembled workforce	1,658
Exercise of Artemis call option	4,042
Write-off of goodwill	(971)
Other	278
Balance as of December 31, 2002	$67,364

The components of the Company's other acquisition-related intangible assets are as follows (in thousands):

	December 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$ 1,640	$ (536)	$ 1,104
Patents/core technology	4,269	(571)	3,698
Total	$ 5,909	$ (1,107)	$ 4,802

	December 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$ 1,640	$ (156)	$ 1,484
Patents/core technology	4,269	(285)	3,984
Assembled workforce	2,270	(612)	1,658
Total	$ 8,179	$ (1,053)	$ 7,126

Amortization expense related to the other acquisition-related intangible assets was $666,000, $448,000 and $21,000 for the years ended December 31, 2002, 2001 and 2000, respectively. The expected future annual amortization expense of the other acquisition-related intangible assets is as follows (in thousands):

Year Ending December 31,	Amortization Expense
2003	666
2004	666
2005	533
2006	377
2007	285
Thereafter	2,275
Total expected future amortization	$ 4,802

NOTE 7 RESTRUCTURING CHARGE

In November 2002, the Company implemented a restructuring plan. This restructuring plan was designed to facilitate the Company's evolution into a fully integrated drug discovery company by reallocating resources to permit greater focus on building the Company's expanding portfolio of development programs. The restructuring resulted in a reduction in workforce of 40 employees, primarily from the Company's U.S. research operations. Accordingly, the Company has recorded a restructuring charge in the fourth quarter of 2002 of $708,000, consisting primarily of involuntary termination benefits. As of December 31, 2002, substantially all amounts under the restructuring have been paid.

NOTE 8 DEBT

Under the Loan and Security Agreement executed in connection with the GSK collaboration, GSK provided a loan facility of up to $85.0 million for use in the Company's efforts under the collaboration. The Company borrowed $25.0 million under that agreement in December 2002. All loan amounts bear interest at a rate of 4% per annum and are secured by the intellectual property, technology and equipment created or utilized pursuant to the collaboration. Principal and

accrued interest become due in installments, beginning on or about the sixth anniversary of the collaboration, unless the collaboration is earlier terminated by GSK. Repayment of all or any of the amounts advanced to the Company under this agreement may, at the Company's election, be in the form of Exelixis' common stock, subject to certain conditions.

In May 2002, the Company entered into a loan and security agreement with a bank for an equipment line of credit of up to $16.0 million with a drawdown period of one year. Each draw on the line of credit has a payment term of 48 months and bears interest at the bank's published prime rate (4.25% at December 31, 2002). At December 31, 2002, approximately $5.1 million was outstanding under the line of credit, and $10.9 million remained available on the line of credit. Pursuant to the terms of the line of credit, the Company is required to maintain a first priority security interest in the form of a deposit or securities account at the bank equal to 110% of the outstanding obligation under the line of credit. This collateral account is managed in accordance with the Company's investment policy and is restricted as to withdrawal. As of December 31, 2002, the collateral account had a cash balance of approximately $5.8 million, and the Company recorded this amount in the balance sheet as restricted cash.

In connection with the acquisition of Artemis in May 2001, the Company assumed a loan agreement with the Federal Republic of Germany. The $254,000 loan, all of which is outstanding at December 31, 2002, requires the entire principal to be paid in one payment in January of 2004. The loan has an interest rate of 1% per annum to be paid quarterly.

In May 2001, the Company issued a $30.0 million convertible promissory note to PDL in connection with a collaboration agreement (see Note 3). The note bears interest at 5.75%, payable annually. The note, which matures in July 2006, is convertible at PDL's option any time after the first anniversary of the note. The note is convertible into Exelixis common stock at a conversion price per share equal to the lower of (i) $28.175 or (ii) 110% of the Fair Market Value (as defined in the note) of a share of Exelixis common stock at the time of conversion. The full amount of the note remained outstanding as of December 31, 2002 and 2001.

In connection with the acquisition of MetaXen in September 1999, the Company assumed a loan agreement that provided for the financing of equipment purchases. Borrowings under the agreement are collateralized by the assets financed and are subject to repayment over 36 to 48 months, depending on the type of asset financed. Borrowings under the agreement bear interest at the U.S. Treasury note rate plus a number of basis points determined by the type of asset financed. As of December 31, 2001, there was approximately $143,000 outstanding under this loan agreement, which was paid in full during the year ended December 31, 2002.

In July 1998, the Company entered into a $5.0 million equipment and tenant improvements lending agreement of which the drawdown period expired in January 2000. As of December 31, 2002 and 2001, there was approximately $426,000 and $1.5 million, respectively, outstanding under the lending agreement. Borrowings under the agreement have a payment term of 42 months, bear interest at 14.5% per year and are collateralized by the financed equipment.

Aggregate future principal payments of the convertible promissory note, notes payable and bank obligations at December 31, 2002 are as follows (in thousands):

Year Ending December 31,	
2003	$ 1,840
2004	1,682
2005	1,415
2006	30,876
2007	-
Thereafter	25,000
	60,813
Less current portion	(1,840)
	$ 58,973

NOTE 9 COMMON STOCK AND WARRANTS

Initial Public Offering

On April 14, 2000, the Company completed an initial public offering in which it sold 9,100,000 shares of common stock at $13.00 per share for net cash proceeds of approximately $108.0 million, net of underwriting discounts, commissions and other offering costs. Upon the closing of the offering, all the Company's mandatorily redeemable convertible preferred stock converted into 22,877,656 shares of common stock. After the offering, the Company's authorized capital consisted of 100,000,000 shares of common stock, $0.001 par value, and 10,000,000 shares of preferred stock, $0.001 par value. On May 1, 2000, the underwriters exercised the over-allotment option to purchase an additional 1,365,000 shares, resulting in net cash proceeds of approximately $16.5 million.

