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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 June 30, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 000-30235

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

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

210 East Grand Ave.
South San Francisco, CA 94080
(650) 837-7000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 26, 2017, there were 293,904,704 shares of the registrant's common stock outstanding.

EXELIXIS, INC.
QUARTERLY REPORT ON FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2017	December 31, 2016*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 135,212	$ 151,686
Short-term investments	214,044	268,117
Trade and other receivables	43,125	40,444
Inventory, net	5,425	3,338
Prepaid expenses and other current assets	4,433	5,416
Total current assets	402,239	469,001
Long-term investments	26,413	55,601
Long-term restricted cash and investments	4,650	4,150
Property and equipment, net	18,684	2,071
Goodwill	63,684	63,684
Other long-term assets	862	1,232
Total assets	$ 516,532	$ 595,739
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,037	$ 6,565
Accrued compensation and benefits	15,555	20,334
Accrued clinical trial liabilities	14,680	14,131
Accrued collaboration liabilities	7,919	2,046
Convertible notes	—	109,122
Term loan payable	—	80,000
Current portion of deferred revenue	31,255	19,665
Other current liabilities	21,225	16,923
Total current liabilities	97,671	268,786
Long-term portion of deferred revenue	253,663	237,094
Other long-term liabilities	16,687	541
Total liabilities	368,021	506,421
Commitments		
Stockholders' equity		
Preferred stock, $0.001 par value, 10,000,000 shares authorized and no shares issued	—	—
Common stock, $0.001 par value; 400,000,000 shares authorized; issued and outstanding: 293,727,630 and 289,923,798 at June 30, 2017 and December 31, 2016, respectively	294	290
Additional paid-in capital	2,097,379	2,072,591
Accumulated other comprehensive loss	(119)	(416)
Accumulated deficit	(1,949,043)	(1,983,147)
Total stockholders' equity	148,511	89,318
Total liabilities and stockholders' equity	$ 516,532	$ 595,739

* The condensed consolidated balance sheet as of December 31, 2016 has been derived from the audited financial statements as of that date.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Net product revenues	$ 88,004	$ 31,618	$ 156,881	$ 40,717
Collaboration revenues	11,004	4,634	23,014	10,962
Total revenues	99,008	36,252	179,895	51,679
Operating expenses:				
Cost of goods sold	3,014	1,560	6,217	2,245
Research and development	28,214	22,984	51,424	51,910
Selling, general and administrative	40,727	35,823	74,987	70,680
Restructuring (recovery) charge	(60)	1,021	(32)	1,115
Total operating expenses	71,895	61,388	132,596	125,950
Income (loss) from operations	27,113	(25,136)	47,299	(74,271)
Other expense, net:				
Interest income and other, net	1,622	749	2,690	951
Interest expense	(4,259)	(10,451)	(8,679)	(20,741)
Loss on extinguishment of debt	(6,239)	—	(6,239)	—
Total other expense, net	(8,876)	(9,702)	(12,228)	(19,790)
Income (loss) before income taxes	18,237	(34,838)	35,071	(94,061)
Income tax expense	581	—	715	—
Net income (loss)	$ 17,656	$ (34,838)	$ 34,356	$ (94,061)
Net income (loss) per share, basic	$ 0.06	$ (0.15)	$ 0.12	$ (0.41)
Net income (loss) per share, diluted	$ 0.06	$ (0.15)	$ 0.11	$ (0.41)
Shares used in computing net income (loss) per share, basic	293,188	229,310	292,029	228,860
Shares used in computing net income (loss) per share, diluted	311,219	229,310	310,759	228,860

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

EXELIXIS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$ 17,656	$ (34,838)	$ 34,356	$ (94,061)
Other comprehensive income [(1)]	207	171	297	361
Comprehensive income (loss)	$ 17,863	$ (34,667)	$ 34,653	$ (93,700)

(1) Other comprehensive income consisted solely of unrealized gains or losses, net on available-for-sale securities arising during the periods presented. There were nominal or no reclassification adjustments to net income (loss) resulting from realized gains or losses on the sale of securities and there was no income tax expense related to other comprehensive income during those periods.

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

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

	Six Months Ended June 30,	
	2017	2016
Net income (loss)	$ 34,356	$ (94,061)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	563	456
Stock-based compensation expense	9,740	14,743
Loss on extinguishment of debt	6,239	—
Amortization of debt discounts and debt issuance costs	182	6,411
Accrual of interest paid in kind	(11,825)	3,908
Gain on sale of other equity investments	(639)	—
Other	1,146	921
Changes in assets and liabilities:		
Trade and other receivables	(2,581)	(11,550)
Inventory	(2,087)	(192)
Prepaid expenses and other current assets	1,049	(851)
Other long-term assets	519	99
Accounts payable	472	(966)
Accrued compensation and benefits	(4,779)	6,678
Accrued clinical trial liabilities	549	(2,390)
Accrued collaboration liabilities	5,873	6,055
Deferred revenue	28,159	195,469
Other current and long-term liabilities	7,457	6,346
Net cash provided by operating activities	74,393	131,076
Cash flows from investing activities:		
Purchases of property and equipment	(2,312)	(1,083)
Proceeds from sale of property and equipment	14	112
Proceeds from sale of other equity investments	639	—
Proceeds from maturities of restricted cash and investments	5,650	2,650
Purchase of restricted cash and investments	(6,150)	(4,150)
Proceeds from sale of investments	37,294	17
Proceeds from maturities of investments	200,893	58,340
Purchases of investments	(154,809)	(199,396)
Net cash provided by (used in) investing activities	81,219	(143,510)
Cash flows from financing activities:		
Proceeds from exercise of stock options	12,980	2,207
Proceeds from employee stock purchase plan	3,053	479
Taxes paid related to net share settlement of equity awards	(2,331)	(2,059)
Repayment of convertible notes and term loan payable	(185,788)	—
Net cash (used in) provided by financing activities	(172,086)	627
Net decrease in cash and cash equivalents	(16,474)	(11,807)
Cash and cash equivalents at beginning of year	151,686	141,634
Cash and cash equivalents at end of year	$ 135,212	$ 129,827
Supplemental cash flow disclosure - non-cash investing and financing activity:		
Construction-in-progress deemed to have been acquired under build-to-suit lease	$ 14,530	$ —

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

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

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Exelixis, Inc. ("Exelixis," "we," "our" or "us") is a biopharmaceutical company committed to the discovery, development and commercialization of new medicines to improve care and outcomes for people with cancer. Since our founding in 1994, three products discovered at Exelixis have progressed through clinical development, received regulatory approval, and entered the commercial marketplace. Two are derived from cabozantinib, an inhibitor of multiple tyrosine kinases including VEGF, MET, AXL and RET receptors: CABOMETYX® tablets approved for previously treated advanced renal cell carcinoma ("RCC") and COMETRIQ® capsules approved for progressive, metastatic medullary thyroid cancer. The third product, COTELLIC®, is a formulation of cobimetinib, a reversible inhibitor of MEK, marketed under a collaboration with Genentech (a member of the Roche Group), and is approved as part of a combination regimen to treat advanced melanoma.

Basis of Consolidation

The condensed consolidated financial statements include the accounts of Exelixis and those of our wholly-owned subsidiaries. These entities' functional currency is the United States ("U.S.") dollar. All intercompany balances and transactions have been eliminated.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and pursuant 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 U.S. generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the results of operations and cash flows for the periods presented have been included.

We have adopted a 52- or 53-week fiscal year policy that generally ends on the Friday closest to December 31st. Fiscal year 2017 will end on December 29, 2017 and fiscal year 2016 ended on December 30, 2016. For convenience, references in this report as of and for the fiscal periods ended June 30, 2017 and July 1, 2016, and as of and for the fiscal years ended December 29, 2017 and December 30, 2016, are indicated as being as of and for the periods ended June 30, 2017 and June 30, 2016, and the years ended December 31, 2017 and December 31, 2016, respectively.

Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 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, 2016, included in our Annual Report on Form 10-K filed with the SEC on February 27, 2017.

Use of Estimates

The preparation of our condensed consolidated financial statements conforms to accounting principles generally accepted in the U.S. which requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. On an ongoing basis, management evaluates its estimates including, but not limited to, those related to revenue recognition, including deductions from revenues (such as rebates, chargebacks, sales returns and sales allowances), the period of performance, identification of deliverables and evaluation of milestones with respect to our collaborations, the amounts of revenues and expenses under our profit and loss sharing agreement, recoverability of inventory, certain accrued liabilities including accrued clinical trial liability, and stock-based compensation. We base our estimates on historical experience and on various other market-specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

Correction of an Immaterial Error

During the third quarter of 2016, we identified errors in the Consolidated Balance Sheets and Consolidated Statements of Operations, Comprehensive Loss and Cash Flows for 2015, 2014, 2013, and 2012, and in the unaudited interim Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations, Comprehensive Loss and Cash Flows for all prior interim fiscal periods from September 30, 2012 through June 30, 2016. Specifically, in 2012 we incorrectly calculated 1) the allocation between Additional paid-in capital and Convertible notes of the $287.5 million aggregate principal amount from our 4.25% Convertible Senior Subordinated Notes due 2019 ("2019 Notes"); and 2) the amortization of the debt discount associated with the 2019 Notes during 2012 and all subsequent periods.

Having evaluated the materiality of these errors from a quantitative and qualitative perspective, management has concluded that although the accumulation of these errors was significant to the three and nine months ended September 30, 2016, the correction of these errors would not be material to any individual prior period, and did not have an effect on the trend of financial results, taking into account the requirements of the SEC Staff Accounting Bulletin No. 99, *Materiality* and Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. Because management has concluded that these errors are not material, we will correct them prospectively when the consolidated balance sheets, statements of operations, comprehensive loss and cash flows for such periods are included in future filings.

Following are the amounts (in thousands, except per share amounts) that should have been reported for the affected line items of the statement of operations, statement of comprehensive loss and statement of cash flows:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Statement of Operations:		
Interest expense, overstated by $2,177 and $4,301 for the three and six months ended June 30, 2016, respectively	$ (10,451)	$ (20,741)
Total other expense, net, overstated by $2,177 and $4,301 for the three and six months ended June 30, 2016, respectively	$ (9,702)	$ (19,790)
Net loss, overstated by $2,177 and $4,301 for the three and six months ended June 30, 2016, respectively	$ (34,838)	$ (94,061)
Net loss per share, basic and diluted, overstated by $0.01 and $0.02 for the three and six months ended June 30, 2016, respectively	$ (0.15)	$ (0.41)
Statements of Comprehensive Loss:		
Comprehensive loss, overstated by $2,177 and $4,301 for the three and six months ended June 30, 2016, respectively	$ (34,667)	$ (93,700)
Statements of Cash Flows [(1)]:		
Net loss, overstated by $4,301 for the six months ended June 30, 2016	Not reported	$ (94,061)
Accretion of debt discount and debt issuance costs, overstated by $4,301 for the six months ended June 30, 2016	Not reported	$ 6,411

(1) The error did not impact our net cash provided by or used in operating activities, financing activities or investing activities for any of the periods presented.

These errors did not affect any other caption or total in our unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2016. See "Note 1 - Organization and Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 for the amounts of the corrections and the amounts that should have been reported for 2015, 2014, 2013, and 2012 in the affected line items of the statements of operations, statements of comprehensive loss and statements of cash flows.

Reclassifications

Certain prior period amounts in the condensed consolidated financial statements have been reclassified to conform to current period presentation. We reclassified $1.8 million in accrued product sales discounts payable to our customers as of December 31, 2016 from Other current liabilities to Trade and other receivables in the accompanying Condensed

Consolidated Balance Sheets. We have also reclassified the related balances between the Changes in assets and liabilities line items in the accompanying Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 to conform the presentation of those line items to the corresponding presentation of assets and liabilities in our accompanying Condensed Consolidated Balance Sheets.

Segment Information

We operate as a single reportable segment.

Stock-Based Compensation

In January 2017, we adopted Accounting Standards Update ("ASU") No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, ("ASU 2016-09"). ASU 2016-09 is aimed at the simplification of several aspects of the accounting for employee share-based payment transactions, including accounting for forfeitures, income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.

Pursuant to the adoption of ASU 2016-09, we have made an election to record forfeitures when they occur. Previously, stock-based compensation was based on the number of awards expected to vest after considering estimated forfeitures. The change in accounting principle with regards to forfeitures was adopted using a modified retrospective approach, and no prior periods were restated as a result of this change in accounting principle, with a cumulative adjustment of $0.3 million to accumulated deficit and additional paid-in-capital as of January 1, 2017.

As a result of the adoption of ASU 2016-09, we also recorded an increase to the federal and state net operating losses of $56.9 million for excess tax benefits previously not included. The resulting increase to the deferred tax assets of approximately $21.2 million is offset by a corresponding increase to the valuation allowance, resulting in a net zero impact on our income tax expense and our Condensed Consolidated Balance Sheets.

ASU 2016-09 also requires that cash paid to taxing authorities when directly withholding shares for tax withholding purposes be classified as a financing activity on our Condensed Consolidated Statement of Cash Flows. Previously, we classified such payments as operating cash flows. The change in accounting principle with regards to such cash flows was adopted using a retrospective approach. Accordingly, we recorded a reclassification that resulted in an increase in cash provided by operating activities by $2.1 million along with a corresponding increase in cash used in financing activities in our Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delays the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, becomes effective for us in the first quarter of fiscal year 2018, but allows us to adopt the standard one year earlier. We will adopt ASU 2014-09 in the first quarter of fiscal year 2018. ASU 2014-09 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). We will adopt ASU 2014-09 using the modified retrospective method.

The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, has created the possibility that more judgment and estimates may be required within the revenue recognition process than required under existing U.S. generally accepted accounting pronouncements. We have substantially completed our analysis on the adoption of ASU 2014-09 and have determined the adoption will not have a material impact on the recognition of revenue from product sales. We do expect that ASU 2014-09 will impact the timing of recognition of revenue for our collaboration arrangements. We expect to reclassify deferred revenue to retained earnings (a concept known as lost revenue) for amounts associated with certain of our collaboration arrangements upon recording our transition adjustment to accumulated loss on January 1, 2018, primarily due to the timing of recognition of revenue related to intellectual property licenses that we have transferred for development and commercialization of our products. Additionally, for all of our collaboration arrangements, the timing of recognition of certain of our development and regulatory milestones could change as a result of the variable

consideration guidance included in ASU 2014-09. ASU 2014-09 will also require additional disclosures regarding our revenue transactions.

NOTE 2: COLLABORATION AGREEMENTS

Ipsen Collaboration

In February 2016, we entered into a collaboration and license agreement (the "Ipsen Collaboration Agreement") with Ipsen Pharma SAS ("Ipsen") for the commercialization and further development of cabozantinib. Pursuant to the terms of the Ipsen Collaboration Agreement, Ipsen received exclusive commercialization rights for current and potential future cabozantinib indications outside of the U.S., Canada and Japan (the "Ipsen Territory"). The Ipsen Collaboration Agreement was subsequently amended in December 2016 (the "Amendment") to include commercialization rights in Canada in the Ipsen Territory. We have also agreed to collaborate with Ipsen on the development of cabozantinib for current and potential future indications.

In consideration for the exclusive license and other rights contained in the Ipsen Collaboration Agreement, Ipsen paid us an upfront nonrefundable payment of $200.0 million in March 2016. Additionally, as a result of the Amendment, we received a $10.0 million upfront nonrefundable payment from Ipsen in December 2016 and, as a result of the approval of cabozantinib in second-line RCC by the European Commission ("EC") in September 2016, we received a $60.0 million milestone in November 2016. We are receiving a 2% royalty on the initial $50.0 million of net sales by Ipsen, and are entitled to receive a 12% royalty on the next $100.0 million of net sales by Ipsen. After the initial $150.0 million of sales, we are entitled to receive a tiered royalty of 22% to 26% on annual net sales by Ipsen; these tiers will reset each calendar year. We are primarily responsible for funding cabozantinib-related development costs for those trials in existence at the time we entered into the Ipsen Collaboration Agreement; global development costs for additional trials will be shared between the parties, with Ipsen reimbursing us for 35% of such costs, provided Ipsen opts in to participate in such additional trials. Pursuant to the terms of the Ipsen Collaboration Agreement, we will remain responsible for the manufacture and supply of cabozantinib for all development and commercialization activities. As part of the collaboration agreement, we entered into a supply agreement pursuant to which we will supply finished, labeled product to Ipsen for distribution in the Ipsen Territories at our cost, as defined in the agreement, which excludes the 3% royalty we are required to pay GlaxoSmithKline ("GSK") on Ipsen's Net Sales of any product incorporating cabozantinib.

