UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: MARCH 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)

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 [ ]

As of April 30, 2002, there were 56,929,951 shares of the registrant's common stock outstanding.

EXELIXIS, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2002	December 31, 2001 (1)
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 21,444	$ 35,584
Short-term investments	176,638	192,116
Other receivables	3,645	4,026
Other current assets	3,600	2,873
Total current assets	205,327	234,599
Property and equipment, net	35,979	36,500
Related party receivables	910	937
Goodwill,net	68,334	62,357
Other intangibles, net	5,302	7,126
Other assets	5,080	5,095
Total assets	$ 320,932	$ 346,614
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 7,244	$ 10,837
Accrued benefits	4,573	5,000
Obligation assumed to exit certain activities of Genomica	1,295	2,919
Accrued merger and acquisition costs	425	2,217
Current portion of capital lease obligations	6,508	5,947
Current portion of notes payable	828	1,200
Deferred revenue	10,073	12,237
Total current liabilities	30,946	40,357
Capital lease obligations	11,140	11,144
Notes payable	558	652
Convertible promissory note	30,000	30,000
Acquisition liability	-	6,871
Other long-term liabilities	236	-
Deferred revenue	18,632	20,370
Total liabilities	91,512	109,394
Commitments		
Stockholders' equity:		
Preferred stock	-	-
Common stock	58	56
Additional paid-in-capital	454,819	444,229
Notes receivable from stockholders	(1,854)	(2,205)
Deferred stock compensation, net	(3,170)	(4,137)
Accumulated other comprehensive income (loss)	(788)	501
Accumulated deficit	(219,645)	(201,224)
Total stockholders' equity	229,420	237,220
Total liabilities and stockholders' equity	$ 320,932	$ 346,614

(1) The consolidated condensed balance sheet at December 31, 2001 has been derived from the audited financial statement at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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

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

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	
Revenues:		
Contract and government grants	$ 8,909	$ 6,810
License	2,651	924
Total revenues	11,560	7,734
Operating expenses:		
Research and development (1)	26,419	16,815
Selling, general and administrative (2)	4,879	4,260
Amortization of goodwill and intangibles	166	1,050
Total operating expenses	31,464	22,125
Loss from operations	(19,904)	(14,391)
Other income (expense):		
Interest income	2,121	1,883
Interest expense	(704)	(223)
Other income (expense), net	66	12
Total other income (expense)	1,483	1,672
Net loss	$ (18,421)	$ (12,719)
Basic and diluted net loss per share	$ (0.33)	$ (0.29)
Shares used in computing basic and diluted net loss per share	55,654	44,372

(1) Includes stock compensation expense of $482 and $1,168 for the three months ended March 31, 2002 and 2001, respectively.

(2) Includes stock compensation expense of $336 and $708 for the three months ended March 31, 2002 and 2001, respectively.

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

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

	Three Months Ended March 31,	
	2002	2001
Cash flows from operating activities:		
Net loss	$(18,421)	$(12,719)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,250	1,744
Stock compensation expense	818	1,876

Amortization of goodwill (2001 only) and intangibles	166	1,050
Other	108	-
Changes in assets and liabilities:		
Other receivables	257	(132)
Other current assets	(758)	79
Related party receivables	25	79
Other assets	(200)	(726)
Accounts payable and accrued expenses	(3,960)	2,982
Obligation assumed to exit certain activities of Genomica	(1,651)	-
Accrued merger and acquisition costs	(2,043)	(4,295)
Deferred revenue	(3,902)	9,467
Net cash used in operating activities	(26,311)	(595)
Cash flows provided from investing activities:		
Purchases of property and equipment	(474)	(2,936)
Proceeds from maturities of short-term investments	34,558	51,629
Purchases of short-term investments	(20,327)	(27,215)
Net cash provided by investing activities	13,757	21,478
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants, net of repurchases	64	60
Repayment of notes from stockholders	351	56
Principal payments on capital lease obligations	(1,511)	(928)
Principal payments on notes payable	(525)	(395)
Net cash used in financing activities	(1,621)	(1,207)
Effect of foreign exchange rates on cash and cash equivalents	35	-
Net increase (decrease) in cash and cash equivalents	(14,140)	19,676
Cash and cash equivalents, at beginning of period	35,584	19,552
Cash and cash equivalents, at end of period	$ 21,444	$ 39,228

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

EXELIXIS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
March 31, 2002
(unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Organization

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 Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002, or for any future period. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2001 included in the Company's Annual Report on Form 10-K.

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 if 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.

Comprehensive Income (Loss)

Comprehensive income (loss) generally represents all changes in stockholder's equity except those resulting from investments or contributions by stockholders. Total comprehensive loss amounted to $19.7 million and $12.5 million for the three-month periods ended March 31, 2002 and 2001, respectively.

Recent Accounting Pronouncements

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("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

acquired assembled workforce as goodwill because it is no longer defined as an acquired intangible asset under SFAS No. 141, "Business Combinations". Accordingly, no acquired workforce amortization was recognized during the quarter ended March 31, 2002. The provisions of SFAS 142 also require the completion of a transitional impairment test within six months of adoption, with any impairments treated as a cumulative effect of change in accounting principle. During the quarter ended March 31, 2002, the Company completed the transitional impairment test, which did not result in impairment of recorded goodwill. The Company will continue to monitor the carrying value of goodwill through the annual impairment tests. For further discussion, see Note 4, "Goodwill and Other Acquired Intangibles".

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):

	Three Months Ended March 31,	
	2002	2001
Reported net loss	$(18,421)	$(12,719)
Add: Goodwill amortization	-	886
Assembled workforce amortization	-	80
Adjusted net loss	$(18,421)	$(11,753)
Net loss per share, basic and diluted	$ (0.33)	$ (0.29)
Add: Goodwill amortization	-	0.02
Assembled workforce amortization	-	0.00
Adjusted net loss per share, basic and diluted	$ (0.33)	$ (0.27)

On January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). 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 the Company's financial position or results of operations.