Stock Repurchase Agreements

Under the terms of the Company's stock option plans, options are exercisable when granted, and, if exercised, the related shares are subject to repurchase upon termination of employment. Repurchase rights lapse over the vesting periods, which are generally four years. Should the employment of the holders of common stock subject to repurchase terminate prior to full vesting of the outstanding shares, the Company may repurchase all unvested shares at a price per share equal to the original exercise price. At December 31, 2002 and 2001, 378,471 and 1,253,226 shares, respectively, were subject to such repurchase terms.

Warrants

Historically, the Company has granted warrants to purchase shares of capital stock to certain preferred stockholders and third parties in connection with financing and operating lease arrangements. In addition, in connection with the Agritope acquisition (refer to Note 2), the Company assumed warrants to purchase 239,167 shares of Company common stock. All of the Agritope warrants expired unexercised on December 31, 2001.

At December 31, 2002, the following warrants to purchase common stock were outstanding and exercisable:

Number of Shares	Exercise Price per Share	Date Issued	Expiration Date
71,428	$ 1.13	January 24, 1996	April 14, 2005
106,875	$ 4.00	May 1, 1999	April 14, 2005
78,750	$ 13.00	April 1, 2000	April 14, 2005
257,053			

The Company determines the fair value of warrants issued using the Black-Scholes option pricing model. Prior to 1999, the fair value of warrants issued was not material, and accordingly, no value has been ascribed to them for financial reporting purposes.

The Company determined the fair value of the warrants issued during 1999, related to a building lease, using the Black-Scholes option pricing model with the following assumptions: expected life of five years; a weighted average risk-free interest rate of 6.1%; expected dividend yield of zero; volatility of 70%; and a deemed value of the common stock of $5.71 per share. The fair value of the warrants of $391,000 has been capitalized and is being amortized as rent expense over the term of the lease.

The Company determined the fair value of the warrants issued during 2000, related to a building lease, using the Black-Scholes option pricing model using the following assumptions: expected life of five years; a weighted average risk-free interest rate of 6.38%; expected dividend yield of zero; volatility of 70%; and a deemed value of the common stock of $11.00 per share. The fair value of the warrants of $518,000 has been capitalized and is being amortized as rent expense over the term of the lease.

Reserved Shares

At December 31, 2002, the Company had approximately 19.1 million shares of common stock reserved for future issuance related to its stock plans, 401(k) plan, convertible note and loan and the exercise of outstanding warrants.

NOTE 10 EMPLOYEE BENEFIT PLANS

Stock Based Benefit Plans

Stock Option Plans. In January 1995, the Company adopted the 1994 Employee, Director and Consultant Stock Option Plan ("1994 Plan"). The 1994 Plan provides for the issuance of incentive stock options, non-qualified stock options and stock purchase rights to key employees, directors, consultants and members of the Scientific Advisory Board ("SAB"). In September 1997, the Company adopted the 1997 Equity Incentive Plan ("1997 Plan"). The 1997 Plan amends and supercedes the 1994 Plan. In January 2000, the Company adopted the 2000 Equity Incentive Plan ("2000 Plan") to replace the 1997 Plan. A total of 3,000,000 shares of Exelixis common stock were initially authorized for issuance under the 2000 Plan. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: 5% of the Company's outstanding shares on a fully-diluted basis; or that number of shares subject to stock awards granted under the 2000 Plan during the prior 12-month period.

The Board of Directors or a designated Committee of the Board is responsible for administration of the Company's employee stock option plans and determines the term, exercise price and vesting terms of each option. Incentive stock options may be granted at an exercise price per share at least equal to the estimated fair value per underlying common share on the date of grant (not less than 110% of the estimated fair value in the case of holders of more than 10% of the Company's voting stock). Options granted under the 1997 and 2000 Plans are exercisable when granted and generally expire ten years from the date of grant (five years for incentive stock options granted to holders of more than 10% of the Company's voting stock).

In January 2000, the Company adopted the 2000 Non-Employees Directors' Stock Option Plan ("Director Plan"). The Director Plan provides for the automatic grant of options to purchase shares of common stock to non-employee directors. A total of 500,000 shares of the Company's common stock were initially authorized for issuance under the Director Plan. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: 0.75% of the Company's outstanding shares on a fully-diluted basis; or that number of shares subject to options granted under the Director Plan during the prior 12-month period. Each person who is a non-employee director will automatically receive an initial grant for 25,000 shares. The initial grant is exercisable immediately but will vest at the rate of 25% of the shares on the first anniversary of the grant date and monthly thereafter over the next three years. In addition, on the day after each annual meeting of the Exelixis stockholders, each non-employee director will automatically receive an annual grant for 5,000 shares. This annual grant is exercisable immediately but will vest monthly over the following year.

In connection with the acquisition of Agritope in December 2000, the Company assumed all the options granted and outstanding to consultants and employees under the Agritope, Inc. 1997 Stock Award Plan. Each outstanding Agritope stock option was converted into the right to purchase the number of shares of the Company's common stock as determined using the applicable exchange ratio of 0.35 (refer to Note 2). All other terms and conditions of the Agritope stock options did not change and such options will operate in accordance with their terms.

During April 2001, Exelixis granted approximately 545,000 supplemental stock options ("Supplemental Options") under the 2000 Equity Incentive Plan to certain employees (excluding officers and directors) who had stock options with exercise prices greater than $16.00 per share under the 2000 Equity Incentive Plan. The number of Supplemental Options granted was equal to 50% of the corresponding original grant held by each employee. The Supplemental Options have an exercise price of $16.00, vest monthly over a two-year period beginning April 1, 2001 and have a 27-month term. The vesting on the corresponding original stock options was halted and will resume in April 2003 following the completion of vesting of the Supplemental Options. This new grant constitutes a synthetic repricing as defined in Financial Accounting Standards Board Interpretation Number ("FIN") 44, "Accounting for Certain Transactions Involving Stock Compensation," and will result in certain options being reported using the variable plan method of accounting for stock compensation expense until they are exercised, forfeited or expire. For the years ended December 31, 2002 and 2001, the cumulative

compensation expense recorded for the Supplemental Options was approximately ($242,000) and $246,000, respectively.

