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: JUNE 30, 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 July 31, 2002, there were 57,156,464 shares of the registrant's common stock outstanding.

EXELIXIS, INC.

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

SIGNATURE

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXELIXIS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 30, 2002	DECEMBER 31, 2001 (1)
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 5,793	$ 35,584
Short-term investments	165,456	192,116
Other receivables	4,897	4,026
Other current assets	4,989	2,873
Total current assets	181,135	234,599
Restricted cash	2,528	-
Property and equipment, net	36,422	36,500
Related party receivables	878	937
Goodwill, net	67,364	62,357
Other intangibles, net	5,135	7,126
Other assets	4,906	5,095
Total assets	$ 298,368	$ 346,614
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,792	$ 10,837
Accrued benefits	4,701	5,000
Obligation assumed to exit certain activities of Genomica Corporation	1,126	2,919
Accrued merger and acquisition costs	80	2,217
Current portion of capital lease obligations	6,681	5,947
Current portion of notes payable and bank obligations	1,630	1,200
Deferred revenue	9,539	12,237
Total current liabilities	30,549	40,357
Capital lease obligations	9,740	11,144
Notes payable and bank obligations	1,861	652
Convertible promissory note	30,000	30,000
Acquisition liability	-	6,871
Other long-term liabilities	235	-
Deferred revenue	17,055	20,370
Total liabilities	89,440	109,394
Commitments		
Stockholders' equity:		
Preferred stock	-	-
Common stock	58	56
Additional paid-in-capital	456,375	444,229
Notes receivable from stockholders	(1,639)	(2,205)
Deferred stock compensation, net	(2,332)	(4,137)
Accumulated other comprehensive income	14	501
Accumulated deficit	(243,548)	(201,224)
Total stockholders' equity	208,928	237,220
Total liabilities and stockholders' equity	$ 298,368	$ 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 condensed financial statements.

EXELIXIS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Revenues:				
Contract and government grants	$ 7,910	$ 7,627	$ 16,819	$ 14,437
License	1,987	924	4,620	1,848
Total revenues	9,897	8,551	21,439	16,285
Operating expenses:				
Research and development (1)	29,256	20,555	55,445	37,370
Selling, general and administrative (2)	4,890	4,976	9,567	9,236
Acquired in-process research and development	-	6,673	-	6,673
Amortization of goodwill and intangibles	167	1,226	333	2,276
Total operating expenses	34,313	33,430	65,345	55,555
Loss from operations	(24,416)	(24,879)	(43,906)	(39,270)
Other income (expense):				
Interest income	1,916	1,580	4,020	3,463
Interest expense	(680)	(426)	(1,366)	(649)
Other income (expense), net	113	17	179	29
Total other income (expense)	1,349	1,171	2,833	2,843
Loss from continuing operations	(23,067)	(23,708)	(41,073)	(36,427)
Loss from operations of discontinued segment- Genomica Corporation (including loss on sale of $795)	(837)	-	(1,251)	-
Net loss	$ (23,904)	$ (23,708)	$ (42,324)	$ (36,427)
Loss per share from continuing operations	$ (0.41)	$ (0.52)	$ (0.73)	$ (0.81)
Loss per share from discontinued operations	(0.02)	(0.00)	(0.03)	(0.00)
Net loss per share, basic and diluted	$ (0.43)	$ (0.52)	$ (0.76)	$ (0.81)
Shares used in computing basic and diluted loss per share amounts	56,152	45,724	55,903	45,048

(1) Includes stock compensation expense of $503 and $1,633 in the quarters ended June 30, 2002 and 2001, respectively, and
includes stock compensation expense of $985 and $2,800 in the six-month periods ended June 30, 2002 and 2001, respectively.

(2) Includes stock compensation expense of $316 and $661 in the quarters ended June 30, 2002 and 2001, respectively, and
includes stock compensation expense of $652 and $1,370 in the six-month periods ended June 30, 2002 and 2001, respectively.

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

EXELIXIS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (42,324)	$ (36,427)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	795	-
Depreciation and amortization	6,677	4,401
Stock compensation expense	1,637	4,170
Amortization of goodwill (2001 only) and other intangibles	333	2,276
Acquired in-process research and development	-	6,673
Changes in assets and liabilities:		
Other receivables	(1,476)	(587)
Other current assets	(1,805)	(962)
Related party receivables	58	(399)
Other assets	(274)	(2,203)
Accounts payable and accrued expenses	(4,469)	1,854
Obligation assumed to exit certain activities of Genomica Corporation	(1,850)	-
Accrued merger and acquisition costs	(1,790)	(3,924)
Deferred revenue	(6,073)	9,747
Net cash used in operating activities	(50,561)	(15,381)
Cash flows provided from investing activities:		
Purchases of property and equipment	(3,402)	(10,403)
Proceeds from sale-leaseback of equipment	-	4,008
Restricted cash investment	(2,528)	-
Cash acquired in acquisition	-	3,463
Proceeds from maturities of short-term investments	78,107	90,469
Purchases of short-term investments	(52,063)	(74,203)
Net cash provided by investing activities	20,114	13,334
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants, net of repurchases	58	309
Proceeds from convertible note	-	30,000
Proceeds from employee stock purchase plan	1,423	1,198
Repayment of notes from stockholders	566	105
Principal payments on capital lease obligations	(3,129)	(1,922)
Proceeds from bank obligations	2,291	-
Principal payments on notes payable	(768)	(1,025)
Net cash provided by financing activities	441	28,665
Effect of foreign exchange rates on cash and cash equivalents	215	(107)
Net increase (decrease) in cash and cash equivalents	(29,791)	26,511
Cash and cash equivalents, at beginning of period	35,584	19,552
Cash and cash equivalents, at end of period	$ 5,793	$ 46,063

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

EXELIXIS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
JUNE 30, 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- and six-month periods ended June 30, 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 because their effect is antidilutive. Potential common stock consists of shares of common stock subject to repurchase, incremental common shares issuable upon the exercise of stock options and warrants and common shares issuable upon conversion of the convertible promissory note.

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 six-month period ended June 30, 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 first quarter of 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 annual impairment tests. For further discussion, see Note 5, "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 JUNE 30,	
	2002	2001
Reported net loss	$ (23,904)	$ (23,708)
Add: Goodwill amortization	-	994
Assembled workforce amortization	-	135
Adjusted net loss	$ (23,904)	$ (22,579)
Net loss per share, basic and diluted	$ (0.43)	$ (0.52)
Add: Goodwill amortization	-	0.02
Assembled workforce amortization	-	-
Adjusted net loss per share, basic and diluted	$ (0.43)	$ (0.50)

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
Reported net loss	$ (42,324)	$ (36,427)
Add: Goodwill amortization	-	1,880
Assembled workforce amortization	-	214
Adjusted net loss	$ (42,324)	$ (34,333)
Net loss per share, basic and diluted	$ (0.76)	$ (0.81)
Add: Goodwill amortization	-	0.04
Assembled workforce amortization	-	-
Adjusted net loss per share, basic and diluted	$ (0.76)	$ (0.77)

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. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities, unrealized gains and losses on cash flow hedges and cumulative translation adjustments. Comprehensive income (loss) for the three- and six-month periods ended June 30, 2002 and 2001, are as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Net loss	$ (23,904)	$ (23,708)
Changes in unrealized gains (losses) on available-for-sale securities	71	(11)
Change in unrealized gain on cash flow hedges	216	-
Change in cumulative translation adjustment	515	(186)
Comprehensive loss	$ (23,102)	$ (23,905)

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
Net loss	$ (42,324)	$ (36,427)
Changes in unrealized gains (losses) on available-for-sale securities	(1,186)	255
Change in unrealized gain on cash flow hedges	234	-
Change in cumulative translation adjustment	465	(186)
Comprehensive loss	$ (42,811)	$ (36,358)

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

	JUNE 30, 2002	DECEMBER 31, 2001
Unrealized gains (losses) on available-for-sale securities	$ (585)	$ 601
Unrealized gains on cash flow hedges	234	-
Cumulative translation adjustment	365	(100)
Accumulated other comprehensive income (loss)	$ 14	$ 501

NOTE 3. GENOMICA CORPORATION

In 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.

As of June 30, 2002, the remaining actions to be taken under the exit plan consisted primarily of residual payments related to the lease obligation for the facility in Boulder, Colorado, which are expected to continue until the termination of the lease in 2005, unless the facility is subleased earlier.

The activity impacting the exit plan accrual during the six months ended June 30, 2002, including changes in estimates made by management based on available information, is summarized in the table below (in thousands):

	BALANCE AT DECEMBER 31, 2001	CASH PAYMENTS	CHANGE IN RESERVE ESTIMATE	ASSUMED BY VISUALIZE	BALANCE AT JUNE 30, 2002
Severance and benefits	$ 1,216	$ (1,493)	$ 277	$ -	$ -
Lease abandonment	1,703	(357)	(44)	(176)	1,126
Total exit costs	$ 2,919	$ (1,850)	$ 233	$ (176)	$ 1,126

In April 2002, Exelixis transferred the Genomica software business to Visualize, Inc. ("Visualize") for future consideration of up to $2.35 million in license fees and royalty payments. Pursuant to the terms of the transaction, Visualize obtained a license with all rights and obligations to third parties currently licensing the Genomica software, including the sole right to further develop and license the software to other third parties. In addition, Visualize assumed the lease obligation for the Company's abandoned facility in Sacramento, California. Exelixis retains an internal use license for the software. As a result of this transaction, the Company reported the operating results of Genomica and the estimated loss on the sale of Genomica as discontinued operations. For the three-month period ended June 30, 2002, Genomica's operating results consisted of revenues of approximately $40,000 and an operating loss of approximately $42,000. For the six-month period ended June 30, 2002, Genomica's operating results consisted of revenues of approximately $58,000 and an operating loss of approximately $456,000. The estimated loss on the sale of Genomica includes the

write-off of goodwill of approximately $971,000, partially offset by the reversal of the Company's lease obligation for the Sacramento facility assumed by Visualize of approximately $176,000.

On June 28, 2002, the Genomica subsidiary was merged into the Company.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

Beginning in 2002, the Company manages exposures to the changes in foreign currency exchange rates for its foreign operations 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 enters into foreign currency exchange combination option contracts denominated in European Union Euro ("Euro") to minimize the effect of foreign exchange rate movements on the cash flows related to the Company's payments to one of its German subsidiaries for services provided by the subsidiary. The Company has designated these derivatives as foreign currency cash flow hedges. The effective portion of the gain or loss on the derivative instrument is reported as a separate component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction impacts earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any, is recognized in other income or expense in current earnings in each reporting period.

During the three- and six-month periods ended June 30, 2002, the Company did not recognize any gain or loss related to the ineffective portion of the hedging instruments and reclassified a gain of $3,000 from other comprehensive income into earnings under the caption, "Research and development expense." As of June 30, 2002, the Company expects to reclassify $234,000 of net gains on derivative instruments from accumulated other comprehensive income to earnings over the next 12 months as a result of the payment of foreign currency to its German subsidiaries.

NOTE 5. GOODWILL AND OTHER ACQUIRED INTANGIBLES

Changes in the carrying amount of goodwill for the six months ended June 30, 2002 are as follows (in thousands):

Balance as of December 31, 2001	$ 62,357
Reclassification of intangible asset - assembled workforce	1,658
Exercise of Artemis call option	4,042
Write-off of goodwill (Note 3)	(971)
Other	278
Balance as of June 30, 2002	$ 67,364

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 460,000 shares of Exelixis common stock in exchange for the remaining 22% of the outstanding capital stock of Artemis held by the option holders. In December 2001, Exelixis exercised its call option for the purchase of 131,674 shares. In January 2002, Exelixis exercised its call option for the purchase of the remaining 329,591 shares. The additional purchase price for the exercise in 2002 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 and concluded no impairment charge was required.

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

	AT JUNE 30, 2002		
	GROSS CARRYING AMOUNT	ACCUMLATED AMORTIZATION	NET

Developed technology	$ 1,640	$ (346)	$1,294
Patents/core technology	4,269	(428)	3,841
Total	$ 5,909	$ (774)	$5,135

	AT DECEMBER 31, 2001		
	GROSS CARRYING AMOUNT	ACCUMLATED 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 three- and six-month periods ended June 30, 2002 was $167,000 and $333,000, respectively, compared to $97,000 and $182,000 for the three- and six-month periods ended June 30, 2001, respectively. The expected future annual amortization expense of the other acquisition-related intangible assets is as follows (in thousands):

YEAR ENDING DECEMBER 31,	AMORTIZATION EXPENSE
2002 ($333 remaining subsequent to June 30, 2002)	$ 666
2003	666
2004	633
2005	533
2006	315
Thereafter	2,655
Total expected future amortization	$ 5,468

NOTE 6. COMMITMENTS

In May 2002, the Company entered into a loan and security agreement with a bank for an equipment line of credit of up to $16.0 million with a draw-down period of one year. Each draw on the line of credit has a payment term of 48 months and bears interest at the bank's published prime rate (4.75% at June 30, 2002). At June 30, 2002, approximately $2.3 million was outstanding under the line of credit and $13.7 million remained available on the line of credit. Pursuant to the terms of the line of credit, the Company is required to maintain a first priority security interest in the form of a deposit or securities account at the bank equal to 110% of the outstanding obligation under the line of credit. This collateral account is managed in accordance with the Company's investment policy and is restricted as to withdrawal. As of June 30, 2002, the collateral account had a cash balance of approximately $2.5 million and the Company recorded this amount in the balance sheet as restricted cash.