The Ipsen Collaboration Agreement contains multiple deliverables consisting of intellectual property licenses, delivery of products and/or materials containing cabozantinib to Ipsen for all development and commercial activities, research and development services, and participation on the joint steering, development and commercialization committees (as defined in the Ipsen Collaboration Agreement). We determined that these deliverables do not have stand-alone value and accordingly, combined these deliverables into a single unit of accounting and allocated the entire arrangement consideration to that combined unit of accounting. As a result, the upfront payment of $200.0 million, received in the first quarter of 2016 and the $10.0 million upfront payment received in December 2016 in consideration for the development and commercialization rights in Canada are being recognized ratably over the term of the Ipsen Collaboration Agreement, through early 2030, which is the current estimated patent expiration of cabozantinib in the European Union. At the time we entered into the Ipsen Collaboration Agreement, we also determined that the $60.0 million milestone we achieved upon the approval of cabozantinib by the EC in second-line RCC was not substantive due to the relatively low degree of uncertainty and relatively low amount of effort required on our part to achieve the milestone as of the date of the collaboration agreement; the $60.0 million was deferred entirely until the date of the European Medicines Agency's approval of cabozantinib in second-line RCC in September 2016 and has since been recognized ratably over the remainder of the term of the Ipsen Collaboration Agreement. The two $10.0 million milestones for the first commercial sales of CABOMETYX in Germany and the United Kingdom were determined to be substantive at the time we entered into the Ipsen Collaboration Agreement and were recognized as collaboration revenues in the fourth quarter of 2016. We determined that the remaining development and regulatory milestones are substantive and will be recognized as revenue in the periods in which they are achieved. We consider the contingent payments due to us upon the achievement of specified sales volumes to be similar to royalty payments. Reimbursements for development costs are classified as revenue as the development services represent our ongoing major or central operations.

During the three months ended March 31, 2017, we reclassified $9.0 million of deferred revenue to Accrued collaboration liabilities and Other long-term liabilities, and accordingly adjusted our amortization of the upfront payment of $200.0 million as a result of a change in operational responsibilities for certain clinical programs in the Ipsen Territory. As of June 30, 2017, we had paid $2.1 million toward the $9.0 million of reimbursements due to Ipsen for these clinical programs.

See “Note 2 - Collaboration Agreements” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017 for additional description of our collaboration agreement with Ipsen.

During the three and six months ended June 30, 2017 and 2016, collaboration revenues under the Ipsen Collaboration Agreement were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Amortization of upfront payments and deferred milestone	$ 4,741	$ 3,592	$ 9,046	$ 4,790
Royalty revenue	219	—	443	—
Development cost reimbursements	862	—	1,199	—
Product supply agreement revenue	811	—	1,802	—
Cost of supplied product	(811)	—	(1,802)	—
Royalty payable to GSK on net sales by Ipsen	(328)	—	(664)	—
Collaboration revenues under the Ipsen Collaboration Agreement	$ 5,494	$ 3,592	$ 10,024	$ 4,790

As of June 30, 2017, short-term and long-term deferred revenue relating to the Ipsen Collaboration Agreement was $19.0 million and $219.7 million, respectively.

Genentech Collaboration

In December 2006, we out-licensed the development and commercialization of cobimetinib to Genentech pursuant to a worldwide collaboration agreement (the “Genentech Collaboration Agreement”). Under the terms of the Genentech Collaboration Agreement for cobimetinib, we are entitled to a share of U.S. profits and losses received in connection with the commercialization of cobimetinib. The profit and loss share has multiple tiers: we are entitled to 50% of profits and losses from the first $200.0 million of U.S. actual sales, decreasing to 30% of profits and losses from U.S. actual sales in excess of $400.0 million. In addition, we are entitled to low double-digit royalties on ex-U.S. net sales. In November 2013, we exercised an option under the Genentech Collaboration Agreement to co-promote in the U.S. In 2015, we began fielding 25% of the sales force promoting COTELLIC in combination with Zelboraf as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma.

On June 3, 2016, we filed a Demand for Arbitration before JAMS in San Francisco, California asserting claims against Genentech related to its clinical development, pricing and commercialization of COTELLIC, and cost and revenue allocations arising from COTELLIC’s commercialization in the U.S. Our arbitration demand asserted that Genentech breached the Genentech Collaboration Agreement by, amongst other breaches, failing to meet its diligence and good faith obligations.

On July 13, 2016, Genentech asserted a counterclaim for breach of contract seeking monetary damages and interest related to the cost allocations under the Genentech Collaboration Agreement. On December 29, 2016, however, Genentech withdrew its counterclaim against us and stated that it would unilaterally change its approach to the allocation of promotional expenses arising from commercialization of the COTELLIC plus Zelboraf combination therapy, both retrospectively and prospectively. The revised allocation approach substantially reduced our exposure to costs associated with promotion of the COTELLIC plus Zelboraf combination in the U.S. However, other significant issues remained in dispute between the parties as of June 30, 2017. Genentech’s action did not address the claims in our demand for arbitration related to Genentech’s clinical development of cobimetinib, or pricing or promotional costs for COTELLIC in the U.S. and it did not fully resolve claims over revenue allocation. In addition, Genentech’s unilateral action did not clarify how it intended to allocate promotional costs incurred with respect to the promotion of other combination therapies that include cobimetinib for other indications that may be developed or are in development and may be approved. As a result, we continued to press our position before the arbitral panel to obtain a just resolution of these claims.

On June 8, 2017, the parties settled the arbitration, which was dismissed with prejudice. The settlement does not provide for payments in settlement of the asserted claims; as part of the settlement, on July 19, 2017, we entered into an amendment to the Genentech Collaboration Agreement (the “Genentech Amendment”) which provides for a revised revenue

and cost-sharing arrangement, effective as of July 1, 2017, that is applicable to current and potential future commercial uses of COTELLIC. See “Note 13 - Subsequent Event” for a further description of the Genentech Amendment.

During the three and six months ended June 30, 2017 and 2016, ex-U.S. royalty revenues and U.S. losses under the Genentech Collaboration Agreement were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Royalty revenues on ex-U.S. sales of COTELLIC included in Collaboration revenues	$ 1,367	$ 1,042	$ 3,665	$ 1,172
U.S. losses included in Selling, general and administrative expenses [1]	$ (781)	$ (4,630)	$ (1,407)	$ (11,923)

(1) A portion of the accrual for losses for three and six months ended June 30, 2016 were reversed in December 2016 when we were relieved of our obligation to pay certain disputed costs as a result of Genentech’s unilaterally change to its approach to the allocation of promotional expenses arising from commercialization of the COTELLIC plus Zelboraf combination therapy.

The U.S. losses under the Genentech Collaboration Agreement include our share of the net loss from the collaboration, as well as personnel and other costs we have incurred to co-promote COTELLIC plus Zelboraf in the U.S.

Royalty revenues from the Genentech Collaboration Agreement are based on amounts reported to us by Genentech and are recorded when such information becomes available to us. For prior periods, from the launch of COTELLIC through December 31, 2016, such information was not available until the following quarter, meaning that historically we recorded royalty revenues on a one quarter lag. Beginning in 2017, such information became available to us in the current quarter. As a result of this change, during the six months ended June 30, 2017, in addition to the royalties reported to us for that period we also recorded $1.1 million in royalties for the sales activity related to the three months ended December 31, 2016.

Takeda Collaboration

On January 30, 2017, we entered into a collaboration and license agreement (the “Takeda Collaboration Agreement”) with Takeda Pharmaceutical Company Ltd. (“Takeda”) for the commercialization and further clinical development of cabozantinib in Japan. Pursuant to the terms of the Takeda Collaboration Agreement, Takeda will have exclusive commercialization rights for current and potential future cabozantinib indications in Japan. The companies have also agreed to collaborate on the clinical development of cabozantinib in Japan. The operation and strategic direction of the parties’ collaboration will be governed through a joint executive committee and appropriate subcommittees.

In consideration for the exclusive license and other rights contained in the Takeda Collaboration Agreement, Takeda paid us an upfront nonrefundable payment of $50.0 million in February 2017. We will be eligible to receive development, regulatory and first-sales milestones of up to $95.0 million related to second-line RCC, first-line RCC and second-line hepatocellular carcinoma (“HCC”), as well as additional development, regulatory and first-sales milestone payments for potential future indications. The Takeda Collaboration Agreement also provides that we will be eligible to receive pre-specified payments of up to $83.0 million associated with potential sales milestones. We will also receive royalties on net sales of cabozantinib in Japan at an initial tiered rate of 15% to 24% on net sales for the first $300.0 million of cumulative net sales. Thereafter, the royalty rate will be adjusted to 20% to 30% on annual net sales.

Takeda will be responsible for 20% of the costs associated with the global cabozantinib development plan’s current and future trials, provided Takeda opts to participate in such future trials, and 100% of costs associated with the cabozantinib development activities that are exclusively for the benefit of Japan. Pursuant to the terms of the Takeda Collaboration Agreement, we will remain responsible for the manufacture and supply of cabozantinib for all development and commercialization activities under the collaboration. As part of the collaboration, the parties will enter into appropriate supply agreements for the manufacture and supply of cabozantinib for Takeda’s territory.

During the three and six months ended June 30, 2017, collaboration revenues under the Takeda Collaboration Agreement were as follows (in thousands):

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Amortization of upfront payment	$ 2,830	$ 4,717
Development cost reimbursements	1,313	2,108
Collaboration revenues under the Takeda Collaboration Agreement	$ 4,143	$ 6,825

There was no such revenue during the comparable periods in 2016. As of June 30, 2017, short-term and long-term deferred revenue relating to the Takeda Collaboration Agreement was $11.3 million and $34.0 million, respectively.

The Takeda Collaboration Agreement may be terminated for cause by either party based on uncured material breach by the other party, bankruptcy of the other party or for safety reasons. For clarity, Takeda's failure to achieve specified levels of commercial performance, based upon sales volume and/or promotional effort, during the first six years following the first commercial sale of cabozantinib in Japan shall constitute a material breach of the Takeda Collaboration Agreement. We may terminate the agreement if Takeda challenges or opposes any patent covered by the Takeda Collaboration Agreement. At any time prior to August 1, 2023, the parties may mutually agree to terminate the Takeda Collaboration Agreement if Japan's Pharmaceuticals and Medical Devices Agency is unlikely to grant approval of the marketing authorization application in any cancer indication in Japan. After the commercial launch of cabozantinib in Japan, Takeda may terminate the Takeda Collaboration Agreement upon twelve months' prior written notice following the third anniversary of the first commercial sale of cabozantinib in Japan. Upon termination by either party, all licenses granted by us to Takeda will automatically terminate, and the licenses granted by Takeda to us shall survive such termination and shall automatically become worldwide.

The Takeda Collaboration Agreement contains multiple deliverables consisting of intellectual property licenses, delivery of products and/or materials containing cabozantinib to Takeda for all development and commercial activities, research and development services, and participation on the joint executive, development and commercialization committees (as defined in the Takeda Collaboration Agreement). We determined that these deliverables, other than the commercial supply and joint commercialization committee participation, are non-contingent in nature. The commercial supply deliverable was deemed contingent, primarily due to the fact that there is uncertainty around approval in Japan, which is dependent on successful bridging study results. We also determined that the non-contingent deliverables do not have stand-alone value, because each one of them has value only if we meet our obligation as a whole to provide Takeda with research and development services, including clinical supply of cabozantinib under the Takeda Collaboration Agreement. Accordingly, we combined the non-contingent deliverables into a single unit of accounting and allocated the $50.0 million upfront fee to that combined unit of accounting. We also determined that the level of effort required of us to meet our obligations under the Takeda Collaboration Agreement is not expected to vary significantly over the development period of the Takeda Collaboration Agreement. As a result, the upfront payment of $50.0 million, received in the first quarter of 2017, will be recognized ratably over the development period of the Takeda Collaboration Agreement of approximately four years. We determined that the development and regulatory milestones are substantive and will be recognized as revenue in the periods in which they are achieved. We consider the contingent payments due to us upon the achievement of specified sales volumes to be similar to royalty payments. We will record reimbursements for development costs as revenue as the development services represent a part of our ongoing major or central operations.

Bristol-Myers Squibb Collaboration - First-Line Advanced RCC, Bladder Cancer and HCC Combination Studies

In February 2017, we entered into a clinical trial collaboration agreement with Bristol-Myers Squibb Company (the "BMS Collaboration Agreement") for the purpose of evaluating the combination of cabozantinib with nivolumab or of cabozantinib with nivolumab and ipilimumab in various tumor types, including, in RCC, HCC and bladder cancer. To date, a phase 3 trial in first-line advanced RCC and a phase 2 trial in HCC evaluating the combination have been initiated. Pursuant to the terms of the BMS Collaboration Agreement, each party will grant to the other a non-exclusive, worldwide (within the collaboration territory as defined in the BMS Collaboration Agreement), non-transferable, royalty-free license to use the other party's compounds in the conduct of each clinical trial. The parties' efforts will be governed through a joint development committee established to guide and oversee the collaboration's operation. Each trial will be conducted under a combination Investigational New Drug application, unless otherwise required by a regulatory authority. Each party will be responsible for supplying drug product for the applicable clinical trial in accordance with the terms of the supply agreement entered into between the parties in April 2017, and costs for each such trial will be shared equally between the parties, unless two Bristol-Myers Squibb Company ("BMS") compounds will be utilized in such trial, in which case BMS will bear two-thirds of the

costs for such study treatment arms and we will bear one-third of the costs. Unless earlier terminated, the BMS Collaboration Agreement will remain in effect until the completion of all clinical trials under the collaboration, all related trial data has been delivered to both parties and the completion of any then agreed upon analysis. Ipsen has opted in to participate in the phase 3 pivotal trial in first-line advanced RCC and will have access to the results to support potential future regulatory submissions. Ipsen may also participate in future studies at their choosing.

The Roche Group Collaboration

In February 2017, we established a clinical trial collaboration with The Roche Group ("Roche") for the purpose of evaluating the safety and tolerability of cabozantinib in combination with Roche's atezolizumab in patients with locally advanced or metastatic solid tumors. Each party will be responsible for supplying drug product for the applicable clinical trial in accordance with the terms of the mater clinical supply agreement entered into by the parties in February 2017. Based on the dose-escalation results, the trial has the potential to enroll up to four expansion cohorts, including a cohort of patients with previously untreated advanced clear cell RCC and three cohorts of urothelial carcinoma, namely platinum eligible first-line patients, first or second-line platinum ineligible patients and patients previously treated with platinum-containing chemotherapy. The trial was initiated in June 2017 and is open for enrollment. We are the sponsor of the trial, and Roche is responsible for supplying atezolizumab. Ipsen has opted to participate in the study and will have access to the results to support potential future development in its territories.

GlaxoSmithKline Collaboration

In October 2002, we established a collaboration with GSK to discover and develop novel therapeutics in the areas of vascular biology, inflammatory disease and oncology. Under the terms of the product development and commercialization agreement, GSK had the right to choose cabozantinib for further development and commercialization, but notified us in October 2008 that it had waived its right to select the compound for such activities. As a result, we retained the rights to develop, commercialize, and license cabozantinib, subject to payment to GSK of a 3% royalty on net sales of any product incorporating cabozantinib. The product development and commercialization agreement was terminated during 2014, although GSK will continue to be entitled to a 3% royalty on net sales of any product incorporating cabozantinib, including COMETRIQ and CABOMETYX.

During the three and six months ended June 30, 2017 and 2016, royalties earned by GSK in connection with the sales of COMETRIQ and CABOMETYX were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Royalties earned by GSK	$ 2,962	$ 946	$ 5,363	$ 1,218

Royalties earned by GSK are included in Cost of goods sold for sales by us and as a reduction of Collaboration revenues for sales by Ipsen in the accompanying Condensed Consolidated Statements of Operations.

Other Collaborations

During the six months ended June 30, 2017, we recognized $2.5 million in contract revenues from a milestone payment received from BMS related to its ROR gamma program, and during the six months ended June 30, 2016, we recognized $5.0 million in contract revenues from a milestone payment received from Merck related to its worldwide license of our phosphoinositide-3 kinase-delta program. There was no such revenue during the three months ended June 30, 2017 or 2016. See "Note 2 - Collaboration Agreements" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017 for a description of our existing collaboration agreements.