A summary of all option activity is presented below:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 1999	4,466,527	$ 0.29
Granted	4,992,725	16.35
Exercised	(4,683,309)	0.53
Cancelled	(283,108)	3.62
Options outstanding at December 31, 2000	4,492,835	17.70
Granted	3,160,628	14.47
Exercised	(204,125)	2.75
Cancelled	(270,902)	19.92
Options outstanding at December 31, 2001	7,178,436	16.63
Granted	3,879,981	11.25
Exercised	(134,743)	0.77
Cancelled	(868,058)	18.48
Options outstanding at December 31, 2002	10,055,616	14.60

At December 31, 2002, a total of 1,306,559 shares were available for grant under the Company's stock option plans.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2002:

	Options Outstanding and Exercisable		
Exercise Price Range	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
0.01-$0.01	1,125	3.8	$ 0.01
0.27-$0.40	371,821	5.6	0.28
1.33-$1.33	52,572	7.0	1.33
3.35-$4.95	216,917	9.7	4.41
5.05-$7.53	415,953	8.2	6.55
7.75-$11.47	2,335,764	8.9	9.16
11.94-$16.99	4,826,752	7.5	15.20
18.80-$24.25	1,155,799	7.5	19.76
29.75-$40.50	633,413	7.6	36.71
45.00-$47.00	45,500	7.6	46.54
	10,055,616	7.8	14.60

At December 31, 2002, a total of 378,471 shares of common stock purchased under the 1994, 1997 and 2000 Plans were subject to repurchase by the Company at a weighted average price of $0.92 per share. The weighted-average grant date fair value of options granted during the years ended December 31, 2002, 2001 and 2000 was $7.38, $8.86 and $10.01 per share, respectively.

Deferred Stock Compensation. During the period from January 1, 1999 through December 31, 2002, the Company recorded $29.9 million of deferred stock compensation related to stock options granted to consultants and employees in accordance with APB 25, SFAS 123 and EITF 96-18. For options granted to consultants, the Company determined the fair value of the options using the Black-Scholes option pricing model with the following weighted-average

assumptions: (a) no dividends; (b) expected volatility of 88%, 87% and 79% for 2002, 2001 and 2000, respectively; (c) risk-free interest rate of 4.16% for 2002, 5.70% for 2001 and 5.75% for 2000; and (d) expected lives of five and ten years for 2002, ten years for 2001 and four years for 2000. Stock compensation expense is being recognized in accordance with FIN 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans," over the vesting periods of the related options, generally four years. The Company recognized stock compensation expense of $2.5 million, $7.4 million, $14.0 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Stock Purchase Plan. In January 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the "ESPP"). The ESPP allows for qualified employees (as defined in the ESPP) to purchase shares of the Company's common stock at a price equal to the lower of 85% of the closing price at the beginning of the offering period or 85% of the closing price at the end of each purchase period. The Company issued 388,770 shares, 224,780 shares and 88,683 shares of common stock during 2002, 2001 and 2000, respectively, pursuant to the ESPP at an average price per share of $5.97, $10.56 and $11.05, respectively. The weighted average per share fair value for shares purchased pursuant to the ESPP during 2002, 2001 and 2000 was $4.45, $6.60 and $5.08, respectively. A total of 300,000 shares of common stock were initially authorized for issuance under the ESPP. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: 0.75% of the Company's outstanding shares on a fully-diluted basis; or that number of shares subject to stock awards granted under the plan during the prior 12-month period.

401(k) Plan

The Company sponsors a 401(k) Retirement Plan whereby eligible employees may elect to contribute up to the lesser of 20% of their annual compensation or the statutorily prescribed annual limit allowable under Internal Revenue Service regulations. The 401(k) Plan permits the Company to make matching contributions on behalf of all participants. Beginning in 2002, the Company matched 50% of the first 4% of participant contributions into the 401(k) Plan in the form of Company stock. The Company expensed approximately $521,000 related to the stock match for the year ended December 31, 2002.

NOTE 11 INCOME TAXES

The Company has incurred net losses since inception and, consequently, has not recorded any U.S. federal or state income taxes. The Company has recorded a tax provision of approximately $345,000 for the year ended December 31, 2002 related to income earned in its foreign operations.

At December 31, 2002, the Company had federal and California net operating loss carryforwards of approximately $76.6 million and $36.7 million, respectively, which expire at various dates beginning in the year 2003. The Company also had federal and California research and development credit carryforwards of approximately $10.8 million in each jurisdiction, which expire at various dates beginning in the year 2010.

Under the Internal Revenue Code, certain substantial changes in the Company's ownership could result in an annual limitation on the amount of net operating loss carryforwards that can be utilized in future years to offset future taxable income. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Deferred tax assets and liabilities reflect the net tax effects of net operating loss and credit carryforwards and of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes.

The Company's deferred tax assets and liabilities consist of the following (in thousands):

	December 31,	
	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	$ 76,600	$ 36,700

Capitalized start-up and organizational costs, net	200	787
Tax credit carryforwards	10,770	5,070
Capitalized research and development costs	5,310	3,587
Deferred revenue	28,550	8,148
Other	2,640	1,562
Total deferred tax assets	124,070	55,854
Valuation allowance	(122,150)	(53,004)
Net deferred tax assets	$ 1,920	$ 2,850
Deferred tax liabilities:		
Purchased intangibles	(1,920)	(2,850)
Net deferred taxes	$ -	$ -

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $69.1 million, $8.9 million and $27.8 million during 2002, 2001 and 2000, respectively.