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 Other Information - Risk Factors" and those discussed elsewhere in this report, in our other SEC filings 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 or supplements to current cancer therapies.

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

Our strategy is to establish collaborations with major pharmaceutical, biotechnology and agrochemical companies based on the strength of our technologies and biological expertise as well as to support additional development of our proprietary products. Through these collaborations, we obtain license fees and research funding, together with the opportunity to receive milestone payments and royalties from research results and subsequent product development. In addition, many of our collaborations have been structured strategically to provide us access to technology to advance our internal programs, saving both time and money, while at the same time retaining rights to use the same information in different industries. Our collaborations with leading companies in the agrochemical industries allow us to continue to expand our internal development capabilities while providing our partners with novel targets and assays. Since we believe that agrochemical products have reduced development time and lower risk, we expect to be able to maximize our potential future revenue stream through partnering in multiple industries. We have active commercial collaborations with several leading pharmaceutical, biotechnology and agrochemical companies: Aventis CropScience LLC (now Bayer), Bayer Corporation, Bristol-Myers Squibb Company (two collaborations), Cytokinetics, Inc., Dow AgroSciences LLC, Elan Pharmaceuticals, Inc., Merck & Co., Inc. (two collaborations), Protein Design Labs, Inc., 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 $9.9 million and $21.4 million for the three- and six-month periods ended June 30, 2002, respectively, compared to $8.6 million and $16.3 million, respectively, for the comparable periods in 2001. The increase in revenues over the 2001 levels was driven primarily by new corporate collaborations established in 2001 with Protein Design Labs and Bristol-Myers Squibb and compound deliveries under our chemistry collaborations established with Elan Pharmaceuticals and Schering Plough Research Corporation to jointly design custom high-throughput screening compound libraries. The increase in revenues compared to the second quarter of 2001 occurred despite the reduction in revenue from Pharmacia due to the February 2002 conclusion of our collaboration.

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 approximately $29.3 million and $55.4 million for the three- and six-month periods ended June 30, 2002, respectively, compared to $20.6 million and $37.4 million, respectively, for the comparable periods in 2001. The increase in 2002 over 2001 resulted primarily from the following costs:

- - Increased Personnel - Staffing costs increased 45% to $11.1 million and 49% to $22.0 million for the three- and six-month periods ended June 30, 2002, respectively. The increase was to support new collaborative arrangements and Exelixis' internal proprietary research efforts. Salary, bonuses, related fringe benefits, recruiting and relocation costs are included in personnel costs. We expect these personnel costs to increase further as we continue to build our organization.

- - Increased Lab Supplies - As a result of the increase in personnel, our compound collaborations and the significant expansion of drug discovery operations, the cost of lab supplies increased 64% to $6.4 million and 79% to $11.5 million for the three- and six-month periods ended June 30, 2002, respectively.

- - Increased Licenses and Consulting - In order to support new collaborative arrangements, conduct pre-clinical and clinical development, engage in contract manufacturing and enable further development of proprietary programs, license and consulting expenses increased 129% to $2.8 million and 104% to $4.8 million for the three- and six-month periods ended June 30, 2002, respectively.

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, rebeccamycin. Phase I trials of the rebeccamycin analogue have been completed and demonstrated an acceptable safety profile. The Phase II trials of our rebeccamycin analogue sponsored by the National Cancer Institute (NCI) are proceeding. Exelixis is working with the NCI and investigators to collect and audit the results of the ongoing Phase II program with the goal of initiating the next phase of development under our control. Manufacturing of additional clinical supplies of the compound is progressing well and is consistent with the anticipated initiation of clinical development by Exelixis in 2003. We continued to make progress toward filing our first proprietary investigational new drug (IND) application and elected to focus on completing regulatory toxicology testing of an orally delivered anti-cancer compound. An IND could be filed as early as the first quarter of 2003. We currently do not have the 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 $9.6 million for the three- and six-month periods ended June 30, 2002, respectively, compared to $5.0 million and $9.2 million, respectively, for the comparable periods in 2001. The year-over-year decrease in expense for the three months ended June 30, 2002 primarily resulted from decreased stock compensation expense, almost completely offset by an increase in costs associated with personnel and facilities to support expansion in our research and development operations. The year-over-year increase in expense for the six-months ended June 30, 2002 resulted from an increase in costs associated with personnel and facilities to support expansion in our research and development operations, partially offset by decreased stock compensation expense.

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 June 30, 2002, we had approximately $2.3 million of remaining deferred stock compensation related to stock options granted to consultants and employees. Deferred stock compensation is recorded as a component of stockholders' equity and is being amortized as stock compensation expense over the vesting periods of the options, which is generally four years. We recognized stock compensation expense of $0.8 million and $1.6 million for the three- and six-month periods ended June 30, 2002, respectively, compared to $2.3 million and $4.2 million, respectively, for the comparable periods in 2001. 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 the Financial Accounting Standards Board (FASB) Interpretation Number 44, "Accounting for Certain Transactions Involving Stock Compensation," and resulted 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 three- and six-month periods ended June 30, 2002, we recorded a reversal of previously recorded compensation expense relating to the supplemental options of $105,000 and $242,000, respectively, 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 $167,000 and $333,000 for the three- and six-month periods ended June 30, 2002, respectively, compared to amortization of goodwill and intangibles of $1.2 million and $2.3 million, respectively, for the comparable periods in 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, offset by interest expense incurred on notes payable, bank obligations and capital lease obligations. Total other income (expense) was income of $1.3 million and $2.8 million for the three- and six-month periods ended June 30, 2002, respectively, compared to income of $1.2 million and $2.8 million, respectively, for the comparable periods in 2001.

DISCONTINUED OPERATIONS

In April 2002, Exelixis transferred the Genomica software business to Visualize, Inc. for future consideration of up to $2.35 million in license fees and royalty payments. Pursuant to the terms of the transaction, Visualize obtained a license with all rights and obligations to third parties currently licensing the Genomica software, including the sole right to further develop and license the software to other third parties. In addition, Visualize assumed the lease obligation for Genomica's abandoned facility in Sacramento, California. Exelixis retained an internal use license for the software. As a result of this transaction, we reported the operating results of Genomica and the estimated loss on the sale of Genomica as discontinued operations. For the three-month period ended June 30, 2002, Genomica's operating results consisted of revenues of $40,000 and an operating loss of approximately $42,000. For the six-month period ended June 30, 2002, Genomica's operating results consisted of revenues of approximately $58,000 and an operating loss of approximately $456,000. The estimated loss on the sale of Genomica includes the write-off of goodwill of approximately $971,000, partially offset by the reversal of Genomica's lease obligation for the Sacramento facility assumed by Visualize of approximately $176,000. On June 28, 2002, the Genomica subsidiary was merged into the Company.

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 June 30, 2002, we had approximately $171.2 million in cash, cash equivalents and short-term investments.

Our operating activities used cash of approximately $50.6 million and $15.4 million for the six-month periods ended June 30, 2002 and 2001, respectively. For the six-month period ended June 30, 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, partially offset by an increase in deferred revenues from collaborators and non-cash charges related to depreciation, acquired in-process research and development and amortization of deferred stock compensation, goodwill and other intangible assets.

Our investing activities provided cash of approximately $20.1 million and $13.3 million for the six-month periods ended June 30, 2002 and 2001, respectively. The cash provided in 2002 resulted from proceeds from maturities of short-term investments, partially offset by an increase in restricted cash and purchases of short-term investments, and property and equipment. For the comparable period in 2001, cash provided resulted from proceeds from maturities of short-term investments, proceeds from the sale-leaseback of equipment and cash acquired in acquisitions, partially offset by the purchases of short-term investments, and property and equipment.

Our financing activities provided cash of approximately $0.4 million and $28.7 million for the six-month periods ended June 30, 2002 and 2001, respectively. For the six-month period ended June 30, 2002, cash provided from financing activities related primarily to proceeds from our employee stock purchase plan, repayment of notes from stockholders and proceeds from bank obligations, almost completely offset by principal payments on notes payable and capital lease obligations. For the comparable period in 2001, cash provided from financing activities related primarily to proceeds from a convertible note and proceeds from our employee stock purchase plan, partially offset by principal payments on notes payable and capital lease obligations.

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 financings within this timeframe. We may raise additional funds through public or private financing, collaborative relationships or other arrangements. In July 2001, we filed a registration statement on Form S-3 to offer and sell up to $150.0 million of common stock. We have no current commitments to offer or sell securities with respect to shares that may be offered or sold pursuant to that filing. We cannot assure you that additional funding, if sought, will be available or, even if available, will be available on terms favorable to us. Further, any additional equity financing may be dilutive to stockholders, and debt financing,

if available, may involve restrictive covenants. Our failure to raise capital when needed may harm our business and operating results.

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 three- and six-month periods ended June 30, 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 first quarter of 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 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 June 30, 2002, there has been no material change in our 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 Euro. At the end of each reporting period, the revenues and expenses of these subsidiaries are translated into U.S. dollars using the average currency rate in effect for the period, and assets and liabilities are translated into U.S. dollars using the exchange rate in effect at the end of the period. Fluctuations in exchange rates, therefore, impact our financial condition and results of operations as reported in U.S. dollars.

In February 2002, we commenced using derivative financial instruments to reduce our exposure to foreign currency exchange rate movements on our consolidated operating results. As of June 30, 2002, we had outstanding an aggregate of $1.3 million (notional amount) of short-term foreign currency option contracts denominated in Euro. The fair value of these contracts at June 30, 2002 was approximately $234,000, 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 1. LEGAL PROCEEDINGS

Through our acquisition of Genomica, we were a party to a claim brought on December 5, 2001 by Rudoph Liedtke, on behalf of himself and all others similarly situated, against Genomica and eight of its now-former directors in

Colorado state court. In the action captioned Liedtke v. Genomica Corporation, et al., 01-CV-1822 (District Court, Division 3, Boulder County, Colorado), Mr. Liedtke alleged that the individual defendants breached their fiduciary duties to Genomica stockholders by voting in favor of the Agreement and Plan of Merger and Reorganization with our wholly-owned subsidiary. Mr. Liedtke's complaint set forth a single cause of action for breach of fiduciary duty and purported to seek an injunction prohibiting the consummation of the merger with Exelixis that was completed on January 8, 2002. We filed a motion to dismiss the complaint. The plaintiffs voluntarily withdrew the complaint in May 2002, and the action is no longer pending.

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 June 30, 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 June 30, 2002, $17.9 million of the proceeds remained available and were primarily invested in short-term marketable securities.

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

At Exelixis' 2002 Annual Meeting of Stockholders held on May 29, 2002, the stockholders were asked to vote on two items as follows:

1. To elect four Class III directors, Stelios Papadopoulos, Ph.D., George A. Scangos, Ph.D., Peter Stadler, Ph.D. and Lance Willsey, M.D., to hold office until the 2005 Annual Meeting of Stockholders; and

2. To ratify the selection of Ernst & Young LLP as independent auditors of Exelixis for the fiscal year ending December 31, 2002.

The results of the matters presented at the annual meeting, based on the presence in person or by proxy of holders of 43,017,975 shares of the 56,929,047 shares of Exelixis' common stock of record entitled to vote, were as follows:

1. Drs. Papadopoulos, Scangos, Stadler and Willsey were elected as directors of Exelixis until the 2005 Annual Meeting of Stockholders as follows:

	For	Withheld
Stelios Papadopoulos	42,743,900	274,075
George A. Scangos	37,392,559	5,625,416
Peter Stadler	42,791,631	226,344
Lance Willsey	42,908,657	109,318

2. The ratification of Ernst & Young LLP as independent auditors of Exelixis for the fiscal year ending December 31, 2002 was approved as follows:

For	Against	Abstain	Broker Non-Votes
42,443,581	568,279	6,115	0

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 $42.3 million for the six months ended June 30, 2002. As of that date, we had an accumulated deficit of approximately $243.5 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. 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 CropSciences (now Bayer). 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 acquired 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, and the timing of new collaborative agreements may have a significant effect on our ability to continue to successfully meet our corporate goals and milestones.

