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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

or

o **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 No.)

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 ☒ No o

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

On October 31, 2003, there were 71,081,745 shares of common stock, par value $.001 per share, of Exelixis, Inc. outstanding.

EXELIXIS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2003 (unaudited)	December 31, 2002 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,056	$ 84,522
Short-term investments	144,627	131,704
Other receivables	2,844	3,325
Other current assets	4,834	3,841
Total current assets	207,361	223,392
Restricted cash	18,882	5,761
Property and equipment, net	34,622	32,406
Related-party receivables	540	904
Goodwill	67,364	67,364
Other intangibles, net	4,302	4,802
Other assets	3,753	4,484
Total assets	$ 336,824	$ 339,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,592	$ 4,717
Other accrued expenses	9,675	7,992
Accrued compensation and benefits	5,743	5,060
Current portion of capital lease obligations	5,552	6,840
Current portion of notes payable and bank obligations	4,658	1,840
Deferred revenue	17,267	23,790
Total current liabilities	44,487	50,239
Capital lease obligations	2,467	6,280
Notes payable and bank obligations	11,834	3,973
Convertible promissory note and loan	55,000	55,000
Other long-term liabilities	869	119
Deferred revenue	38,716	47,582
Total liabilities	153,373	163,193
Commitments		
Stockholders' equity:		
Preferred stock	—	—
Common stock	72	59

Additional paid-in-capital	541,276	463,764
Notes receivable from stockholders	(475)	(1,210)
Deferred stock compensation, net	(136)	(977)
Accumulated other comprehensive income	1,563	1,638
Accumulated deficit	(358,849)	(287,354)
Total stockholders' equity	183,451	175,920
Total liabilities and stockholders' equity	$ 336,824	$ 339,113

(1) The consolidated condensed balance sheet at December 31, 2002 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)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenues:				
Contract and government grants	$ 9,310	$ 8,449	$ 28,389	$ 25,268
License	3,129	1,981	9,385	6,601
Total revenues	12,439	10,430	37,774	31,869
Operating expenses:				
Research and development (1)	32,298	28,845	95,054	84,290
Selling, general and administrative (2)	4,495	4,395	14,364	13,962
Amortization of intangibles	166	166	499	499
Restructuring charge	606	—	606	—
Total operating expenses	37,565	33,406	110,523	98,751
Loss from operations	(25,126)	(22,976)	(72,749)	(66,882)
Other income (expense):				
Interest income	1,096	710	3,364	4,729
Interest expense	(907)	(724)	(2,739)	(2,090)
Other income (expense), net	(133)	47	741	227
Total other income (expense)	56	33	1,366	2,866
Loss from continuing operations before income taxes	(25,070)	(22,943)	(71,383)	(64,016)
Provision (benefit) for income taxes	(75)	—	112	—
Loss from continuing operations	(24,995)	(22,943)	(71,495)	(64,016)
Loss from operations of discontinued segment	—	—	—	(1,251)
Net loss	$ (24,995)	$ (22,943)	$ (71,495)	$ (65,267)
Loss per share from continuing operations	$ (0.35)	$ (0.41)	$ (1.13)	$ (1.14)
Loss per share from discontinued operations	—	—	—	(0.02)
Net loss per share, basic and diluted	$ (0.35)	$ (0.41)	$ (1.13)	$ (1.16)
Shares used in computing basic and diluted loss per share amounts	70,994	56,483	63,466	56,096

(1) Includes stock compensation expense of $106 and $364 in the three-month periods ended September 30, 2003 and 2002, respectively, and $464 and $1,349 in the nine-month periods ended September 30, 2003 and 2002, respectively.

(2) Includes stock compensation expense of $61 and $305 in the three-month periods ended September 30, 2003 and 2002, respectively, and $280 and $957 in the nine-month periods ended September 30, 2003 and 2002, respectively.

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

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

	Nine Months Ended September 30,	
	2003	2002
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (71,495)	$ (65,267)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	—	795
Depreciation and amortization	12,183	10,176
Stock compensation expense, net of reversals	744	2,306
Amortization of intangibles	499	499
Other	372	284
Changes in assets and liabilities:		
Other receivables	(246)	302
Other current assets	(704)	(1,240)
Related-party receivables	364	(32)
Other assets	29	(278)
Accounts payable and other accrued expenses	(559)	(5,383)
Accrued merger and acquisition costs	—	(1,810)
Other long-term liabilities	750	
Deferred revenue	(15,416)	(5,399)
Net cash used in operating activities	(73,479)	(65,047)
Cash flows from investing activities:		
Purchases of property and equipment	(11,142)	(4,560)
Change in restricted cash	(13,121)	(4,907)
Proceeds from maturities of short-term investments	155,047	137,171
Purchases of short-term investments	(169,187)	(69,843)
Net cash provided by (used in) investing activities	(38,403)	57,861
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	74,639	—
Proceeds from exercise of stock options, net of repurchases	156	68
Proceeds from employee stock purchase plan	991	1,423
Repayment of notes from stockholders	735	840
Principal payments on capital lease obligations	(5,101)	(4,773)
Proceeds from bank obligations	12,974	4,441
Principal payments on notes payable and bank obligations	(2,323)	(1,259)
Net cash provided by financing activities	82,071	740
Effect of foreign exchange rates on cash and cash equivalents	345	198
Net decrease in cash and cash equivalents	(29,466)	(6,248)
Cash and cash equivalents, at beginning of period	84,522	35,584
Cash and cash equivalents, at end of period	$ 55,056	$ 29,336

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

EXELIXIS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003
(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 using 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 and compounds that it 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, it 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 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 statement of the results for the periods presented have been included. Operating results for the three- and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003, 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, 2002 included in the Company's Annual Report on Form 10-K filed with the SEC on March 7, 2003.

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, less shares that are subject to repurchase. The calculation of diluted net loss per share excludes potential common stock because their effect is antidilutive. Potential common stock consists of common stock subject to repurchase, incremental common shares issuable upon the exercise of stock options and warrants and shares issuable upon conversion of convertible debt.