NOTE 12 COMMITMENTS

Leases

The Company leases office and research space and certain equipment under operating and capital leases that expire at various dates through the year 2017. Certain operating leases contain renewal provisions and require the Company to pay other expenses. Aggregate future minimum lease payments under operating and capital leases are as follows (in thousands):

Year Ending December 31,	Operating Leases	Capital Leases
2003	$ 11,408	$ 7,321
2004	12,221	4,899
2005	11,547	1,817
2006	10,548	66
2007	10,403	-
Thereafter	97,772	-
	$ 153,899	14,103
Less amount representing interest		(983)
Present value of minimum lease payments		13,120
Less current portion		(6,840)
Long-term portion		$ 6,280

Rent expense under noncancellable operating leases was approximately $7.6 million, $5.8 million and $3.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

In September 2000, the Company entered into a master lease agreement (the "Master Lease") with a third-party lessor for a secured equipment lease line of up to $13.1 million. The Master Lease provided for quarterly borrowings and expired in June 2001. Each quarterly borrowing has a 3.5 year repayment term. At December 31, 2002, $5.5 million was outstanding under the Master Lease. Under the Master Lease, the Company is subject to certain financial covenants. As of December 31, 2002, the Company was in compliance with these covenants. During 2000, the Company entered into an equipment sale-leaseback agreement under the Master Lease resulting in proceeds to the Company of approximately $9.8 million.

During April 2001, the Company entered into a master lease agreement with a third-party lessor for a secured equipment lease line of credit of up to $12.0 million, which expired on March 31, 2002. The master lease agreement provides

for a periodic delivery structure. Each delivery has a payment term of 36 or 48 months depending on the type of the equipment purchased under the lease. At December 31, 2002, $7.4 million was outstanding under the equipment lease line of credit. Under the master lease agreement, the Company is subject to certain financial covenants. As of December 31, 2002, the Company was in compliance with all such covenants.

Licensing Agreements

The Company has entered into several licensing agreements with various universities and institutions under which it obtained exclusive rights to certain patent, patent applications and other technology. Aggregate future payments pursuant to these agreements are as follows (in thousands):

Year Ending December 31,	
2003	$ 1,505
2004	1,016
2005	1,015
2006	1,015
2007	1,015
Thereafter	1,015
	$ 6,581

In addition to the payments summarized above, the Company is required to make royalty payments based upon a percentage of net sales of any products or services developed from certain of the licensed technologies and milestone payments upon the occurrence of certain events as defined by the related agreements. No such royalties or milestones have been paid through December 31, 2002.

Minimum Purchase Obligation

During November 2002, the Company entered into a manufacturing and supply agreement with BMS. BMS will manufacture bulk supply of the rebeccamycin analog for Exelixis. The Company placed an initial order totaling $1.2 million. This initial order may not be cancelled and the Company is obligated to pay the purchase price for that order. The parties agreed that the purchase price for the initial order would be paid in two equal installments on April 1, 2003 and July 1, 2003.

Indemnification Agreements

The Company has certain collaboration licensing agreements, which contain standard indemnification clauses. Such clauses typically indemnify the customer or vendor for an adverse judgment in a lawsuit in the event of the Company's misuse or negligence. The Company considers the likelihood of an adverse judgment related to an indemnification agreement to be remote. Furthermore, in the event of an adverse judgment, any losses under such an adverse judgment may be substantially offset by corporate insurance.

NOTE 13 QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables summarize the unaudited quarterly financial data for the last two fiscal years (in thousands, except per share data):

	Fiscal 2002 Quarter End			
	March 31,(1)	June 30,	September 30,	December 31,
Total revenues	$ 11,541	$ 9,897	$ 10,430	$ 12,454
Loss from operations	(19,491)	(24,416)	(22,976)	(20,941)
Net loss	(18,421)	(23,904)	(22,943)	(20,862)
Basic and diluted net loss per share	$ (0.33)	$ (0.43)	$ (0.41)	$ (0.36)

	Fiscal 2001 Quarter End			
	March 31,	June 30,(2)	September 30,	December 31,(3)

Total revenues	$ 7,734	$ 8,551	$ 11,928	$ 12,793
Loss from operations	(14,391)	(24,879)	(17,296)	(18,748)
Net loss	(12,719)	(23,708)	(16,490)	(18,269)
Basic and diluted net loss per share	$ (0.29)	$ (0.52)	$ (0.35)	$ (0.38)

(1) Amounts have been adjusted to reflect discontinued operations of Genomica.
(2) Includes a charge of $6.7 million relating to acquired in-process research and development recorded in connection with the acquisition of Artemis.
(3) Includes a charge of $2.8 million relating to impairment of goodwill recorded in connection with the acquisition of Genomica.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On December 14, 2001, the Company filed a Current Report on Form 8-K announcing the dismissal of PricewaterhouseCoopers LLP ("PwC") as the independent accountants of the Company and the appointment of Ernst & Young LLP as its independent auditors. The decision to change independent accountants was approved by the Audit Committee under authority granted by the Board of Directors of the Company.

The independent accountants' report on the Company's financial statements for the fiscal year ended December 31, 2000 did not contain an adverse opinion or disclaimer of opinion, nor was the report qualified or modified as to uncertainty, audit scope or accounting principles.

In connection with its audit for the fiscal year ended December 31, 2000 and through December 14, 2001, there were no disagreements as defined by Item 304 (a)(1)(iv) of Regulation S-K between the Company and PwC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PwC, would have caused PwC to make reference thereto in their reports on the financial statements for such years.