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

We are conducting proprietary research programs in specific disease and agricultural product areas that are not covered by our collaborative agreements. Our pursuit of opportunities in agricultural and pharmaceutical markets could, however, result in conflicts with our collaborators in the event that any of our collaborators take the position that our internal activities overlap with those areas that are exclusive to our collaborative agreements, and we should be precluded from such internal activities. Moreover, disagreements with our collaborators could develop over rights to our intellectual property. In addition, our collaborative agreements may have provisions that give rise to disputes regarding the rights and obligations of the parties. 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 our initial 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

None.

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: August 6, 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
2.1	Agreement of Merger, dated June 28, 2002, by and between Genomica Corporation and Exelixis, Inc.
3.1	Amended and Restated Certificate of Incorporation (1)
3.2	Amended and Restated Bylaws (1)
4.1	Specimen Common Stock Certificate (1)
10.33	Sublease, dated April 12, 2002, by and between Toshiba America Medical Systems, Inc. and Exelixis, Inc.
10.34	Loan and Security Agreement, dated May 22, 2002, by and between Silicon Valley Bank and Exelixis, Inc.
10.35*	Software License and Asset Acquisition Agreement, dated April 4, 2002, by and between Visualize, Inc. and Exelixis, Inc.
99.1	Certification of CEO and CFO Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002

(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.

* Confidential treatment requested for certain portions of this exhibit.

AGREEMENT OF MERGER

This Agreement of Merger is entered into as of June 28, 2002 between Exelixis, Inc., a Delaware corporation ("EXELIXIS"), and Genomica Corporation, a Delaware corporation ("GENOMICA").

The parties hereto desire that Genomica be merged with and into Exelixis and that Exelixis be the surviving corporation.

For United States federal income tax purposes, it is intended that that merger (the "MERGER") will qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended applies.

The parties agree as follows:

1. Genomica shall be merged with and into Exelixis.

2. At the effective time of the Merger, each outstanding share of Genomica stock shall be cancelled without consideration.

3. At the effective time of the Merger, all property, rights, privileges, franchises, patents, trademarks licenses, registrations and other assets of every kind and description of Genomica shall be transferred to and be vested in Exelixis without further action and all property, rights, and every other interest of Exelixis and Genomica shall be as effectively the property of Exelixis as they were of Exelixis and Genomica respectively.

4. At the effective time of the Merger, all of the obligations and liabilities of every kind and description of Genomica shall be assumed by Exelixis without further action, except to the extent necessary to undertake the assumption and Exelixis, on the one hand, and Genomica, its officers and directors or successor(s) in interest, on the other hand shall take all action necessary to evidence and effect such assumption by Exelixis, at or prior to the effective time.

5. The Amended and Restated Certificate of Incorporation of Exelixis, the surviving corporation, as in effect at the effective time of the Merger, shall continue in full force and effect as the Amended and Restated Certificate of Incorporation of the surviving corporation.

6. The directors and officers of Exelixis shall continue in office until the next annual meeting of stockholders and until their successors shall have been elected and qualified.

7. The effect of the Merger and the effective time of the Merger are as prescribed by law, provided that the effective time of the Merger shall be the time of the filing of the Certificate of Ownership and Merger by Exelixis with the Secretary of the State of Delaware.

[The following page is the signature page]

IN WITNESS WHEREOF, Exelixis and Genomica have caused this Agreement to be signed by their respective duly authorized as of the date first above written.

EXELIXIS, INC.

By: /s/ George A. Scangos

George A. Scangos
President and Chief Executive Officer

GENOMICA CORPORATION

By: /s/ George A. Scangos

George A. Scangos
President

[Signature page of Agreement of Merger between Exelixis, Inc. and Genomica Corporation]

EXHIBIT 10.33

SUBLEASE AGREEMENT

Toshiba America Medical Systems, Inc. ("TAMS"), located at 280 Utah Ave, South San Francisco, CA, and Exelixis, Inc. ("TENANT"), located at 170 Harbor Way, South San Francisco, CA hereby agree (the "Sublease Agreement") as follows:

1. SUBLEASE. TAMS hereby subleases to TENANT approximately 8,000 square feet (the "Premises") of the space leased by TAMS at 280 Utah Ave., South San Francisco, CA, (the "Facility") under the Lease Agreement ("Lease Agreement") entered into between TAMS and Simeon Commercial Properties, Inc. ("Landlord"). The Lease Agreement is attached hereto and by this reference is deemed incorporated into this Sublease Agreement. The Premises is identified on the attached "Exhibit B".

2. NO WARRANTIES. Except for delivery of the Premises in broom clean condition, TAMS subleases the Premises to TENANT AS IS, without any warranties whatsoever concerning the condition of the Premises or the suitability of the same for TENANT's purposes. To the extent required, TAMS must obtain the consent of Landlord as a condition to the effectiveness of this Sublease Agreement.

3. TERM. The term of this Sublease Agreement will begin on May 1, 2002 and end on March 31, 2004. However, TAMS may terminate this Sublease Agreement upon thirty (30) days prior written notice during its term should TENANT breach any of the terms and conditions specified in the Sublease Agreement. TAMS may also avail itself of any other remedies provided under the law.

4. RENTAL. The monthly rental to be paid by TENANT will be as follows:

March 1, 2002 through March 31, 2003 -	$10,800.00
April 1, 2003 through March 31, 2004 -	$11,120.00

The first installment of rent ($10,800.00) shall be paid upon execution of this Sublease Agreement. Future installments, along with any "additional rent", as specified herein, will be paid in advance no later than the first day of each month throughout the term of this Sublease Agreement at the following address (or any other to be designated by TAMS):

TOSHIBA AMERICA MRI, INC.
280 Utah Avenue,
South San Franciso, Ca. 94080
Attention: Accounts Payable

All rentals paid after due date will be assessed a late payment charge of the lesser of 1 1/2% per month or the maximum rate permitted by law. TAMS may require TENANT to pay the rent quarterly, in advance, if TENANT tenders late rent payments on three (3) or more occasions during the sublease term. Should TAMS take such action, it does not constitute a waiver of any other rights or remedies TAMS may have regarding late or non-payment of rent by tenant.

5. OPERATING EXPENSES, UTILITIES AND TAXES. In addition to the obligations specified in Section 4 above, TENANT shall pay for:

- All Personal property taxes associated with the use, occupancy or contents of the Premises.
- All costs related to the security, housekeeping, data/telecommunications (service, equipment and maintenance) and maintenance of the Premises.
- Tenant's proportionate share of all costs associated with the Premises where such costs are billed to TAMS as part of the overall cost of the Facility.

To the extent that such payments will be made directly to the service provider by TENANT, TENANT will make each payment when due. Proportionate share payments will be considered "additional rent", and must be paid to TAMS in accordance with Section 4 above.

6. PARKING. TENANT may use all parking and shall pay for the same to the

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extent specified in the Lease Agreement. But in no event will TENANT be allowed to use more than 32 parking spaces at any one time

8. SECURITY DEPOSIT. Upon execution of this Sublease Agreement, TENANT is
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to pay TAMS the sum of $10,800 (Ten Thousand and Eight Hundred dollars), to be used as security deposit for the performance of TENANT's obligations under this Sublease Agreement including, without limitation, the surrender of possession of the Premises to TAMS upon expiration of the term of this Sublease Agreement. It is expressly understood and agreed that such deposit is not an advance rental deposit or a measure of TAMS' damages in case of TENANT's default. If TAMS applies any part of the security deposit to cure any default of TENANT, TENANT will, upon demand, deposit with TAMS the amount so applied so that TAMS will have the full deposit on hand at all times during the term of this Sublease Agreement. No interest will be due on the security deposit and TAMS will not be obligated to apply the security deposit to rents or other charges in arrears or to damages for TENANT's failure to perform under this Sublease Agreement. However, TAMS may so apply the security deposit at TAMS' option, and TAMS' right to possession of the Premises for nonpayment of rent or for any other reason will not in any way be affected by reason of the fact that TAMS holds such security deposit.

Based on the obligations set forth in Section 4 and this Section 8, Tenant's payment obligation upon execution of this Sublease Agreement shall be $21,600.00 (Twenty One Thousand and Six Hundred Dollars).

9. TENANT IMPROVEMENTS. TAMS will, it its sole expense, construct a demising
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wall, as noted on Exhibit B. Any and all other improvements required by the TENANT will be at the sole expense of the TENANT, and must approved by TAMS per the terms of the Lease Agreement.

10. FINANCIAL INFORMATION. TENANT will provide TAMS with all financial
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information reasonably requested by TAMS from time to time to determine TENANT's ability to comply with its obligations under this Sublease Agreement.

11. ASSUMPTION OF OBLIGATIONS. TENANT agrees to fully perform all of the
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obligations of TAMS (except TAMS' obligation to pay rent, and except as otherwise specified in this Sublease Agreement) under the terms of the Lease Agreement with respect to the Premises and to accord TAMS all of the rights, privileges, and indemnities with respect to and from TAMS to Landlord under the Lease Agreement and agrees that all of the terms and conditions of the Lease Agreement as applied to the Premises are hereby incorporated in this Sublease Agreement, including, without limitation, the obligation to maintain and repair the Premises.

12. INDEMNIFICATION. TENANT will defend, indemnify, and hold TAMS harmless
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from all claims, damages, liabilities, and costs (including attorney's fees) arising out of TENANT's failure to comply with its obligations under this Sublease Agreement or otherwise arising out of TENANT's occupancy of the Premises, including, without limitation, any claim made by the Landlord. TAMS will defend, indemnify, and hold TENANT harmless from all claims, damages, liabilities, and costs (including attorney's fees) arising out of failure by TAMS to comply with its obligations under this Sublease Agreement or the Master Lease, including, without limitation, any claim made by Landlord against TENANT with respect to such failure or breach by TAMS.

13. ATTORNEY'S FEES. In the event of any legal proceeding involving any
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party to this Sublease Agreement against the other relating to the subject matter of this Sublease Agreement, the prevailing party in such proceeding will be entitled to recover attorney's fees, expert fees, and court costs against the non-prevailing party.

14. USE OF FACILITY LOBBY. TENANT, its employees, guests and invitees
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may use the Facility Lobby entrance but none of the services provided therein, other than the use of the vending machine area, restrooms, and elevator which are considered as part of the common shared rental space.

15. ENTIRE AGREEMENT; MODIFICATION. This Agreement and its attachments
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contain the entire agreement and understanding between the parties relating to its subject matter. It supersedes all prior agreements and

understandings, whether oral or written, relating to such subject matter. It also supersedes all standard terms and conditions on any form to be exchanged between the parties, including, invoice, purchase order, order acknowledgment, quotation and delivery documents. This Agreement may not be amended or modified in any manner except by means of a writing executed by all parties.

TOSHIBA AMERICA MEDICAL SYSTEMS, INC.	EXELIXIS, INC.
BY: /s/ Fredric J. Friedberg	BY: /s/ George A. Scangos
FREDRIC J. FRIEDBERG	GEORGE A. SCANGOS PH.D.
SENIOR VICE PRESIDENT	PRESIDENT & CEO
DATED: April 12, 2002	DATED: April 8, 2002

EXHIBIT 10.34

LOAN AND SECURITY AGREEMENT

Exelixis, Inc.

TABLE OF CONTENTS

EXHIBITS

Exhibit A - Description of Collateral
Exhibit B - Loan Payment/Advance Request Form
Exhibit C - Form of Loan Agreement Supplement
Exhibit D - Form of Compliance Certificate

This LOAN AND SECURITY AGREEMENT dated May 22, 2002, between SILICON VALLEY BANK, a California-chartered bank ("Bank") whose address is 3003 Tasman Drive, Santa Clara, California 95054, and EXELIXIS, INC., a Delaware corporation ("Borrower") whose address is 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083, provides the terms on which Bank will lend to Borrower and Borrower will borrow from Bank. The parties agree as follows:

1. ACCOUNTING AND OTHER TERMS.

Accounting terms not defined in this Agreement will be construed in accordance with GAAP. Calculations and determinations must be made in accordance with GAAP. The term "financial statements" includes the notes and schedules. The terms "including" and "includes" always mean "including (or includes) without limitation," in this or any Loan Document.

2. LOAN AND TERMS OF PAYMENT.

2.1 PROMISE TO PAY.

Borrower promises to pay Bank the unpaid principal amount of all Credit Extensions and interest on the unpaid principal amount of all Credit Extensions.