Stock-Based Compensation

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

		Three Months Ended September 30,	
		2003	2002
Net loss:			
As reported		$ (24,995)	$ (22,943)
Add:	Stock-based employee compensation expense included in reported net loss	166	663
Deduct:	Total stock-based employee compensation expense determined under fair value method for all awards	(3,707)	(6,508)
Pro forma net loss		$ (28,536)	$ (28,788)
Net loss per share (basic and diluted):			
As reported		$ (0.35)	$ (0.41)
Pro forma		$ (0.40)	$ (0.51)

		Nine Months Ended September 30,	
		2003	2002
Net loss:			
As reported		$ (71,495)	$ (65,267)
Add:	Stock-based employee compensation expense included in reported net loss	741	1,966
Deduct:	Total stock-based employee compensation expense determined under fair value method for all awards	(14,399)	(19,214)
Pro forma net loss		$ (85,153)	$ (82,515)
Net loss per share (basic and diluted):			
As reported		$ (1.13)	$ (1.16)
Pro forma		$ (1.34)	$ (1.47)

Since options vest over several years and additional option grants are expected to be made in future years, the pro forma impact on the results of operations for the three- and nine-month periods ended September 30, 2003 and 2002 is not necessarily representative of the pro forma effects on the results of operations for future periods.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires an investor with a majority of the variable interests in a variable interest entity ("VIE") to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the equity investors do not have a controlling interest, or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. For arrangements entered into with VIEs created prior to January 31, 2003, the provisions of FIN 46 are required to be adopted at the end of the first interim or annual period ending after December 15, 2003. The provisions of FIN 46 were effective immediately for all arrangements entered into with new VIEs created after January 31, 2003.

Exelixis has two existing joint venture arrangements, one with Bayer Corporation and one with Bayer CropScience LP. Exelixis has not yet completed its evaluation as to whether the existing joint venture arrangements would be considered VIEs or whether Exelixis may be considered the primary beneficiary of these joint venture arrangements. The Company expects to complete the review in the fourth quarter of 2003. Additional information related to these joint venture arrangements is provided below.

Genoptera

In December 1999, the Company and Bayer Corporation formed Genoptera LLC to focus on developing insecticides and nematicides for crop protection. Under the terms of the Genoptera operating agreement, Bayer provides 100% of the capital necessary to fund the operations of Genoptera and has the ability to control the entity with a 60% ownership interest. The Company owns the other 40% interest in Genoptera without making any capital contribution and reports its investment in Genoptera using the equity method of accounting. Bayer's initial capital contributions to Genoptera were $10.0 million in January 2000 and another $10.0 million in January 2001. Bayer is also required to contribute cash to Genoptera in amounts necessary to fund its ongoing operating expenses. Genoptera has incurred losses since inception. Since the Company's carrying value of this investment is zero and there is no obligation to fund future losses, Exelixis has not recorded equity method losses for Genoptera to date. Revenues recognized under this joint venture

approximated 27% and 26% of the Company's total consolidated revenue for the three- and nine-month periods ended September 30, 2003, respectively, and 33% and 32% for the comparable periods in 2002.

Agrinomics

In July 1999, Exelixis Plant Sciences (formerly Agritope, Inc.) and Bayer CropScience (formerly Aventis CropScience USA LP) formed Agrinomics LLC to conduct a research, development and commercialization program in the field of agricultural functional genomics. As a result of the Company's acquisition of Exelixis Plant Sciences, the Company owns a 50% interest in Agrinomics, while Bayer CropScience owns the remaining 50% interest. Bayer CropScience has agreed to make capital contributions to Agrinomics in cash totaling $20.0 million over a five-year period, of which $17.0 million has been contributed to date. Exelixis Plant Sciences contributed certain technology and a collection of seeds generated using such technology. In connection with the Company's acquisition of Exelixis Plant Sciences, no portion of the purchase price was assigned to Agrinomics. Although the Company is required to account for its investment in Agrinomics under the equity method, the Company does not expect to include in its consolidated financial statements a proportionate share of the losses of Agrinomics until such time, if ever, that the Company makes a capital contribution to Agrinomics. There is no requirement for the Company to make capital contributions to Agrinomics. Revenues recognized under this joint venture approximated 4% and 5% of the Company's total consolidated revenue for the three- and nine-month periods ended September 30, 2003, respectively, and 10% and 9% for the comparable periods in 2002.

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 nine-month periods ended September 30, 2003 and 2002 are as follows (in thousands):

	Three Months Ended September 30,	
	2003	2002
Net loss	$ (24,995)	$ (22,943)
Increase (decrease) in unrealized gains on available-for-sale securities	(323)	1,288
Decrease in unrealized gains on cash flow hedges	(387)	(125)
Increase (decrease) in cumulative translation adjustment	63	(80)
Comprehensive loss	$ (25,642)	$ (21,860)

	Nine Months Ended September 30,	
	2003	2002
Net loss	$ (71,495)	$ (65,267)
Increase (decrease) in unrealized gains on available-for-sale securities	(364)	102
Increase (decrease) in unrealized gains on cash flow hedges	(119)	109
Increase in cumulative translation adjustment	408	385
Comprehensive loss	$ (71,570)	$ (64,671)

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

	September 30, 2003	December 31, 2002
Unrealized gains on available-for-sale securities	$ 542	$ 906
Unrealized gains on cash flow hedges	—	119
Cumulative translation adjustment	1,021	613
Accumulated other comprehensive income	$ 1,563	$ 1,638

NOTE 3 Genomica Corporation

In December 2001, in connection with the acquisition of Genomica Corporation, Exelixis adopted an exit plan for Genomica. Under this exit plan, the Company terminated Genomica's entire workforce and abandoned its leased facilities in Boulder, Colorado and Sacramento, California. The estimated costs of the exit plan amounted to $2.9 million and were included as part of the liabilities assumed in the acquisition. As of December 31, 2002, the remaining recorded obligation to exit the Genomica activities was $825,000. As of September 30, 2003, 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, net of payments to be received from sublessees. In September 2003, Exelixis subleased approximately 14,000 square feet of the Boulder, Colorado facility at a substantial discount to its leased rate.

The sublease term commenced on October 1, 2003 and runs through July 31, 2005. During the three- and nine-month periods ended September 30, 2003, Exelixis paid approximately $101,000 and $328,000, respectively, in lease payments, reducing the balance of the lease obligation to $497,000.

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

NOTE 4 Sale of Equity Securities

In June 2003, the Company completed a follow-on public offering of 10.0 million shares of registered common stock, at a price of $7.10 per share, for gross proceeds of $71.0 million. The Company received approximately $66.2 million in net proceeds after deducting underwriting fees of approximately $4.3 million and offering expenses of approximately $462,000.