During the fiscal year ended December 31, 2000, and through December 14, 2001, there were no reportable events as that term is defined in Item 304 (a)(1)(v) of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item will be contained under the captions "Election of Class I Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Compensation" in Exelixis' definitive proxy statement with respect to our 2003 Annual Meeting of Stockholders to be filed with the SEC (the "Proxy Statement"), and is hereby incorporated by reference thereto.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item will be contained in the Proxy Statement under the caption "Executive Compensation," and is hereby incorporated by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item will be contained in the Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance Under Equity Compensation Plans," and is hereby incorporated by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item will be contained in the Proxy Statement under the caption "Certain Transactions," and is hereby incorporated by reference thereto.

ITEM 14. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Based on their evaluation as of a date within 90 days of the filing date of this report, our principal executive officer and principal financial officer have concluded that

Exelixis' disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are sufficiently effective to ensure that the information required to be disclosed by Exelixis in the reports that we file under the Exchange Act is gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness.

Changes in internal controls. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to above, nor were there any significant deficiencies or material weaknesses in Exelixis' internal controls. Accordingly, no corrective actions were required or undertaken.

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 control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are being filed as part of this report:

(1) The following financial statements of the Company and the Report of the Independent Auditors are included in Part II, Item 8:

	Page #
Report of Ernst & Young LLP, Independent Auditors	39
Report of PricewaterhouseCoopers LLP, Independent Accountants	40
Consolidated Balance Sheets	41
Consolidated Statements of Operations	42
Consolidated Statements of Stockholders' Equity (Deficit)	43
Consolidated Statements of Cash Flows	44
Notes to Consolidated Financial Statements	45

(2) All financial statement schedules are omitted because the information is inapplicable or presented in the Notes to Consolidated Financial Statements.

(3) The items listed on the Index to Exhibits on pages 72 through 75 are incorporated herein by reference.

(b) Reports on Form 8-K.

On October 28, 2002, the Company filed an Item 5 Current Report on Form 8-K announcing the signing of an alliance agreement with SmithKlineBeecham Corporation.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of South San Francisco, State of California, on March 6, 2003.

EXELIXIS, INC.

By: /s/ George A. Scangos, Ph.D.

George A. Scangos, Ph.D. President and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints GEORGE A. SCANGOS and GLEN Y. SATO, and each or any one of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place

and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report on Form 10-K has been signed by the following persons on behalf of the Registrant and of the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/George A. Scangos, Ph.D. George A. Scangos, Ph.D.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 6, 2003
/s/Glen Y. Sato Glen Y. Sato	Chief Financial Officer (Principal Financial/Accounting Officer)	March 6, 2003
/s/Stelios Papadopoulos, Ph.D. Stelios Papadopoulos, Ph.D.	Chairman of the Board of Directors	March 6, 2003
/s/Charles Cohen, Ph.D. Charles Cohen, Ph.D.	Director	March 6, 2003
/s/Geoffrey Duyk, M.D., Ph.D. Geoffrey Duyk, M.D., Ph.D.	Director	March 6, 2003
/s/Jason S. Fisherman, M.D. Jason S. Fisherman, M.D.	Director	March 6, 2003
/s/Jean Francois Formela, M.D. Jean-Francois Formela, M.D.	Director	March 6, 2003
/s/Vincent Marchesi, M.D., Ph.D. Vincent Marchesi, M.D., Ph.D.	Director	March 6, 2003
/s/Peter Stadler, Ph.D. Peter Stadler, Ph.D	Director	March 6, 2003
/s/Lance Willsey, M.D. Lance Willsey, M.D.	Director	March 6, 2003

CERTIFICATION

I, George A. Scangos, Ph.D., Chief Executive Officer of Exelixis, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Exelixis, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 6, 2003

/s/ George A. Scangos

George A. Scangos
President and Chief Executive Officer

CERTIFICATION

I, Glen Y. Sato, Chief Financial Officer of Exelixis, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Exelixis, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 6, 2003

/s/ Glen Y. Sato

Glen Y. Sato
Chief Financial Officer, Vice President of Legal Affairs and Secretary

INDEX TO EXHIBITS

<FN>

2.1	Agreement and Plan of Merger and Reorganization, dated September 7, 2000, by and among Exelixis, Inc., Athens Acquisition Corp. and Agritope, Inc. (1)
2.2	Share Exchange and Assignment Agreement, dated April 23, 2001, by and among Exelixis, Inc. and the Artemis stockholders named therein (2)
2.4	Agreement and Plan of Merger and Reorganization, dated as of November 19, 2001, by and among Exelixis, Inc., Bluegreen Acquisition Sub, Inc. and Genomica Corporation. (3)
2.5	Agreement of Merger, dated as of June 28, 2002, between Exelixis, Inc. and Genomica Corporation. (13)
3.1	Amended and Restated Certificate of Incorporation of Exelixis, Inc. (4)
3.2	Amended and Restated Bylaws of Exelixis, Inc. (4)
4.1	Specimen Common Stock Certificate. (4)
4.2	Fourth Amended and Restated Registration Rights Agreement, dated February 26, 1999 among Exelixis, Inc. and Certain Stockholders of Exelixis, Inc. (4)