Note 2. Genomica Exit Plan

During December 2001, in connection with the acquisition of Genomica Corporation ("Genomica"), Exelixis adopted an exit plan for Genomica to improve the operating efficiency of the combined company. 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.

The activity impacting the exit plan accrual during the three months ended March 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	Balance at March 31, 2002
Severance and benefits	1,216	(1,459)	293	50
Lease abandonment	1,703	(192)	(266)	1,245
Total exit costs	2,919	(1,651)	27	1,295

Note 3. Derivative Financial Instruments

Beginning in 2002, the Company manages exposures to the changes in foreign currency exchange rates through a program of risk management 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 other accrued liabilities.

The Company has entered into foreign currency exchange combination option contracts denominated in European Union euro to minimize the effect of foreign exchange rate movements on the cash flows related to the Company's payments to its German subsidiaries for services provided by the subsidiaries. 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 the period of change.

During the three months ended March 31, 2002, the Company recognized no gain or loss related to the ineffective portion of the hedging instruments. As of March 31, 2002, the Company expects to reclassify $18,000 of net gains on derivative instruments from accumulated other comprehensive income to earnings over the next 12 months due to the payment of foreign currency to its German subsidiaries.

Note 4. Goodwill and Other Acquired Intangibles

Changes in the carrying amount of goodwill for the quarter ended March 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
Other	277
Balance as of March 31, 2002	$68,334

In connection with the Company's May 2001 acquisition of Artemis Pharmaceuticals GmbH ("Artemis"), Exelixis received a call option from, and issued a put option to, certain stockholders of Artemis for the issuance of approximately 480,000 shares of Exelixis common stock in exchange for the remaining 22% of the outstanding capital stock of Artemis held by the option holders. In January 2002, Exelixis exercised its call option for the purchase of the remaining 329,591 shares. The additional purchase price was recorded as an increase to goodwill of approximately $4.0 million.

The Company performed an impairment test of goodwill as of January 1, 2002. No impairment charge was necessary.

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

	At March 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$ 1,640	$ (250)	$ 1,390
Patents/core technology	4,269	(357)	3,912
Total	$ 5,909	$ (607)	$ 5,302

At 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 for the first quarter of 2002 was $0.2 million and for the first quarter of 2001 was $0.1 million. The expected future annual amortization expense of the other acquisition-related intangible assets is as follows (in thousands):

Year Ending December 31,	Amortization Expense
2002	$ 666
2003	666
2004	633
2005	533
2006	315
Thereafter	2,655
Total expected future amortization	$ 5,468

Note 5. Subsequent Event

In April 2002, Exelixis sold the Genomica software business to Visualize Inc. ("Visualize") for future consideration of up to $2.35 million in license fees and future 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. In addition, Visualize assumed the lease obligation for the Company's abandoned facility in Sacramento, California. Exelixis retained an internal use license for the software. In the second quarter of 2002, the Company anticipates recording this transaction as discontinued operations of the Genomica business. Management is in the process of evaluating the financial impact of this transaction.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the 2001 audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2001. Operating results are not necessarily indicative of results that may occur in future periods.

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 achievement 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 those discussed in the forward-looking statements as a result of various factors, including but not limited to, those discussed under the caption "Item 5 - Risk Factors" and those discussed elsewhere in this report and in our Annual Report on Form 10-K. 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 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: Aventis CropScience LLC, Bayer Corporation, Bristol-Myers Squibb Company (two collaborations), Cytokinetics, Inc., Dow AgroSciences LLC, Elan Pharmaceuticals, Inc., Merck & Co., Inc., Protein Design Labs, Inc., Scios Inc. and Schering-Plough Research Institute, Inc.

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. and Accelrys, 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.

Results of Operations

Revenues

Total revenues were approximately $11.6 million and $7.7 million for the three-month periods ended March 31, 2002 and 2001, respectively. The increase

in revenues over the 2001 level was primarily driven by revenues from corporate collaborations established in 2001 with Protein Design Labs and Bristol-Myers Squibb and compound deliveries under one of our four chemistry collaborations established in 2001 to jointly design custom high-throughput screening compound libraries.

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 $26.4 million and $16.8 million for the three-month periods ended March 31, 2002 and 2001, respectively. The increase in 2002 over 2001 resulted primarily from the following costs:

- - Increased Personnel - Staffing costs for the three-month period ended March 31, 2002 increased by approximately 61% to approximately $10.9 million from the three-month period ended March 31, 2001. The increase was to support new collaborative arrangements and Exelixis' internal proprietary research efforts, including increased expenses related to staff hired with the acquisition of Artemis in May 2001. 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 and the significant expansion of drug discovery operations, the cost of lab supplies increased 105% to approximately $5.1 million for the three-month period ended March 31, 2002 from the period ended March 31, 2001.

- - Increased Licenses and Consulting - To support new collaborative arrangements, conduct pre-clinical and clinical development, manufacturing and further development of proprietary programs, license and consulting expenses increased 81% to approximately $2.0 million for the three-month period ended March 31, 2002 from the three-month period ended March 31, 2001.

As part of our new collaboration with Bristol-Myers Squibb in July 2001, we received an exclusive worldwide license to develop and commercialize a selected analogue of the Bristol-Myers Squibb anticancer compound, DEAE Rebeccamycin. Phase I trials of the Rebeccamycin analogue have been completed and demonstrated an acceptable safety profile. In ongoing Phase II trials, being conducted by the National Cancer Institute, the compound has demonstrated activity against some tumor types. Planning for additional clinical studies is currently underway and should be finalized later in 2002. During the period ended March 31, 2002, we continued to grow our clinical research and development staff. We currently do not have manufacturing capabilities or experience necessary to produce materials for clinical trials. We plan to rely 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 new product candidates and additional trials for our Rebeccamycin analogue. 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.