In July 2003, the underwriters purchased approximately 1.3 million additional shares of registered common stock at a price of $7.10 per share pursuant to an over-allotment option granted in connection with the follow-on public offering. The Company received approximately $8.4 million in net proceeds after deducting underwriting fees of approximately $534,000.

NOTE 5 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. In June 2003, the Company extended the draw-down period on the line of credit for an additional year. In September 2003, the Company increased the principal amount of the line of credit from $16.0 million to $19.0 million. All other terms of the agreement remain unchanged.

In August 2003, the Company entered into a kinase pipeline access agreement with a third party. Under the terms of the agreement, the Company has made a minimum purchase commitment totaling $3.0 million through December 1, 2006.

NOTE 6 Restructuring

During the quarter ended September 30, 2003, the Company implemented a worldwide restructuring of its research and development organization designed to reallocate resources and enhance the efficiency of its operations. The restructuring plan provides for a net reduction in force of approximately 5% of the Company's personnel, which is comprised of an 11% reduction in force impacting research personnel, offset in part by a planned expansion of the discovery and development groups to increase the number of lead optimization teams and expand preclinical and clinical development activities. The restructuring includes a reduction of research personnel in the Company's South San Francisco, California location, closure of the Company's Tübingen, Germany location and relocation of certain research activities and employees from Tübingen to South San Francisco. The reduction in force is expected to conclude in the first quarter of 2004, while the expansion is expected to be completed by year-end 2004.

In connection with the restructuring plan, the Company recorded a charge of approximately $606,000 during the third quarter of 2003 in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). This charge consisted primarily of severance, retention bonuses and legal and outplacement services fees. The current balance of the liability is included in Other Accrued Expenses on the balance sheet and is summarized in the following table (in thousands):

	Restructuring Expenses Incurred During the Period	Cash Payments	Restructuring Liability at September 30, 2003
Severance and benefits	$ 527	$ (299)	$ 228
Legal and other fees	79	(68)	11
	$ 606	$ (367)	$ 239

The Company expects to record additional expenses related to this restructuring plan of approximately $1.5 million through the first quarter of 2004. The estimated additional expenses consist primarily of severance, retention bonuses, legal and outplacement services as well as expenses related to exiting contractual commitments at the Tübingen location. This estimate is subject to change depending upon the settlement of contractual commitments related to the Tübingen location, the changes in the Euro exchange rate, and other factors. Upon complete or substantially complete liquidation of the Tübingen location, the cumulative translation adjustment attributable to that entity will be removed from equity and reported as part of the gain or loss on liquidation of the subsidiary.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "should," "estimate," "predict," "potential," "continue" or the negative of such terms or other similar expressions, identify forward-looking statements. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed under the caption "Risk Factors" below, as well as those discussed elsewhere in this quarterly report on Form 10-Q.

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the 2002 audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on March 7, 2003. Operating results are not necessarily indicative of results that may occur in future periods. We undertake 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 in order 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 ongoing commercial collaborations with several leading pharmaceutical, biotechnology and agrochemical companies, including: Bayer CropScience LP (formerly Aventis USA LP), Bayer Corporation, Bristol-Myers Squibb Company (two collaborations), Cytokinetics, Inc., Dow AgroSciences LLC, Elan Pharmaceuticals, Inc., Merck & Co., Inc. (two collaborations), Renessen LLC, Scios Inc., Schering-Plough Research Institute, Inc. and SmithKlineBeecham Corporation.

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

Recent Developments

Clinical update

Our clinical pipeline is advancing. Our most advanced clinical program is XL119, an anticancer compound that we in-licensed from Bristol-Myers Squibb Company in 2001. XL119 has completed Phase 1 clinical testing. The Phase 2 clinical testing program, which is being conducted by the National Cancer Institute ("NCI"), is well advanced. Phase 2 studies in several cancer indications have been completed, while others are continuing. To date, the most pronounced anti-tumor activity was observed in a Phase 2 trial in patients with bile duct tumors, where several partial responses and instances of prolonged disease stabilization occurred. During the quarter ended September 30, 2003, we reached agreement with the U.S. Food and Drug Administration ("FDA") on the Phase 3 registration trial of XL119 via the FDA's Special Protocol Assessment process. We are currently undertaking activities leading to the initiation

of the Phase 3 trial of XL119 as a potential treatment for bile duct tumors, with the goal of beginning the study in the first half of 2004. The Phase 3 trial will be a randomized, well-controlled comparative study of XL119 in several hundred patients as a single-agent therapy with a survival-based endpoint. We are continuing to explore development and commercialization partnering opportunities that could expand or extend the scope of the Phase 3 program.

The Phase 1 safety trial of our proprietary small molecule anticancer compound, XL784, is also progressing. The clinical dosing phase of the initial Phase 1 study has been successfully completed. Analyses are being performed to assess the pharmacokinetic profile of the compound (drug concentration in plasma) and work is ongoing on analyses to determine the compound's pharmacodynamic profile (level of activity). Concurrent with these activities, we are exploring the therapeutic utility of the compound in areas outside of cancer, including renal and cardiovascular disease.

Our development candidates, XL647 and XL999, are continuing to progress toward Investigational New Drug ("IND") status, and behind these two compounds are several additional programs advancing rapidly into preclinical status.

Restructuring

In the third quarter of 2003, we implemented a worldwide restructuring of our research and development organization designed to reallocate resources and enhance the efficiency of our operations. The restructuring plan provides for a net reduction in force of approximately 5% of our personnel which is comprised of an 11% reduction in force impacting research personnel, offset in part by a planned expansion of the discovery and development groups to increase the number of lead optimization teams and expand preclinical and clinical development activities. The restructuring includes a reduction of research personnel in our South San Francisco location, closure of our Tübingen location and relocation of certain research activities and employees from Tübingen to South San Francisco.

The reduction in force is expected to conclude in the first quarter of 2004, while the expansion is expected to be completed by year-end 2004. We anticipate that the net impact of the restructuring plan will not have a significant impact to our financial position, future operating results and liquidity.