4.3	Warrant, dated August 17, 1998, to purchase 125,796 post-split shares of Exelixis, Inc. Series A preferred stock in favor of Comdisco, Inc. (4)
4.4	Warrant, dated August 17, 1998, to purchase 15,365 post-split shares of Exelixis, Inc. Series A preferred stock in favor of Greg Stento. (4)
4.5	Warrant, dated January 24, 1996, to purchase 267,857 post-split shares of Exelixis, Inc. Series B convertible stock in favor of MMC/GATX Partnership No. 1. (4)
4.6	Warrant, dated September 25, 1997, to purchase 63,750 post-split shares of Exelixis, Inc. common stock in favor of MMC/GATX Partnership No. 1. (4)
4.7	Warrant, dated November 15, 1999, to purchase 9,000 post-split shares of Exelixis, Inc. common stock in favor of Bristow Investments, L.P. (4)
4.8	Warrant, dated November 15, 1999, to purchase 101,250 post-split shares of Exelixis, Inc. common stock in favor of Slough Estates USA, Inc. (4)
4.9	Warrant, dated November 15, 1999, to purchase 2,250 post-split shares of Exelixis, Inc. common stock in favor of Laurence and Magdalena Shushan Trust. (4)
4.10	Warrant, dated April 1, 2000, to purchase 70,875 shares of Exelixis, Inc. common stock in favor of Slough Estates USA, Inc. (5)
4.11	Warrant, dated April 1, 2000, to purchase 6,300 shares of Exelixis, Inc. common stock in favor of Bristow Investments, L.P. (5)
4.12	Warrant, dated April 1, 2000, to purchase 1,575 shares of Exelixis, Inc. common stock in favor of Laurence and Magdalena Shushan Family Trust. (5)
4.13	Form of Convertible Promissory Note, dated May 22, 2001 by and between Exelixis, Inc. and Protein Design Labs, Inc. (6)
4.14	Form of Note Purchase Agreement, dated May 22, 2001 by and between Exelixis, Inc. and Protein Design Labs, Inc. (6)
10.1	Form of Indemnity Agreement. (4)
10.2*	1994 Employee, Director and Consultant Stock Plan. (4)
10.3*	1997 Equity Incentive Plan. (4)
10.4*	2000 Equity Incentive Plan. (4)
10.5*	2000 Non-Employee Directors' Stock Option Plan. (4)
10.6*	2000 Employee Stock Purchase Plan. (4)
10.7	Agritope, Inc. 1997 Stock Award Plan. (7)
10.8**	Collaboration Agreement, dated December 16, 1999, between Exelixis, Inc., Bayer Corporation and Genoptera LLC. (4)
10.9**	Operating Agreement, dated December 15, 1999, between Exelixis, Inc., Bayer Corporation and Genoptera LLC. (4)
10.10	Cooperation Agreement, dated September 15, 1998, between Exelixis, Inc. and Artemis Pharmaceuticals GmbH. (4)
10.11	Sublease Agreement, dated June 1, 1997, between Arris Pharmaceutical Corporation and Exelixis, Inc. (4)
10.12	Lease, dated May 12, 1999, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc. (4)
10.13	First Amendment to Lease, dated March 29, 2000, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc. (5)

10.14 Master Lease Agreement, dated August 2, 2000, between Comdisco, Inc, and Exelixis, Inc. (8).

10.15 Addendum, dated as of August 31, 2000, to the Master Lease Agreement. (8)

10.16 Amendment No. 1 to the Master Lease Agreement, dated August 2, 2000, between Comdisco, Inc. and Exelixis, Inc. (8)

10.17 Purchase-Leaseback Agreement, dated August 2, 2000, between Comdisco, Inc. and Exelixis, Inc. (8)

10.18 Master Services Agreement, dated November 15, 1999, between Artemis Pharmaceuticals GmbH and Exelixis, Inc. (4)

10.19** Research Collaboration and Technological Transfer Agreement, dated September 14, 1999, between Bristol-Myers Squibb and Exelixis, Inc. (4)

10.20** Corporate Collaboration Agreement, dated February 26, 1999, between Pharmacia & Upjohn AB and Exelixis, Inc. (4)

10.21** Amendment to Corporate Collaboration Agreement, dated October, 1999, between Pharmacia & Upjohn AB and Exelixis, Inc. (4)

10.22** Mechanism of Action Collaboration Agreement, dated July 11, 2000 between Exelixis, Inc. and Dow AgroSciences LLC. (9)

10.23 Asset Purchase Agreement, dated July 11, 1999, between MetaXen/Xenova and Exelixis, Inc. (4)

10.24* Employment Agreement, dated September 13, 1996, between George Scangos, Ph.D. and Exelixis, Inc. (4)

10.25* Employment Agreement, dated April 14, 1997, between Geoffrey Duyk, M.D., Ph.D. and Exelixis, Inc. (4)

10.26* Employment Agreement, dated October 19, 1999, between Glen Y. Sato, Chief Financial Officer and Vice President, Legal Affairs and Exelixis, Inc. (4)

10.27 Master Lease Agreement, dated April 9, 2001, between GE Capital Corporation and Exelixis, Inc. (10)

10.28** Collaboration Agreement, dated May 22, 2001, by and between Exelixis, Inc. and Protein Design Labs, Inc. (6)

10.29 Form of Stock Purchase Agreement, dated as of July 17, 2001, by and between Exelixis, Inc. and Bristol-Myers Squibb Company. (15)

10.30** Cancer Collaboration Agreement, dated July 17, 2001, by and between Exelixis, Inc. and Bristol-Myers Squibb Company. (11)

10.31** License Agreement, dated July 17, 2001, by and between Exelixis, Inc. and Bristol-Myers Squibb Company. (11)

10.32 Sublease, dated March 8, 2002, by and between Tularik, Inc. and Exelixis, Inc. (12)

10.33 Sublease, dated April 12, 2002, by and between Toshiba America Medical Systems, Inc. and Exelixis, Inc. (13)

10.34 Loan and Security Agreement, dated May 22, 2002, by and between Silicon Valley Bank and Exelixis, Inc. (13)

10.35 Software License and Asset Acquisition Agreement, dated April 4, 2002, by and between Visualize, Inc. and Exelixis, Inc. (13)

10.36** Product Development and Commercialization Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (14)

10.37** Stock Purchase and Stock Issuance Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc.