We expect to continue to devote substantial resources to research and development, and 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.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs to support our research and development activities, facilities costs and professional expenses, such as legal fees. General and administrative expenses were approximately $4.9 million and $4.3 million for the three-month periods ended March 31, 2002 and 2001, respectively. The increase in 2002 over 2001 of approximately 14%, was driven primarily by costs associated with personnel and facilities to support expansion in our research and development operations.

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 March 31, 2002, we have approximately $3.2 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 additional deferred stock compensation during the three-month period ended March 31, 2002, compared to $0.2 million during the three-month period ended March 31, 2001. These amounts were recorded as a component of stockholders' equity and are being amortized as stock compensation expense over the vesting periods of the options, which is generally four years. We recognized stock compensation expense of $0.8 million and $1.9 million for the three-month periods ended March 31, 2002 and 2001, respectively. The decrease in stock compensation expense in 2002 compared to 2001 primarily resulted from the accelerated amortization method used for accounting purposes.

During April 2001, we granted approximately 545,000 supplemental stock options under our 2000 Equity Incentive Plan to certain employees (excluding officers and directors) who had stock options under the 2000 Equity Incentive Plan with exercise prices greater than $16.00 per share. 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 FASB Interpretation Number 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 period ended March 31, 2002, we recorded a reversal of previously recorded compensation expense relating to the supplemental options of $246,000 resulting from a decrease in the market value of our common stock.

Amortization of Goodwill and Intangibles

We implemented Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), on January 1, 2002. Accordingly, goodwill and other intangible assets deemed to have indefinite lives are no longer being amortized but will be subject to annual impairment tests in accordance with SFAS 142.

Goodwill and intangibles result from our acquisitions of Genomica, Artemis and Agritope (now renamed Exelixis Plant Sciences). Amortization of intangibles was $0.2 million for the three-month period ended March 31, 2002, and amortization of goodwill and intangibles was $1.1 million for the three-month period ended March 31, 2001. The decrease from 2001 was primarily related to our adoption of SFAS 142.

Other Income (Expense)

Other income (expense) primarily consists of interest income earned on cash, cash equivalents and short-term investments, partially offset by interest expense incurred on notes payable and capital lease obligations. Total other income (expense) was income of $1.5 million for the three-month period ended March 31, 2002, compared to income of $1.7 million for the comparable period in 2001. The decrease year-over-year primarily relates to an increase in interest expense on capital lease obligations and notes payable, partially offset by increased interest income as a result of increased cash and investment balances.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through issuances of capital stock, loans, equipment lease financings and other loan facilities and payments from collaborators. In addition, during December 2001, we acquired Genomica, including $109.6 million in cash and investments. As of March 31, 2002, we had approximately $198.1 million in cash, cash equivalents and short-term investments.

Our operating activities used cash of approximately $26.3 million and $0.6 million for the three-month periods ended March 31, 2002 and 2001, respectively. For the three-month period ended March 31, 2002, cash used in operating activities related primarily to funding net operating losses, cash payments related to our December 2001 acquisition of Genomica and a decrease in deferred revenue from collaborators, partially offset by non-cash charges related to depreciation and amortization of deferred stock compensation and other intangible assets. For the comparable period in 2001, cash used in operating activities related primarily to funding net operating losses and cash payments related to our December 2000 acquisition of Agritope, almost completely offset by an increase in deferred revenues from collaborators and non-cash charges related to depreciation and amortization of deferred stock compensation, goodwill and other intangible assets.

Our investing activities provided cash of approximately $13.8 million and $21.5 million for the three-month periods ended March 31, 2002 and 2001, respectively. The cash provided resulted from the proceeds from maturities of short-term investments, partially offset by purchases of short-term investments and property and equipment.

Our financing activities used cash of approximately $1.6 million and $1.2 million for the three-month periods ended March 31, 2002 and 2001, respectively. The cash used resulted primarily from principal payments on capital lease obligations and notes payable, partially offset by repayment of notes from stockholders and proceeds from the exercise of stock options and warrants, net of repurchases.

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 Form 10-Q 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 its business and operating results.

Recent Accounting Pronouncements

On January 1, 2002, we adopted 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 and other intangible assets deemed to have indefinite lives no longer be amortized, and instead, be tested for impairment on a periodic basis.

In accordance with SFAS 142, we discontinued the amortization of goodwill effective January 1, 2002. In addition, we re-characterized acquired assembled workforce as goodwill because it is no longer defined as an acquired intangible asset under SFAS No. 141, "Business Combinations". Accordingly, no acquired workforce amortization was recognized during the quarter ended March 31, 2002. The provisions of SFAS 142 also require the completion of a transitional impairment test within six months of adoption, with any impairments treated as a cumulative effect of change in accounting principle. During the quarter ended March 31, 2002, we completed the transitional impairment test, which did not result in impairment of recorded goodwill. We will continue to monitor the carrying value of goodwill through the annual impairment tests.

We adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" on January 1, 2002 ("SFAS 144"). 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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. As of March 31, 2002, there has been no material change in Exelixis' interest rate exposure from that described in our Annual Report on Form 10-K for the year ended December 31, 2001.

All highly liquid investments with an original maturity of three months or less from the date of purchase are considered cash equivalents. Exelixis views its available-for-sale portfolio as available for use in current operations. Accordingly, we have classified all investments with an original maturity date greater than three months as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date.