Results of Operations

Total Revenues

Total revenues were approximately $12.4 million and $37.8 million for the three- and nine-month periods ended September 30, 2003, respectively, compared to $10.4 million and $31.9 million, respectively, for the comparable periods in 2002. The third quarter increase in revenues over the 2002 levels was driven primarily by our October 2002 corporate collaboration with SmithKlineBeecham Corporation ("GlaxoSmithKline" or "GSK"), partially offset by a decrease in revenue due to the May 2003 conclusion of our collaboration with Protein Design Labs. For the nine-months ended September 30, 2003, the increase in revenue from GSK was partially offset by the reduction in revenue from the conclusion of our collaborations with Pharmacia Corporation in February 2002 and Protein Design Labs in May 2003.

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 $32.3 million and $95.1 million for the three- and nine-month periods ended September 30, 2003, respectively, compared to $28.8 million and $84.3 million, respectively, for the comparable periods in 2002. The increase in 2003 over 2002 for both periods resulted primarily from the following costs:

- Increased Personnel – Staffing costs increased approximately 15% to $11.8 million and 9% to $34.9 million for the three- and nine-month periods ended September 30, 2003, respectively. The increase was primarily to support activities related to advancing our clinical and preclinical development programs, in addition to supporting our collaborative arrangements and our internal proprietary research and development efforts. Salaries, bonuses, related fringe benefits, recruiting and relocation costs are included in personnel costs.

- Increased Lab Supplies – Lab supplies expense increased 13% to $6.1 million and 3% to $17.5 million for the three- and nine-month periods ended September 30, 2003, respectively. The increase was primarily driven by the increase in personnel dedicated to our internal proprietary research and development efforts.

- Increased Licenses and Consulting – Licenses and consulting expense decreased approximately 9% to $4.1 million and increased 37% to $12.5 million for the three- and nine-month periods ended September 30, 2003, respectively. The year-over-year decrease for the three months ended September 30, 2003 is primarily related to a reduction in outsourcing costs associated with the expansion of our proprietary compound library. The year-over-year increase for the nine months ended September 30, 2003 was driven primarily by activities related to advancing our clinical and preclinical development programs. These activities included: completing regulatory toxicology testing of XL784, filing the IND application at the end of the first quarter of 2003 and commencing Phase 1 clinical studies in June 2003; advancing a series of development candidates and back-up compounds into preclinical testing in anticipation of filing additional IND applications; manufacturing drug substance for those compounds to support preclinical studies; and costs associated with manufacturing XL119 to support initiation of registration trials.

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

With respect to XL119, XL784 and our other proprietary compounds, we are currently relying on collaborators and third-party contractors to produce materials for clinical trials. We expect clinical costs will increase in the future as we continue clinical trials for XL784, enter trials for other proprietary product candidates and undertake 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.

General and Administrative Expenses

General and administrative expenses consist primarily of staffing costs to support our research activities, facilities costs and professional expenses, such as legal fees. General and administrative expenses were approximately $4.5 million and $14.4 million for

the three- and nine-month periods ended September 30, 2003, respectively, compared to $4.4 million and $14.0 million, respectively, for the comparable periods in 2002. The increase in 2003 from 2002 for both periods primarily resulted from an increase in infrastructure related costs to support expansion in our research and development operations.

Stock Compensation Expense

Deferred stock compensation for options granted to our employees is the difference between the fair value for financial reporting purposes of our common stock on the date such options were granted and their exercise price. Deferred stock compensation for options granted to consultants has been determined based upon estimated fair value, using the Black-Scholes option valuation model. As of September 30, 2003, we had approximately $136,000 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 $167,000 and $744,000 for the three- and nine-month periods ended September 30, 2003, respectively, compared to $669,000 and $2.3 million, respectively, for the comparable periods in 2002. The decrease in stock compensation expense in 2003 compared to 2002 primarily resulted from the accelerated amortization method used for accounting purposes and reversals of previously recorded stock compensation expense from employee terminations in 2003.

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 had an exercise price of $16.00, vested monthly over a two-year period beginning April 1, 2001 and expired on June 30, 2003. The vesting on the corresponding original stock options was suspended and resumed 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 nine-month period ended September 30, 2002, we recorded a reversal of previously recorded compensation expense relating to the supplemental options of $242,000, resulting from a decrease in the market value of our common stock. The supplemental options had no impact on the three-month period ended September 30, 2002 nor on our 2003 operating results.

Amortization of Intangibles

Intangible assets resulted from our acquisitions of Genomica Corporation, Artemis Pharmaceuticals GmbH and Agritope, Inc. (renamed Exelixis Plant Sciences). Amortization of intangibles was $166,000 and $499,000 for the three- and nine-month periods ended September 30, 2003, respectively, as well as for the comparable periods in 2002.

Restructuring Charge

In the third quarter of 2003, we implemented a worldwide restructuring of our research and development organization designed to reallocate resources and enhance the efficiency of our operations. The restructuring plan provides for a net reduction in force of approximately 5% of our personnel which is comprised of an 11% reduction impacting research personnel, offset in part by a planned expansion of the discovery and development groups to increase the number of lead optimization teams and expand preclinical and clinical development activities. The restructuring includes a reduction of research personnel in our South San Francisco location, closure of our Tübingen location and relocation of certain research activities and employees from Tübingen to South San Francisco. The reduction in force is expected to conclude in the first quarter of 2004, while the expansion is expected to be accomplished by year-end 2004. We anticipate that the net impact of the restructuring plan will not have a significant impact to our financial position, future operating results and liquidity.

In connection with the restructuring plan, we recorded a charge of approximately $606,000 during the third quarter of 2003 consisting primarily of severance, retention bonuses and legal and outplacement services fees. Through the first quarter of 2004, we expect to record additional expenses related to this restructuring plan of approximately $1.5 million. This estimate is subject to change depending upon the settlement of contractual commitments related to the Tübingen location, changes in the Euro exchange rate, and other factors.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest income earned on cash, cash equivalents and short-term investments, offset by interest expense incurred on notes payable, bank obligations and capital lease obligations. Total other income (expense) was income of $56,000 and $1.4 million for the three- and nine-month periods ended September 30, 2003, respectively, compared to income of $33,000 and $2.9 million, respectively, for the comparable periods in 2002. The year-over-year increase for the three-months ended September 30, 2003 was due primarily to interest earned on the cash proceeds from our June 2003 follow-on public

offering, offset by an increase in interest expense related to notes payable, bank obligations and our convertible loan with GSK. The year-over-year decrease for the nine-months ended September 30, 2003 was primarily due to an overall decline in interest rates coupled with the increase in interest expense.