NOTE 3: CASH AND INVESTMENTS

All of our cash equivalents and investments are classified as available-for-sale. The following tables summarize cash and cash equivalents, investments, and restricted cash and investments by balance sheet line item as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents	$ 135,212	$ —	$ —	$ 135,212
Short-term investments	214,172	15	(143)	214,044
Long-term investments	26,404	26	(17)	26,413
Long-term restricted cash and investments	4,650	—	—	4,650
Total cash and investments	$ 380,438	$ 41	$ (160)	$ 380,319

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents	$ 151,686	$ —	$ —	$ 151,686
Short-term investments	268,234	13	(130)	268,117
Long-term investments	55,792	1	(192)	55,601
Long-term restricted cash and investments	4,150	—	—	4,150
Total cash and investments	$ 479,862	$ 14	$ (322)	$ 479,554

Under our loan and security agreement with Silicon Valley Bank, we were required to maintain compensating balances on deposit in one or more investment accounts with Silicon Valley Bank or one of its affiliates. The total collateral balance of $81.6 million as of December 31, 2016 is reflected in our Condensed Consolidated Balance Sheet in short-term investments; as a result of our repayment of the term loan with Silicon Valley Bank, the compensating balance requirement was terminated as of March 29, 2017. See “Note 7 - Debt” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017 for more information regarding the collateral balance requirements under our Silicon Valley Bank loan and security agreement.

The following tables summarize our cash equivalents and investments by security type as of June 30, 2017 and December 31, 2016. The amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 48,253	$ —	$ —	$ 48,253
Commercial paper	303,877	41	(132)	303,786
Corporate bonds	550	—	—	550
U.S. Treasury and government sponsored enterprises	15,664	—	(28)	15,636
Total investments	$ 368,344	$ 41	$ (160)	$ 368,225

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 71,457	$ —	$ —	$ 71,457
Commercial paper	165,375	—	—	165,375
Corporate bonds	152,712	3	(308)	152,407
U.S. Treasury and government sponsored enterprises	70,730	11	(14)	70,727
Total investments	$ 460,274	$ 14	$ (322)	$ 459,966

Gains and losses on the sales of investments available-for-sale were nominal or zero during the three and six months ended June 30, 2017 and 2016.

All of our investments are subject to a quarterly impairment review. During the six months ended June 30, 2017 and 2016 we did not record any other-than-temporary impairment charges on our available-for-sale securities. As of June 30, 2017, there were 75 investments in an unrealized loss position with gross unrealized losses of $0.2 million and an aggregate fair value of $133.2 million. The investments in an unrealized loss position comprise corporate bonds with an aggregate fair value of $117.5 million and securities issued by U.S. Treasury and government sponsored enterprises with an aggregate fair value of $15.7 million. The unrealized losses were not attributed to credit risk, but rather associated with the changes in interest rates. Based on the scheduled maturities of our investments, we concluded that the unrealized losses in our investment securities are not other-than-temporary, as it is more likely than not that we will hold these investments for a period of time sufficient for a recovery of our cost basis.

The following table summarizes the fair value of securities classified as available-for-sale by contractual maturity as of June 30, 2017 (in thousands):

	Mature within One Year	After One Year through Two Years	Fair Value
Money market funds	$ 48,253	$ —	$ 48,253
Commercial paper	281,572	22,214	303,786
Corporate bonds	—	550	550
U.S. Treasury and government sponsored enterprises	13,986	1,650	15,636
Total investments	$ 343,811	$ 24,414	$ 368,225

Cash is excluded from the table above. The classification of certain restricted investments is dependent upon the term of the underlying restriction on the asset and not the maturity date of the investment. Therefore, certain long-term restricted cash and investments have contractual maturities within one year.

NOTE 4. INVENTORY

Inventory consists of the following (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	$ 528	$ 863
Work in process	3,919	2,343
Finished goods	1,121	738
Total	5,568	3,944
Less: non-current portion included in Other assets	(143)	(606)
Inventory, net	$ 5,425	$ 3,338

We generally relieve inventory on a first-expiry, first-out basis. A portion of the manufacturing costs for inventory was incurred prior to regulatory approval of CABOMETYX and COMETRIQ and, therefore, was expensed as research and development costs when those costs were incurred, rather than capitalized as inventory. Write-downs related to excess and expiring inventory are charged to either Cost of goods sold or the cost of supplied product included in Collaboration

revenues. Such write-downs were $0.5 million for the six months ended June 30, 2017; the amount of such write-downs was nominal for the comparable period in 2016. The non-current portion of inventory is expected to be sold in future periods more than 12 months from the date presented and consists of finished goods as of June 30, 2017 and a portion of the active pharmaceutical ingredient that is included in raw materials and work in process inventories as of December 31, 2016.

NOTE 5. PROPERTY AND EQUIPMENT

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

	June 30, 2017	December 31, 2016
Computer equipment and software	$ 13,803	$ 13,738
Leasehold improvements	4,715	6,646
Laboratory equipment	4,286	4,310
Furniture and fixtures	1,921	2,240
Construction-in-progress	16,787	19
	41,512	26,953
Less: accumulated depreciation and amortization	(22,828)	(24,882)
Property and equipment, net	$ 18,684	$ 2,071

Depreciation expense was $0.5 million during both the six months ended June 30, 2017 and 2016.

Build-to-Suit Lease

On May 2, 2017, we entered into a Lease Agreement (the "Lease") with Ascentris 105, LLC ("Ascentris"), to lease 110,783 square feet of space in office and research facilities located at 1851, 1801, and 1751 Harbor Bay Parkway, Alameda, California (the "Premises"). See "Note 10. Commitments" for a description of the Lease.

In connection with the Lease, we received a tenant improvement allowance of $6.7 million from Ascentris, for the costs associated with the design, development and construction of tenant improvements for the Premises. We are obligated to fund all costs incurred in excess of the tenant improvement allowance and certain indemnification obligations related to the construction activities. We evaluated our involvement during the construction period and determined the scope of the tenant improvements on portions of the Premises including the building shells did not qualify as "normal tenant improvements" under Accounting Standards Codification topic 840, *Leases*. Accordingly, for accounting purposes, we are the deemed owner of such portions of the Premises during the construction period. As such, we will capitalize the construction costs as a build-to-suit property within property and equipment, net, including the estimated fair value of the building shells that we are deemed to own at the lease inception date, as determined using a third-party appraisal. The capitalized construction costs will also include the estimated tenant improvements incurred by Ascentris. We will also recognize a corresponding build-to-suit lease obligation included in Other long-term liabilities for the same amount. As of June 30, 2017, $14.5 million of costs were capitalized in construction-in-progress with a corresponding build-to-suit lease obligation recognized related to the Lease.

Once the construction is complete, we will consider the requirements for sale-leaseback accounting treatment, including evaluating whether all risks of ownership have been transferred back to Ascentris, as evidenced by a lack of continuing involvement in the leased property. If the arrangement does not qualify for sale-leaseback accounting treatment, the building assets will remain on our consolidated balance sheets at their historical cost.

NOTE 6. DEBT

The amortized carrying amount of our debt consists of the following (in thousands):

	June 30, 2017	December 31, 2016
Secured Convertible Notes due 2018 ("Deerfield Notes")	$ —	$ 109,122
Term loan payable	—	80,000
Total debt	$ —	$ 189,122

See “Note 7 - Debt” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017 for additional information on the terms of our debt, including a description of the material features of the Deerfield Notes.

Deerfield Notes

On June 28, 2017, we repaid all amounts outstanding under the Deerfield Notes. The repayment amount totaled $123.8 million which comprised $113.9 million in principal, including $13.9 million of interest paid in kind paid through the repayment date, a $5.8 million prepayment penalty associated with the early repayment of the notes and $4.2 million in accrued and unpaid interest. As a result of the early repayment, there was a $6.2 million loss on the extinguishment of the debt which comprised the prepayment penalty and the unamortized fees and costs on the date of the repayment.

Prior to our early repayment of the notes, the outstanding principal amount of the Deerfield Notes bore interest at the rate of 7.5% per annum to be paid in cash, quarterly in arrears, and 7.5% per annum to be paid in kind, quarterly in arrears, for a total interest rate of 15% per annum. The following is a summary of interest expense for the Deerfield Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stated coupon interest	$ 2,083	$ 1,972	$ 4,151	$ 3,908
Interest paid in kind	2,083	1,972	4,151	3,908
Amortization of debt discount and debt issuance costs	93	113	182	206
Total interest expense	$ 4,259	$ 4,057	$ 8,484	$ 8,022

The balance of unamortized fees and costs was $0.4 million as of December 31, 2016, which was recorded as a reduction of the carrying amount of the Deerfield Notes on the accompanying Condensed Consolidated Balance Sheet.

Silicon Valley Bank Loan and Security Agreement

On March 29, 2017, we repaid all amounts outstanding under our term loan with Silicon Valley Bank. The repayment included $80.0 million in principal plus $0.1 million in accrued and unpaid interest. There was no gain or loss on the extinguishment of debt as a result of the repayment of the term loan. Prior to our early repayment of the term loan, the principal amount outstanding under the term loan had accrued interest at 1.0% per annum, which was due and payable monthly.

In accordance with the terms of the loan and security agreement, we were required to maintain an amount equal to at least 100%, but not to exceed 107%, of the outstanding principal balance of the term loan on deposit in one or more investment accounts with Silicon Valley Bank or one of its affiliates as support for our obligations under the loan and security agreement. We were entitled to retain income earned on the amounts maintained in such accounts. The total collateral balance as of December 31, 2016 was $81.6 million and was reflected in our Condensed Consolidated Balance Sheet in Short-term investments as the amounts were not restricted as to withdrawal. As a result of our repayment of the term loan, the compensating balance requirement was terminated as of March 29, 2017.

NOTE 7. FAIR VALUE MEASUREMENTS

The following table sets forth the classification of our financial assets within the fair value hierarchy that were measured and recorded at fair value on a recurring basis as of June 30, 2017 and December 31, 2016. We did not have any financial liabilities measured and recorded at fair value on a recurring basis as of those dates. The amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	June 30, 2017		
	Level 1	Level 2	Total
Money market funds	$ 48,253	$ —	$ 48,253
Commercial paper	—	303,786	303,786
Corporate bonds	—	550	550
U.S. Treasury and government sponsored enterprises	—	15,636	15,636
Total financial assets	$ 48,253	$ 319,972	$ 368,225

	December 31, 2016		
	Level 1	Level 2	Total
Money market funds	$ 71,457	$ —	$ 71,457
Commercial paper	—	165,375	165,375
Corporate bonds	—	152,407	152,407
U.S. Treasury and government sponsored enterprises	—	70,727	70,727
Total financial assets	$ 71,457	$ 388,509	$ 459,966

We did not have any financial assets or liabilities classified as Level 3 in the fair value hierarchy as of June 30, 2017 or December 31, 2016 and there were no transfers of financial assets or liabilities classified as Level 3 during the six months ended June 30, 2017 or the year ended December 31, 2016.

The carrying amounts of cash, trade and other receivables, accounts payable, accrued clinical trial liabilities, accrued compensation and benefits, and other liabilities approximate their fair values and are excluded from the tables above.

When available, we value investments based on quoted prices for those financial instruments, which is a Level 1 input. Our remaining investments are valued using third-party pricing sources, which use observable market prices, interest rates and yield curves observable at commonly quoted intervals of similar assets as observable inputs for pricing, which are Level 2 inputs.

NOTE 8. STOCK-BASED COMPENSATION

We recorded and allocated employee stock-based compensation expense for our equity incentive plans and our 2000 Employee Stock Purchase Plan ("ESPP") as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Research and development expense	$ 1,600	$ 1,165	$ 3,078	$ 6,729
Selling, general and administrative expense	3,427	2,393	6,662	8,014
Total stock-based compensation expense	$ 5,027	$ 3,558	$ 9,740	$ 14,743

We use the Black-Scholes Merton option pricing model to value our stock options and ESPP purchases. The weighted average grant-date fair value of our stock options and ESPP purchases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options	$ 10.07	$ 3.17	$ 10.01	$ 2.67
ESPP	$ 5.65	$ 1.60	$ 4.61	$ 1.79

The fair value of stock options and ESPP purchases was estimated using the following assumptions:

	Stock Options			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Risk-free interest rate	1.72%	0.90%	1.68%	1.10%
Dividend yield	—%	—%	—%	—%
Expected volatility	60%	67%	61%	76%
Expected life	4.3 years	4.4 years	4.2 years	4.4 years

	ESPP			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Risk-free interest rate	0.94%	0.39%	0.77%	0.42%
Dividend yield	—%	—%	—%	—%
Expected volatility	60%	65%	64%	69%
Expected life	6 months	6 months	6 months	6 months

We considered implied volatility as well as our historical volatility in developing our estimate of expected volatility. The expected life computation is based on historical exercise patterns and post-vesting termination behavior.

A summary of stock option activity for the six months ended June 30, 2017 is presented below (dollars in thousands**,** except per share amounts):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2016	24,999,665	$ 4.91		
Granted	674,110	$ 20.57		
Exercised	(3,242,026)	$ 4.04		
Forfeited	(161,836)	$ 7.27		
Options outstanding at June 30, 2017	22,269,913	$ 5.50	4.25 years	$ 426,081
Exercisable at June 30, 2017	16,181,093	$ 4.13	3.72 years	$ 331,770

As of June 30, 2017, a total of 24,237,774 shares were available for grant under our stock option plans.

A summary of restricted stock unit (“RSU”) activity for the six months ended June 30, 2017 is presented below (dollars in thousands**,** except per share amounts):

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
RSUs outstanding at December 31, 2016	2,469,791	$ 8.69		
Awarded	258,272	$ 20.81		
Vested and released	(280,657)	$ 4.24		
Forfeited	(85,543)	$ 10.72		
RSUs outstanding at June 30, 2017	2,361,863	$ 10.47	1.72 years	$ 58,173

NOTE 9. INCOME TAXES

Income tax expense consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income tax expense	$ 581	$ —	$ 715	$ —

During the six months ended June 30, 2017, we recorded income tax expense of $0.7 million, which comprises our computed income tax expense of $1.7 million reduced by $1.0 million of excess benefits associated with equity compensation. The income tax expense for the three and six months ended June 30, 2017 primarily relates to state taxes in jurisdictions outside of California, for which we do not have net operating loss carry-forwards due to a limited operating history.

NOTE 10. COMMITMENTS

Leases

On May 2, 2017, we entered into the Lease with Ascentris for an aggregate of 110,783 square feet of space in office and research facilities located at 1851, 1801 and 1751 Harbor Bay Parkway, Alameda, California. We also have the right to make certain tenant improvements to the space leased on the Premises. The Lease has an initial term of 10 years with a target commencement date of March 1, 2018 and rent payments will begin upon the target commencement date. We have two five-year options to extend the Lease and a one-time option to terminate the Lease without cause on the last day of the 8th year of the initial term. We are obligated to make lease payments totaling $24.1 million over the Lease term. The Lease further provides that we are obligated to pay to Ascentris certain costs, including taxes and operating expenses. We also have a right of first offer to lease certain additional space, in the aggregate of approximately 170,000 square feet of space, as that additional space becomes available over the remainder of the initial term at 1601, 1701, 1751, and 1801 Harbor Bay Parkway, Alameda, California at a market rate determined according to the Lease.

We are deemed, for accounting purposes only, to be the owner of portions of the Premises, including two building shells, even though we are not the legal owner. See “Note 5. Property and Equipment - Build-to-Suit Lease” for a further description of the accounting for that portion of the Premises.

As of June 30, 2017, the aggregate future minimum lease payments under our leases are as follows (in thousands):

	Capital leases	Other financing obligations [1]
Remainder of 2017	$ 1,990	$ —
Year Ending December 31,		
2018	2,802	566
2019	605	1,477
2020	630	1,685
2021	637	1,745
2022	646	1,814
Thereafter	3,465	10,441
	$ 10,775	$ 17,728

(1) Other financing obligations includes payments related to build-to-suit lease arrangements.

Rent expense and sublease income were as follows for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gross rental expense	$ 1,493	$ 3,194	$ 3,771	$ 5,453
less: Sublease income	(306)	(895)	(1,225)	(1,730)
Net rental expense	$ 1,187	$ 2,299	$ 2,546	$ 3,723

Letter of Credit

We obtained a standby letter of credit in May 2017 in the amount of $0.5 million, which may be drawn down by Ascentris in the event we fail to fully and faithfully perform all of our obligations under the Lease and to compensate Ascentris for all losses and damages Ascentris may suffer as a result of the occurrence of any default on our part not cured within the applicable cure period. As of June 30, 2017, none of the standby letter of credit amount has been used.

See “Note 13 - Commitments” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017 for a description of additional letters of credits that were entered into prior to December 31, 2016.