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 Eurodollars. 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 March 31, 2002, we had outstanding an aggregate of $1.9 million (notional amount) of short-term foreign currency option contracts denominated in European Union euro. The fair value of these contracts at March 31, 2002 was approximately $18,000, which is reflected on the balance sheet as an asset. Due to the nature of the option contracts' structure, our exposure to adverse changes in market rates on these instruments is limited to their carrying value. We cannot give any assurance that our hedging strategies will be effective or that transaction losses can be minimized or forecasted accurately.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

(d) 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 March 31, 2002, proceeds from the offering have been used for research and development activities, capital expenditures, working capital, merger and acquisition expenses and other general corporate purposes. In the future, we intend to use the remaining net proceeds in a similar manner. As of March 31, 2002, $44.7 million of the proceeds remained available and were primarily invested in short-term marketable securities.

Item 5. Other Information - 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 $18.4 million for the three months ended March 31, 2002. As of that date, we had an accumulated deficit of approximately $219.6 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. During 2001, we acquired a compound in Phase II clinical development, and we are working with a third-party vendor to manufacture this compound and preparing for the filing of an Investigational New Drug Application, or IND. In addition, we are also preparing to file our first IND for a proprietary compound in 2002. 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; and
- - the filing, prosecution and enforcement of patent claims.

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 administrative and operational infrastructure. As our operations expand domestically and internationally, we expect that we will need 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), Protein Design Labs, Dow AgroSciences and Aventis. 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-month 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 six months of each other. Our mechanism of action collaborative agreement with Bristol-Myers Squibb expires in September 2002. Our cancer collaborative agreement with Bristol-Myers Squibb expires in July 2004. Our collaborative agreement 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 Aventis is scheduled to expire in June 2004. The Aventis arrangement is conducted through a limited liability company, Agrinomics, which is owned equally by Aventis and Exelixis. Aventis 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. Bayer has an agreement to acquire Aventis, and we have not been advised of the status of the existing Agrinomics agreement following completion of the acquisition.

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, eliminating 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.

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. Any conflict with 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, market 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.

WE ARE DEPLOYING UNPROVEN TECHNOLOGIES, AND WE MAY NOT BE ABLE TO DEVELOP COMMERCIALLY SUCCESSFUL PRODUCTS.

Our research and operations thus far have allowed us to identify a number of product targets for use by our collaborators as well as targets and small molecule compounds for our own internal development programs. We are not certain, however, of the commercial value of any of our current or future targets and molecules, and we may not be successful in expanding the scope of our research into new fields of pharmaceutical or agricultural research. Significant research and development, financial resources and personnel will be required to capitalize on our technology, develop commercially viable products and obtain regulatory approval for such products.

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 Investigational New Drug Application 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 advisors and collaborators at academic and other institutions that assist us in our research and development efforts. These scientists are not our employees and may have other commitments that would limit their availability to us. Although our scientific 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 scientific advisors and collaborators sign agreements not to disclose our confidential information, it is possible that valuable proprietary knowledge may become publicly known through them.

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 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 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. 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 such targets can be commercialized. If regulatory approval is granted to any of our products, this approval may impose limitations on the uses for which a product may be marketed. Further, once 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 TRIALS ON 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 studies to date have been conducted by the National Cancer Institute, or NCI. We will have to conduct additional studies in order to meet FDA requirements for regulatory approval. We have no prior experience in conducting clinical studies, 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 or assure that any specified timelines with respect to the initiation or completion of clinical studies may be achieved.

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 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 studies. 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 studies could delay the filing of our INDs and the initiation of clinical trials that we have currently planned.

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 milestones 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 became freely tradable following the acquisition. Similarly, shares of common stock held by existing stockholders prior to the public offering became freely tradable in 2000, subject in some instances to the

volume and other limitations of Rule 144. 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.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On January 11, 2002, Exelixis filed an Item 2 Current Report on Form 8-K announcing the acquisition of Genomica Corporation.

On March 20, 2002, Exelixis filed an Item 9 Current Report on Form 8-K pursuant to Regulation FD reporting Exelixis' financial results for the year ended December 31, 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 13, 2002

EXELIXIS, INC.

/s/ Glen Y. Sato

Glen Y. Sato
Chief Financial Officer, Vice President of Legal Affairs and Secretary
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation (1)
3.2	Amended and Restated Bylaws (1)
4.1	Specimen Common Stock Certificate (1)
10.32	Sublease, dated March 8, 2002, by and between Tularik, Inc. and Exelixis, Inc.

(1) Filed with Exelixis' Registration Statement on Form S-1, as amended (No. 333-96335), declared effective by the Securities and Exchange Commission on April 10, 2000, and incorporated herein by reference.

SUBLEASE

This Sublease, dated March 8, 2002, is entered into by and between Tularik Inc., a Delaware corporation ("Sublandlord"), and Exelixis, Inc., a Delaware corporation ("Subtenant").

RECITALS

A. Sublandlord leases certain premises (the "Premises") consisting of approximately 66,127 rentable square feet of space located in that certain building located at One Corporate Drive (formerly Two Corporate Drive), South San Francisco, California (the "Building"). Sublandlord is the tenant under that certain Build-To-Suit Lease dated the 20th day of April, 1995 (the "Master Lease") with Britannia Developments, Inc., a California corporation, as landlord; Britannia Development, Inc. assigned its interest as landlord under the Master Lease to Britannia Gateway, LLC pursuant to an Assignment and Assumption of Lease dated as of May 24, 1995; Britannia Gateway, LLC assigned its interest under the Master Lease to Britannia Biotech Gateway Limited Partnership, a Delaware limited partnership ("Master Landlord"), pursuant to an Assignment and Assumption of Lease dated as of August 8, 1996. A copy of the Master Lease is attached hereto as Exhibit A. Except as otherwise expressly provided herein, any capitalized terms herein without definition shall have the same meaning as they have in the Master Lease.

B. Sublandlord desires to sublease to Subtenant, and Subtenant desires to Sublease from Sublandlord, approximately four thousand one hundred ninety one (4,191) square feet of the Premises in the Building, as more particularly described on Exhibit B hereto and made a part hereof (the "Sublease Premises") during the Term, pursuant to the terms and provisions hereof.