Discontinued Operations

In April 2002, we transferred the Genomica software business to Visualize for future consideration of up to $2.4 million in license fees and royalty payments. Pursuant to the terms of the transaction, Visualize obtained a license with all rights and obligations to third parties currently licensing the Genomica software, including the sole right to further develop and license the software to other third parties. We retained an internal use license for the software. Royalties that we receive, if any, will be recorded in the period they are earned as a gain in discontinued operations. As a result of this transaction, we reported the

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

Income Taxes

We have incurred net losses since inception and, consequently, have not recorded any U.S. federal or state income taxes. In connection with our foreign operations, we have recorded a tax benefit of approximately $75,000 and a tax provision of approximately $112,000 for the three- and nine-month periods ended September 30, 2003, respectively, compared to none for the comparable periods in 2002. The tax benefit recorded in the current quarter is due to a reversal of amortization related to a patent, which was written off.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of equity, equipment financing facilities and loans and payments from collaborators. In addition, we acquired Genomica in December 2001, including $109.6 million in cash and investments. As of September 30, 2003, we had approximately $218.6 million in cash, cash equivalents, short-term investments and restricted cash.

Our operating activities used cash of approximately $73.5 million and $65.0 million for the nine-month periods ended September 30, 2003 and 2002, respectively. For the nine-month periods ended September 30, 2003 and 2002, cash used in operating activities related primarily to the funding of net losses and a decrease in deferred revenue, offset by non-cash charges related to depreciation and amortization of deferred stock compensation. For the nine-month period ended September 30, 2002, cash used in operating activities also included cash payments related to our December 2001 acquisition of Genomica.

Our investing activities used cash of approximately $38.4 million and provided cash of $57.9 million for the nine-month periods ended September 30, 2003 and 2002, respectively. Cash used in 2003 related primarily to purchases of short-term investments and our investment in restricted cash, offset largely by the maturity of short-term investments. For the comparable period in 2002, cash provided from investing activities resulted from proceeds from maturities of short-term investments, partially offset by purchases of short-term investments.

Our financing activities provided cash of approximately $82.1 million and $740,000 for the nine-month periods ended September 30, 2003 and 2002, respectively. For the nine-month period ended September 30, 2003, cash provided from financing activities related primarily to the $74.6 million of net proceeds received from the issuance of 11.3 million shares of our common stock in a follow-on public offering. In addition, cash provided from financing activities during the period related to proceeds from bank obligations, offset by principal payments on capital lease and bank obligations. For the comparable period in 2002, cash provided from financing activities related primarily to proceeds from bank obligations and our employee stock purchase plan, largely offset by principal payments on capital lease and bank 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 discussed under the caption "Risk Factors" below could require us to consume available resources much sooner than we expect. It is possible that we will seek additional financing within this timeframe. We may raise additional funds through public or private financing, collaborative relationships or other arrangements. 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

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires an investor with a majority of the variable interests in a variable interest entity ("VIE") to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the equity investors do not have a controlling interest, or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. For arrangements entered into with VIEs created prior to January 31, 2003, the provisions of FIN 46 are required to be adopted at the end of the first interim or annual period ending after December 15, 2003. The provisions of FIN 46 were effective immediately for all arrangements entered into with new VIEs created after January 31, 2003.

We have two existing joint venture arrangements, one with Bayer Corporation and one with Bayer CropScience LP. We have not yet completed our evaluation as to whether the existing joint venture arrangements would be considered VIEs or whether we may be considered the primary beneficiary of these joint venture arrangements. We expect to complete the review in the fourth quarter of 2003. Additional information related to these joint venture arrangements is provided below.

Genoptera

In December 1999, we formed Genoptera LLC with Bayer Corporation to focus on developing insecticides and nematicides for crop protection. Under the terms of the Genoptera operating agreement, Bayer provides 100% of the capital necessary to fund the operations of Genoptera and has the ability to control the entity with a 60% ownership interest. We own the other 40% interest in Genoptera without making any capital contribution and report the investment in Genoptera using the equity method of accounting. Bayer's initial capital contributions to Genoptera were $10.0 million in January 2000 and another $10.0 million in January 2001. Bayer is also required to contribute cash to Genoptera in amounts necessary to fund its ongoing operating expenses. Genoptera has incurred losses since inception. Since our carrying value of this investment is zero and there is no obligation to fund future losses, we have not recorded equity method losses for Genoptera to date. Revenues recognized under this joint venture approximated 27% and 26% of our total consolidated revenue for the three- and nine-month periods ended September 30, 2003, respectively, and 33% and 32% for the comparable periods in 2002.

Agrinomics

In July 1999, Exelixis Plant Sciences (formerly Agritope, Inc.) and Bayer CropScience (formerly Aventis CropScience USA LP) formed Agrinomics LLC to conduct a research, development and commercialization program in the field of agricultural functional genomics. As a result of our acquisition of Exelixis Plant Sciences, we own a 50% interest in Agrinomics, while Bayer CropScience owns the remaining 50% interest. Bayer CropScience has agreed to make capital contributions to Agrinomics in cash totaling $20.0 million over a five-year period, of which $17.0 million has been contributed to date. Exelixis Plant Sciences contributed certain technology and a collection of seeds generated using such technology. In connection with our acquisition of Exelixis Plant Sciences, no portion of the purchase price was assigned to Agrinomics. Although we are required to account for our investment in Agrinomics under the equity method, we do not expect to include in our consolidated financial statements a proportionate share of the losses of Agrinomics until such time, if ever, that we make a capital contribution to Agrinomics. We do not have a requirement to make capital contributions to Agrinomics. Revenues recognized under this joint venture approximated 4% and 5% of our total consolidated revenue for the three- and nine-month periods ended September 30, 2003, respectively, and 10% and 9% for the comparable periods in 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. We had investments of approximately $218.1 million and $219.5 million at September 30, 2003 and December 31, 2002, respectively. Our investments are subject to interest rate risk, and our interest income may fluctuate due to changes in U.S. interest rates. By policy, we limit our investments to money market instruments, debt securities of U.S. government agencies and debt obligations of U.S. corporations. We manage market risk by our diversification requirements, which limit the amount of our portfolio that can be invested in a single issuer. We manage credit risk by limiting our purchases to high-quality issuers. Through our money managers, we maintain risk management control systems to monitor interest rate risk. The risk management control systems use analytical techniques, including sensitivity analysis.