2.1.1 EQUIPMENT ADVANCES.

(a) Subject to the terms and conditions of this Agreement, Bank agrees to lend to Borrower, from the Closing Date until the Commitment Termination Date, equipment advances (the "Equipment Advances") in an aggregate amount not to exceed the Committed Equipment Line. When repaid, the Equipment Advances may not be re-borrowed. The proceeds of each Equipment Advance will be used solely to reimburse Borrower for 100% of the Original Stated Cost of Eligible Equipment purchased. Bank's obligation to lend hereunder shall terminate on the earlier of (i) the occurrence and continuance of an Event of Default, or (ii) the Commitment Termination Date. For purposes of this Section 2.1.1, the maximum number of Equipment Advances that may be made is eight and the minimum amount of each Equipment Advance (except for the Initial Equipment Advance and the final Equipment Advance) shall be $500,000.

(b) To obtain an Equipment Advance, Borrower will deliver to Bank, at least three (3) Business Days before the proposed funding date (the "Funding Date"), a completed supplement in the form attached as Exhibit C ("Loan Supplement") signed by a Responsible Officer or his or her designee and such additional information as Bank may request. On the Funding Date, Bank will specify in the Loan Supplement the Basic Rate, the periodic principal payments and the Payment Dates, all in accordance with the terms of this Agreement. If Borrower satisfies the conditions of the Equipment Advances specified herein, Bank will disburse such Equipment Advance by internal transfer to Borrower's deposit account with Bank. The Loan Supplement for each Equipment Advance shall be considered a promissory note evidencing the amounts due under such Equipment Advance.

2.2 OVERADVANCES.

If the Obligations under Sections 2.1.1 at any time exceed the Committed Equipment Line or the principal balance of the segregated securities account(s) required by Section 6.4 hereof at any time is less than 110% of the principal portion of the Obligations, then Borrower will be in an Overadvance to the extent of such excess amount. If Borrower is in an Overadvance, then Borrower shall immediately repay to Bank such excess amount.

2.3 INTEREST RATE, PAYMENTS.

2.3.1 EQUIPMENT ADVANCES.

(a) Borrower will repay each of the Equipment Advances on the terms provided in the Loan Supplement for such Equipment Advance, effected through debits of Borrower's accounts as provided in Section 2.3.2 hereof. Borrower will make 48 equal monthly payments of principal in arrears, plus accrued and unpaid interest (collectively, "Scheduled Payments"), on the last Business Day of the month following the Funding Date (or commencing on the Funding Date, if the Funding Date is the last Business Day of the month) and continuing thereafter during the Repayment Period on the last Business Day of each calendar month (each, a "Payment Date"), and all then-outstanding principal and accrued and unpaid interest as to each Equipment Advance shall be due and payable in full on

the Maturity Date for that Equipment Advance. Payments received after 12:00 noon, Pacific Time, are considered received at the opening of business on the next Business Day.

(b) Borrower will pay interest on the Payment Dates at the per annum rate of interest equal to the Basic Rate, as the Basic Rate may from time to time change. Any amounts outstanding during the continuance of an Event of Default shall bear interest at a per annum rate equal to the Basic Rate plus five percent (5.00%). If any change in the law after the date of this Agreement increases Bank's expenses or decreases its return from the Equipment Advances, Borrower will pay Bank upon request the amount of such increase of expenses or an amount equal to the difference between Bank's anticipated return from the Equipment Advances and the decreased return actually received by Bank (as the case may be).

(c) If the Equipment Advances are accelerated following the occurrence of an Event of Default, then Borrower will immediately pay to Bank, without duplication, (i) all unpaid Scheduled Payments (including principal and interest), (ii) all principal with respect to remaining Scheduled Payments (iii) all accrued unpaid interest, including the default rate of interest, to the date of the prepayment, and (iv) all other sums, if any, that shall have become due and payable with respect to the Equipment Advances.

(d) Borrower shall have the option to prepay, without penalty or premium, the Equipment Advances in whole or in part at any time; provided, however, that Borrower (i) gives written notice to Bank of its election to prepay at least 30 days prior to such prepayment and (ii) pays, on the date of the prepayment, without duplication, (A) all unpaid Scheduled Payments (including principal and interest) with respect to the Equipment Advances to be prepaid, (B) such principal portion of the Equipment Advance as Borrower notified Bank was to be prepaid, (C) all unpaid accrued interest on the principal portion so prepaid to the date of the prepayment, and (D) all other sums, if any, that shall have become due and payable hereunder with respect to such principal portion so prepaid.

2.3.2 DEBIT OF BORROWER'S ACCOUNTS.

Bank will debit any of Borrower's deposit accounts, including Account Number 3300161062, for principal and interest payments, and any other amounts Borrower owes Bank when due. Bank will notify Borrower when it debits Borrower's accounts. Any such debits are not a set-off.

2.4 FEES.

(a) Borrower will pay all Bank Expenses (including reasonable attorneys' fees and reasonable expenses) incurred through and after the date of this Agreement, provided, however, that Borrower's obligation to pay Bank Expenses incurred through the Closing Date shall be limited to $3,000. All Bank Expenses are due and payable upon demand from Bank.

(b) Borrower will pay the Loan Fee on or before the Closing Date.

3. CONDITIONS OF LOANS.

3.1 CONDITIONS PRECEDENT TO INITIAL CREDIT EXTENSION.

Bank's obligation to make the initial Credit Extension is subject to Bank's having received the agreements, documents and fees that it requires.

3.2 CONDITIONS PRECEDENT TO ALL CREDIT EXTENSIONS.

Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following:

(a) Bank shall have received any Loan Payment/Advance Request Form and any Loan Supplement.

(b) The representations and warranties in Section 5 shall be true in all material respects on the date of the Payment/Advance Form and the Loan Supplement, and on the effective date of each Credit Extension, and no Event of Default may have occurred and be continuing, or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties of Section 5 remain true in all material respects.

(c) Borrower shall have opened its primary operating accounts with Bank and shall have opened a segregated investment account with the Bank's Investment Products and Services Division with a principal balance in an amount at all times equal to not less than 110% of the principal portion of the Obligations

plus the amount of the requested Credit Extension(s).

4. CREATION OF SECURITY INTEREST.

Borrower grants Bank a continuing first priority security interest in all presently existing and later acquired Collateral to secure all Obligations and the performance of each of Borrower's duties under the Loan Documents. Bank may place a "hold" on any deposit account and/or securities account pledged as Collateral. If this Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1 DUE ORGANIZATION AND AUTHORIZATION.

Borrower and each Subsidiary is duly existing and in good standing in its jurisdiction of formation and is qualified and licensed to do business in, and in good standing in, each jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change. Borrower is a Delaware corporation. The execution, delivery and performance by Borrower of the Loan Documents have been duly authorized, and do not conflict with Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default could reasonably be expected to cause a Material Adverse Change.

5.2 COLLATERAL.

Borrower has good title to the Collateral, free of all Liens except the Lien in favor of the Bank.

5.3 LITIGATION.

Except as shown in the Schedules, there are no actions or proceedings pending or, to the knowledge of Borrower's Responsible Officers, threatened by or against Borrower or any Subsidiary in which an adverse decision could reasonably be expected to cause a Material Adverse Change.

5.4 NO MATERIAL ADVERSE CHANGE IN FINANCIAL STATEMENTS.

All separate or consolidated financial statements for Borrower and any Subsidiary delivered to Bank fairly present in all material respects such entity's separate and consolidated financial condition and separate and consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.5 REGULATORY COMPLIANCE.

Neither Borrower nor any Subsidiary, is an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Neither Borrower nor any Subsidiary, is engaged, as one of its material activities, in extending credit for margin stock (under Regulations T and U promulgated by the Board of Governors of the Federal Reserve System). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to cause a Material Adverse Change. None of Borrower's or any Subsidiary's properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating or transporting any hazardous substance other than in a legal manner in substantial compliance with all environmental laws and regulations. Each of Borrower and each Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all material taxes, except those being contested in good faith with adequate reserves under GAAP. Each of Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

5.6 FULL DISCLOSURE.

No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank (taken together with all such written certificates and written statements to Bank) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading, it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected and forecasted results.

6. AFFIRMATIVE COVENANTS.

Borrower will do all of the following for so long as Bank has an obligation to lend, or there are outstanding Obligations:

6.1 GOVERNMENT COMPLIANCE.

Borrower will maintain its and all Subsidiaries' legal existence and good standing in its respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify could reasonably be expected to result in a Material Adverse Change. Borrower will comply, and cause each Subsidiary to comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could reasonably be expected to cause a Material Adverse Change.

6.2 FINANCIAL STATEMENTS, REPORTS, CERTIFICATES.

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 45 days after the last day of each of the first three quarters of Borrower's fiscal year, company-prepared unaudited separate and consolidated balance sheets and income statements covering the separate and consolidated operations of Borrower and its Subsidiaries during the fiscal quarter (with the exception of when annual statements are due), certified by a Responsible Officer and in a form acceptable to Bank; (ii) as soon as available but no later than 90 days after the last day of Borrower's fiscal year, audited separate and consolidated financial statements for Borrower and all Subsidiaries prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank; (iii) except as otherwise disclosed in filings with the U.S. Securities and Exchange Commission, a prompt report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of $5,000,000 or more; and (iv) any Forms 10-K and 10-Q filed with the U.S. Securities and Exchange Commission, within 10 days of such filing.

(b) Concurrently with the delivery of the quarterly and annual financial statements, Borrower will deliver to Bank a Compliance Certificate in the form of Exhibit D, signed by a Responsible Officer.

6.3 TAXES.

Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments (other than taxes and assessments which Borrower is contesting in good faith, with adequate reserves maintained in accordance with GAAP) and will deliver to Bank, on demand, appropriate certificates attesting to the payment.

6.4 DEPOSITS.

Borrower will at all times maintain its primary operating accounts with the Bank. In addition, Borrower will at all times maintain on deposit in a segregated securities account with Bank or its Investment Products and Service Division a principal balance in a value equal to at least 110% of the principal portion of the Obligations plus all requested Credit Extensions, the value of such account to be marked to market on a monthly basis. The balance in such account must be invested in a manner consistent with the Investment Policies approved by Borrower's Board of Directors dated April 28, 2000, or in mutual funds offered by Bank or one of its Affiliates.

6.5 FURTHER ASSURANCES.

Borrower will execute all further instruments and take all further actions as Bank reasonably requests to perfect or continue Bank's first priority security interest in the Collateral and to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS.

For so long as Bank has an obligation to lend or there are any outstanding Obligations, Borrower will not do any of the following to the extent that such actions impair Bank's Lien on the Collateral unless Borrower obtains Bank's prior written consent:

7.1 DISPOSITIONS.

Borrower will not convey, sell, lease, transfer or otherwise dispose of (collectively "Transfer"), all or any part of its business or property, except for Transfers (i) of Inventory in the ordinary course of business, (ii) of licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business, or (iii) of worn-out or obsolete Equipment.

7.2 CHANGES IN BUSINESS, OWNERSHIP, MANAGEMENT OR BUSINESS LOCATIONS.

Borrower will not, without the prior written consent of Bank, engage in any business other than the businesses currently engaged in by Borrower or businesses reasonably related thereto. Borrower will not, without at least 30 days prior written notice to Bank, relocate its chief executive office.

7.3 INDEBTEDNESS.

Borrower will not create, incur, assume or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.4 ENCUMBRANCES.

Borrower will not create, incur or allow to exist any Lien on any of its properties, or assign or convey any right to receive income (including the sale of any Accounts), or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest herein granted to Bank, subject to Permitted Liens.

7.5 DISTRIBUTIONS; INVESTMENTS.

Borrower will not directly or indirectly pay any dividends or make any distribution or payment related to, or redeem, retire or purchase any of, its capital stock, except for (i) dividends and distributions consisting solely of the capital stock of Borrower and (ii) repurchases of stock from former employees or directors of Borrower under the terms of applicable repurchase agreements or pursuant to Borrower's employee stock option plans as approved by Borrower's board of directors.

7.6 TRANSACTIONS WITH AFFILIATES.

Borrower will not directly or indirectly enter into or permit any material transaction with any Affiliate, except transactions that are in the ordinary course of Borrower's business, on terms less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.7 SUBORDINATED DEBT.

Borrower will not make or permit any payment on any Subordinated Debt except under the express terms of the Subordinated Debt, or amend any provision in any document relating to the Subordinated Debt, without Bank's prior written consent.

7.8 COMPLIANCE.

Borrower will not become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940, or undertake as one of its material activities extending credit to purchase or carry margin stock, or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction (as defined in ERISA) to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business or operations (or the business or operations of Guarantor) or would reasonably be expected to cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

8. EVENTS OF DEFAULT.

8.1 PAYMENT DEFAULT.

Borrower fails to pay any of the Obligations within three Business Days after their due date. During the three-Business Day period, the failure to cure the default is not itself an Event of Default (but Bank shall have no obligation to make a Credit Extension during the three-Business Day period).