NOTE 11. NET INCOME (LOSS) PER SHARE

The following table sets forth a reconciliation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$ 17,656	$ (34,838)	$ 34,356	$ (94,061)
Net income allocated to participating securities	(60)	—	(117)	—
Net income allocable to common stock for basic net income (loss) per share	17,596	(34,838)	34,239	(94,061)
Adjustment to net income allocated to participating securities	4	—	7	—
Net income allocable to common stock for diluted net income (loss) per share	$ 17,600	$ (34,838)	$ 34,246	$ (94,061)
Weighted-average shares of common stock outstanding	293,188	229,310	292,029	228,860
Dilutive securities:				
Outstanding stock options, unvested RSUs and ESPP contributions	18,031	—	18,730	—
Weighted-average shares of common stock outstanding and dilutive securities	311,219	229,310	310,759	228,860
Net income (loss) per share, basic	$ 0.06	$ (0.15)	$ 0.12	$ (0.41)
Net income (loss) per share, diluted	$ 0.06	$ (0.15)	$ 0.11	$ (0.41)

The 2014 Warrants are participating securities and the warrant holders do not have a contractual obligation to share in our losses. See “Note 8 - Common Stock and Warrants” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017 for a description of the 2014 Warrants.

The following table sets forth potentially dilutive shares of common stock that are not included in the computation of diluted net income (loss) per share because to do so would be anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Outstanding stock options, unvested RSUs and ESPP contributions	1,747	30,637	1,633	30,637
2019 Notes	—	54,118	—	54,118
Deerfield Notes	—	33,890	—	33,890
Warrants	—	1,000	—	1,000
Total potentially dilutive shares	1,747	119,645	1,633	119,645

The Deerfield Notes were repaid in June 2017. The 2019 Notes were converted and redeemed between August and November 2016.

NOTE 12. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk are primarily trade and other receivables and investments. Investments consist of money market funds, commercial paper, corporate bonds with high credit quality, and securities issued by the U.S. Treasury and other government sponsored enterprises. All investments are maintained with financial institutions that management believes are creditworthy.

Trade and other receivables are unsecured and are concentrated in the pharmaceutical and biotechnology industries. Accordingly, we may be exposed to credit risk generally associated with pharmaceutical and biotechnology companies. We

have incurred no bad debt expense since inception. As of June 30, 2017, 20%, 19%, 17%, and 11% of our trade receivables are with Diplomat Specialty Pharmacy, Caremark L.L.C., affiliates of McKesson Corporation, and Accredo Health, Incorporated, respectively. All of these customers have historically paid promptly.

The percentage of total revenues recognized by customer that represent 10% or more of total revenues was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Diplomat Specialty Pharmacy	23%	52%	24%	53%
Caremark L.L.C.	19%	9%	18%	6%
Accredo Health, Incorporated	14%	7%	13%	5%
Affiliates of McKesson Corporation	13%	6%	13%	4%
Merck	—%	—%	—%	10%

All of our long-lived assets are located in the U.S. We have operations solely in the U.S., while some of our collaboration partners have headquarters outside of the U.S. and some of our clinical trials for cabozantinib are also conducted outside of the U.S.

The following table shows the revenues earned by geographic region. Net product revenues are attributed to regions based on the delivery location. Collaboration revenues are attributed to regions based on the location of our collaboration partner's headquarters (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
U.S.	$ 89,371	$ 32,192	$ 163,046	$ 45,786
Europe	5,494	4,060	10,024	5,893
Japan	4,143	—	6,825	—

We recorded losses of $0.1 million relating to foreign exchange fluctuations for both the six months ended June 30, 2017 and 2016.

NOTE 13. SUBSEQUENT EVENT

On July 19, 2017, we and Genentech entered into the Genentech Amendment. The Genentech Amendment was entered into in connection with the settlement of the arbitration concerning claims asserted by us against Genentech related to its clinical development, pricing and commercialization of COTELLIC, and cost and revenue allocations arising from COTELLIC's commercialization in the U.S. See "Note 2 - Collaboration Agreements - Genentech Collaboration" for additional information on the Genentech collaboration.

The Genentech Amendment sets forth the parties' confirmation and agreement that we have exercised our co-promotion option and that, as such, we have the right to co-promote current and future Genentech combinations that include COTELLIC in the U.S. Pursuant to the terms of the Genentech Amendment, we will continue to be entitled to a share of U.S. profits and losses received in connection with the commercialization of COTELLIC, which share will continue to decrease as sales of COTELLIC increase in accordance with the profit share tiers as originally set forth in the Genentech Collaboration Agreement. However, effective as of July 1, 2017, the revenue for each sale of COTELLIC applied to the profit and loss statement for the Genentech Collaboration Agreement (the "Collaboration P&L") will be calculated using the average of the quarterly net selling prices of COTELLIC and any additional branded Genentech product(s) prescribed with COTELLIC in such sale. While we will also continue to share U.S. commercialization costs for COTELLIC, the Genentech Amendment expressly sets forth that the amount of commercialization costs Genentech is entitled to allocate to the Collaboration P&L will be reduced based on the number of Genentech products in any given combination including COTELLIC. The Genentech Amendment also provides for more detailed communication requirements for the parties related to COTELLIC research, development and commercialization activities and clarifies meeting and escalation procedures for the joint steering committee and the joint commercialization committee, each a body established under the Genentech Collaboration Agreement to coordinate activities with respect to COTELLIC.

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 Exelixis, Inc.'s ("Exelixis," "we," "our" or "us") 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 "expect," "potential," "will," "goal," "would," "intend," "continues," "objective," "anticipate," "initiate," "believe," "could," "plan," "trend," 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 in Part II, Item 1A of this Form 10-Q, as well as those discussed elsewhere in this report.

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the financial statements and accompanying notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission, or SEC, on February 27, 2017. 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 are a biopharmaceutical company committed to the discovery, development and commercialization of new medicines to improve care and outcomes for people with cancer. Since our founding in 1994, three products discovered at Exelixis have progressed through clinical development, received regulatory approval, and entered the marketplace. Two are derived from cabozantinib, an inhibitor of multiple tyrosine kinases including VEGF, MET, AXL and RET receptors: CABOMETYX® tablets approved for previously treated advanced renal cell carcinoma, or RCC, and COMETRIQ® capsules approved for progressive, metastatic medullary thyroid cancer, or MTC. The third product, COTELLIC®, is a formulation of cobimetinib, a reversible inhibitor of MEK, marketed under a collaboration with Genentech (a member of the Roche Group), and is approved as part of a combination regimen to treat advanced melanoma. Both cabozantinib and cobimetinib have shown potential in a variety of forms of cancer and are the subjects of broad clinical development programs for multiple oncology indications.

While our commercialization efforts for CABOMETYX and COMETRIQ are focused in the U.S., we have licensed development and commercialization rights to cabozantinib outside of the U.S. to Ipsen Pharma SAS, or Ipsen, and Takeda Pharmaceutical Company Ltd., or Takeda. Ipsen has been granted rights to cabozantinib outside of the U.S. and Japan, and Takeda has been granted rights to cabozantinib in Japan. Ipsen and Takeda also contribute financially and operationally to the further global development and commercialization of cabozantinib in other potential indications, and we are working closely with them on these activities.

Beyond the approved indications of cabozantinib, we are engaged in a broad development program composed of over 45 ongoing or planned clinical trials in additional tumor types, many of which are conducted through our Cooperative Research and Development Agreement, or CRADA, with the National Cancer Institute's Cancer Therapy Evaluation Program, or NCI-CTEP, or our investigator sponsored trial program. The most notable studies at this time are CELESTIAL, our company-sponsored phase 3 trial of cabozantinib in advanced hepatocellular carcinoma, or HCC, for which we anticipate the planned second interim analysis with 75% of all required events to take place in the second half of 2017, and CABOSUN, a randomized phase 2 trial comparing cabozantinib to sunitinib in the first-line treatment of intermediate- or poor-risk RCC, patients, being conducted by The Alliance for Clinical Trials in Oncology, or The Alliance, through our CRADA with NCI-CTEP. In May 2016, The Alliance informed us that CABOSUN met its primary endpoint demonstrating a statistically significant and clinically meaningful improvement of progression-free survival compared with sunitinib. The CABOSUN primary efficacy endpoint results were later confirmed by a blinded independent radiology review committee, or IRC, in June 2017. Based on these results, we are working towards the submission of a supplemental New Drug Application, or sNDA, to the U.S. Food and Drug Administration, or FDA, in the third quarter of 2017 for cabozantinib as a treatment for patients with previously untreated advanced RCC.

We are also interested in further examining cabozantinib's potential in combination with immunotherapies to determine if outcomes for patients may be further improved. Building on preclinical and clinical observations that cabozantinib creates a more immune-permissive tumor environment potentially resulting in the cooperative activity of cabozantinib in combination with these products, we are evaluating cabozantinib in combination with a variety of immune checkpoint inhibitors in multiple clinical trials. The most advanced of these combination studies includes a phase 3 trial evaluating cabozantinib with nivolumab (Opdivo®) or with nivolumab and ipilimumab (Yervoy®) in first-line advanced RCC and a phase 2 evaluation of the same combination in HCC, each in collaboration with Bristol-Myers Squibb Company, or BMS. As part of our clinical collaboration with BMS, we also plan to evaluate cabozantinib with nivolumab or with nivolumab and ipilimumab in various other tumor types, including in bladder cancer. We have also initiated phase 1b dose escalation study evaluating the safety and tolerability of cabozantinib in combination with Roche's atezolizumab (Tecentriq®) in patients with locally advanced or metastatic solid tumors.

In addition to these advances connected with cabozantinib, significant progress continues to be made with respect to the clinical development, regulatory status and commercial potential of cobimetinib under our collaboration agreement with Genentech. Genentech is now conducting two phase 3 pivotal trials exploring the combination of cobimetinib with atezolizumab in colorectal carcinoma (IMblaze370) and melanoma (IMspire150 TRILOGY), and has announced plans to initiate a third phase 3 trial of cobimetinib in combination with atezolizumab in a distinct melanoma population (IMspire170) in the third quarter of 2017. Genentech recently announced that enrollment in IMblaze370 was completed in the first quarter of 2017. We believe that cobimetinib has the potential to provide us with a second meaningful source of revenue.

Second Quarter 2017 Business Development Updates and Financial Highlights

During the second quarter of 2017, we continued to build infrastructure intended to support our anticipated growth and evolution beyond our current product pipeline. Significant business development updates and financial highlights for the quarter include:

Business Development Updates

- In May 2017, we entered into a lease agreement for an aggregate of 110,783 square feet of space in office and research facilities in Alameda, California, which will become our corporate headquarters in 2018.
- In June 2017, we initiated a phase 1b trial of cabozantinib and atezolizumab in locally advanced or metastatic solid tumors. The trial is divided in two parts: a dose-escalation phase and an expansion cohort phase. The trial will evaluate the optimal dose and schedule of daily oral administration of cabozantinib when given in combination with atezolizumab to inform the trial's subsequent expansion stage.
- In June 2017, an analysis of CABOSUN conducted on the basis of a blinded IRC review of radiographic images confirmed that cabozantinib

demonstrated a clinically meaningful and statistically significant reduction in the rate of disease progression or death as measured by progression-free survival, or PFS.

- In July 2017, BMS initiated a phase 3 trial, CheckMate 9ER, to evaluate cabozantinib in combination with nivolumab or in combination with nivolumab and ipilimumab, versus sunitinib in patients with previously untreated, advanced or metastatic RCC. The primary endpoint for the trial is PFS.
- In July 2017, we entered into an amendment to our collaboration agreement with Genentech in connection with the settlement of our arbitration with Genentech concerning claims asserted by us against Genentech related to the development, pricing and commercialization of COTELLIC. The amendment resolves our concerns outlined in the arbitration demand and provides for a revised revenue and cost-sharing arrangement, effective as of July 1, 2017, that is applicable to current and potential future commercial uses of COTELLIC.
- In August 2017, we announced that data from clinical trials of cabozantinib and cobimetinib will be the subject of 10 presentations at the European Society for Medical Oncology, or ESMO, 2017 Congress, including from CABOSUN as a late-breaking abstract. Cabozantinib presentations will also include the phase 1b trial of cabozantinib, nivolumab, and ipilimumab in advanced genitourinary malignancies, as well as additional analyses of the METEOR trial in advanced RCC Cobimetinib presentations will include two data sets concerning forms of metastatic melanoma.

Financial Highlights

- Net income for the second quarter 2017 was $17.7 million, or $0.06 per share, basic and diluted, compared to a net loss of $(34.8) million, or $(0.15) per share, basic and fully diluted, for the second quarter of 2016.
- Total revenues for the second quarter 2017 increased to $99.0 million, compared to $36.3 million for the second quarter of 2016.
- Cost of goods sold for the second quarter 2017 increased to $3.0 million, compared to $1.6 million for the second quarter of 2016.
- Research and development expenses for the second quarter 2017 increased to $28.2 million, compared to $23.0 million for the second quarter of 2016.
- Selling, general and administrative expenses for the second quarter 2017 increased to $40.7 million, compared to $35.8 million for the second quarter of 2016.
- Total other expense, net for the second quarter 2017 decreased to $(8.9) million, compared to $(9.7) million for the second quarter of 2016.
- Cash and investments decreased to $380.3 million at June 30, 2017, compared to $479.6 million at December 31, 2016.
- In June 2017, we retired a series of Secured Convertible Notes, referred to herein as the Deerfield Notes, originally issued in July 2010 to entities associated with Deerfield Management Company, or the Deerfield Entities, one year ahead of their July 2018 maturity date. We retired the Deerfield Notes by making a $123.8 million payment to the Deerfield Entities on June 28, 2017.

See *"Results of Operations"* below for a discussion of the detailed components and analysis of the amounts above.

Although we reported net income of $34.4 million for the six months ended June 30, 2017, we may not be able to maintain or increase profitability on a quarterly or annual basis and we are unable to accurately predict the extent of long-range future profits or losses. Excluding fiscal 2011, our operating expenses have exceeded our revenues for each fiscal year, and we expect to continue to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. In addition, we intend to expand our product pipeline through the measured resumption of drug discovery and the evaluation of in-licensing and acquisition opportunities that align with our oncology drug expertise, which efforts could involve substantial costs. As a result, we are unable to predict the extent of any future profits or losses because we expect to continue to incur substantial operating expenses and, consequently, we will need to generate substantial revenues to maintain or increase profitability.

Challenges and Risks

We anticipate that we will continue to face a number of challenges and risks to our business that may impact our ability to execute on our 2017 business objectives. In particular, we anticipate that for the foreseeable future our ability to generate meaningful revenue to fund our commercial operations and our development and discovery programs is dependent upon the successful commercialization of CABOMETYX for the treatment of advanced RCC in territories where it has been or may be approved. The commercial potential of CABOMETYX for the treatment of advanced RCC remains subject to a variety of factors, most importantly, CABOMETYX's perceived benefit/risk profile as compared to the benefit/risk profiles of other treatments available or currently in development for the treatment of advanced RCC. Our ability to generate meaningful product revenue from CABOMETYX is also affected by a number of other factors, including the extent to which coverage and reimbursement for CABOMETYX is available from government and other third-party payers. Obtaining and maintaining appropriate coverage and reimbursement for CABOMETYX is increasingly challenging due to, among other things, efforts by payors to contain and slow increases in healthcare costs in the U.S. and worldwide, as well as increasing policy interest in the U.S. with respect to controlling pharmaceutical drug pricing practices. Our ability to fulfill the commercial potential of cabozantinib also depends on our ability to expand the compound's use by generating data in clinical development that will support regulatory approval of cabozantinib in additional indications. Our immediate focus in this regard is the potential regulatory approval of our sNDA for cabozantinib as a treatment for patients with previously untreated advanced RCC based upon data from CABOSUN. Obtaining this approval represents a significant challenge because CABOSUN was not originally designed as a registrational trial. However, given the positive nature of CABOSUN results, combined with the confirming analysis of such results by the IRC, we are planning to submit a sNDA to the FDA during the third quarter of 2017. Achievement of our 2017 business objectives will also depend on our ability to adapt our development and commercialization strategy to navigate the increasing prevalence of immunotherapy, which is both a competitive threat and a potential opportunity due to interest in the use of combination therapy to treat cancer.

In addition to the challenges we encounter while working toward the achievement of our development and commercial objectives for 2017, we also face significant challenges in our efforts to expand our pipeline through the measured resumption of internal drug discovery activities and the evaluation of in-licensing and acquisition opportunities. Internal discovery efforts require substantial technical, financial and human resources and may fail to yield product candidates for clinical development. Furthermore, we continue to operate in an environment with significant market competition for relevant product candidates, and, even if we are able to identify an attractive and available product candidate, we may not be able to in-license or acquire it on acceptable terms that would enable our continued growth as an organization.