Now, Therefore, in consideration of the covenants and conditions contained herein, Sublandlord and Subtenant agree as follows:

AGREEMENT

1. Term. The term of this Sublease (the "Term") shall commence on the later of (i) March 1, 2002, (ii) the date Sublandlord has delivered possession of the Sublease Premises to Subtenant, or (iii) the date Master Landlord consents to this Sublease (the "Commencement Date") and shall expire, unless sooner terminated or extended pursuant to the further provisions hereof, at 11:59 p.m. on the date that is twelve (12) months after the Commencement Date, or such earlier date as the Master Lease may be terminated pursuant to the terms thereof.

2. Sublease Premises. During the Term, Sublandlord hereby subleases the Sublease Premises to Subtenant, and Subtenant hereby subleases the Sublease Premises from Sublandlord, on the terms and conditions set forth herein. Subtenant shall additionally have the right to use during the Term without charge therefor the freestanding equipment which is identified on Exhibit C attached hereto and made a part hereof, and all items of built-in equipment located in or serving the Sublease Premises as of the Commencement Date.

3. Rent.

(a) Commencing as of the Commencement Date and continuing thereafter on the first (1st) day of each and every month during the Term, Subtenant shall pay to Sublandlord in advance the sum of $27,241.50 ($6.50 per rentable square foot) as rent for the Sublease Premises (the "Rent"). Rent for any period less than a calendar month shall be a pro rata portion of the monthly installment. Rent shall be payable to Sublandlord, in advance, in lawful money of the United States, without prior notice, demand, or offset, on or before the first day of each calendar month during the Term, at the address set forth in Section 23 below or at such other address as may be designated in writing from time to time. The first month's Rent payable hereunder shall be paid by Subtenant upon the mutual execution of this Sublease.

(b) Sublandlord shall be responsible at its sole cost for paying the following amounts and/or providing the following services: property taxes, property insurance (Building only), common area maintenance, HVAC, utilities on the Premises, property dues, elevator maintenance, sprinklers, security (including access card system), garbage, pest control, earthquake insurance, water treatment costs, and maintenance, repair and replacement (except where caused by the negligence or willful misconduct of Subtenant) of all Building operating systems, including but not limited to HVAC, electrical, mechanical, roll-up doors in the shipping area, life-safety and plumbing, landscaping and parking lot maintenance, and maintenance, repair and replacement (except where caused by the negligence or willful misconduct of Subtenant) of all built-in equipment which either serves or is located within the Sublease Premises, including but not limited to the autoclave, cagewasher, deionized/RO water supply system, animal holding room pressurization equipment, CO2 supply

equipment, or any other costs that Sublandlord is required to pay under the Master Lease pursuant to its terms. Anything in this Sublease to the contrary notwithstanding, Sublandlord shall not be responsible for any other services required by Subtenant (including, without limitation, janitorial services and gas supply for the CO2 equipment). Other services that are required by Subtenant may be negotiated between Sublandlord and Subtenant and, if appropriate, billed to Subtenant at Sublandlord's actual cost for such service.

(c) In the event of any casualty or condemnation affecting the Sublease Premises, Rent payable by Subtenant shall be abated hereunder, but only to the extent that Rent under the Master Lease is abated with respect to the Sublease Premises, and Subtenant waives any right to terminate the Sublease in connection with such casualty or condemnation except to the extent the Master Lease is also terminated as to the Sublease Premises or any material portion thereof. In the event of the termination of the Master Lease for any reason, then this Sublease shall terminate coincidentally therewith without such termination constituting a default of Sublandlord unless the termination is due to a default by Sublandlord under the Master Lease which is not caused by a default by Subtenant under this Sublease. In the event of any taking, Subtenant shall have no claim to any award. In the event of any casualty, Sublandlord shall perform such restoration as is required of Sublandlord pursuant to the Master Lease and, to the extent such casualty is the result of Subtenant's action or inaction, Subtenant shall restore the Sublease Premises as soon as reasonably practicable.

(d) Anything in this Sublease to the contrary notwithstanding, Subtenant shall be liable for, and shall pay and deliver evidence of payment prior to delinquency, all taxes levied against any personal property, fixtures, machinery, equipment, apparatus, systems and appurtenances or improvements placed by or on behalf of Subtenant in, about, upon or in connection with the Sublease Premises during the Term.

4. Security Deposit. Upon execution of this Sublease, Subtenant shall deposit with Sublandlord the sum of $27,241.50 as a security deposit ("Security Deposit"). Subtenant hereby grants to Sublandlord a security interest in the Security Deposit, including but not limited to replenishments thereof. If Subtenant fails to pay Rent or other charges when due under this Sublease, or fails to perform any of its other obligations hereunder, Sublandlord may use or apply all or any portion of the Security Deposit for the payment of any Rent or other amount then due hereunder and unpaid, for the payment of any other sum for which Sublandlord may become obligated by reason of Subtenant's default or breach, or for any loss or damage sustained by Sublandlord as a result of Subtenant's default or breach. If Sublandlord so uses any portion of the Security Deposit, Subtenant shall restore the Security Deposit to the full amount originally deposited within ten (10) days after Sublandlord's written demand. Sublandlord shall not be required to keep the Security Deposit separate from its general accounts, and shall have no obligation or liability for payment of interest on the Security Deposit. The Security Deposit, or so much thereof as had not theretofore been applied by Sublandlord, shall be returned to Subtenant within thirty (30) days of the expiration or earlier termination of this Sublease, provided Subtenant has vacated the Sublease Premises.

5. Condition of the Sublease Premises.

(a) Subtenant agrees that (i) Sublandlord has made no representations or warranties of any kind or nature whatsoever respecting the Sublease Premises, the Equipment or the built-in equipment located in or serving the Sublease Premises, their condition or suitability for Subtenant's use; and (ii) Subtenant agrees to accept the Sublease Premises "as is, where is," with all faults, without any obligation on the part of Sublandlord to modify, improve or otherwise prepare the Sublease Premises for Subtenant's occupancy.