8.2 COVENANT DEFAULT.

(a) Borrower fails to perform any obligation under Section 6.4 of this Agreement, or violates any of the covenants in Article 7 of this Agreement, or

(b) Borrower fails or neglects to perform, keep or observe any other material term, provision, condition, covenant or agreement in this Agreement, in any other Loan Documents or in any other present or future agreement between Borrower and Bank and, as to any default under such other term, provision, condition, agreement or covenant that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten-day period, and such default is likely to be cured within a reasonable time thereafter, then Borrower shall have an additional reasonable time period (which shall not in any case exceed ten additional days) to cure such default. During the ten-day period and (if applicable) the additional ten-day period, the failure to cure the default is not itself an Event of Default (but Bank shall have no obligation to make a Credit Extension during such periods).

8.3 MATERIAL ADVERSE CHANGE.

There occurs (i) a material adverse change in the business, operations or condition (financial or otherwise) of the Borrower, (ii) a material impairment of the prospect of repayment of any portion of the Obligations, or (iii) a material impairment to the value of, or the priority of Bank's Lien upon, the Collateral (or any material portion thereof).

8.4 ATTACHMENT.

Any material portion of Borrower's assets is attached, seized or levied on, or comes into possession of a trustee or receiver, and the attachment, seizure or levy is not removed, or the possession by a trustee or receiver is not terminated, in ten days; or Borrower is enjoined, restrained or prevented by court order from conducting a material part of its respective businesses; or a judgment or other claim becomes a Lien on a material portion of Borrower's assets; or a notice of lien, levy or assessment is filed against any of Borrower's assets by any government agency and not paid within ten days after Borrower receives notice thereof. None of the foregoing is an Event of Default if stayed or if a bond is posted pending contest by Borrower (but Bank shall have no obligation to make a Credit Extension during such stay period or pending contest).

8.5 INSOLVENCY.

Borrower becomes insolvent or begins an Insolvency Proceeding, or an Insolvency Proceeding is begun against Borrower and is not dismissed or stayed within 30 days (but Bank shall have no obligation to make a Credit Extension before any Insolvency Proceeding is dismissed).

8.6 OTHER AGREEMENTS.

There is a default in any agreement between Borrower and a third party that gives the third party the right to accelerate any Indebtedness exceeding $1,000,000.

8.7 JUDGMENTS.

A money judgment(s) in the aggregate of at least $5,000,000 is rendered against Borrower and is unsatisfied and unstayed for ten days (but Bank shall have no obligation to make a Credit Extension before the judgment is stayed or satisfied).

8.8 MISREPRESENTATIONS.

Borrower, or any Person acting for Borrower, makes any material

misrepresentation or material misstatement now or later in any warranty or representation in this Agreement or in any writing delivered to Bank or in order to induce Bank to enter this Agreement or any Loan Document.

9. BANK'S RIGHTS AND REMEDIES.

9.1 RIGHTS AND REMEDIES.

When an Event of Default occurs and any period for cure has expired Bank may, without notice or demand, do any or all of the following:

(a) Declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) Stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) Make any payments and do any acts that Bank considers necessary or reasonable to protect its security interest in the Collateral;

(d) Apply to the Obligations, after first applying the balances of the segregated investment accounts thereto, any (i) balances and deposits of Borrower that Bank holds, and (ii) amounts held by Bank owing to or for the credit or the account of Borrower; and

(e) Dispose of the Collateral according to the Code.

9.2 POWER OF ATTORNEY.

Borrower irrevocably appoints and constitutes Bank as its lawful attorney-in-fact, with full power and in the name of Borrower, to do all of the following upon the occurrence and continuation of an Event of Default: (i) endorse Borrower's name on any checks or other forms of payment or security; and (ii) transfer the Collateral into the name of Bank or a third party as the Code permits. Notwithstanding the foregoing, Bank may exercise the power of attorney to sign Borrower's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney-in-fact, and all of Bank's rights and powers, are coupled with an interest and irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

9.3 BANK EXPENSES.

If Borrower fails to pay any amount or furnish any required proof of payment to third persons, Bank may make all or part of the payment. Any amounts paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then-applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or constitute Bank's waiver of any Event of Default.

9.4 BANK'S LIABILITY FOR COLLATERAL.

If Bank complies with reasonable banking practices and the Code, it shall not be liable for: (i) the safekeeping of the Collateral; (ii) any loss or damage to the Collateral; (iii) any diminution in the value of the Collateral; or (iv) any act or default of any carrier, warehouseman, bailee, or other person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.5 REMEDIES CUMULATIVE.

Bank's rights and remedies under this Agreement, the other Loan Documents and all other agreements are cumulative. Bank has all rights and remedies provided under the Code, by law and in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election or acquiescence. No waiver is effective unless signed by Bank, and then is only effective for the specific instance and purpose for which it was given.

9.6 DEMAND WAIVER.

Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release,

compromise, settlement, extension or renewal of accounts, documents, instruments, chattel paper and guaranties held by Bank on which Borrower is liable.

10. NOTICES.

All notices or demands by any party about this Agreement or any other related agreement must be in writing and be personally delivered or sent by an overnight delivery service, by certified mail, (postage prepaid, return receipt requested) or by telefacsimile to the addresses set forth at the beginning of this Agreement. A party may change its notice address by giving the other party written notice thereof.

11. CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER.

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California.

BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

12. GENERAL PROVISIONS.

12.1 SUCCESSORS AND ASSIGNS.

This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights under it without Bank's prior written consent, which may be granted or withheld in Bank's discretion. Bank has the right, without the consent of or notice to Borrower, to sell, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement.

12.2 INDEMNIFICATION.

Borrower will indemnify, defend and hold harmless Bank and its officers, employees, and agents against: (i) all obligations, demands, claims, and liabilities asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (ii) all losses and Bank Expenses incurred or paid by Bank from, following or consequential to transactions between Bank and Borrower (including reasonable attorneys fees and expenses), except in each case for losses caused by Bank's gross negligence or willful misconduct.

12.3 TIME OF ESSENCE.

Time is of the essence for the performance of all obligations in this Agreement.

12.4 SEVERABILITY OF PROVISION.

Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 AMENDMENTS IN WRITING, INTEGRATION.

All amendments to this Agreement must be in writing and signed by Borrower and Bank. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. All prior agreements, understandings, representations, warranties and negotiations between the parties about the subject matter of this Agreement merge into this Agreement and the other Loan Documents.

12.6 COUNTERPARTS.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all of which, taken together, constitute one Agreement.

12.7 SURVIVAL.

All covenants, representations and warranties made in this Agreement continue in full force while any Obligations remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.

12.8 CONFIDENTIALITY.

In handling any confidential information, Bank will exercise the same degree of care that it exercises for its own proprietary information, and disclosure of information may be made by Bank: (i) to Bank's subsidiaries or affiliates in connection with their business with Borrower; (ii) to prospective transferees or purchasers of any interest in the Loan Documents (provided, however, Bank shall use commercially reasonable efforts in obtaining such prospective transferee or purchasers agreement of the terms of this provision); (iii) as required by law, regulation, subpoena or other order; (iv) as required in connection with Bank's examination or audit; and (v) as Bank considers appropriate in exercising remedies under this Agreement. Confidential information does not include information that either: (i) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (ii) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

12.9 ATTORNEYS' FEES, COSTS AND EXPENSES.

In any action or proceeding between Borrower and Bank arising out of the Loan Documents, the prevailing party will be entitled to recover its reasonable attorneys' fees and other reasonable costs and expenses incurred, in addition to any other relief to which it may be entitled.

13. DEFINITIONS.

In this Agreement:

"AFFILIATE" of a Person is a Person that owns or directly or indirectly controls the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"BANK EXPENSES" are all audit fees and expenses and reasonable costs and expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals and Insolvency Proceedings).

"BASIC RATE" is, as to each Equipment Advance, the Prime Rate, as that rate shall change from time to time.

"BORROWER'S BOOKS" are all of Borrower's books and records, including ledgers, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

"BUSINESS DAY" is any day that is not a Saturday, Sunday or other day on which the Bank is closed.

"CLOSING DATE" is the date of this Agreement.

"CODE" is the Uniform Commercial Code, as applicable.

"COLLATERAL" is the property described on Exhibit A.

"COMMITTED EQUIPMENT LINE" is the principal sum of $16,000,000 of Equipment Advances.

"COMMITMENT TERMINATION DATE" is the one-year anniversary of the Closing Date.

"CONTINGENT OBLIGATION" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (i) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (ii) any obligations for undrawn letters of credit for the account of that Person; and (iii) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in

interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under the guarantee or other support arrangement.

"CREDIT EXTENSION" is each Equipment Advance or any other extension of credit made by Bank to Borrower or for Borrower's benefit.

"DOLLARS" and "$" is United States dollars.

"ELIGIBLE EQUIPMENT" is new or used general purpose computer equipment, office equipment, test and laboratory equipment and furnishings, as well as Other Equipment.

"EQUIPMENT" is all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"EQUIPMENT ADVANCE" is defined in Section 2.1.1.

"EQUIPMENT LOAN AMOUNT" is the amount of each Equipment Advance. "ERISA" is the Employment Retirement Income Security Act of 1974, and its regulations.

"EVENT OF DEFAULT" is the occurrence of any event described in Article 8 but does not include any cure period provided therein.

"FINANCED EQUIPMENT" is defined in the Loan Supplement.

"FUNDING DATE" is a date on which an Equipment Advance is made to or on account of Borrower.

"GAAP" is generally accepted accounting principles, consistently applied over the period(s) in question.

"INDEBTEDNESS" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations and (d) Contingent Obligations.

"INITIAL EQUIPMENT ADVANCE" is the first Equipment Advance under the Committed Equipment Line.

"INSOLVENCY PROCEEDINGS" are proceedings by or against any Person under the United States Bankruptcy Code or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement or other relief.

"INVESTMENT" is any beneficial ownership (including stock, partnership interest or other securities) of any Person, or any loan, advance or capital contribution to any Person.

"LIEN" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"LOAN DOCUMENTS" are, collectively, this Agreement, any note or notes, and any other present or future agreement between Borrower to or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated.

"LOAN FEE" is an amount equal to $80,000.

"LOAN SUPPLEMENT" is attached as Exhibit C.

"MATERIAL ADVERSE CHANGE" is described in Section 8.3.

"MATURITY DATE" is, as to each Equipment Advance, the last day of the Repayment Period for such Equipment Advance or, if earlier, the date of acceleration of the Equipment Advance by Bank following an Event of Default.

"OBLIGATIONS" are debts, principal, interest, Bank Expenses and other amounts that Borrower owes to Bank now or later, including cash management services, letters of credit and foreign exchange contracts (if any) and including interest accruing after Insolvency Proceedings begin, and debts, liabilities or obligations of Borrower assigned to Bank.

"ORIGINAL STATED COST" is (i), the original cost to the Borrower of the

item of new Eligible Equipment net of any and all freight, installation, tax (except to the extent Eligible Equipment constitutes Other Equipment) or (ii) the fair market value assigned to such item of used Eligible Equipment by mutual agreement of Borrower and Bank at the time of making of an Equipment Advance.

"OTHER EQUIPMENT" is leasehold improvements, taxes, freight, installation, intangible property such as computer software and software licenses, equipment specifically designed or manufactured for Borrower, other intangible property, limited use property and other similar property.

"OVERADVANCE" is described in Section 2.2.

"PERMITTED INDEBTEDNESS" is:

(a) Borrower's indebtedness to Bank under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date that is acceptable to Bank and shown on the Schedules;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business; and

(e) Indebtedness of Borrower to any Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of Borrower (provided that the primary obligations are not prohibited hereby), and Indebtedness of any Subsidiary to any other Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of any other Subsidiary (provided that the primary obligations are not prohibited by);

(f) other Indebtedness not otherwise permitted by Section 7.4 not exceeding $1,000,000 in the aggregate outstanding at any time; and

(g) Indebtedness secured by Permitted Liens.

"PERMITTED INVESTMENTS" are:

(a) Investments existing on the Closing Date that are acceptable to Bank and shown on the Schedules;

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States or its agency or any State maturing within two years from its acquisition, (ii) commercial paper maturing no more than one year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) Bank's certificates of deposit issued maturing no more than one year after issue;

(c) Investments consisting of Borrower's accounts receivable in the ordinary course of business;

(d) Investments consisting of loans to employees, officers or directors;

(e) other Investments in accordance with Borrower's investment policies as approved in good faith by Borrower's board of directors; and

(f) checking, savings, money market and investment accounts with Bank or an Affiliate of Bank.