Some of these challenges and risks are specific to our business, and others are common to companies in the pharmaceutical industry with development and commercial operations. For a complete discussion of challenges and risks we face, see "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Fiscal Year Convention

We have adopted a 52- or 53-week fiscal year policy that generally ends on the Friday closest to December 31st. Fiscal year 2017 will end on December 29, 2017 and fiscal year 2016 ended on December 30, 2016. For convenience, references in this report as of and for the fiscal periods ended June 30, 2017 and July 1, 2016, and as of and for the fiscal years ended December 29, 2017 and December 30, 2016, are indicated as being as of and for the periods ended June 30, 2017 and June 30, 2016, and the years ended December 31, 2017 and December 31, 2016, respectively.

Results of Operations

Revenues

Revenues by category were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Product revenues:				
Gross product revenues	$ 100,258	$ 35,049	$ 178,217	$ 45,663
Discounts and allowances	(12,254)	(3,431)	(21,336)	(4,946)
Net product revenues	88,004	31,618	156,881	40,717
Collaboration revenues:				
License revenues [1]	7,571	3,592	13,763	4,790
Royalty and product supply revenues, net	1,258	1,042	3,444	1,172
Contract revenues [2]	—	—	2,500	5,000
Development cost reimbursements	2,175	—	3,307	—
Total collaboration revenues	11,004	4,634	23,014	10,962
Total revenues	$ 99,008	$ 36,252	$ 179,895	$ 51,679
Dollar change	$ 62,756		$ 128,216	
Percentage change	173%		248%	

(1) Includes amortization of upfront payments.
(2) Includes milestone payments.

Net product revenues by product were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
CABOMETYX	$ 80,861	$ 17,574	$ 143,220	$ 17,574
COMETRIQ	7,143	14,044	13,661	23,143
Net product revenues	$ 88,004	$ 31,618	$ 156,881	$ 40,717
Dollar change	$ 56,386		$ 116,164	
Percentage change	178%		285%	

For the three and six months ended June 30, 2017, net product revenues increased 178% and 285%, respectively, as compared to the comparable periods in 2016. For the three and six months ended June 30, 2017, the 360% and 715% increase in net product revenues for CABOMETYX as compared to the comparable period in 2016, was primarily due to a 326% and 667% increase, respectively, in the number of CABOMETYX units sold as well as an increase in the average selling price of the product. The increase in CABOMETYX sales volume was due to the commercial launch of CABOMETYX in late April 2016. CABOMETYX was approved by the FDA on April 25, 2016 as a treatment for patients with advanced RCC who have received prior anti-angiogenic therapy. For the three and six months ended June 30, 2017, the 49% and 41% decrease in net product revenues for COMETRIQ as compared to the comparable periods in 2016, was primarily due to a 58% and 54% decrease, respectively, in the number of COMETRIQ units sold; the decrease in units sold was partially offset by an increase in the average selling price of the product. The decrease in COMETRIQ sales volume was primarily driven by the adoption of CABOMETYX by our customers.

License revenues consists of the recognition of the upfront payments and non-substantive milestone received in connection with our February 2016 collaboration agreement with Ipsen and the upfront payment received in connection with our January 2017 collaboration agreement with Takeda. For the three and six months ended June 30, 2017, we recognized $4.7 million and $9.0 million, respectively, of such revenue in connection with the Ipsen collaboration agreement, as compared to $3.6 million and $4.8 million, respectively, during the comparable periods in 2016. For the three and six months ended June 30, 2017, we recognized $2.8 million and $4.7 million, respectively, of such revenue in connection with the Takeda collaboration agreement. No such revenue was recognized for Takeda during the comparable periods in 2016. The increase in such revenues is due to the timing of the execution of those agreements.

Royalty and product supply revenues, net, primarily consisted of royalties on ex-U.S. net sales of COTELLIC under our collaboration agreement with Genentech for cobimetinib.

Contract revenues for the six months ended June 30, 2017 reflect recognition of a $2.5 million milestone earned from BMS related to the ROR Gamma program. Contract revenues for the six months ended June 30, 2016 reflect a $5.0 million milestone earned from Merck related to its worldwide license of our phosphoinositide-3 kinase-delta program. There was no such revenue for either the three months ended June 30, 2017 or 2016.

Development cost reimbursements for the three and six months ended June 30, 2017 consisted of reimbursements pursuant to our collaboration and license agreements, including $0.9 million and $1.2 million, respectively, under our agreement with Ipsen and $1.3 million and $2.1 million, respectively, under our agreement with Takeda. There were no such development cost reimbursements during the comparable periods in 2016.

Total revenues by significant customer were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Diplomat Specialty Pharmacy	$ 22,599	$ 18,916	$ 42,449	$ 27,380
Caremark L.L.C.	18,435	3,137	32,254	3,137
Affiliates of McKesson Corporation	12,846	2,082	24,124	2,082
Accredo Health, Incorporated	13,619	2,459	23,059	2,459
Merck	—	—	—	5,000
Others, individually less than 10% of total revenues for all periods presented	31,509	9,658	58,009	11,621
Total revenues	$ 99,008	$ 36,252	$ 179,895	$ 51,679

We recognize product revenue net of discounts and allowances that are further described in “Note 1. Organization and Summary of Significant Accounting Policies” to our “Notes to Consolidated Financial Statements” contained in Part II, Item 8 of our Annual Report on Form 10-K filed with the SEC on February 27, 2017. The activities and ending reserve balances for each significant category of discount and allowance were as follows (dollars in thousands):

	Chargebacks and discounts for prompt payment	Other customer credits and co-pay assistance	Rebates	Returns	Total
Balance at December 31, 2016	$ 1,802	$ 794	$ 2,627	$ 351	$ 5,574
Provision related to sales made in:					
Current period	13,460	3,080	5,262	—	21,802
Prior periods	(718)	—	251	—	(467)
Payments and customer credits issued	(13,175)	(3,001)	(4,621)	(351)	(21,148)
Balance at June 30, 2017	$ 1,369	$ 873	$ 3,519	$ —	$ 5,761

Chargebacks and discounts for prompt payment are recorded as a reduction of trade receivables and the remaining reserve balances are classified as Other current liabilities in the accompanying Condensed Consolidated Balance Sheets. Balances as of December 31, 2016 have been reclassified to reflect that presentation.

The increase in the reserve balance at June 30, 2017, was the result of an increase in product sales volume and a shift in payer mix to government programs, which was offset by the prior period adjustments for chargebacks and certain

rebates. We expect our discounts and allowances, including rebates, as a percentage of gross product revenue to increase during the remainder of 2017 as our business evolves and the number of patients participating in government programs increases and the discounts or rebates to government payers increase, as well as engaging in commercial contracting which may result in additional discounts or rebates.

Cost of Goods Sold

The cost of goods sold and our gross margins were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of goods sold	$ 3,014	$ 1,560	$ 6,217	$ 2,245
Gross margin	97%	95%	96%	94%

Cost of goods sold is related to our product revenues and consists primarily of a 3% royalty payable to GlaxoSmithKline on net sales of any product incorporating cabozantinib, indirect labor costs, the cost of manufacturing, write-downs related to expiring and excess inventory, and other third party logistics costs. Portions of the manufacturing costs for inventory were incurred prior to the regulatory approval of CABOMETYX and COMETRIQ and, therefore, were expensed as research and development costs when incurred, rather than capitalized as inventory. The sale of products containing previously expensed materials resulted in an 11% and 8% reduction in the Cost of goods sold during the three and six months ended June 30, 2017, respectively, as compared to a 5% and 4% reduction during the comparable periods in 2016. As of June 30, 2017 and December 31, 2016, our inventory includes approximately $0.6 million and $1.2 million, respectively, of materials that were previously expensed, are not capitalized, and will not be charged to Costs of goods sold in future periods. Cost of goods sold also includes write-downs related to excess and expiring inventory. Such write-downs were $0.3 million for the six months ended June 30, 2017; the amount of such write-downs was nominal for the comparable period in 2016.

The increase in Cost of goods sold was primarily related to the growth in sales of CABOMETYX due to the commercial launch of CABOMETYX in late April 2016.

Gross margin percentage is net product revenues less cost of goods sold, divided by net product revenues. The increase in gross margin for the three and six months ended June 30, 2017, as compared to the comparable periods in 2016, was related to the change in product mix as CABOMETYX tablets have a lower manufacturing cost than COMETRIQ capsules.

Research and Development Expenses

Total research and development expenses were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Research and development expenses	$ 28,214	$ 22,984	$ 51,424	$ 51,910
Dollar change	$ 5,230		$ (486)	
Percentage change	23%		(1)%	

Research and development expenses consist primarily of clinical trial costs, personnel expenses, consulting and outside services, an allocation for general corporate costs, stock-based compensation, and temporary personnel expenses.

The increase in research and development expenses for the three months ended June 30, 2017, as compared to the comparable period in 2016, was primarily related to an increase in clinical trial costs, which includes services performed by third-party contract research organizations and other vendors who support our clinical trials, and increases in personnel expenses and stock-based compensation. The increase in clinical trial costs was $2.4 million for the three months ended June 30, 2017, as compared to the comparable period in 2016. The increase in clinical trial costs was predominantly due to increases in costs related to CABOSUN, a randomized phase 2 trial of cabozantinib in patients with previously untreated advanced RCC with intermediate- or poor-risk disease conducted by The Alliance under our CRADA with NCI-CTEP, start-up costs associated with CheckMate 9ER, a phase 3 trial to evaluate nivolumab in combination with cabozantinib or with nivolumab and ipilimumab in combination with cabozantinib versus sunitinib in patients with previously untreated, advanced or metastatic RCC, and start-up costs associated with our phase 1b trial of cabozantinib and atezolizumab in locally advanced

or metastatic solid tumors; those increases were partially offset by decreases in costs related to METEOR, our phase 3 pivotal trial in advanced RCC. The increase in personnel expenses was $1.1 million for the three months ended June 30, 2017, as compared to the comparable period in 2016, primarily as a result of an increase in headcount associated with the re-launch of our discovery program and the build-out of our medical affairs organization. The increase in stock-based compensation was $0.4 million for the three months ended June 30, 2017, as compared to the comparable period in 2016, primarily due to the increase in overall headcount and an increase in the valuation of recently granted options and awards as a result of the increase in the price of our stock.

The decrease in research and development expenses for the six months ended June 30, 2017, as compared to the comparable period in 2016, was primarily related to decreases in clinical trial costs and stock-based compensation; these decreases were partially offset by an increase in personnel expenses. The decrease in clinical trial costs was $2.0 million for the six months ended June 30, 2017, as compared to the comparable period in 2016. The decrease in clinical trial costs was predominantly due to a decrease in costs related to METEOR, which was partially offset by increases in costs related to CABOSUN, start-up costs associated with CheckMate 9ER, and start-up costs associated with our phase 1b trial of cabozantinib and atezolizumab in locally advanced or metastatic solid tumors. The decrease in stock-based compensation was $3.7 million for the six months ended June 30, 2017, as compared to the comparable period in 2016, primarily due to the 2016 recognition of stock-based compensation expense pertaining to the performance-based stock-options tied to the acceptance and anticipated approval of our CABOMETYX New Drug Application, or NDA, submission to the FDA and a 2016 bonus to our employees in the form of fully-vested restricted stock units. These decreases were partially offset by an increase in personnel expenses of $4.2 million for the six months ended June 30, 2017, as compared to the comparable period in 2016, primarily as a result of an increase in headcount associated with the re-launch of our discovery program and the build-out of our medical affairs organization.

We do not track fully-burdened research and development expenses on a project-by-project basis. We group our research and development expenses into three categories: development, drug discovery and other. Our development group leads the development and implementation of our clinical and regulatory strategies and prioritizes disease indications in which our compounds may be studied in clinical trials. Our drug discovery group utilizes a variety of technologies to enable the rapid discovery, optimization and extensive characterization of lead compounds such that we are able to select development candidates with the best potential for further evaluation and advancement into clinical development. Drug discovery expenses relate primarily to personnel expenses and consulting and outside services. The “Other” category includes stock-based compensation and the allocation of general corporate costs to research and development. The expenditures for research and development expenses by category were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Development:				
Clinical trial costs	$ 10,404	$ 7,968	$ 18,212	$ 20,225
Personnel expenses	7,048	6,398	14,212	10,507
Consulting and outside services	2,100	2,392	3,905	4,515
Other development costs	3,815	3,089	6,548	6,046
Total development	23,367	19,847	42,877	41,293
Drug discovery	1,446	298	2,243	509
Other	3,401	2,839	6,304	10,108
Total	$ 28,214	$ 22,984	$ 51,424	$ 51,910

In addition to reviewing the three categories of research and development expenses described above, we principally consider qualitative factors in making decisions regarding our research and development programs. Such factors include enrollment in clinical trials for our drug candidates, the results of and data from clinical trials, the potential indications for our drug candidates, the clinical and commercial potential for our drug candidates, and competitive dynamics. We also make our research and development decisions in the context of our overall business strategy, which includes the pursuit of commercial collaborations with major pharmaceutical and biotechnology companies for the development of our drug candidates.

We are focusing our development and commercialization efforts primarily on cabozantinib to maximize the therapeutic and commercial potential of this compound, and as a result, we expect our near-term research and development expenses to primarily relate to the clinical development of cabozantinib. We expect to continue to incur significant development costs for cabozantinib in future periods as we evaluate its potential in a broad development program comprising

approximately 45 ongoing or planned clinical trials across multiple indications. The most notable studies of this program is CELESTIAL, our company-sponsored phase 3 trial of cabozantinib in advanced HCC, our phase 3 study in collaboration with BMS, evaluating cabozantinib in combination with nivolumab or nivolumab and ipilimumab as compared to sunitinib in previously untreated patients with advanced RCC, and our phase 2 study, in collaboration with BMS, evaluating cabozantinib and nivolumab or nivolumab and ipilimumab in advanced HCC, as well as our phase 1b study, in collaboration with Roche, evaluating cabozantinib in combination with atezolizumab in patients with advanced malignancies. In addition, postmarketing commitments in connection with the approval of COMETRIQ in progressive, metastatic MTC dictate that we conduct an additional study in that indication. As a result, we expect our research and development expenses to increase as we continue to develop cabozantinib and our pipeline.

The length of time required for clinical development of a particular product candidate and our development costs for that product candidate may be impacted by the scope and timing of enrollment in clinical trials for the product candidate, our decisions to develop a product candidate for additional indications, and whether we pursue development of the product candidate or a particular indication with a collaborator or independently. For example, cabozantinib is being developed in multiple indications, and we do not yet know how many of those indications we will ultimately pursue regulatory approval for. In this regard, our decisions to pursue regulatory approval of cabozantinib for additional indications depend on several variables outside of our control, including the strength of the data generated in our prior, ongoing and potential future clinical trials. Furthermore, the scope and number of clinical trials required to obtain regulatory approval for each pursued indication is subject to the input of the applicable regulatory authorities, and we have not yet sought such input for all potential indications that we may elect to pursue, and even after having given such input, applicable regulatory authorities may subsequently require additional clinical studies prior to granting regulatory approval based on new data generated by us or other companies, or for other reasons outside of our control. As a condition to any regulatory approval, we may also be subject to postmarketing development commitments, including additional clinical trial requirements. As a result of the uncertainties discussed above, we are unable to determine the duration of or complete costs associated with the development of cabozantinib or any other research and development projects.

In any event, our potential therapeutic products are subject to a lengthy and uncertain regulatory process that may not result in receipt of the necessary regulatory approvals. Failure to receive the necessary regulatory approvals would prevent us from commercializing the product candidates affected, including cabozantinib in any additional indications. In addition, clinical trials of our potential product candidates may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval. A discussion of the risks and uncertainties with respect to our research and development activities, including completing the development of our product candidates, and the consequences to our business, financial position and growth prospects can be found in “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Selling, general and administrative expenses	$ 40,727	$ 35,823	$ 74,987	$ 70,680
Dollar change	$ 4,904		$ 4,307	
Percentage change	14%		6%	

Selling, general and administrative expenses consist primarily of personnel expenses, consulting and outside services, stock-based compensation, legal and accounting costs, marketing, travel and entertainment and facility costs.

The increase in selling, general and administrative expenses for the three and six months ended June 30, 2017, as compared to the comparable periods in 2016, was primarily related to increases in personnel expenses, legal and accounting costs, and consulting and outside services; those increases were partially offset by a decrease in marketing costs. Personnel expenses increased by $3.2 million and $9.9 million for the three and six months ended June 30, 2017, respectively, as compared to the comparable periods in 2016, primarily due to an increase in headcount connected with the build-out and support of our U.S. commercial organization as a result of the launch of CABOMETYX, as well as an increase in headcount for our general and administrative organization, incentive compensation and the accrual for bonuses. Legal and accounting expenses increased by $2.9 million and $4.2 million for the three and six months ended June 30, 2017, respectively, as compared to the comparable periods in 2016, primarily due to increases in legal costs related to our dispute with Genentech. Consulting and outside services increased by $2.5 million and $1.7 million for the three and six months ended June 30, 2017,

respectively, as compared to the comparable periods in 2016, primarily due to increases in consulting for marketing activities. Marketing costs decreased by $4.5 million and $11.3 million for the three and six months ended June 30, 2017, respectively, as compared to the comparable periods in 2016, primarily due to a decrease in losses recognized under our collaboration agreement with Genentech driven by Genentech's change in cost allocation approach in January 2017.