(b) Sublandlord has not made an independent investigation of the Premises or determination with respect to the physical and environmental condition of the Premises including without limitation the existence of any underground tanks, pumps, piping, toxic or hazardous substances on the Premises. No investigation has been made by Sublandlord to ensure compliance with the "American With Disabilities Act" ("ADA"). ADA may require a variety of changes to the Sublease Premises, including potential removal of barriers to access by disabled persons and provision of auxiliary aids and services for hearing, vision or speech impaired persons. Subtenant shall rely solely on its own investigations and/or that of a licensed professional specializing in the areas referenced in this Section 5(b).

(c) Other than repairs or replacements of existing improvements, Subtenant shall not make any alterations, modifications or improvements to the Sublease Premises without Sublandlord's prior written consent, which consent may be withheld in Sublandlord's sole discretion.

6. Use. Subtenant may use the Sublease Premises as administrative offices, for research and development purposes and/or as a vivarium to the

extent permitted under the Master Lease and for no other purpose without the approval of the Master Landlord and Sublandlord. Subtenant will not enter, nor allow any agent, independent contractor or other person access from the Sublease Premises to any other portion of, the Premises without an escort by an employee of Sublandlord. Sublandlord shall have the right to inspect the Sublease Premises at any time after giving Subtenant twenty-four (24) hours notice; provided, however, that Sublandlord shall have the unrestricted right to access the Sublease Premises at any time, without notice, in the event of an emergency. If Sublandlord exercises its right of entry under emergency circumstances without prior notice to Subtenant, Sublandlord shall nevertheless notify Subtenant by telephone concurrently with such entry, or if concurrent telephonic notice is not reasonably possible, as soon thereafter as is reasonably possible, provided that Subtenant has informed Sublandlord of the person(s) who should be notified of such entry and their telephone numbers. Sublandlord agrees to maintain the confidentiality of any confidential, privileged or proprietary information regarding Subtenant that Sublandlord may obtain through its access to the Sublease Premises. Subtenant acknowledges and agrees that the operation and use of the Sublease Premises may require that Subtenant apply for and receive licenses and/or permits from various federal, state and local governments, and Subtenant covenants and agrees to apply for and receive such licenses and/or permits as are required. Subtenant shall provide to Sublandlord copies of any such licenses and/or permits to the extent applicable to the Sublease Premises. Subtenant acknowledges, agrees and covenants that its occupancy, operation and use of such Sublease Premises and/or its use and handling of animals shall be in accordance with: (a) all applicable state and federal regulations; (b) all licenses and permits that either Subtenant or Sublandlord has received or receives in the future respecting such Sublease Premises; and (c) all policies and procedures Sublandlord has reasonably promulgated respecting such Sublease Premises. In the event of any disagreement concerning the interpretation of such licenses, permits, policies and/or procedures, the determination of the employee of Sublandlord charged with ensuring compliance with such licenses, permits, policies and/or procedures shall be controlling.

7. Equipment Repair. All required repair work for autoclaves and cagewashers shall be performed by Sublandlord's preventive maintenance suppliers or as otherwise determined by Sublandlord.

8. Master Lease. This Sublease shall be subject and subordinate to all of the terms and provisions of the Master Lease. Except for payments of Rent (which payments shall be made by Sublandlord) and except for those provisions of the Master Lease excluded by Section 9 below, Subtenant hereby assumes and agrees to perform, during the Term, all of Sublandlord's obligations under the Master Lease to the extent such obligations are applicable to the Sublease Premises and accrue after the date hereof pursuant to this Sublease.

9. Incorporation of Master Lease.

(a) Except as otherwise provided herein, all of the terms and provisions of the Master Lease are incorporated into and made a part of this Sublease and the rights and obligations of the parties under the Master Lease are hereby imposed upon the parties hereto with respect to the Sublease Premises, the Sublandlord being substituted for the "Landlord" in the Master Lease, the Subtenant being substituted for the "Tenant" in the Master Lease, and this Sublease being substituted for the "Lease" in the Master Lease, provided, however, that the term "Landlord" in Sections 1.2 and 12.1(a) shall mean Master Landlord, not Sublandlord. The parties specifically agree that any provisions relating to any construction obligations of "Landlord" under the Master Lease with respect to construction that occurred or was to have occurred prior to the Commencement Date hereof, are hereby deleted. Sublandlord shall not be liable to Subtenant for any failure by Master Landlord to perform its obligations under the Master Lease, nor shall such failure by Master Landlord excuse performance by Subtenant of its obligations hereunder; provided, however, that Sublandlord shall use its commercially reasonable efforts to cause Master Landlord to perform its obligations under the Master Lease. Anything in the Master Lease to the contrary notwithstanding, no personal liability shall at any time be asserted or enforceable against any assets of Sublandlord or against Sublandlord's stockholders, directors, officers or partners on account of any of Sublandlord's obligations or actions under this Sublease. The following Sections of the Master Lease are not incorporated herein: 1.1(a), 2.1, 2.2, 2.3, 2.4, 2.6, 3.1, 4.1, Article 5, Article 6, Article 7, Article 9, Article 11 (except Section 11.4, which is incorporated), Sections 12.1(b) and 12.2(c), Section 13.1, Section 15.1, Article 17, Section 20.1, 21.15, 21.16 and Exhibits A-E.

(b) Subtenant hereby agrees to indemnify and hold harmless Sublandlord from and against any and all claims, liabilities, losses, damages and expenses (including reasonable attorneys' fees) incurred by Sublandlord arising out of, from or in connection with (i) the use or occupancy of the Premises by Subtenant, (ii) Subtenant's negligence or willful misconduct causing damage to the Equipment or the built-in equipment located in or serving the Sublease Premises, (iii) any breach or default by Subtenant under this Sublease or (iv)

the failure of Subtenant to perform any obligation under the terms and provisions of the Master Lease assumed by Subtenant hereunder or required to be performed by Subtenant as provided herein, from and after the Commencement Date of this Sublease.