"PERMITTED LIENS" are:

(a) Liens existing on the Closing Date that are acceptable to Bank and shown on the Schedules or arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;

(c) purchase money Liens (i) on Equipment acquired or held by Borrower or its Subsidiaries incurred for financing the acquisition of the Equipment, or (ii) existing on equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the equipment, provided that any such lien pertaining to Eligible Equipment that is financed by the Equipment Advances must be in favor of Bank;

(d) licenses or sublicenses granted in the ordinary course of Borrower's business and any interest or title of a licensor or under any license or sublicense, if the licenses and sublicenses permit granting Bank a security interest;

(e) leases or subleases granted in the ordinary course of Borrower's business, including in connection with Borrower's leased premises or leased property;

(f) Liens in favor of Bank hereunder;

(g) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default under Section 8.7; and

(h) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness so secured may not increase.

"PERSON" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company association, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"PRIME RATE" is Bank's most recently announced "prime rate," even if it is not the lowest rate at which Bank makes loans or otherwise extends credit.

"REPAYMENT PERIOD" as to each Equipment Advance is 48 months.

"RESPONSIBLE OFFICER" is each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"SCHEDULED PAYMENTS" is described in Section 2.3.1(a).

"SCHEDULES" are the attached schedules of exceptions.

"SUBORDINATED DEBT" is debt incurred by Borrower that is subordinated to Borrower's Indebtedness owed to Bank and that is reflected in a written agreement in a manner and form acceptable to Bank and approved by Bank in writing.

"SUBORDINATION AGREEMENT" shall mean one or more agreements in favor of Bank as senior creditor relating to Subordinated Debt.

"SUBSIDIARY" is, for Borrower, any business entity of which more than 20% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by Borrower or one or more Affiliates of Borrower.

IN WITNESS WHEREOF, each of the parties hereto has caused its duly authorized representative to execute and deliver this Agreement on the date first set forth above.

BANK: SILICON VALLEY BANK, a California-chartered bank	BORROWER: EXELIXIS, INC., a Delaware corporation.
By: /s/ D. Edward Wohlleb ----------	By: /s/ Glen Y. Sato ----------
Name: D. Edward Wohlleb ----------	Name: Glen Y. Sato ----------
Title: Vice President ----------	Title: CFO & VP Legal Affairs ----------

EXHIBIT A

The Collateral consists of all of Borrower's right, title and interest in and to the following:

All documents, cash, deposit accounts, securities, securities entitlements, securities accounts, investment property, financial assets, letters of credit, certificates of deposit and instruments held in segregated investment accounts with Bank or an affiliate of Bank, whether now owned or hereafter acquired, and all proceeds of any of the foregoing, and all of Borrower's Books relating to the foregoing.

EXHIBIT B

LOAN PAYMENT/ADVANCE REQUEST FORM

FAX TO: _____ DATE: _____

Loan Payment:

EXELIXIS, INC.

From Account # _____ To Account # _____

(Deposit Account #) (Loan Account #)

Principal $ _____ and/or Interest $ _____

All Borrower's representation and warranties in the Loan and Security Agreement are true, correct and complete in all material respects to on the date of the telephone transfer request for and advance, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of the date:

AUTHORIZED SIGNATURE: _____ Phone Number: _____

LOAN ADVANCE:

COMPLETE OUTGOING WIRE REQUEST SECTION BELOW IF ALL OR A PORTION OF THE FUNDS FROM THIS LOAN ADVANCE ARE FOR AN OUTGOING WIRE.

From Account # _____ To Account # _____

(Deposit Account #) (Loan Account #)

Amount of Revolving Advance $ _____

All Borrower's representation and warranties in the Loan and Security Agreement are true, correct and complete in all material respects to on the date of the telephone transfer request for and advance, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of the date:

AUTHORIZED SIGNATURE: _____ Phone Number: _____

OUTGOING WIRE REQUEST

COMPLETE ONLY IF ALL OR A PORTION OF FUNDS FROM THE LOAN ADVANCE ABOVE ARE TO BE WIRED.

Deadline for same day processing is 12:00 p.m., P.T.

Beneficiary Name: _____ Amount of Wire: $ _____

Beneficiary Bank: _____ Account Number: _____

City and Sate: _____

Beneficiary Bank Transit (ABA) #: _____

Beneficiary Bank Code (Swift, Sort, Chip, etc.): _____

(FOR INTERNATIONAL WIRE ONLY)

Intermediary Bank: _____ Transit (ABA) #: _____

For Further Credit to: _____

Special Instruction: _____

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature: _____ 2nd Signature (If Required): _____

Print Name/Title: _____ Print Name/Title: _____

Telephone # _____ Telephone # _____

- _____

EXHIBIT C

FORM OF LOAN AGREEMENT SUPPLEMENT

LOAN AGREEMENT SUPPLEMENT No. [ ]

LOAN AGREEMENT SUPPLEMENT No. [ ], dated , 200 ("Supplement"), to the Loan and Security Agreement dated as of May 22, 2002 (the "Loan Agreement) by and between the undersigned ("Borrower"), and Silicon Valley Bank ("Bank"). Capitalized terms used herein but not otherwise defined herein are used with the respective meanings given to such terms in the Loan Agreement. The Loan Agreement is hereby incorporated by reference herein and is hereby ratified, approved and confirmed.

Borrower hereby requests an Equipment Advance in the amount of $ in order to finance the Eligible Equipment set forth on Annex A hereto. Annex A (Eligible Equipment Schedule) and Annex B (Equipment Advance Terms Schedule) are attached hereto and incorporated herein for all purposes.

The proceeds of the Loan should be transferred to Borrower's account with Bank set forth below:

Bank Name: Silicon Valley Bank

Account No.:

Borrower hereby certifies that (i) the foregoing information is true and correct and authorizes Bank to endorse in its respective books and records the principal amount set forth in the Equipment Advance Terms Schedule; (ii) the representations and warranties made by Borrower in the Loan Agreement are true and correct in all material respects on the date hereof and will be true and correct in all material respects on such Funding Date; and (iii) no Event of Default has occurred and is continuing under the Loan Agreement. This Supplement may be executed by Borrower and Bank in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

This Supplement is delivered as of this day and year first above written.

SILICON VALLEY BANK, a California-chartered bank	EXELIXIS, INC., a Delaware corporation
By:	By:
Name:	Name:
Title:	Title:

Annex A

ELIGIBLE EQUIPMENT SCHEDULE

The Eligible Equipment being financed with the Equipment Advance as to which this Loan Agreement Supplement is being executed is listed below.

Description of Equipment	Total Costs

Annex B

EQUIPMENT ADVANCE TERMS SCHEDULE #_____

Funding Date:, ,200

Principal Amount of Equipment Advance $

Basic Rate: Prime Rate (floating)

Scheduled Payment Dates and Principal Amounts*:

Forty-eight (48) principal payments of $ due monthly in arrears from through .

Maturity Date:

EXHIBIT D

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
FROM: EXELIXIS, INC.
DATED: _____

The undersigned authorized officer of Exelixis, Inc. ("Borrower") certifies that under the terms and conditions of the Loan and Security Agreement dated May 22, 2002 between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending on the date first set forth above with all required covenants except as noted below and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date. Attached are the required documents supporting the certification. The Officer certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Officer acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered.

PLEASE INDICATE COMPLIANCE STATUS BY CIRCLING YES/NO UNDER "COMPLIES" COLUMN.

REPORTING COVENANTS	REQUIRED	COMPLIES	
Quarterly financial statements + CC. . . after the end of each of first three quarters of each Fiscal Year	Quarterly within 45 days	Yes	No
Annual audited financial statements + CC	Within 90 days of FYE	Yes	No
Forms 10K and 10Q.	Within 10 days of filing	Yes	No

COMMENTS REGARDING EXCEPTIONS: See Attached.

Sincerely,

EXELIXIS, INC.,
a Delaware corporation

- _____
SIGNATURE

- _____
TITLE

- _____
DATE

- _____

BANK USE ONLY

Received by:
_____
AUTHORIZED SIGNER

Date:
_____

Verified:
_____
AUTHORIZED SIGNER

Date:
_____

Compliance Status: Yes No

EXHIBIT 10.35

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

SOFTWARE LICENSE AND ASSET ACQUISTION AGREEMENT
GENOMICA THIRD PARTY SOFTWARE

THIS SOFTWARE LICENSE AND ASSET ACQUISITION AGREEMENT ("Agreement") is made and entered into as of April 4, 2002 ("Effective Date") by and between EXELIXIS, INC., a Delaware corporation with a principal place of business at 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511, including its Affiliates (any entity that controls, is controlled by or is under common control with Exelixis) (collectively, "Exelixis"), and VISUALIZE INC., a Nevada corporation with its principal place of business at 3333 E Camelback Road, Suite 150, Phoenix, Arizona 85018 ("Visualize"). Exelixis and Visualize may also be referred to as "Parties" or a "Party" herein.

RECITALS

WHEREAS, Exelixis is the owner of certain proprietary software products previously owned by Genomica Corporation under the names of LinkMapper, Discovery Manager, and Vertebrate Reference Database and a partially developed software product known as dmGenetics (formerly known as Discovery Manager Genetics) as well as other related tangible and intangible assets related to the development and licensing of those products;

WHEREAS, Exelixis has retained certain individuals and facilities located in Sacramento, California in order to further develop the software products;

WHEREAS, the Parties entered into that certain Proposal to Acquire Genomica Software Business on or about January 29, 2002 ("Proposal"), and the Parties have performed the obligations described therein. This Agreement is the definitive agreement which was contemplated in the Proposal;

WHEREAS, Visualize desires to license the Software with all rights and obligations to third parties currently licensing the Software, including the sole right to further develop and license the Software to other third parties, to acquire ownership of the dmGenetics software product, and to acquire the Other Assets (as defined below) from Exelixis;

WHEREAS, Exelixis desires to license to Visualize the software, and to transfer the related tangible and intangible assets to Visualize under the terms and conditions of this Agreement;

WHEREAS, Visualize has agreed to pay Exelixis total consideration of up to Two Million Three Hundred Fifty Thousand US Dollars (US $2,350,000) for licenses to the software and sale or license of the related Other Assets in accordance with the terms and conditions of this Agreement; and

NOW THEREFORE, in consideration of the following premises and the mutual promises and covenants set forth below, the Parties agree as follows:

ARTICLE 1. DEFINITIONS

For purposes of this Agreement, the terms defined in this Article shall have the meanings specified below. These terms are intended to encompass both the singular and plural forms.

1.1 "AFFILIATE" with respect to any person or entity, any other person or entity, which controls, is controlled by or is under common control with such person or entity. For purposes of this Agreement, a person or entity shall be in "control" of an entity if it owns or controls at least fifty percent (50%) of the equity securities of the subject entity entitled to vote in the election of directors (or, in the case of an entity that is not a corporation, for the election of the corresponding managing authority), or otherwise has the power to control the management and policies of such other entity.

1.2 "CONFIDENTIAL INFORMATION" shall mean confidential and proprietary information disclosed by a Party hereto (the disclosing Party) to the other Party hereto (the receiving Party) which relates to either Party's business, products and services, which (a) if in written form, is marked "Confidential" or "Proprietary", or (b) if in other than written form, is identified by the disclosing Party as confidential upon disclosure, reduced to summary writing or other tangible form, marked as "Confidential" or "Proprietary", and a copy

delivered to the receiving Party within thirty (30) days of such disclosure. Confidential Information shall include non-public information about the Software. This Agreement shall be deemed to be Confidential Information.

1.3 "INITIAL PAYMENT CUSTOMERS" shall mean those customers identified on EXHIBIT E attached hereto.

1.4 "LIFE SCIENCES" shall mean any or all of the following businesses or operations: health care, medical product, medical services, pharmaceutical, biotechnology, drug discovery, drug development, contract research services, contract laboratory, agrichemical, agrochemical, agricultural biotechnology, academic institutions involved with any of the forgoing, and any instrument vendors or suppliers to any of the foregoing.

1.5 "NET SALES" shall mean an amount equal to Visualize's receipts, net of returns and allowances, from any sales of Visualize products and services to Life Sciences customers, where the term "sale" shall include any disposition, transfer or license as well as any receipts from related consulting or training services provided in connection with any disposition, transfer or license. In the event of disposition to an Affiliate of Visualize, Net Sales shall be calculated on the sale to an unaffiliated third party. Net Sales shall not include (a) sales, value added and use taxes which are received by Visualize which are associated with the sale of Visualize products and services; (b) commissions on sales which are paid to third parties (not including Affiliates of Visualize); and (c) third party costs of shipping, handling and installation of products actually paid or credited by Visualize to such third parties.