We had long-term debt outstanding of approximately $69.3 million and $65.3 million at September 30, 2003 and December 31, 2002, respectively. The majority of our payment commitments associated with these debt instruments are fixed during the corresponding terms and are comprised of interest payments, principal payments or a combination thereof. The fair value of our long-term debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest.

We have estimated the effects on our interest rate sensitive assets and liabilities based on a one percentage point hypothetical increase or decrease in interest rates as of September 30, 2003 and December 31, 2002. As of September 30, 2003, a decrease in interest rates of one percentage point would have a net adverse change in the fair value of interest rate sensitive assets and liabilities of approximately $746,000. As of December 31, 2002, a decrease in interest rates of one percentage point would have a net adverse change in the fair value of interest rate sensitive assets and liabilities of approximately $1.6 million. We have assumed the changes occur immediately and uniformly to each category of instrument containing interest rate risks. Significant variations in market interest rates could produce changes in the timing of repayments due to available prepayment options. The fair value of such instruments could be affected and, therefore, actual results might differ from our estimate.

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

We have used derivative financial instruments to reduce our exposure to foreign currency exchange rate movements on our consolidated operating results. During the three-month period ended September 30, 2003, we retired our written foreign currency put and call option contracts as a result of the restructuring of our German facilities, which resulted in a loss of approximately $102,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Based on their evaluation as of September 30, 2003, our chief executive officer and interim chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and Form 10-Q.

Changes in internal controls. There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls. Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. However, as set forth above, our chief executive officer and interim chief financial officer have concluded, based on their evaluation as of September 30, 2003, that our disclosure controls and procedures were sufficiently effective to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Sale of Equity

In June 2003, the Company completed a follow-on public offering of 10.0 million shares of registered common stock, at a price of $7.10 per share, for gross proceeds of $71.0 million. The Company received approximately $66.2 in net proceeds after deducting underwriting fees of $4.3 million and offering expenses of $462,000.

In July 2003, the underwriters purchased approximately 1.3 million additional shares of registered common stock at a price of $7.10 per share pursuant to an over-allotment option granted in connection with the follow-on public offering. The Company received approximately $8.4 million in net proceeds after

deducting underwriting fees of approximately $534,000.

As of September 30, 2003, all of the proceeds from the follow-on public offering remained available and were primarily invested in short-term marketable securities.

ITEM 5. OTHER INFORMATION

RISK FACTORS

Exelixis has a history of net losses. We expect to continue to incur net losses, and we may not achieve or maintain profitability.

We have incurred net losses each year since our inception, including a net loss of approximately $71.5 million for the nine-months ended September 30, 2003. As of that date, we had an accumulated deficit of approximately $358.8 million. We expect these losses to continue and anticipate negative operating cash flow for the foreseeable future. The size of these net losses will depend, in part, on the rate of growth, if any, in our license and contract revenues and on the level of our expenses. Our research and development expenditures and general and administrative costs have exceeded our revenues to date, and we expect to spend significant additional amounts to fund research and development in order to enhance our core technologies and undertake product development. In 2001, we acquired XL119, a rebeccamycin analogue that is in Phase 2 clinical development. We are currently undertaking activities leading to the initiation of the Phase 3 trial of XL119 as a potential treatment for bile duct tumors, with the goal of beginning the study in the first half of 2004. In addition, we filed our first IND application for a proprietary compound, XL784, in March 2003 and initiated Phase 1 clinical trials during the second quarter of 2003. 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 maintain 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 and clinical development efforts as well as develop manufacturing and marketing capabilities to commercialize products;
- the filing, prosecution and enforcement of patent claims; and
- increased costs for clinical activities.

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

Difficulties we may encounter managing our growth may divert resources and limit our ability to successfully expand our operations.

We have experienced a period of rapid and substantial growth that has placed, and our anticipated growth in the future will continue to place, a strain on our research, administrative and operational infrastructure. As our operations expand domestically and internationally, we will need to continue to manage multiple locations and additional relationships with various collaborative partners, suppliers and other third parties. Our ability to manage our operations and growth effectively requires us to continue to improve our operational, financial and management controls, reporting systems and procedures. In addition, recent SEC rules and regulations have increased the internal control and regulatory requirements under which we operate. 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, internal control 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 Corporation, Bristol-Myers Squibb (two agreements), SmithKlineBeecham, Dow AgroSciences, Renessen and Bayer CropScience. Our current collaborative agreement with Bayer Corporation is scheduled to expire in 2008, after which it will automatically be extended for one-year terms unless terminated by

either party upon 12-months written notice. Our agreement permits Bayer to terminate our collaborative activities prior to 2008 upon the occurrence of specified conditions, such as the failure to agree on key strategic issues after a period of years or the acquisition of Exelixis by certain specified third parties. Our agreement with Bayer is subject to termination at an earlier date if two or more of our Chief Executive Officer, Chief Scientific Officer, Agricultural Biotechnology Program Leader and Chief Informatics Officer cease to have a relationship with us within nine months of each other. Our Chief Scientific Officer, Geoffrey Duyk, M.D., Ph.D., has announced his intention to leave the Company, effective at the end of 2003.

Our mechanism of action collaborative agreement with Bristol-Myers Squibb expires in September 2004. Our cancer collaborative agreement with Bristol-Myers Squibb expires in July 2004. Our recent alliance with SmithKlineBeecham is scheduled to expire in October 2008, but is subject to earlier termination at the discretion of SmithKlineBeecham starting in 2005 if we fail to meet certain diligence obligations. Research funding under our agreement with Protein Design Labs expired in May 2003. Funding under our arrangement with Dow AgroSciences is scheduled to expire in July 2004, after which Dow AgroSciences has the option to renew on an annual basis. Our collaborative research arrangement with Bayer CropScience is scheduled to expire in September 2004. The Bayer CropScience arrangement is conducted through a limited liability company, Agrinomics, which is owned equally by Bayer CropScience and Exelixis. Agrinomics is party to a recent collaborative agreement with Renessen, which expires in December 2005. We also have additional agreements providing lower amounts of committed funding with the following chemistry collaborators: Cytokinetics, Inc., Scios Inc., Schering-Plough Research Corporation, Merck & Co., Inc. and Elan Pharmaceuticals.