Other Expense, Net

Certain historical amounts in Other expense, net have been revised to reflect the correction of the accounting for non-cash interest expense associated with our previously-outstanding 4.25% Convertible Senior Subordinated Notes due 2019, or the 2019 Notes. See "Note 1 - Organization and Summary of Significant Accounting Policies - Correction of an Immaterial Error" in the Notes to the Condensed Consolidated Financial Statements for additional information on the correction.

Other expense, net, was as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income and other, net	$ 1,622	$ 749	$ 2,690	$ 951
Interest expense	(4,259)	(10,451)	(8,679)	(20,741)
Loss on extinguishment of debt	(6,239)	—	(6,239)	—
Total other expense, net	$ (8,876)	$ (9,702)	$ (12,228)	$ (19,790)
Dollar change	$ 826		$ 7,562	
Percentage change	(9)%		(38)%	

Other expense, net consists primarily of interest expense incurred on our debt, loss on the extinguishment of debt and interest income earned on our cash and investments.

Interest expense decreased by $6.2 million and $12.1 million for the three and six months ended June 30, 2017, respectively, as compared to the comparable periods in 2016, primarily due to conversions and the redemption of the 2019 Notes during the third and fourth quarters of 2016 and the repayment of the Silicon Valley Bank term loan in March 2017. We expect our interest expense will continue to decrease as a result of interest savings from the repayment of the Deerfield Notes in June 2017.

During the three and six months ended June 30, 2017, we recognized a $6.2 million loss on extinguishment of debt resulting primarily from the prepayment penalty associated with the early the repayment of the Deerfield Notes. See "Note 6 - Debt" in our "Notes to Condensed Consolidated Financial Statements" for more information on the repayment of our debt during 2017.

Interest income increased by $0.6 million and $1.3 million for the six months ended June 30, 2017, respectively, as compared to the comparable periods in 2016, due to both an increase in our investment balances and an increase in the yield earned on those investments.

During the three and six months ended June 30, 2017 we recognized a $0.6 million gain on the sale of our 9% interest in Akarna Therapeutics, Ltd, which we acquired in 2015 in exchange for intellectual property rights related to the Exelixis discovered compound XL335.

Income Tax Expense

Income tax expense was as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income tax expense	$ 581	$ —	$ 715	$ —

Income tax expense for the three and six months ended June 30, 2017 primarily relates to state taxes in jurisdictions outside of California, for which we do not have net operating loss carry-forwards due to a limited operating history. Our historical losses are sufficient to fully offset any federal taxable income.

Liquidity and Capital Resources

We have incurred net losses in every fiscal year since our inception, with the exception of the 2011 fiscal year, and as of June 30, 2017, we had an accumulated deficit of $1.9 billion. Although we reported net income of $34.4 million for the six months ended June 30, 2017, we may not be able to maintain or increase profitability on a quarterly or annual basis and we are unable to accurately predict the extent of long-range future profits or losses. Excluding fiscal 2011, our operating expenses have exceeded our revenues for each fiscal year, and we expect to continue to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. In addition, we intend to expand our product pipeline through the measured resumption of drug discovery and the evaluation of in-licensing and acquisition opportunities that align with our oncology drug expertise, which efforts could involve substantial costs. As a result, we are unable to predict the extent of any future profits or losses because we expect to continue to incur substantial operating expenses and, consequently, we will need to generate substantial revenues to maintain or increase profitability.

Since the launch of our first commercial product in January 2013, through June 30, 2017, we have generated an aggregate of $366.5 million in net product revenues, including $156.9 million for the six months ended June 30, 2017. Other than sales of CABOMETYX and COMETRIQ, we have derived substantially all of our revenues since inception from collaborative arrangements, including upfront and milestone payments and research funding we earn from any products developed from the collaborative research. The amount of our net profits or losses will depend, in part, on: the level of sales of CABOMETYX and COMETRIQ in the U.S.; achievement of clinical, regulatory and commercial milestones and the amount of royalties, if any, from sales of CABOMETYX and COMETRIQ under our collaboration with Ipsen; our share of the net profits and losses for the commercialization of COTELLIC in the U.S. under our collaboration with Genentech; the amount of royalties from COTELLIC sales outside the U.S. under our collaboration with Genentech; other license and contract revenues; and the level of our expenses, including commercialization activities for cabozantinib and any pipeline expansion efforts.

As of June 30, 2017, we had $380.3 million in cash and investments, which included $375.6 million available for operations and $4.7 million of long-term restricted investments. We anticipate that our current cash and cash equivalents, and short-term investments available for operations, product revenues and collaboration revenues, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. The sufficiency of our cash resources depends on numerous assumptions, including assumptions related to product sales and operating expenses, as well as the other factors set forth in “Risk Factors” under the headings “Risks Related to our Capital Requirements and Financial Results,” in Part II, Item 1A of this Quarterly Report on Form 10-Q. Our assumptions may prove to be wrong or other factors may adversely affect our business, and as a result we may not have the cash resources to fund our current and future operating plans. This in turn could require us to raise additional funds, which we may be unable to do, which could have a material adverse effect on our business. We may also choose to raise additional funds through the issuance of equity or debt to meet our business objectives.

Sources and Uses of Cash

The following table summarizes our cash flow activities (in thousands):

	Six Months Ended June 30,	
	2017	**2016**
Net cash provided by operating activities:		
Net income (loss)	$ 34,356	$ (94,061)
Adjustments to reconcile net income (loss) to net cash used in operating activities	5,406	26,439
Changes in operating assets and liabilities	34,631	198,698
Net cash provided by operating activities	74,393	131,076
Net cash provided by (used in) investing activities	81,219	(143,510)
Net cash (used in) provided by financing activities	(172,086)	627
Net decrease in cash and cash equivalents	(16,474)	(11,807)
Cash and cash equivalents at beginning of period	151,686	141,634
Cash and cash equivalents at end of period	$ 135,212	$ 129,827

Operating Activities

Cash flows provided by operating activities represent the cash receipts and disbursements related to all of our activities other than investing and financing activities. Cash provided by operating activities is derived by adjusting our net income (loss) for: non-cash operating items such as depreciation and amortization, non-cash interest expense and share-based compensation charges; and changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in our Condensed Consolidated Results of Operations. Our operating activities provided cash of $74.4 million for the six months ended June 30, 2017, compared to $131.1 million for the same period in 2016. The decrease in cash provided by operating activities was primarily due to the upfront nonrefundable payment of $200.0 million received from Ipsen in the six months ended June 30, 2016 in consideration for the exclusive license and other rights contained in our collaboration and license agreement with Ipsen. That decrease was partially offset by a $116.2 million increase in net product revenues and the upfront nonrefundable payment of $50.0 million received from Takeda in the six months ended June 30, 2017 in consideration for the exclusive license and other rights contained in our collaboration and license agreement with Takeda.

Investing Activities

Our investing activities provided cash of $81.2 million for the six months ended June 30, 2017, compared to $143.5 million of cash used during the same period in 2016.

Cash provided by investing activities for the six months ended June 30, 2017 was primarily due to cash provided by the maturity of investments of $206.5 million and the sale of investments of $37.3 million, less cash used for investment purchases of $161.0 million.

Cash used by investing activities for the six months ended June 30, 2016 was primarily due to investment purchases of $203.5 million, less cash from the maturity of unrestricted and restricted investments of $61.0 million.

Financing Activities

Cash used in financing activities was $172.1 million for the six months ended June 30, 2017, compared to $0.6 million of cash provided during the same period in 2016.

Cash used in financing activities for the six months ended June 30, 2017 was primarily a result of $185.8 million paid for all amounts outstanding under the Deerfield Notes and our term loan with Silicon Valley Bank.

Cash provided by financing activities for the six months ended June 30, 2016 was primarily a result of the issuance of common stock under our equity incentive plans which was almost completely offset by employees' tax withholding paid to taxing authorities from shares withheld on stock awards.

Contractual Obligations

As of June 30, 2017, we have contractual obligations in the form of capital and operating leases, purchase obligations and other long-term liabilities.

On June 28, 2017, we repaid all amounts outstanding under the Deerfield Notes. On March 29, 2017, we repaid all amounts outstanding under our term loan with Silicon Valley Bank. See "Note 6 - Debt" in the accompanying Notes to the Condensed Consolidated Financial Statements for more information on the Deerfield Notes and our loan and security agreement with Silicon Valley Bank.

On May 2, 2017, we entered into a Lease Agreement, or the Lease, with Ascentris 105, LLC, for an aggregate of 110,783 square feet of space in office and research facilities located at 1851, 1801 and 1751 Harbor Bay Parkway, Alameda, California. We are obligated to make lease payments totaling $24.1 million over the Lease term. The Lease further provides that we are obligated to pay to Ascentris certain costs, including taxes and operating expenses. See "Note 10. Commitments" in the accompanying Notes to the Condensed Consolidated Financial Statements for a description of the Lease.

There were no other material changes outside of the ordinary course of business in our contractual obligations from those as of December 31, 2016.

Off-Balance Sheet Arrangements

As of June 30, 2017, we did not have any material off-balance-sheet arrangements, as defined by applicable SEC regulations.

Critical Accounting Estimates

The preparation of our Condensed Consolidated Financial Statements conforms to accounting principles generally accepted in the U.S. which requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our Condensed Consolidated Financial Statements. On an ongoing basis, management evaluates its estimates including, but not limited to, those related to revenue recognition, including deductions from revenues (such as rebates, chargebacks, sales returns and sales allowances), the period of performance, identification of deliverables and evaluation of milestones with respect to our collaborations, the amounts of revenues and expenses under our profit and loss sharing agreement, recoverability of inventory, certain accrued liabilities including accrued clinical trial liability, and stock-based compensation. We base our estimates on historical experience and on various other market-specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results could differ materially from those estimates.

We believe our critical accounting policies relating to revenue recognition, clinical trial accruals, inventory and share based compensation reflect the more significant estimates and assumptions used in the preparation of our Condensed Consolidated Financial Statements.

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2017, as compared to the critical accounting policies and estimates disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017.

Recent Accounting Pronouncements

For a description of the expected impact of recent accounting pronouncements, see “Note 1 - Organization and Summary of Significant Accounting Policies” in the “Notes to Condensed Consolidated Financial Statements” included in this Quarterly Report on Form 10-Q and “Note 1 - Organization and Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” included in our Annual Report on Form 10-K filed with the SEC on February 27, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at June 30, 2017 have not changed significantly from those discussed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 27, 2017.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio, and for prior periods, our debt. As of June 30, 2017, an increase in the interest rates of one percentage point would have had a net adverse change in the fair value of interest rate sensitive assets and liabilities of $(1.3) million as compared to a net positive change in the fair value of $0.4 million as of December 31, 2016.

In addition, we have exposure to fluctuations in certain foreign currencies in countries in which we conduct clinical trials. As of June 30, 2017, and December 31, 2016, approximately $2.1 million and $2.2 million, respectively, of our accrued clinical trial liability was owed in foreign currencies. An adverse change of one percentage point in the foreign currency exchange rates would not have resulted in a material impact as of either of the dates presented. We recorded losses of $0.1 million relating to foreign exchange fluctuations for both the six months ended June 30, 2017 and 2016.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Based on the evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act) required by Rules 13a-15(b) or 15d-15(b) of the Exchange Act, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Limitations on the effectiveness of controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our principal executive officer and principal financial officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 3, 2016, we filed a Demand for Arbitration before JAMS in San Francisco, California asserting claims against Genentech (a member of the Roche Group) related to its clinical development, pricing and commercialization of COTELLIC, and cost and revenue allocations arising from COTELLIC's commercialization in the U.S. Our arbitration demand asserted that Genentech breached the parties' December 2006 collaboration agreement for the development and commercialization of COTELLIC, by, amongst other breaches, failing to meet its diligence and good faith obligations.

On July 13, 2016, Genentech asserted a counterclaim for breach of contract seeking monetary damages and interest related to the cost allocations under the collaboration agreement. On December 29, 2016, however, Genentech withdrew its counterclaim against us and stated that it would unilaterally change its approach to the allocation of promotional expenses arising from commercialization of the COTELLIC plus Zelboraf combination therapy, both retrospectively and prospectively. The revised allocation approach substantially reduced our exposure to costs associated with promotion of the COTELLIC plus Zelboraf combination in the U.S. However, other significant issues remained in dispute between the parties as of June 30, 2017. Genentech's action did not address the claims in our demand for arbitration related to Genentech's clinical development of cobimetinib, or pricing or promotional costs for COTELLIC in the U.S. and it did not fully resolve claims over revenue allocation. In addition, Genentech's unilateral action did not clarify how it intended to allocate promotional costs incurred with respect to the promotion of other combination therapies that include cobimetinib for other indications that may be developed or are in development and may be approved. As a result, we continued to press our position before the arbitral panel to obtain a just resolution of these claims.

On June 8, 2017, the parties settled the arbitration, which was dismissed with prejudice. The settlement was memorialized in a settlement agreement dated July 19, 2017, that included a mutual release of all claims arising out of or related in any way to the causes of actions and/or claims that were asserted or could have been asserted based on the facts alleged in the arbitration. The settlement does not provide for payments in settlement of the asserted claims; as part of the settlement, on July 19, 2017, the parties entered into an amendment to the December 2006 collaboration agreement. Pursuant to the terms of the amendment, we will continue to be entitled to a share of U.S. profits and losses received in connection with the commercialization of COTELLIC, which share will continue to decrease as sales of COTELLIC increase in accordance with the profit share tiers as originally set forth in the collaboration agreement. However, effective as of July 1, 2017, the revenue for each sale of COTELLIC applied to the profit and loss statement for the collaboration agreement, or the Collaboration P&L, will be calculated using the average of the quarterly net selling prices of COTELLIC and any additional branded Genentech product(s) prescribed with COTELLIC in such sale. While we will also continue to share U.S. commercialization costs for COTELLIC, the amendment expressly sets forth that the amount of commercialization costs Genentech is entitled to allocate to the Collaboration P&L will be reduced based on the number of Genentech products in any given combination including COTELLIC. In addition, the amendment also sets forth the parties' confirmation and agreement that we have exercised our co-promotion option and that, as such, we have the right to co-promote current and future Genentech combinations that include COTELLIC in the U.S.

We may from time to time become a party to other legal proceedings arising in the ordinary course of business.

Item 1A. Risk Factors

In addition to the factors discussed elsewhere in this report and our other reports filed with the SEC, the following are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by us or on our behalf. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we deem immaterial also may impair our business operations. If any of the following risks or such other risks actually occurs, our business could be harmed.

We have marked with an asterisk (*) those risk factors below that reflect substantive changes in risks facing us from the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2016 filed with the Securities and Exchange Commission on February 27, 2017.

Risks Related to Our Business and Industry

Our future prospects are critically dependent upon the commercial success of CABOMETYX for advanced RCC and the further clinical development and commercial success of cabozantinib in additional indications.

Our mission is to maximize the clinical and commercial potential of cabozantinib and cobimetinib and position Exelixis for future growth through the resumption of our discovery efforts and expansion of our development pipeline. We anticipate that for the foreseeable future our ability to generate meaningful revenue to fund our commercial operations and our development and discovery programs will be dependent upon the successful commercialization of CABOMETYX for the treatment of advanced RCC in territories where it has been or may soon be approved. The commercial potential of CABOMETYX for the treatment of advanced RCC remains subject to a variety of factors, most importantly, CABOMETYX's perceived benefit/risk profile as compared to the benefit/risk profiles of other treatments available or currently in development for the treatment of advanced RCC. If revenue from CABOMETYX decreases, we may need to reduce our operating expenses or raise additional funds to execute our business plan, which would have a material adverse effect on our business and financial condition, results of operations and growth prospects. Furthermore, as a consequence of our exclusive collaboration agreement with Ipsen, we rely heavily upon Ipsen's regulatory, commercial, medical affairs, and other expertise and resources for commercialization of CABOMETYX in territories outside of the U.S. and Japan. If Ipsen is unable to, or does not invest the resources necessary to, successfully commercialize CABOMETYX for the treatment of advanced RCC in the European Union and other international territories where it may be approved, this could reduce the amount of revenue we are due to receive under our collaboration agreement with Ipsen, thus resulting in harm to our business and operations.