1.6 "OTHER ASSETS" shall mean all (a) patents, copyrights, trademarks, trade names, service marks, designs, drawings, specifications, documentation and plans related to the Software as identified on EXHIBIT B; (b) "Genomica" domain
----
names, website content, databases, third party licenses, leases, development software licenses, reseller agreements, value added reseller agreements, support contracts, customer lists, marketing plans, pricing schedules, as identified on EXHIBIT B; (c) accounts receivable and customer contracts as identified on
- ----------
EXHIBIT C; and (d) tangible assets identified on EXHIBIT D.
- ---------- ----------

1.7 "SOFTWARE" shall mean all current versions and releases of the computer software identified on EXHIBIT A attached hereto in object and source code
----
format under the names of LinkMapper, Discovery Manager, Vertebrate Reference Database, and dmGenetics (or Discovery Manager Genetics) as such computer software exists on the Effective Date.

ARTICLE 2. LICENSE GRANTS

2.1 LICENSE TO SOFTWARE. Subject to the terms and conditions of this Agreement, Exelixis hereby grants, and Visualize accepts:

(a) a worldwide, fully paid, perpetual, non-exclusive license to the Software, including the right to make, have made, use, offer for sale, sell, have sold, import, have imported, modify, sublicense and prepare derivative works based upon or including the Software; and

(b) a worldwide, fully paid, perpetual, exclusive license to make, have made, use, offer for sale, sell, have sold, import, have imported, modify, and sublicense any and all derivative works based upon or including the Software.

2.2 EXELIXIS INTERNAL USE LICENSE. Exelixis shall retain a worldwide, fully paid, royalty free, perpetual, non-exclusive license to the Software solely for internal use. "Internal use" shall mean use by Exelixis' employees or contractors at Exelixis premises for the conduct of its proprietary operations, and not as a service bureau or for the performance of services for third parties who are not licensors of an Exelixis pharmaceutical product in development. Internal use shall include use by Exelixis' Affiliates, subject to meeting the forgoing limitations.

2.3 LICENSE TO DERIVATIVE WORKS. Visualize hereby grants, and Exelixis accepts a world-wide, perpetual, fully paid, non-exclusive license, in source and object code, for internal use only, to commercially released versions of derivative works of the Software ported to Oracle Corporation databases prepared by or for Visualize. The license hereunder shall apply to versions of the Software that are released prior to the payment by Visualize of the Maximum Total Price described in Section 4.3 (but in any event, not earlier than [*]) This license does not include a license to the source code for the proprietary code, routines and tools which are owned by Visualize as of the Effective Date, or derivative works thereof, provided that the application programming interface

for the purpose of accessing and manipulating the underlying Oracle database shall be made available to Exelixis as part of the licensed Software. The Parties shall as of the Effective Date enter into a separate agreement for the support by Visualize of the Software licensed to Exelixis pursuant to this section, at no cost to Exelixis.

2.4 COVENANT OF EXELIXIS. Subject to the terms and conditions of this Agreement and except as may be provided under existing license agreements as of the Effective Date, Exelixis shall not grant to any third party a license or sublicense of any rights to the Software, including any right to modify the Software or create any derivative works based upon or including the Software, without the prior written consent of Visualize, which consent may be withheld in the sole discretion of Visualize.

2.5 RIGHTS. Exelixis and its third party licensors retain all right, title and interest in the Software except for the licenses granted under this Agreement, except as provided in Section 2.8 hereof.

2.6 SUBLICENSES. To the extent applicable, Visualize shall comply with and be responsible for, and shall ensure that any sublicenses hereunder comply with the obligations under that certain Value Added Remarketer Agreement between Genomica Corporation and Gemstone Systems, Inc. dated October 20, 1998, as amended.

2.7 EXISTING CUSTOMER RENEWALS. Each of Exelixis and Visualize shall use best commercially reasonable efforts to cause Initial Payment Customers to renew existing licenses to the Software under existing agreements.

2.8 TRANSFER OF OWNERSHIP OF SOFTWARE TO VISUALIZE. Upon the payment by Visualize of the Maximum Total Payments described in Section 4.3 (but in any event, not earlier than [*]), Exelixis shall, subject to the licenses to Exelixis hereunder, assign to Visualize all of Exelixis' right, title and interest in the Software.

ARTICLE 3. TRANSFER OF OTHER ASSETS; EXISTING SUPPORT OBLIGATIONS

3.1 OTHER ASSETS. At the Effective Date, Exelixis shall convey and assign, or if assignment is impracticable, license to Visualize all right, title and interest in and to the Other Assets. Visualize shall be responsible for any fees, filing expenses or other costs associated with the acceptance or licensing of such rights from Exelixis.

3.2 SACRAMENTO LEASE. Exelixis shall have the right to procure the landlord's consent to assign that certain Standard Sublease ("Sacramento Lease") between American Tower, Inc. and Genomica Corp. dated February 14, 2001, or if assignment is impracticable, to sublet to Visualize the premises located at 12150 Tributary Point Road, Suite 100, Sacramento, California. Visualize shall use commercially reasonable efforts to cooperate with such assignment or subletting, provided, however, no person or entity shall be obligated to guarantee the obligations of Visualize to the landlord. Upon an assignment or sublease of the Sacramento Lease, Visualize shall reimburse Exelixis [*] and make payments thereon commencing with the Effective Date. In the event that assignment or subletting is impracticable, Visualize shall reimburse Exelixis for payments made under the Sacramento Lease, including related utilities and services for those facilities.

3.3 CERTAIN SOFTWARE DEVELOPERS. Visualize has retained and is in its discretion shall be solely responsible for employment of the following individuals as of the Effective Date: [*]. These individuals have been under the direction of a designee of Visualize, primarily [*].

3.4 OTHER CONSULTANTS. Visualize in its discretion shall be responsible for retaining [*] as well as any other consultants Visualize deems necessary or appropriate to continue the development and transfer of the Software under this Agreement.

3.5 SUPPORT OBLIGATIONS. Effective upon the Effective Date, Visualize shall be solely responsible for Software support obligations for any Initial Payment Customers as well as any new customers of Visualize.

3.6 DEMONSTRATION LICENSES AND INSTALLATIONS. Exelixis and Visualize shall use commercially reasonable efforts to identify and ensure that demonstration and beta installation sites, including Glaxo SmithKline Corporation, are appropriately licensed with respect to any use of the Software permitted as of the Effective Date.

ARTICLE 4. PAYMENTS

4.1 INITIAL PAYMENTS. With respect to Software renewal payments (i.e., those under licensing agreements with Genomica Corporation or its successors in effect as of the Effective Date) in 2002 received from Initial Payment Customers

(including payments received in 2002 prior to the Effective Date), the Parties agree to [*] for the following:

[*]

4.2 SUBSEQUENT PAYMENTS. With respect to any revenues from the Net Sales of the dmGenetics software product and its derivative works and any other products of Visualize (other than renewals of Software licenses covered under Section 4.1) which are sold, licensed or otherwise provided to Life Sciences customers, Visualize shall pay to Exelixis an amount equal to [*].

4.3 MAXIMUM TOTAL PAYMENTS. The aggregate maximum amount of payments to Exelixis under Sections 4.1 and 4.2 (not including its reimbursement of amounts received or paid pursuant to Section 4.1) shall not exceed two million three hundred fifty thousand US dollars (US $2,350,000).

4.4 4.4 PAYMENT SCHEDULE. All amounts payable hereunder shall be paid [*] commencing with [*].

4.5 REPORTS. A Party making any payment hereunder shall deliver to the other Party a report in reasonable detail containing the gross receipts from the license, sale, lease or other disposition of the Software by customer together with a calculation of the amount payable to such Party for the applicable calendar quarter at the time of delivery of the payments due under this Article 4.

4.6 AUDIT RIGHTS. A Party may, upon reasonable prior notice to the other Party, not more than [*], cause a third party auditor to review and audit the records of the other Party which are reasonably necessary to verify compliance with the payment terms of Article 4 of this Agreement. Any audit shall be conducted during normal business hours and all information reviewed shall be considered Confidential Information (as defined below) of the other Party. In the event that the audit reveals an error or other failure to make payments to a Party as provided under this Agreement in excess of [*] of the amounts payable, then the Party having the payment obligation shall immediately pay the underpayment amount to the party which is entitled to the payment and reimburse the fees of the audit.

4.7 TAXES. The amounts payable to Exelixis under this Agreement do not include, and Visualize shall be responsible for all sales, use, property, value-added or other taxes (including amounts required to be withheld for purposes of paying the foregoing) applicable to the receipts of Visualize; provided that Visualize shall in no event be responsible for any income taxes applicable to the fees received by Exelixis hereunder.

ARTICLE 5. CONDITIONS TO CLOSING

5.1 VISUALIZE. Satisfaction or waiver of the following conditions shall be a condition to Visualize's obligations under this Agreement:

(a) the representations and warranties of Exelixis set forth in Article 7 shall be true and correct as of the Effective Date;
(b) the escrow account which was established pursuant to the terms of the Proposal shall be released to Visualize; and
(c) the covenant of Exelixis in Section 2.4 shall remain in effect as of the Effective Date.

5.2 EXELIXIS. Satisfaction or wavier of the following condition shall be a condition to Exelixis' obligations under this Agreement:

(a) the representation and warranty of Visualize set forth in Section 7.1 shall be true and correct as of the Effective Date.

ARTICLE 6. CONFIDENTIALITY

6.1 PROTECTION. The Parties shall share Confidential Information, but in no event shall Visualize be obligated to disclose proprietary information of its customers, except to the extent expressly provided in this Agreement. With respect to Confidential Information that may be disclosed by one party ("Discloser") to the other party ("Recipient"), Recipient agrees:

(a) To protect such Confidential Information from disclosure to others, using the same degree of care used to protect Recipient's Confidential Information, but in any case using no less than a reasonable degree of care. Recipient may disclose Confidential Information received hereunder to its employees, subcontractors, agents, representatives, and affiliates, who have a need to know to accomplish the purposes of this Agreement and who are bound by terms of confidentiality, non-use and nondisclosure at least as strict as set forth herein prior to disclosure to protect the received Confidential Information. Each party agrees that it shall enforce the provisions of any agreements of nondisclosure

set forth in the preceding sentence, and shall remain responsible for any breaches of this Article 6 by its employees, subcontractors, agents, representatives, and affiliates. Recipient agrees to promptly notify the Discloser in the event it learns of any unauthorized use or disclosure of the Discloser's Confidential Information. Confidential Information shall not otherwise be disclosed to any third party without the prior written consent of the Discloser;

(b) To use such Confidential Information only for the business purpose as expressly permitted by this Agreement;

(c) Not to make copies of any such Confidential Information or any part thereof except for the business purpose; and

(d) To reproduce and maintain on any copies of any Confidential Information such proprietary legends or notices marked "confidential", whether of Discloser or a third party, as are contained in or on the original or as the Discloser may otherwise reasonably request in writing.

6.2 PERMITTED DISCLOSURE. Recipient shall not have any liability to Discloser with respect to the disclosure of this Agreement to the extent such disclosure is reasonably necessary to enforce the terms hereof or to comply with any applicable law, rule or regulation, and with respect to the use or disclosure to third parties of such Confidential Information as such Recipient can by written evidence establish:

(a) is or has become public knowledge as of the date of this Agreement through no fault of the Recipient, its employees, subcontractors, agents, representatives or affiliates;

(b) was rightfully in the possession of the Recipient prior to disclosure by the Discloser;

(c) is received by the Recipient at any time from a third party lawfully having possession of such information and lawfully empowered to disclose such information; or

(d) is independently developed by the Recipient, its employees, subcontractors, agents, representatives or affiliates, without the aid, application, or use of Confidential Information disclosed hereunder.

6.3 NOTICE OF DISCLOSURE. In cases other than the disclosure of this Agreement pursuant to efforts to enforce its provisions, in the event Recipient is required by law, regulation or court order to disclose any of Discloser's Confidential Information, Recipient will promptly notify Discloser in writing prior to making any such disclosure in order to facilitate Discloser seeking a protective order or other appropriate remedy from the proper authority. Recipient agrees to cooperate with Discloser in seeking such order or other remedy. Recipient further agrees that if Discloser is not successful in precluding the requesting legal body from requiring the disclosure of the Confidential Information, then Recipient will furnish only that portion of the Confidential Information which is legally required and will exercise all reasonable efforts to obtain reliable assurances that confidential treatment will be accorded the Confidential Information.

6.4 TERM OF PROTECTION. The obligations of confidentiality and non-use agreed to herein shall terminate [*] from the date of termination or expiration of this Agreement.

ARTICLE 7. REPRESENTATIONS AND WARRANTIES

7.1 DUE AUTHORIZATION; EFFECTIVENESS. Each Party represents and warrants to the other that as of the Effective Date it has the legal right and power to enter into this Agreement, to extend the licenses granted to the other in this Agreement, and to fully perform its obligations hereunder, and that the performance of such obligations will not conflict with its charter documents or any agreements, contracts, or other arrangements to which it is a party.