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 Corporation terminated by mutual agreement in February 2002, which eliminated the opportunity for us to earn approximately $9.0 million in research revenue in 2002 and 2003. Although we have entered into other collaborations that 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 our existing arrangements, and the timing of new collaborative agreements may have a material adverse 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, therapeutic modality and agricultural product areas that are not covered by our collaborative agreements. Our pursuit of opportunities in agricultural and pharmaceutical markets could, however, result in conflicts with our collaborators in the event that any of our collaborators take the position that our internal activities overlap with those areas that are exclusive to our collaborative agreements, and we should be precluded from such internal activities. Moreover, disagreements with our collaborators could develop over rights to our intellectual property. In addition, our collaborative agreements may have provisions that give rise to disputes regarding the rights and obligations of the parties, including the rights of collaborators with respect to our internal programs and disease area research. Any conflict with or among our collaborators could lead to the termination of our collaborative agreements, delay collaborative activities, reduce our ability to renew agreements or obtain future collaboration agreements or result in litigation or arbitration and would negatively impact our relationship with existing collaborators.

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

Our potential therapeutic products are subject to a lengthy and uncertain regulatory process that may not result in the necessary regulatory approvals, which could adversely affect our ability to commercialize products.

The FDA must approve any drug 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 in those countries. Before a new drug application can be filed with the FDA, the product candidate must undergo extensive clinical trials, which can take many years and may require substantial expenditures. The regulatory process also requires preclinical testing. Data obtained from preclinical and clinical activities are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in regulatory policy for product approval during the period of product development and regulatory agency review. Completion of clinical trials may take several years or more, but the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product candidate. We currently estimate that typical clinical trials are completed over the following timelines:

Clinical Phase	Estimated Completion Period
Phase 1	1 Year
Phase 2	1-2 Years
Phase 3	2-4 Years

However, the duration and the cost of clinical trials may vary significantly over the life of a project as a result of factors relating to the trial, including, among others, the following:

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

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

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

Clinical testing of our potential products may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval.

Clinical trials are inherently risky and may reveal that our potential products are ineffective or have unacceptable toxicity or other side effects that may significantly decrease the likelihood 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 cannot provide assurance that any specified timelines with respect to the initiation or completion of clinical studies may be achieved.

In July 2001, we acquired our XL119 cancer compound, a rebeccamycin analogue, currently in Phase 2 clinical development. This compound was manufactured by Bristol-Myers Squibb, and clinical trials to date have been conducted by the National Cancer Institute, or the NCI. We will have to conduct additional clinical testing in order to meet FDA requirements for regulatory approval. We have no prior experience in conducting clinical trials, and, in conjunction with the NCI, we expect to undertake further clinical development of this compound under our own IND application in order to obtain regulatory approval. We are currently undertaking activities leading to the initiation of the Phase 3 trial of XL119 as a potential treatment for bile duct tumors, with the goal of beginning the study in the first half of 2004. We may not be able to rapidly or effectively assume responsibility for further development of this compound or meet the requirements identified based on our discussions with the FDA. We do not know whether planned clinical trials will begin on time, will be completed on schedule, or at all, will be sufficient for registration or will result in approvable products. Our product development costs will increase if we have delays in testing or approvals or if we need to perform more or larger clinical trials than planned. If the delays are significant, our financial results and the commercial prospects for our products will be harmed, and our ability to become profitable will be delayed.

We lack the capability to manufacture compounds for clinical trials and rely on third parties to manufacture our potential products, and we may be unable to obtain required material in a timely manner or at a quality level required to receive regulatory approval.

We currently do not have manufacturing capabilities or experience necessary to produce materials for clinical trials, including for our Phase 2 clinical compound, XL119. We intend to rely on collaborators and third-party contractors to produce materials necessary

for preclinical and clinical testing. We will rely on selected manufacturers to deliver materials on a timely basis and to comply with applicable regulatory requirements, including the FDA's current Good Manufacturing Practices, or GMP. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet our development timelines and applicable regulatory requirements. If we are unable to contract for the production of materials in sufficient quantity and of sufficient quality on acceptable terms, our planned clinical trials may be delayed. Delays in preclinical or clinical testing could delay the filing of our IND applications and the initiation of clinical trials that we have currently planned. In addition, our outsourcing efforts with respect to manufacturing clinical supplies will result in a dependence on our suppliers to timely manufacture and deliver sufficient quantities of materials produced under GMP conditions to enable us to conduct planned clinical trials and, if possible, to bring products to market in a timely manner.

We have no experience in developing, manufacturing and marketing products and may be unable to commercialize proprietary products.

Initially, we relied on our collaborators to develop and commercialize products based on our research and development efforts. We have limited or no experience in using the targets that we identify to develop our own proprietary products. Our recent efforts in applying our drug development capabilities to our proprietary targets in cancer are subject to significant risk and uncertainty, particularly with respect to our ability to meet currently estimated timelines and goals for completing preclinical development efforts and filing an IND 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 or invalidated or may 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. However, we do not currently have sufficient executive management and technical personnel to fully execute our business plan. In addition, our Chief Scientific Officer has announced his intention to leave the Company, effective at the end of 2003. Recruiting and retaining qualified scientific and clinical personnel will be critical to support activities related to advancing our clinical and preclinical development programs, and supporting our collaborative arrangements and our internal proprietary research and development efforts. Although we believe we will be successful in replacing our Chief Scientific Officer, and in attracting and retaining qualified management, competition is intense for experienced technical personnel, and we may be unable to retain or recruit scientists with the expertise or experience necessary to allow us to pursue collaborations, develop our products and core technologies or expand our operations to the extent otherwise possible.

Our collaborations with outside scientists may be subject to restriction and change.

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

Social issues may limit the public acceptance of genetically engineered products, which could reduce demand for our products.

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

The subject of genetically modified organisms has received negative publicity, which has aroused public debate. For example, certain countries in Europe are considering regulations that 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.

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

We use hazardous chemicals and radioactive and biological materials in our business. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly.

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

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

We expect that our quarterly results of operations will fluctuate, and this fluctuation could cause our stock price to decline, causing investor losses.