(c) Sublandlord hereby agrees to indemnify and hold harmless Subtenant from and against any and all claims, liabilities, losses, damages and expenses (including reasonable attorneys' fees) incurred by Subtenant arising out of, from or in connection with (i) Sublandlord's breach or default of any provision of this Sublease or any provisions of the Master Lease not assumed by Subtenant hereunder or (ii) acts or omissions of Sublandlord under the Master Lease in connection with the Sublease Premises prior to the Commencement Date of this Sublease.

10. Sublandlord's Obligations.

(a) Provided that Subtenant is not in default under the terms of this Sublease, Sublandlord agrees to make timely payments of the Rent due under the Master Lease and to perform all of its other obligations under the Master Lease (except to the extent assumed by Subtenant hereunder) to the end that the Master Lease shall not be terminated due to the default of Sublandlord.

(b) To the extent that the provision of any services or the performance of any maintenance or any other act (collectively "Master Landlord Obligations") is the responsibility of Master Landlord, Sublandlord, upon Subtenant's request, shall make reasonable efforts to cause Master Landlord under the Master Lease to perform such Master Landlord Obligations; provided, however, that in no event shall Sublandlord be liable to Subtenant for any liability, loss or damage whatsoever in the event that Master Landlord should fail to perform the same, nor shall Subtenant be entitled to withhold the payment of Rent or terminate this Sublease, unless such failure is the result of an event of default on the part of Sublandlord under this Sublease, the Master Lease, or both. It is expressly understood that Sublandlord does not assume Master Landlord Obligations and that the services and repairs that are incorporated herein by reference, including but not limited to the furnishing of elevators or other services or maintenance, restoration (following casualty or destruction), or repairs to the Building, Premises and/or Sublease Premises which are Master Landlord Obligations will in fact be furnished by Master Landlord and not Sublandlord, except to the extent otherwise provided herein.

(c) Sublandlord shall, at its sole cost and expense, maintain in good condition and repair all portions of the Building and the Common Areas which Sublandlord is obligated to maintain and repair pursuant to Section 12.2(a) of the Master Lease, except for the interior portions of the Sublease Premises, which, subject to the terms hereof, shall be maintained by Subtenant.

(d) Except as provided in this Section 10, Sublandlord shall have no other obligations to Subtenant with respect to the Sublease Premises or the performance of the Master Landlord Obligations.

11. Insurance.

(a) Subtenant shall be responsible for compliance with the insurance provisions of the Master Lease. Such insurance shall insure the performance by Subtenant of its indemnification obligations hereunder and shall name Master Landlord and Sublandlord as additional insureds. All insurance required under this Sublease shall contain an endorsement requiring thirty (30) days written notice from the insurance company to Subtenant and Sublandlord before cancellation or change in the coverage, insureds or amount of any policy. Subtenant shall provide Sublandlord with certificates of insurance evidencing such coverage prior to the commencement of this Sublease.

(b) The waiver of subrogation provision contained in Section 14.4 of the Master Lease shall be deemed to be a three party agreement binding among and inuring to the benefit of Sublandlord, Subtenant and Master Landlord (by reason of its consent hereto).

12. Default. In addition to defaults contained in the Master Lease, failure of Subtenant to make any payment of Rent within five (5) days following receipt by Subtenant of written notice that such payment is delinquent shall constitute an event of default hereunder. If Subtenant's default causes Sublandlord to default under the Master Lease, Subtenant shall defend, indemnify and hold Sublandlord harmless from all damages, costs (including reasonable attorneys' fees), liability, expenses or claims relating to such default.

13. Assignment and Subletting. Sublandlord shall not assign, sublet, transfer, pledge, hypothecate or otherwise encumber the Sublease Premises, this Sublease or any interest therein, or permit the use or occupancy of the Sublease Premises by any other person other than Subtenant. Any assignment, further subletting, occupancy or use without the prior consent of Subtenant shall, at the option of Subtenant, terminate this Sublease.

14. Parking. Subtenant shall have Subtenant's proportionate share of parking rights as Sublandlord may have in connection with the Sublease Premises pursuant to the Master Lease.

15. Early Termination of Master Lease. If, without the fault of Sublandlord or Subtenant, the Master Lease should terminate prior to the expiration of this Sublease, neither party shall have any liability to the other party. To the extent that the Master Lease grants Sublandlord any discretionary right to terminate the Master Lease, whether due to casualty, condemnation or otherwise, Sublandlord shall be entitled to exercise or not exercise such right in its complete and absolute discretion; provided, however, that Sublandlord shall use reasonable efforts to give to Subtenant as much prior notice of its intent to terminate as practicable.

16. Consent of Master Landlord. If Subtenant desires to take any action that requires the consent of Master Landlord pursuant to the terms of the Master Lease, including, without limitation, making any modification, alteration or improvement of the Sublease Premises or entering into a further sublease or assignment of this Sublease, and in any event if Subtenant desires to make any alternation to the Sublease Premises, then, notwithstanding anything to the contrary herein, (a) Sublandlord shall have the same rights of approval or disapproval as Master Landlord has under the Master Lease, (b) Subtenant shall not take any such action until it obtains the consent of both Sublandlord and Master Landlord and (c) Subtenant shall request that Sublandlord obtain Master Landlord's consent on Subtenant's behalf, unless Sublandlord agrees that Subtenant may contact Master Landlord directly with respect to the specific action for which Master Landlord's consent is required.