7.2 DISCLOSURE BY EXELIXIS. Exelixis represents to its knowledge that it has provided Visualize with access to or otherwise made available all records, documents, files, contracts currently in effect, source code, object code, databases, analyses, marketing studies, personnel, patent applications, trademark applications, copyright registrations and electronic files related to the Software and the Other Assets in the possession of Exelixis or the former employees of Genomica Corporation retained by Exelixis.

7.3 PROPRIETARY RIGHTS. Exelixis represents and warrants that the Software does not infringe or misappropriate any patent, copyright or other intellectual

property right of a third party. Exelixis represents and warrants that it can grant the licenses and perform its other obligations hereunder with respect to the Software as of the Effective Date without the consent or participation of any third party licensors.

7.4 TITLE TO OTHER ASSETS. Exelixis represents and warrants that, to the extent assignable, title to the Other Assets shall be transferred free and clear of any liens, encumbrances or claims of third parties; provided that no representation or warranty is made with respect to the intellectual property rights under any of the third party licenses, development software licenses, website content or databases comprising the Other Assets.

ARTICLE 8. INDEMNIFICATION; DISCLAIMER OF WARRANITES; LIMITATION OF LIABILITY

8.1 INDEMNIFICATION BY EXELIXIS. Exelixis hereby agrees to defend, indemnify and hold Visualize harmless from and against any and all damages, settlements, costs, and out-of-pocket expenses (including reasonable attorneys' fees) incurred in connection with or arising from any claims against Visualize for infringement of any intellectual property rights of any third party with respect to the activities of Exelixis with the Software from December 28, 2001 through the Effective Date.

8.2 INDEMNIFICATION BY VISUALIZE. Visualize hereby agrees to defend, indemnify and hold Exelixis harmless from and against any and all damages, settlements, costs, and out-of-pocket expenses (including reasonable attorneys' fees) incurred in connection with or arising from any claims against Exelixis arising from or based upon any action or omission of Visualize or its agents or employees with respect to the Software.

8.3 DISCLAIMER. OTHER THAN AS PROVIDED IN ARTICLE 7, THE SOFTWARE AND OTHER ASSETS ARE PROVIDED "AS IS" AND EXELIXIS DISCLAIMS ANY AND ALL REPRESENTATIONS AND WARRANTIES OF ANY KIND WITH REGARD TO THE SOFTWARE AND OTHER ASSETS, WHETHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ANY WARRANTIES ARISING FROM COURSE OF DEALING OR USAGE OF TRADE OR THE WARRANTY OF NONINFRINGEMENT. FURTHERMORE, EXELIXIS DISCLAIMS ANY WARRANTY THAT THE SOFTWARE WILL MEET VISUALIZE'S REQUIREMENTS OR THAT THE OPERATION OF THE SOFTWARE WILL BE ERROR-FREE OR UNINTERRUPTED.

8.4 LIMITATION OF LIABILITY. Neither Party shall be liable to the other for consequential, incidental, indirect or punitive damages in connection with this Agreement or with any license granted hereunder.

9. CLOSING

9.1 CLOSING. The closing of the transaction contemplated under this Agreement shall occur by the exchange of documents via fax and overnight delivery during business hours on April 4, 2002, except as may otherwise agreed upon by the Parties in writing.

9.2 DELIVERIES. Not later than the closing:

(a) Visualize and Exelixis shall agree upon a schedule and process for the assignment of Initial Payment Customer contracts and the assignment or sublease under the Sacramento Lease;

(b) Exelixis shall convey to Visualize by bill of sale the tangible assets identified on Exhibit D;

(c) Exelixis shall convey to Visualize by assignment the other assets identified on Exhibit B;

(d) Visualize and Exelixis shall agree upon a schedule of the payments received and the expenses claimed pursuant to Section 4.1;

(e) Exelixis shall deliver possession of the premises in the Sacramento Office to Visualize; and

(f) Visualize and Exelixis shall enter into a support agreement pursuant to Section 2.3.

9.3 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. The respective representations and warranties of each of the Parties under Article 7 shall survive the Effective Date by a period of one year.

10. TERMINATION

10.1 TERMINATION. This Agreement may be terminated by either Party upon [*] prior written notice for a material breach of this Agreement, which breach

shall not have been cured within the specified notice period. Insolvency or the entry into an agreement with creditors or the appointment of a receiver for any Party hereto shall be deemed a material breach by such Party hereunder.

10.2 EFFECT OF TERMINATION. In the event of termination for breach of this Agreement by Visualize, the license grants hereunder shall terminate as of the effective date of termination and Visualize shall immediately cease any use of the Software and return all copies of the Software to Exelixis. In the event of termination for breach of this Agreement by Exelixis, all amounts paid by Visualize hereunder or pursuant to the Proposal shall immediately be repaid or released to Visualize.

11. GENERAL PROVISIONS

11.1 FORCE MAJEURE. Neither Party shall be held liable or responsible to the other Party nor be deemed to have defaulted under or breached this Agreement for failure or delay in performing any term of this Agreement (other than an obligation for the payment of money) when such failure or delay is caused by or results from causes beyond the reasonable control of the affected Party, including but not limited to fire, floods, embargoes, war, acts of war (whether war is declared or not), riots, strikes, power outages, lockouts or other labor disturbances, terrorists attacks, acts of God, or acts, omissions or delays in acting by any court, governmental authority or the other Party.

11.2 NOTICES. Formal notices required or permitted hereunder shall be given in writing. Written notices may be delivered personally, sent by first class mail or by recognised overnight courier service, or transmitted electronically or facsimile. Any notices shall be sent to the following:

If to Visualize:

Brad Edwards
3333 E. Camelback Road
Suite 150
Phoenix, AZ 85018
Fax: 602-861-0999

If to Exelixis:

Chief Financial Officer
170 Harbor Way
P O Box 511
South San Francisco, CA 94083-0511
Fax: 650-837-8205

Or to such other address as a Party may designate to the other Party by written notice provided in accordance with this provision.

11.3 NO WAIVER. The failure by either Party to enforce at any time any of the provisions of this Agreement, or to exercise any election or option provided herein, shall in no way be construed as a waiver of such provisions or options, nor in any way to affect the validity of this Agreement or any part thereof, or the right of either Party thereafter to enforce each and every such provision.

11.4 HEADINGS AND COUNTERPARTS. All headings in this Agreement are for convenience only and shall not affect the meaning of any provision hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

11.5 ASSIGNMENT. The terms and conditions of this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties. In the event of an assignment or other transfer by Visualize of any rights to the Software or any derivative works based upon or including the Software, the proceeds (whether in cash or in kind) to Visualize arising from such assignment shall be deemed Net Sales hereunder.

11.6 GOVERNING LAW. This Agreement will be governed by the laws of the State of California, except with regard to its conflict of law provisions. Any dispute concerning the validity, interpretation or performance of this Agreement shall be finally settled in a court of competent jurisdiction in California.

11.7 SURVIVAL. Other than as provided in Article 10, the rights and obligations of Articles 2, 4, 6 and 8 shall survive any termination of this Agreement.

11.8 ENTIRE AGREEMENT. This Agreement constitutes the entire agreement and understanding between the Parties concerning the subject matter hereof and supersedes all prior or contemporaneous agreements, negotiations, and

understanding of Parties with respect thereto including but not limited to the Proposal. No representation, promise, modification or amendment shall be binding upon either Party as a warranty or otherwise unless in writing and signed on behalf of each Party by a fully authorised representative.

The remainder of this page has been intentionally left blank.

IN WITNESS WHEREOF, the Parties have duly executed and delivered this Agreement on the Effective Date.

EXELIXIS,	VISUALIZE,
Date : April 4, 2002	Date : April 4, 2002
Signature:	Signature:
/s/ Glen Sato	/s/ Brad Edwards
Name : Glen Sato	Name : Brad Edwards
Title : Chief Financial Officer	Title : Chairman & CEO

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT A

List of Software:

1) Discovery Manager
2) Discovery Applications and Tools
3) Vertebrate Reference Database
4) Link Mapper
5) dmGenetics (also known as Discovery Manager Genetics)
6) dmCore
7) Expression Database
8) K-EM

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EXHIBIT B
Other Assets

1) Patents, copyrights, trademarks, trade names, etc.: No patents or registered copyrights. Trademarks and pending trademark applications as attached.

2) Assets and liabilities as follows:
   a. "Genomica" domain names (assignment in progress),
   b. website content (previously delivered),
   c. databases,
   d. third party licenses
      (Reasonable number related to 6 seats in Sacramento)
      Adobe: FrameMaker 6.0
      Adobe : Acrobat 4.0 and 5.0
      Allaire : Homeslte v4.5
      XML Spy 3.5
      Benthic Software : GoldView and Golden
      Borland : Jbuilder v4.0 and v5.0
      InstallShield Professional
      Infragistics Suite
      Microsoft : Project 2000
      Microsoft : Visual Basic
      Microsoft : Visio Pro 2000
      Microsoft : Visual C++ Professional with Plus Pack and Reference Library
      Microsoft : Visual Studio Professional
      Merant : PVCS Tracker
      Mercury Interactive : Test Director, LoadRunner and WinRunner
      Oracle : Enterprise, Standard and Personal Oracle
      ParaSoft : Jtest
      Quest Software : Toad v6.5 and v7.0
      Starbase Corporation : Star Team
      Component One : VS FlexGrind Pro
   e. leases-that certain Standard Sublease dated February 14, 2001 by and between American Tower, Inc. and Genomica Corporation for the premises located at 12150 Tributary Point Road, Suite 100, Sacramento, California, including all related utilities and services for that facility [*],
   f. development software licenses,
   g. reseller agreements--none,
   h. value added reseller agreements--none,
   i. support contracts-contracts for Initial Payment Customers previously provided,
   j. customer lists, marketing plans, and pricing schedules-previously provided

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EXHIBIT C

Accounts Receivable-None

Customer Contracts-Existing Agreements with Initial Payment Customers previously provided.

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EXHIBIT D

Tangible Assets:

1. ELECTRICAL/ELECTRONIC EQUIPMENT AND SOFTWARE

PERSONAL
5 Dell Computer Corporation Latitude C800
6 Dell 21" P110 Iltrascan
5 Dell docking station and monitor stand
2 optical mice
4 normal mice
2 Microsoft Internet Keyboard
1 Microsoft Natural Keyboard Pro
2 Microsoft Natural Keyboard
6 Normal Keyboards
6 Lucent Partner 18 Phone
1 Lucent Partner 18D phone
1 HP LaserJet2100

SHARED EQUIPMENT
1 Optiquest monitor
1 Sun Ultra 80
1 External Disc Array
1 DLT Tape Drive
1 Rack
1 Rack Mount Compaq Proliant D1380
1 APC Smart UPS (Rack Mount)
1 Raritan Switch Man KVM Switch
1 Cisco z600
1 Cisco Catalyst 3500 Series XL
1 Cisco Secure PIX 506 Firewell
1 Cayman DSL modem
1 Netgear Fast Ethernet Switch
1 GE Analog Phone
1 APC Smart UPS1000
1 APC Smart UPS650
1 APC Smart UPS500
1 Lucent Telephone System
1 Mimio Presentation Hardware
1 Polycom Sound Station
1 Rooper Fridge Freezer
1 Microwave
1 HP Fax 1220
1 HP LaserJet4100TN
2 Netgear fast Ethernet switch fs105
1 Canon PC980 Copier
2 Dell Optiplex GX110
1 Dell 17" monitor
Server from Boulder identified as 'Ramrod"
Server from Boulder identified as "Blackbox"

2. FURNITURE.

CUBICLE AREA :
---
5 Complete Technicron office cubicles

OFFICE 1:

Single office with three piece Technicron workstation
1 round Technicron table
4 Technicron side chairs
1 Technicron office chair
1 Technicron bookcase

OFFICE 2 :

Double office with three piece Technicron workstation
2 Technicron office chairs

OFFICE 3:
---
1 Technicron Conference table
8 Technicron conference chairs

OFFICE 4:

Double office with three piece Technicron workstation
2 Technicron office chairs
2 Technicron side chairs

OFFICE 5:

Single office with one three piece Technicron workstation
1 Technicron bookcase
1 Technicron Office Chair

HALLWAY :
---
1 Hon metal Technicron supply cabinet
2 Technicron printer tables
1 mail sorting table

KITCHEN :
---
1 large Technicron black bookcase
2 semi circular Technicron tables
4 Technicron side chairs

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EXHBIT E

INITIAL PAYMENT CUSTOMERS

[*]

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EXHIBIT 99.1

CERTIFICATION

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

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, and to which this Certification is attached as Exhibit 99.1 (the "Periodic Report"), fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and

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

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 6th day of August, 2002.

/s/ George A. Scangos

CHIEF EXECUTIVE OFFICER

/s/ Glen Y. Sato

CHIEF FINANCIAL OFFICER