We also believe that there are commercial opportunities for cabozantinib in therapeutic indications beyond advanced RCC, and we are dedicating substantial proprietary resources to developing cabozantinib into a potentially broad and significant oncology franchise. Even following the approval of CABOMETYX for the treatment of advanced RCC in the U.S. and European Union, our success remains contingent upon, among other things, successful clinical development, regulatory approval and market acceptance of cabozantinib in additional indications, such as previously treated advanced RCC, advanced HCC, non-small cell lung cancer, and other forms of cancer. With the planned second interim analysis from CELESTIAL anticipated in the second half of 2017, and a final analysis, if needed in 2018, we expect growth of the cabozantinib oncology franchise to be most immediately impacted by the clinical trial results of cabozantinib in advanced HCC. However, the historical rate of failures for product candidates in clinical development is high. Should we prove unsuccessful in the further development of cabozantinib beyond MTC or advanced RCC, we may be unable to execute our business plan and our revenues and financial condition would be materially adversely affected.

We are heavily dependent on our partner, Genentech (a member of the Roche group), for the successful development, regulatory approval and commercialization of cobimetinib.*

The terms of our collaboration agreement provide Genentech with exclusive authority over the global development and commercialization plans for cobimetinib and the execution of those plans. We have limited effective influence over those plans and are heavily dependent on Genentech's decision making. Any significant changes to Genentech's business strategy and priorities, over which we have no control, could adversely affect Genentech's willingness or ability to complete their obligations under our collaboration agreement and result in harm to our business and operations. Subject to contractual diligence obligations, Genentech has complete control over and financial responsibility for cobimetinib's development program and regulatory strategy and execution, and we are not able to control the amount or timing of resources that Genentech will devote to the product. Of particular significance are Genentech's development efforts with respect to the combination of cobimetinib with immuno-oncology agents, a promising and competitive area of clinical research. Regardless of Genentech's efforts and expenditures for the further development of cobimetinib, the results of such additional clinical investigation may not prove positive and may not produce label expansions or approval in additional indications.

The commercial success of cabozantinib, as CABOMETYX tablets for advanced RCC and as COMETRIQ capsules for MTC, and if approved for additional indications, will depend upon the degree of market acceptance among physicians, patients, health care payers, and the medical community.

Our ability to successfully commercialize cabozantinib, as CABOMETYX tablets for advanced RCC and COMETRIQ capsules for MTC is, and if approved for additional indications, will be, highly dependent upon the extent to which cabozantinib gains market acceptance among physicians, patients, health care payers such as Medicare, Medicaid and commercial plans and the medical community. If cabozantinib does not achieve an adequate level of acceptance, we may not generate significant future product revenues. The degree of market acceptance of CABOMETYX and COMETRIQ will depend upon a number of factors, including:

- the effectiveness, or perceived effectiveness, of cabozantinib in comparison to competing products;
- the safety of cabozantinib, including the existence of serious side effects of cabozantinib and their severity in comparison to those of any competing products;
- cabozantinib's relative convenience and ease of administration;
- unexpected results connected with analysis of data from future or ongoing clinical trials;
- the timing of cabozantinib label expansions for additional indications, if any, relative to competitive treatments;
- the price of cabozantinib relative to competitive therapies and any new government initiatives affecting pharmaceutical pricing;
- the strength of CABOMETYX sales efforts, marketing, medical affairs and distribution support;
- the sufficiency of commercial and government insurance coverage and reimbursement; and
- our ability to enforce our intellectual property rights with respect to cabozantinib.

If we are unable to maintain or scale adequate sales, marketing, market access and distribution capabilities or enter into or maintain agreements with third parties to do so, we may be unable to maximize product revenues and our business, financial condition, results of operations and prospects may be adversely affected.*

In connection with the FDA's approval of CABOMETYX for the treatment of patients with advanced RCC, we substantially increased our sales, marketing, market access, medical affairs and product distribution capabilities. Establishing and maintaining these capabilities requires significant resources. If we cannot maintain effective sales, marketing, market access, medical affairs and product distribution capabilities, we may be unable to maximize the commercial potential of cabozantinib in its approved indications. Also, to the extent that the commercial opportunities for cabozantinib grow over time, we may not properly judge the requisite size and experience of the commercialization teams or the scale of distribution necessary to market and sell cabozantinib successfully. If we are unable to maintain or scale our organization appropriately, we may not be able to maximize product revenues and our business, financial condition, results of operations and prospects may be adversely affected.

We currently rely on third party providers to handle storage and distribution for our commercial supply of both CABOMETYX and COMETRIQ in the U.S. While we have expanded our U.S. distribution and pharmacy channels in connection with the approval of CABOMETYX by the FDA for the treatment of patients with advanced RCC in the U.S., we still rely on a relatively limited distribution network to dispense COMETRIQ in fulfillment of prescriptions in the U.S. Furthermore, we rely on our collaboration partners for the commercialization and distribution of CABOMETYX and COMETRIQ in territories outside of the U.S., as well as for access and distribution activities for the approved products under the Named Patient Use program or a similar program with the effect of introducing earlier patient access to COMETRIQ and CABOMETYX.

Our current and anticipated future dependence upon the activities, support, and legal and regulatory compliance, of third parties, may adversely affect our ability to supply cabozantinib to the marketplace on a timely and competitive basis. These third parties may not provide services in the time required to meet our commercial timelines and objectives or to meet regulatory requirements. We may not be able to maintain or renew our arrangements with third parties, or enter into new arrangements, on acceptable terms, or at all. Third parties could terminate or decline to renew our arrangements based on their own business priorities. If we are unable to contract for these third party services related to the distribution of cabozantinib on acceptable terms, our commercialization efforts may be delayed or otherwise adversely affected, which could have material adverse impact on our business, financial condition, results of operations and prospects.

We are subject to certain healthcare laws, regulation and enforcement; our failure to comply with those laws could have a material adverse effect on our results of operations and financial condition.

We are subject to certain healthcare laws and regulations and enforcement by the federal government and the states in which we conduct our business. Should our compliance controls prove ineffective at preventing or mitigating the impact of improper conduct, the laws that may affect our ability to operate include, without limitation:

- the federal Anti-Kickback Statute, or AKS, which governs our business activities, including our marketing practices, educational programs, pricing policies, and relationships with healthcare providers or other entities. The AKS prohibits, among other things, persons and entities from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs. Remuneration is not

defined in the AKS and has been broadly interpreted to include anything of value, including for example, gifts, discounts, coupons, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payments, ownership interests and providing anything at less than its fair market value. The AKS has been broadly interpreted to apply to manufacturer arrangements with prescribers, purchasers and formulary managers, among others;

- the Federal Food, Drug, and Cosmetic Act, or FDCA, and its regulations, which prohibit, among other things, the introduction or delivery for introduction into interstate commerce of any food, drug, device, or cosmetic that is adulterated or misbranded;
- federal civil and criminal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent, or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- the Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and their implementing regulations, which impose certain requirements relating to the privacy, security and transmission of individually identifiable health information;
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws, which may apply to items or services reimbursed by any third-party payer, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts;
- the Foreign Corrupt Practices Act, a U.S. law which regulates certain financial relationships with foreign government officials (which could include, for example, certain medical professionals);
- federal and state consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm consumers;
- federal and state government price reporting laws that require us to calculate and report complex pricing metrics to government programs, where such reported prices may be used in the calculation of reimbursement and/or discounts on our marketed drugs (participation in these programs and compliance with the applicable requirements may subject us to potentially significant discounts on our products, increased infrastructure costs, and could potentially affect our ability to offer certain marketplace discounts);
- federal and state financial transparency laws, which generally require certain types of expenditures in the U.S. to be tracked and reported (compliance with such requirements may require investment in infrastructure to ensure that tracking is performed properly, and some of these laws result in the public disclosure of various types of payments and relationships with healthcare providers and healthcare entities, which could potentially have a negative effect on our business and/or increase enforcement scrutiny of our activities); and
- federal and state healthcare fraud and abuse laws, FDA rules and regulations, as well as false claims laws, including the civil False Claims Act, which govern certain marketing practices, including off-label promotion.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we, or our officers or employees, may be subject to penalties, including administrative civil and criminal penalties, damages, fines, regulatory penalties, the curtailment or restructuring of our operations, exclusion from participation in Medicare, Medicaid and other federal and state healthcare programs, reputational harm, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement, any of which would adversely affect our ability to sell our products and operate our business and also adversely affect our financial results. Of particular concern are suits filed under the civil False Claims Act, known as "*qui tam*" actions, which can be brought by any individual on behalf of the government. Such individuals, commonly known as "whistleblowers," may potentially then share in amounts paid by the entity to the government in fines or settlement. The filing of *qui tam* actions has caused a number of pharmaceutical, medical device and other healthcare companies to have to defend civil False Claims Act actions. When an entity is determined to have violated the civil False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Defending against any such actions can be costly, time-consuming and may require significant financial and personnel resources. Therefore, even if we are successful in defending against any such actions that may be brought against us, our business may be impaired.

Numerous federal and state laws, including state security breach notification laws, state health information privacy laws and federal and state consumer protection laws, govern the collection, use and disclosure of personal information. Other countries also have, or are developing, laws governing the collection, use and transmission of personal information. In addition, most healthcare providers who are expected to prescribe our products and from whom we obtain patient health information are subject to privacy and security requirements under HIPAA. Although we are not directly subject to HIPAA, we could be subject to criminal penalties if we knowingly obtain individually identifiable health information from a HIPAA-covered entity in a manner that is not authorized or permitted by HIPAA. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increasing amount of focus on privacy and data protection issues with the potential to affect our business, including recently enacted laws in a majority of states requiring security breach notification. These laws could create liability for us or increase our cost of doing business. International laws, such as the EU Data Privacy Directive (95/46/EC) and Swiss Federal Act on Data Protection, regulate the processing of personal data within the European Union and between countries in the European Union and countries outside of the European Union, including the U.S. Failure to provide adequate privacy protections and maintain compliance with safe harbor mechanisms could jeopardize business transactions across borders and result in significant penalties.

If we are unable to obtain both adequate coverage and adequate reimbursement from third-party payers for CABOMETYX or COMETRIQ, our revenues and prospects for profitability will suffer.

Our ability to commercialize CABOMETYX or COMETRIQ successfully is highly dependent on the extent to which coverage and reimbursement is, and will be, available from third-party payers, including governmental payers, such as Medicare and Medicaid, and private health insurers. Patients may not be capable of paying for CABOMETYX or COMETRIQ themselves and may rely on third-party payers to pay for, or subsidize, the costs of their medications, among other medical costs. If third-party payers do not provide coverage or reimbursement for CABOMETYX or COMETRIQ, our revenues and prospects for profitability will suffer. In addition, even if third-party payers provide some coverage or reimbursement for CABOMETYX or COMETRIQ, the availability of such coverage or reimbursement for prescription drugs under private health insurance and managed care plans, which often varies based on the type of contract or plan purchased, may not be sufficient for patients to afford cabozantinib. There has been negative publicity regarding, and increasing legislative and enforcement interest in the U.S. with respect to, drug pricing and the use of specialty pharmacies, which may result in physicians being less willing to participate in our patient access programs and thereby limit our ability to increase patient access and adoption of cabozantinib. Specifically, there have been several recent U.S. Congressional inquiries and proposed bills designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the price of drugs under Medicare, and reform government program reimbursement methodologies for drugs. If future legislation were to impose direct governmental price controls and access restrictions, it could have a significant adverse impact on our business and financial results.

In addition, in some foreign countries, particularly in the European Union, the pricing of prescription pharmaceuticals is subject to governmental control under the respective national health system. In these countries, price negotiations with governmental authorities or payers can take six to twelve months or longer after marketing authorization is granted for a product, which has the potential to substantially delay broad availability of the product in some of those countries. To obtain reimbursement and/or pricing approval in some countries, we and our collaboration partner, Ipsen, may be required to conduct a clinical trial that seeks to establish the cost effectiveness of CABOMETYX compared with other available established therapies. The conduct of such a clinical trial could be expensive and result in delays in the commercialization of CABOMETYX. Third-party payers are challenging the prices charged for medicinal products and services, and many third-party payers limit reimbursement for newly-approved health care products. In particular, third-party payers may limit the indications for which they will reimburse patients who use CABOMETYX or COMETRIQ. Cost-control initiatives could decrease the price we and our collaboration partner, Ipsen, might establish for CABOMETYX, which would result in lower license revenues to us.

Current healthcare laws and regulations and future legislative or regulatory reforms to the healthcare system may affect our ability to sell CABOMETYX and COMETRIQ profitably.*

The U.S. and some foreign jurisdictions are considering or have enacted a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell CABOMETYX and COMETRIQ profitably. Among policy makers and payers in the U.S. and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the U.S., the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

In January 2017, Congress voted to adopt a budget resolution for fiscal year 2017, or the Budget Resolution, that authorizes the implementation of legislation that would repeal portions of the Patient Protection and Affordable Care Act, as amended by the Health Care Education Reconciliation Act, or the PPACA. The Budget Resolution is not a law; however, it marked the first step toward the passage of legislation that would repeal certain aspects of PPACA. Congress is currently considering legislation that would repeal and replace elements of PPACA. The legislation that is under consideration also makes several reforms to the Medicaid program, including shifting Medicaid financing from a federal match to states, known as the federal medical assistance percentage, to a per capita allotment or block grant approach. The bill passed the U.S. House of Representatives on May 14, 2017, and the Senate is currently considering legislation. It remains uncertain whether the House or Senate bill will become law. Further, if passed, it is difficult to project the scope and subject of any further changes to the legislation. It is also possible that Congress could consider legislation that retains PPACA, and is intended to stabilize the health insurance markets. Further, on January 20, 2017, President Trump signed an Executive Order directing federal agencies with responsibilities under PPACA to waive, defer, grant exemptions from, or delay the implementation of any provision of PPACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. Moreover, certain politicians, including the President, have announced plans to regulate the prices of pharmaceutical products. Congress has also signaled an intent to address pharmaceutical pricing, with a Senate hearing to examine the cost of prescription drugs held on June 13, 2017. We cannot know what form any such legislation may take or the market's perception of how such legislation would affect us. Any reduction in reimbursement from government programs may result in a similar reduction in payments from private payers. The implementation of cost containment measures or other healthcare reforms may limit our ability to generate revenue or commercialize our current products and/or those for which we may receive regulatory approval in the future.

Congress is also considering legislation that would reauthorize the FDA user fee programs for prescription drugs, generic drugs, medical devices, and biosimilars. The reauthorization bill passed the House on July 12, 2017, but it has not been voted on by the Senate. The legislation is expected to include, *inter alia*, measures to expedite the development and approval of generic products, but it is unclear what form the final legislation could take and how such legislation would affect us.

As a result of the overall trend towards cost-effectiveness criteria and managed healthcare in the U.S., third-party payers are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new drugs. These entities could refuse or limit coverage for CABOMETYX and COMETRIQ, such as by using tiered reimbursement, which would adversely affect demand for CABOMETYX and COMETRIQ. They may also refuse to provide coverage for uses of CABOMETYX and COMETRIQ for medical indications other than those for which the FDA has granted market approval. As a result, significant uncertainty exists as to whether and how much third-party payers will cover newly approved drugs, which in turn will put pressure on the pricing of drugs. Due to the volatility in the current economic and market dynamics, we are unable to predict the impact of any unforeseen or unknown legislative, regulatory, third-party payer or policy actions, which may include cost containment and healthcare reform measures. Such policy actions could have a material adverse impact on our revenues and prospects for profitability.

Pricing for pharmaceutical products has come under increasing scrutiny by governments, legislative bodies and enforcement agencies. These activities may result in actions that have the effect of reducing our revenue or harming our business or reputation.*

Many companies in our industry have received a governmental request for documents and information relating to drug pricing and patient support programs. We could receive a similar request, which would require us to incur significant expense and result in distraction for our management team. Additionally, to the extent there are findings, or even allegations, of improper conduct on the part of the company, such findings could further harm our business, reputation and/or prospects. It is possible that such inquiries could result in negative publicity or other negative actions that could harm our reputation; changes in our product pricing and distribution strategies; reduced demand for our approved products and/or reduced reimbursement of approved products, including by federal health care programs such as Medicare and Medicaid and state health care programs.

In addition, the Trump Administration has indicated interest in taking measures pertaining to drug pricing, including potential proposals relating to Medicare price negotiations, importation of drugs from other countries, and facilitating value-based arrangements between manufacturers and payers. At this time, it is unclear whether any of these proposals will be pursued and how they would impact our products or our future product candidates.

Our competitors may develop products and technologies that impair the value of cabozantinib, cobimetinib and any future product candidates.