17. Surrender of Sublease Premises. In lieu of any obligation or liability set forth in the Master Lease, upon the termination of the Sublease, Subtenant shall surrender the Sublease Premises to Sublandlord broom-clean and in as good a condition as on the Commencement Date, ordinary wear and tear excepted. In addition, Subtenant shall remove any alterations, additions and improvements made by or at the request of Subtenant (whether or not made with Sublandlord's consent), prior to the termination of the Sublease and restore the Sublease Premises to its prior condition, ordinary wear and tear excepted, repairing all damage caused by or related to any such removal, all at Subtenant's expense.

18. No Third Party Rights. The benefit of the provisions of this Sublease is expressly limited to Sublandlord and Subtenant and their respective permitted successors and assigns. Under no circumstances will any third party be construed to have any rights as a third party beneficiary with respect to any of said provisions; provided, however, that Master Landlord shall be entitled to the benefit of Subtenant's assumption of Sublandlord's obligations, as "Tenant" under the Master Lease, pursuant to Section 10 above.

19. Time of Essence. It is expressly understood and agreed that time is of the essence with respect to each and every provision of this Sublease.

20. Attorneys' Fees. If any action or proceeding at law or in equity shall be brought to enforce or interpret any of the provisions of this Sublease, the prevailing party shall be entitled to recover from the other party its reasonable attorneys' fees and costs incurred in connection with the prosecution or defense of such action or proceeding.

21. Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Sublandlord or Subtenant, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Sublandlord or Subtenant.

22. Approval of Master Landlord. This Sublease shall be conditioned upon, and shall not take effect until, receipt of the written consent of Master Landlord thereto. Upon receipt of such consent, this Sublease shall be effective as of the Commencement Date. Sublandlord and Subtenant acknowledge and agree that in granting such consent, notwithstanding any other provisions contained in or implied in this Sublease, Master Landlord shall not be deemed or construed (a) to have released Sublandlord from any responsibility for the full and timely performance of all obligations of Sublandlord as Tenant under the Master Lease as it pertains to the Sublease Premises, nor (b) to have authorized Sublandlord to act on Master Landlord's behalf in exercising or waiving any rights, remedies or privileges of Master Landlord as Landlord under the Master Lease as it pertains to the Sublease Premises, nor (c) to have assumed, incurred or undertaken any obligations or liabilities running directly to Subtenant with respect to the Sublease Premises, it being the explicit intention and understanding of the parties that, notwithstanding the incorporation by reference of a portion of the Master Lease into this Sublease, Master Landlord and Sublandlord shall look solely to one another for the performance of their respective obligations with respect to the Premises as Landlord and Tenant under the Master Lease, and that Sublandlord and Subtenant shall look solely to one

another for the performance of their respective obligations with respect to the Sublease Premises under this Sublease.

23. Notices. The addresses specified in the Master Lease for receipt of notices to each of the parties are deleted and replaced with the following:

To Sublandlord at: Tularik Inc.
Two Corporate Drive
South San Francisco, CA 94080
Attn: Luis Bayol

To Subtenant at: Exelixis, Inc.
170 Harbor Way
P.O. Box 511
South San Francisco, CA 94083-0511
Attn: Glen Sato

24. Brokers. Each party hereto represents and warrants that it has dealt with no broker in connection with this Sublease and the transactions contemplated herein. Each party shall indemnify, protect, defend and hold the other party harmless from all costs and expenses (including reasonable attorneys' fees) arising from or relating to a breach of the foregoing representation and warranty.

25. No Existing Defaults. Sublandlord represents and warrants to Subtenant that as of the date hereof the Master Lease is in full force and effect, that Sublandlord has neither given nor received a notice of default under the Master Lease, and that Sublandlord is not aware of any event which with the giving of notice or the passage of time could give rise to a default under the Master Lease.

[THIS SPACE INTENTIONALLY LEFT BLANK]

EXECUTED as of the date first written above.

SUBLANDLORD

TULARIK INC.
a Delaware corporation

By: _____

Title: _____

SUBTENANT

EXELIXIS, INC.
a Delaware corporation

By: _____

Title: _____

By: _____

Title: _____

CONSENT OF MASTER LANDLORD

BRITANNIA BIOTECH GATEWAY, L.P., "Master Landlord" under the Master Lease identified in that certain Sublease dated, for reference purposes, March ___, 2002 to which this Consent is attached, hereby consents to said Sublease. This Consent shall not be deemed to relieve Sublandlord, as Tenant under the Master Lease, from any obligation or liability thereunder, nor shall this Consent be deemed Master Landlord's consent to any further subletting or assignment.

By its consent hereto, Master Landlord agrees to the waiver of subrogation provision described in Section 11(b) of the attached Sublease and to use reasonable efforts to obtain an endorsement from its insurers providing for said subrogation waiver from such insurers in favor of Subtenant.

MASTER LANDLORD:

BRITANNIA BIOTECH GATEWAY, L.P.
a Delaware limited partnership

By: _____

Britannia Gateway, LLC, a California limited liability company

Managing Partner

Date:_____ By: _____

Name: _____

Title: _____

EXHIBIT A

[MASTER LEASE]

Exhibit B
[SUBLEASE PREMISES]

EXHIBIT C

Equipment

RM 127) 4' BIO-SAFETY-CABINET S/N 51926XV
Model NUAIRE # NU-407-400

RM 126) 6' Bio-Safety-Cabinet S/N 67337
Model NUAIRE # NU-407-600

RM 137) 4' Bio-Safety-Cabinet S/N 72507
Model NUAIRE # NU-407-400

RM 140) 4' Bio-Safety-Cabinet S/N 603889
Model LabConCo # 36209024964

Hallway 168) Ice Machine S/N 375276-07K
Model # AFE400A-1A

RM 121) 2 ea. 6' Steel Shelving

Rm 122) 5 ea. 6' Steel Shelving

Receiving area 124) 1ea. 4' steel and 1 ea. 2' steel shelving

Receiving area 124) 1ea. 4x4 Oil Spill Station