(14)

10.38** Loan and Security Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (14)

10.39 Lease Amendment, dated November 7, 2002, by and between Pacific Realty Associates, L.P. and Exelixis, Inc.

10.40 Employment Agreement, dated January 4, 2002, between Robert Myers and Exelixis, Inc.

16.1 Letter from PricewaterhouseCoopers LLP regarding its concurrence with Exelixis, Inc.'s statement regarding change of accountants. (16)

21.1 Subsidiaries of Exelixis, Inc.

23.1 Consent of Ernst & Young LLP, Independent Auditors.

23.2 Consent of PricewaterhouseCoopers LLP, Independent Accountants.

24.1 Power of Attorney (contained on signature page).

99.1*** Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Management contract or compensatory plan.
** Confidential treatment granted for certain portions of this exhibit.
*** This certification accompanies this Annual Report on Form 10-K and shall not be deemed "filed" by Exelixis, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

1. Filed as Annex A to Exelixis, Inc.'s Registration Statement on Form S-4 (File No. 333-47710), filed with the Securities and Exchange Commission on October 11, 2000, and incorporated herein by reference.

2. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on May 15, 2001 and incorporated herein by reference.

3. Filed as an Annex A to Exelixis, Inc.'s Registration Statement on Form S-4 (File No. 333-74120), as filed with the Securities and Exchange Commission on November 29, 2001 and incorporated herein by reference.

4. Filed as an Exhibit to Exelixis, Inc.'s Registration Statement on Form S-1 (File No. 333-30978), as filed with the Securities and Exchange Commission on February 7, 2000, as amended, and incorporated herein by reference.

5. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, filed with the Securities Exchange Commission on May 15, 2000 and incorporated herein by reference.

6. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, as filed with the Securities and Exchange Commission on August 14, 2001 and incorporated herein by reference.

7. Filed as an Exhibit to Exelixis, Inc.'s Registration Statement on Form S-8 (File No. 333-52434), as filed with the Securities Exchange Commission on December 21, 2000 and incorporated herein by reference.

8. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, filed with the Securities Exchange Commission on November 14, 2000 and incorporated herein by reference.

9. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed with the Securities and Exchange Commission on August 14, 2000 and incorporated herein by reference.

10. Filed as a Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, filed with the Securities and Exchange Commission on May 15, 2001 and incorporated herein by reference.

11. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, filed with the Securities and

Exchange Commission on November 14, 2001 and incorporated herein by reference.

12. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, filed with the Securities and Exchange Commission on May 13, 2002 and incorporated herein by reference.

13. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the Securities and Exchange Commission on August 6, 2002 and incorporated herein by reference.

14. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, filed with the Securities and Exchange Commission on November 8, 2002 and incorporated herein by reference.

15. Filed as an Exhibit to Exelixis' Registration Statement on Form S-3 (File No. 333-68436), as filed with the Securities and Exchange Commission on August 27, 2001 and incorporated herein by reference.

16. Filed as an Exhibit to Exelixis' Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2001 and incorporated herein by reference.

Exhibit 10.39

LEASE AMENDMENT

DATED: MARCH 3, 2003

BETWEEN: PACIFIC REALTY ASSOCIATES, L.P.,
a Delaware limited partnership LANDLORD

AND: EXELIXIS PLANT SCIENCES, INC.,
a wholly owned subsidiary of Exelixis, Inc.,
a Delaware corporation TENANT

Pacific Realty Associates, L.P., a Delaware limited partnership, as Landlord, and American Show Management, Inc. as Original Tenant, entered into a written lease dated October 4, 1995, consisting of approximately 11,059 square feet of office and warehouse space located in Building C, PacTrust Business Center, 16160 S.W. Upper Boones Ferry Road, Portland, Oregon 97224. By Lease Amendment dated June 3, 1996, the Lease was amended. By Assignment and Modification of Lease, dated November 7, 1997, Original Tenant assigned the Lease to Agritope, Inc. By Lease Amendment dated September 9, 1999, Agritope, Inc. leased an additional approximately 6,801 square feet of office and warehouse space. Agritope, Inc.'s leased area now totals approximately 17,860 total square feet of office and warehouse space (hereinafter referred to as the "Premises"). By facsimile dated November 5, 2002, Agritope, Inc. notified Landlord that it had been acquired by Exelixis, Inc. effective December 8, 2000, and changed its name to Exelixis Plant Sciences, Inc., a wholly owned subsidiary of Exelixis, Inc. (hereinafter referred to as "Tenant"). Such documents are hereinafter jointly referred to as "the Lease." The Lease expires February 28, 2003.

Tenant now wishes to extend the term of the Lease.

NOW, THEREFORE, the parties agree as follows:

1. The term of the Lease shall be extended for an additional thirty-six (36) months commencing March 1, 2003 and continuing through February 28, 2006.

2. Commencing March 1, 2003 and continuing through the extended term, Tenant shall pay base rent according to the following schedule:

PERIOD	BASE RENT PER MONTH
March 1, 2003 through February 29, 2004	$16,610.00
March 1, 2004 through February 28, 2005	$17,146.00
March 1, 2005 through February 28, 2006	$17,681.00

3. Except as expressly modified hereby, all terms of the Lease shall remain in full force and effect and shall continue through the extended term.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the respective dates set opposite their signatures below, but this Agreement on behalf of such party shall be deemed to have been dated as of the date first above written.

LANDLORD:

PACIFIC REALTY ASSOCIATES, L.P.,
a Delaware limited partnership

By: PacTrust Realty, Inc.,
a Delaware corporation,
its General Partner

Date: November 14, 2002

By: /s/ Sam K. Briggs
Sam K. Briggs
Vice President

TENANT:

EXELIXIS PLANT SCIENCES, INC.,
a wholly owned subsidiary of Exelixis, Inc.,
a Delaware corporation

Date: November 14, 2002

By: /s/ Matthew G. Kramer
Name: Matthew G. Kramer
Title: General Manager

Exhibit 10.40

January 4, 2002

Dear Bob:

We are proud to invite you to join our team.