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

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

A large portion of our expenses, including expenses for facilities, equipment and personnel, are relatively fixed in the short term. In addition, we expect operating expenses to increase significantly during the next year. Accordingly, if our revenues decline or do not grow as anticipated due to the expiration of existing contracts or our failure to obtain new contracts, our inability to meet milestones or other factors, we may not be able to correspondingly reduce our operating expenses. Failure to achieve anticipated levels of revenues could therefore significantly harm our operating results for a particular fiscal period.

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

Our stock price may be extremely volatile.

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

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

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

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

We are exposed to risks associated with acquisitions.

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

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

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

If product liability lawsuits are successfully brought against us, we could face substantial liabilities that exceed our resources.

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

Our headquarters facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other catastrophic disaster could cause damage to our facilities and equipment, which could require us to cease or curtail operations.

Given our headquarters location in South San Francisco, California, our facilities are vulnerable to damage from earthquakes. We are also vulnerable worldwide to damage from other types of disasters, including fire, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities would be seriously, or potentially completely, impaired. In addition, the unique nature of our research activities could cause significant delays in our programs and make it difficult for us to recover from a disaster. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions. Accordingly, an earthquake or other disaster could materially and adversely harm our ability to conduct business.

Future sales of our common stock may depress our stock price.

If our stockholders sell substantial amounts of our common stock (including shares issued upon the exercise of outstanding options and warrants) in the public market, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deemed appropriate. For example, following an acquisition, a significant number of shares of our common stock held by new stockholders may become freely tradable or holders of registration rights could cause us to register their shares for resale. Sales of these shares of common stock held by existing stockholders could cause the market price of our common stock to decline.

Some of our existing stockholders can exert control over us, and their interests could conflict with the best interests of our other stockholders.

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

Available Information

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On August 6, 2003, we furnished a current report on Form 8-K under Item 12, describing and furnishing the press release announcing certain financial results and information, including our condensed consolidated balance sheets and statements of operations, for the quarter ended June 30, 2003.

SIGNATURES

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.

EXELIXIS, INC.

Date: November 5, 2003

/s/ George A. Scangos
George A. Scangos
President and Chief Executive Officer

Date: November 5, 2003

/s/ Kristine M. Ball
Kristine M. Ball
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Number	Exhibit Description
3.1*	Amended and Restated Certificate of Incorporation of Exelixis, Inc.
3.2*	Amended and Restated Bylaws of Exelixis, Inc.
4.1*	Specimen Common Stock Certificate.
10.41	Loan Modification Agreement, dated September 15, 2003, by and between Silicon Valley Bank and Exelixis, Inc.
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
32.1**	Certification by the Chief Executive Officer and the Interim Chief Financial Officer of Exelixis, Inc., as required by Rule 13a–14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

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

** This certification accompanies this Quarterly Report on Form 10-Q, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

LOAN MODIFICATION AGREEMENT

This Loan Modification Agreement is entered into as of September 15, 2003, by and between Exelixis, Inc., a Delaware corporation (the "Borrower") and Silicon Valley Bank ("Bank").

1. DESCRIPTION OF EXISTING INDEBTEDNESS: Among other indebtedness which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to, among other documents, a Loan and Security Agreement, dated May 22, 2002, as may be amended from time to time, (the "Loan Agreement"). The Loan Agreement provided for, among other things, a Committed Equipment Line in the original principal amount of Sixteen Million Dollars ($16,000,000) to be increased to Nineteen Million Dollars ($19,000,000) pursuant to the terms of this Loan Modification Agreement. Defined terms used but not otherwise defined herein shall have the same meanings as in the Loan Agreement.

Hereinafter, all indebtedness owing by Borrower to Bank shall be referred to as the "Indebtedness."

2. DESCRIPTION OF COLLATERAL AND GUARANTIES. Repayment of the Indebtedness is secured by the Collateral as described in the Loan Agreement.

Hereinafter, the above-described security documents and guaranties, together with all other documents securing repayment of the Indebtedness shall be referred to as the "Security Documents". Hereinafter, the Security Documents, together with all other documents evidencing or securing the Indebtedness shall be referred to as the "Existing Loan Documents".

3. DESCRIPTION OF CHANGE IN TERMS.

A. Modification to Loan Agreement.

1. The definition of "Commitment Equipment Line" in Section 13 of the Loan Agreement is hereby amended to read as follows:

"'Commitment Equipment Line' is a Credit Extension of up to $19,000,000."

4. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

5. PAYMENT OF LOAN FEE. Borrower shall not be charged any fees or expenses by Bank related to this Loan Modification Agreement.

6. NO DEFENSES OF BORROWER. Borrower agrees that, as of the date hereof, it has no defenses against the obligations to pay any amounts under the Indebtedness.

7. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Indebtedness, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Indebtedness pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Indebtedness. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of Bank and Borrower to retain as liable parties all makers and endorsers of Existing Loan Documents, unless the party is expressly released by Bank in writing. No maker, endorser, or guarantor will be released by virtue of this Loan Modification Agreement. The terms of this paragraph apply not only to this Loan Modification Agreement, but also to all subsequent loan modification agreements.

8. CONDITIONS. The effectiveness of this Loan Modification Agreement is conditioned upon payment of the out-of-pocket expenses.

This Loan Modification Agreement is executed as of the date first written above.

BORROWER:	**BANK:**
EXELIXIS, INC.	**SILICON VALLEY BANK**
By: /s/ George Scangos	By: /s/ Peter Scott
Name: George Scangos	Name: Peter Scott
Title: CEO	Title: SVP

Exhibit 31.1

CERTIFICATIONS

I, George A. Scangos, Ph.D. certify that:

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

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

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

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

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

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2003

/s/ George A. Scangos

George A. Scangos, Ph.D.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

I, Kristine M. Ball, certify that:

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

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

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

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

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

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2003

/s/ Kristine M. Ball

Kristine M. Ball
Interim Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350, as adopted), George A. Scangos, Ph.D., the Chief Executive Officer of Exelixis, Inc. (the "Company"), and Kristine M. Ball, the Interim Chief Financial Officer of the Company, each hereby certifies that, to their knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the periods covered by the Periodic Report and the results of operations of the Company for the periods covered by the Periodic Report.

In Witness Whereof, the undersigned have set their hands hereto as of the 5th day of November, 2003.

/s/ George A. Scangos
George A. Scangos, Ph.D.
Chief Executive Officer
(Principal Executive Officer)

/s/ Kristine M. Ball
Kristine M. Ball
Interim Chief Financial Officer
(Principal Financial Officer)