Our offer of employment is to join Exelixis, Inc. as Executive Vice President of Pharmaceuticals reporting directly to me.

Other terms of employment include:

Compensation: Your initial bi-monthly salary will be thirteen thousand five hundred forty one dollars and sixty-six cents ($13,541.66). Additionally, you will receive a sign-on bonus of fifty thousand dollars ($50,000) payable the first pay date after hire. Should you elect to voluntarily terminate employment with the Company within twelve (12) months of your hire date, the sign-on bonus will be entirely re-paid by you to the Company. This re-payment of the sign-on bonus shall occur within thirty (30) days of termination.

Loan: We will make available a loan to you in an amount up to two hundred thousand dollars ($200,000.00). The loan will have a term of four (4) years and bear interest at the lowest rate available for a loan of this term in effect as of the date of the loan published under the rules and regulations of the U.S. Treasury. Interest will accrue and be payable annually within five (5) days of each anniversary date. The principal on the loan will be subject to forgiveness as follows: (a) fifty percent of the outstanding loan balance or one hundred thousand dollars ($100,000) upon your second anniversary of full-time employment; and (b) twenty five percent of the initial loan balance or fifty thousand dollars ($50,000) upon your third anniversary of full-time employment; and (c) the remaining twenty five percent of the initial loan balance or fifty thousand dollars ($50,000) on your fourth anniversary of full-time employment provided that the loan has not otherwise been repaid or required to be repaid. All unpaid and unforgiven portions of the principal will be subject to repayment prior to maturity upon termination of your employment prior to your fourth anniversary date. All forgiven amounts will be subject to withholding and reported on your Form W-2 in the year of forgiveness.

Performance Review: Your performance will be formally reviewed no less than annually you will be eligible to receive an incentive bonus of up to thirty percent (35%) of your annual salary based on achievement of key milestones.

Benefits: All full-time employees of Exelixis, Inc. enjoy a generous benefits package as is outlined on the attached Summary of Benefits.

Review: Your performance will be formally reviewed no less than annually.

Confidentiality: As you are aware, it is very important for us to protect our confidential information and proprietary material. Therefore, as a condition of employment, you will need to sign the attached Proprietary Information and Inventions Agreement.

Start Date: January 22, 2002.

Options for Equity: You will also be eligible to receive a stock option grant for two hundred twenty five thousand (225,000) shares of Exelixis stock pursuant to our 2000 Equity Incentive Plan pursuant to the standard form of stock option agreement at the closing price on your start date, subject to approval by the Board of Directors. Shares subject to options vest at the rate of 1/4th after one year of employment and 1/48th every month thereafter over a total of four years.

Termination: In the event of termination of your employment by the Company without Cause, the Company will continue to pay you your base salary for a period after the date of such termination equal to six months. In addition, you will be entitled to receive the amount of any declared but unpaid bonus as at the date of such termination and the Company shall continue to make available to you such fringe benefits as required by law.

Other: In addition to performing the duties and responsibilities of your position, you will be expected to perform other duties and responsibilities that may be assigned to you from time to time. No provision of this letter shall be construed to create an express or implied employment contract for a specific period of time. Either you or the Company may terminate this employment relationship at any time, with or without cause. This letter shall be governed by the laws of the State of California. Also, by signing this letter, you are indicating that you are legally authorized to work in the U.S.

You may accept this offer of employment by signing both copies of this letter and Proprietary Information and Invention Agreements and returning one of each to me.

Bob, we look forward to your coming on board!

Sincerely,

/s/ George Scangos

George Scangos, Ph.D.
President and CEO

ACCEPTED BY:

/s/ Bob Myers	15th Jan 2002
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Robert Myers	

ENCLOSURES:

Benefit Summary	Direct Deposit Form (optional)
Confidentiality Agreement	Employee Information Form
DE-4 (optional)	I-9
Insider Trading Policy	W-4

EXHIBIT 21.1

SUBSIDIARIES OF EXELIXIS

Exelixis Plant Sciences, Inc.

Artemis Pharmaceuticals GmbH

Exelixis Duetschland GmbH

Genomica Corporation

Cellfate, Inc.

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-8 pertaining to the Exelixis, Inc. 401(k) Plan, the 2000 Equity Incentive Plan, the 2000 Employee Stock Purchase Plan, and the 2000 Non-Employee Directors' Stock Option Plan of Exelixis, Inc. and the Registration Statement (Form S-3 No. 333-66134) and in the related Prospectus of our report dated January 31, 2003, with respect to the 2002 and 2001 consolidated financial statements of Exelixis, Inc. included in this Annual Report on Form 10-K for the year ended December 31, 2002.

/s/ Ernst & Young LLP

Palo Alto, California
March 5, 2003

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 and Form S-3 of Exelixis, Inc., of our report dated February 2, 2001 relating to the consolidated statements of operations, of stockholders' equity and of cash flows for the year ended December 31, 2000 of Exelixis, Inc., which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 7, 2003

EXHIBIT 99.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350, as adopted), George A. Scangos, Chief Executive Officer of Exelixis, Inc. (the "Company"), and Glen Y. Sato, Chief Financial Officer of the Company, each hereby certify that, to the best of their knowledge:

1. The Company's Annual Report on Form 10-K for the period ended December 31, 2002, to which this Certification is attached as Exhibit 99.1 (the "ANNUAL REPORT") fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and

2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 6th day of March, 2003.

/s/ George A. Scangos	/s/ Glen Y. Sato
George A. Scangos	Glen Y. Sato
President and Chief Executive Officer	Chief Financial Officer, Vice President, Legal Affairs and Secretary