The pharmaceutical, biopharmaceutical and biotechnology industries are highly diversified and are characterized by rapid technological change. In particular, the area of novel oncology therapies is a rapidly evolving and competitive field. Specifically, the indication of advanced RCC is highly competitive and several novel therapies and combinations of therapies are in advanced stages of clinical development in this indication, and may compete with or displace cabozantinib. We face, and will continue to face, intense competition from biotechnology, biopharmaceutical 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. Some of our competitors are further along in the development of their products than we are. Delays in the development of cabozantinib or cobimetinib for the treatment of additional tumor types, for example, could allow our competitors to bring products to market before us. Our future success will depend upon our ability to maintain a competitive position with respect to technological advances and the shifting landscape of therapeutic strategy following the advent of immunotherapy. Our products may become less marketable if we are unable to successfully adapt our development strategy to address the likelihood that this new approach to treating cancer with immuno-oncology agents will become prevalent in indications for which our products are approved, most notably advanced RCC, and in additional indications where we may seek regulatory approval. Furthermore, the complexities of such a strategy has and may continue to require collaboration with some of our competitors.

The markets for which we intend to pursue regulatory approval of cabozantinib and for which Roche and Genentech intend to pursue regulatory approval for cobimetinib are highly competitive. 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 staff and facilities, more experience in obtaining regulatory approvals and more extensive product manufacturing and commercial capabilities than we do. 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. There may also be drug candidates of which we are not aware at an earlier stage of development that may compete with cabozantinib, cobimetinib, and our other product candidates.

If competitors use litigation and regulatory means to obtain approval for generic versions of cabozantinib, our business will suffer.

Under the FDCA, the FDA can approve an Abbreviated New Drug Application, or ANDA, for a generic version of a branded drug without the applicant undertaking the human clinical testing necessary to obtain approval to market a new drug. The FDA can also approve a 505(b)(2) NDA that relies on the agency's findings of safety and/or effectiveness for a previously approved drug. The filing of an ANDA or 505(b)(2) NDA with respect to cabozantinib could have an adverse impact on our stock price. Moreover, if any such ANDAs or 505(b)(2) NDAs were to be approved and the patents covering cabozantinib were not upheld in litigation, or if a generic competitor is found not to infringe these patents, the resulting generic competition would negatively affect our business, financial condition and results of operations. In this regard, generic equivalents, which must meet the same quality standards as the branded drugs, would be significantly less costly than ours to bring to market. Companies that produce generic equivalents are generally able to offer their products at lower prices. Thus, regardless of the regulatory approval pathway, after the introduction of a generic competitor, a significant percentage of the sales of any branded product are typically lost to the generic product.

Clinical testing of product candidates is a lengthy, costly, complex and uncertain process and may fail to demonstrate safety and efficacy.*

Clinical trials are inherently risky and may reveal that a product candidate, even if it is approved for other indications, is ineffective or has an unacceptable safety profile that may significantly decrease the likelihood of regulatory approval in a new indication. For example, COMET-1 and COMET-2, our two phase 3 pivotal trials of cabozantinib in metastatic castration-resistant prostate cancer, or mCRPC, failed to meet their respective primary endpoints of demonstrating a statistically significant increase in OS for patients treated with cabozantinib as compared to prednisone and to demonstrate improvement in pain response for patients treated with cabozantinib as compared to mitoxantrone/prednisone. Based on the outcome of the COMET trials, we deprioritized the clinical development of cabozantinib in mCRPC.

The results of preliminary studies do not necessarily predict clinical or commercial success, and later-stage clinical trials may fail to confirm the results observed in earlier-stage trials or preliminary studies. Although we have established timelines for manufacturing and clinical development of our product candidates based on existing knowledge of our compounds in development and industry metrics, we may not be able to meet those timelines.

We may experience numerous unforeseen events, during or as a result of clinical testing, that could delay or prevent commercialization of our product candidates, including:

- lack of efficacy or harmful side effects;
- negative or inconclusive clinical trial results may require us to conduct further testing or to abandon projects that we had expected to be promising;
- our competitors may discover or commercialize other compounds or therapies that show significantly improved safety or efficacy compared to our product candidates;
- our inability to identify and maintain a sufficient number of trial sites, many of which may already be engaged in other clinical trial programs;
- patient registration or enrollment in our clinical testing may be lower than we anticipate, resulting in the delay or cancellation of clinical testing;
- failure by our collaborators to supply us on a timely basis with the product required for a combination trial;
- failure of our third-party contract research organization or investigators to satisfy their contractual obligations, including deviating from trial protocol; and
- regulators or institutional review boards may withhold authorization to commence or conduct clinical trials of a product candidate, or delay, suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or their determination that participating patients are being exposed to unacceptable health risks.

If we were to have significant delays in or termination of our clinical testing of our product candidates as a result of any of the events described above or otherwise, our expenses could increase and our ability to generate revenues could be impaired, either of which could adversely impact our financial results.

We may not be able to rapidly or effectively continue the further development of our product candidates or meet current or future requirements of the FDA or regulatory authorities in other jurisdictions, including those identified based on our discussions with the FDA or such other regulatory authorities. Our planned clinical trials may not begin on time, or at all, may not be completed on schedule, or at all, may not be sufficient for registration of our product candidates or may not result in an approvable product.

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 the product candidate. 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 clinical trial, including, among others:

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

Any delay could limit our ability to generate revenues, cause us to incur additional expense and cause the market price of our common stock to decline significantly. Our partners under our collaboration agreements may experience similar risks with respect to the compounds we have out-licensed to them. If any of the events described above were to occur with such programs or compounds, the likelihood of receipt of milestones and royalties under such collaboration agreements could decrease.

The regulatory approval processes of the FDA and comparable foreign regulatory authorities are lengthy and uncertain, and may not result in regulatory approvals for our product candidates, which could adversely affect our business.

The activities associated with the research, development and commercialization of our products and product candidates, are subject to extensive regulation by the FDA and other regulatory agencies in the U.S. and by comparable authorities in other countries. We have only limited experience in preparing and filing the applications necessary to gain regulatory approvals. The process of obtaining regulatory approvals in the U.S. and other foreign jurisdictions is expensive, and often takes many years, if approval is obtained at all, and can vary substantially based upon the type, complexity and novelty of the product candidates involved. For example, before an NDA or sNDA can be submitted to the FDA, or a marketing authorization application to the European Medicines Agency or any application or submission to regulatory

authorities in other jurisdictions, the product candidate must undergo extensive clinical trials, which can take many years and require substantial expenditures.

Any clinical trial may fail to produce results satisfactory to the FDA or regulatory authorities in other jurisdictions. For example, the FDA could determine that the design of a clinical trial is inadequate to produce reliable results. The regulatory process also requires preclinical testing, and data obtained from preclinical and clinical activities are susceptible to varying interpretations. The FDA has substantial discretion in the approval process and may refuse to approve any NDA or decide that our data is insufficient for approval and require additional preclinical, clinical or other studies. For example, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent regulatory approval of cabozantinib for any individual, additional indications.

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, which may cause delays in the approval or rejection of an application for our product candidates.

Even if the FDA or a comparable authority in another jurisdiction approves cabozantinib for one or more indications beyond advanced RCC and MTC, or one of our other product candidates, the approval may be limited, imposing significant restrictions on the indicated uses, conditions for use, labeling, distribution, advertising, promotion, marketing and/or production of the product and could impose ongoing requirements for post-approval studies, including additional research and development and clinical trials. For example, in connection with the FDA's approval of COMETRIQ for the treatment of progressive, metastatic MTC, we are subject to post-marketing requirement to conduct a clinical study comparing a lower dose of cabozantinib to the approved dose of 140 mg daily cabozantinib in progressive, metastatic MTC. Failure to complete any post-marketing requirements in accordance with the timelines and conditions set forth by the FDA could significantly increase costs or delay, limit or eliminate the commercialization of cabozantinib. Further, these agencies may also impose various administrative, civil or criminal sanctions for failure to comply with regulatory requirements, including withdrawal of product approval.

We may be unable to expand our development pipeline, which could limit our growth and revenue potential.

We are committed to the discovery, development and promotion of new medicines with the potential to improve care and outcomes for people with cancer. In this regard, we have resumed internal drug discovery efforts with the goal of identifying new product candidates to advance into clinical trials. Internal discovery efforts to identify new product candidates require substantial technical, financial and human resources. These internal discovery efforts may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for a number of reasons, including the research methodology used may not be successful in identifying potential product candidates, or potential product candidates may, on further study, be shown to have inadequate efficacy, harmful side effects, suboptimal pharmaceutical profile or other characteristics suggesting that they are unlikely to be effective products. Apart from our internal discovery efforts, our strategy to expand our development pipeline is also dependent on our ability to successfully identify and acquire or in-license relevant product candidates. However, the in-licensing and acquisition of product candidates is a competitive area, and many other companies are pursuing the same or similar product candidates to those that we may consider attractive. Established companies, in particular, may have a competitive advantage over us due to their size, financial resources and more extensive clinical development and commercialization capabilities. Furthermore, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. We may also be unable to in-license or acquire a relevant product candidate on acceptable terms that would allow us to realize an appropriate return on our investment. If we are unable to develop suitable product candidates through internal discovery effort or if we are unable to successfully obtain rights to suitable product candidates, our business, financial condition and prospects for growth could suffer. Even if we succeed in our efforts to obtain rights to suitable product candidates, the competitive business environment may result in higher acquisition or licensing costs.

With respect to acquisitions, we may not be able to integrate the target company successfully into our existing business, maintain the key business relationships of the target, or retain key personnel of an acquired business. Furthermore, we could assume unknown or contingent liabilities or incur unanticipated expenses. Any acquisitions or investments made by us also could result in our spending significant amounts, issuing dilutive securities, assuming or incurring significant debt obligations and contingent liabilities, incurring large one-time expenses and acquiring intangible assets that could result in significant future amortization expense and significant write-offs, any of which could harm our operating results.

Risks Related to Our Capital Requirements and Financial Results

If additional capital is not available to us when we need it, we may be forced to limit the expansion of our product development programs or commercialization efforts.*

As of June 30, 2017, we had $380.3 million in cash and investments, which included $375.6 million available for operations and $4.7 million of long-term restricted investments. Our business operations grew substantially during 2016 and experienced further development during the six months ended June 30, 2017. In order to maintain business growth and maximize the clinical and commercial opportunities for cabozantinib and cobimetinib, we plan to continue to execute on the U.S. commercialization plans for CABOMETYX, while reinvesting in our product pipeline through the continued development of cabozantinib, research and development activities, as well as through in-licensing and acquisition efforts. Our ability to execute on these business objectives will depend on many factors including but not limited to:

- the commercial success of both CABOMETYX and COMETRIQ and the revenues we generate from those approved products;
- costs associated with maintaining our expanded sales, marketing, medical affairs and distribution capabilities for CABOMETYX in advanced RCC and COMETRIQ in the approved MTC indications;
- the achievement of stated regulatory and commercial milestones under our collaboration with Ipsen;
- the commercial success of COTELLIC and the revenues generated through our share of related profits and losses for the commercialization of COTELLIC in the U.S. and royalties from COTELLIC sales outside the U.S. under our collaboration with Genentech;
- the potential regulatory approval of cabozantinib as a treatment for patients with previously untreated advanced RCC and in other indications, both in the U.S. and abroad;
- future clinical trial results, notably the results from CELESTIAL, our phase 3 pivotal trial in patients with advanced HCC;
- our future investments in the expansion of our pipeline through drug discovery and corporate development activities;
- our ability to control costs;
- the cost of clinical drug supply for our clinical trials;
- trends and developments in the pricing of oncologic therapeutics in the U.S. and abroad, especially in the European Union;
- scientific developments in the market for oncologic therapeutics and the timing of regulatory approvals for competing oncologic therapies; and
- the filing, maintenance, prosecution, defense and enforcement of patent claims and other intellectual property rights.

Our commitment of cash resources to CABOMETYX and the reinvestment in our product pipeline through the continued development of cabozantinib, continued research and development activities as well as through in-licensing and acquisition efforts, could require us to obtain additional capital. We may seek such additional capital through some or all of the following methods: corporate collaborations, licensing arrangements, and public or private debt or equity financings. We do not know whether additional capital will be available when needed, or that, if available, we will obtain additional capital on terms favorable to us or our stockholders. If we are unable to raise additional funds when we need them, we may be required to limit the expansion of our product development programs or commercialization efforts, which could have a material adverse effect on our business and growth prospects.

We have a history of net losses and may incur net losses in the future, and may be unable to achieve and maintain profitability.*

We have incurred net losses in every fiscal year since our inception, with the exception of the 2011 fiscal year, and as of June 30, 2017, we had an accumulated deficit of $1.9 billion. Although we reported net income of $34.4 million for the six months ended June 30, 2017, we may not be able to maintain or increase profitability on a quarterly or annual basis and we are unable to accurately predict the extent of long-range future profits or losses. Excluding fiscal 2011, our operating expenses have exceeded our revenues for each fiscal year, and we expect to continue to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. In addition, we intend to expand our product pipeline through the measured resumption of drug discovery and the evaluation of in-licensing and acquisition opportunities that align with our oncology drug expertise, which efforts could involve substantial costs. As a result, we are unable to predict

the extent of any future profits or losses because we expect to continue to incur substantial operating expenses and, consequently, we will need to generate substantial revenues to maintain or increase profitability.

Since the launch of our first commercial product in January 2013, through June 30, 2017, we have generated an aggregate of $366.5 million in net product revenues, including $156.9 million for the six months ended June 30, 2017. Other than sales of CABOMETYX and COMETRIQ, we have derived substantially all of our revenues since inception from collaborative arrangements, including upfront and milestone payments and research funding we earn from any products developed from the collaborative research. The amount of our net profits or losses will depend, in part, on: the level of sales of CABOMETYX and COMETRIQ in the U.S.; achievement of clinical, regulatory and commercial milestones and the amount of royalties, if any, from sales of CABOMETYX and COMETRIQ under our collaboration with Ipsen; our share of the net profits and losses for the commercialization of COTELLIC in the U.S. under our collaboration with Genentech; the amount of royalties from COTELLIC sales outside the U.S. under our collaboration with Genentech; other license and contract revenues; and the level of our expenses, including commercialization activities for cabozantinib and any pipeline expansion efforts.

We are exposed to risks related to foreign currency exchange rates.

Most of our foreign expenses incurred are associated with establishing and conducting clinical trials for cabozantinib. The amount of these expenses will be impacted by fluctuations in the currencies of those countries in which we conduct clinical trials. Our agreements with the foreign sites that conduct such clinical trials generally provide that payments for the services provided will be calculated in the currency of that country, and converted into U.S. dollars using various exchange rates based upon when services are rendered or the timing of invoices. When the U.S. dollar weakens against foreign currencies, the U.S. dollar value of the foreign-currency denominated expense increases, and when the U.S. dollar strengthens against these currencies, the U.S. dollar value of the foreign-currency denominated expense decreases. Consequently, changes in exchange rates may affect our financial position and results of operations.

Global credit and financial market conditions could negatively impact the value of our current portfolio of cash equivalents, short-term investments or long-term investments and our ability to meet our financing objectives.

Our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. Our short-term and long-term investments consist primarily of readily marketable debt securities with remaining maturities of more than 90 days at the time of purchase. While as of the date of this report we are not aware of any downgrades, material losses, or other significant deterioration in the fair value of our cash equivalents, short-term investments or long-term investments since June 30, 2017, no assurance can be given that a deterioration in conditions of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents or investments or our ability to meet our financing objectives.

Our financial results are impacted by management's selection of accounting methods and certain assumptions and estimates.*

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to the presentation of our financial condition and results of operations. The preparation of our financial statements requires us to make significant estimates, assumptions and judgments that affect the amounts of assets, liabilities, revenues and expenses and related disclosures. Significant estimates that may be made by us include assumptions used in the determination of revenue recognition, discounts and allowances from gross revenue, inventory and stock-based compensation. Although we base our estimates and judgments on historical experience, our interpretation of existing accounting literature and on various other assumptions that we believe to be reasonable under the circumstances, if our assumptions prove to be materially incorrect, actual results may differ materially from these estimates.

In addition, future changes in financial accounting standards may cause adverse, unexpected revenue fluctuations and affect our financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with frequency in the past and are expected to occur again in the future and as a result we

may be required to make changes in our accounting policies. Those changes could adversely affect our reported revenues and expenses, prospects for profitability or financial position. For example, in May 2014, the Financial Accounting Standards Board issued an Accounting Standards Update entitled Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09, which will replace existing revenue recognition guidance in U.S. generally accepted accounting pronouncements when it becomes effective for us in the first quarter of fiscal year 2018. We do not expect that ASU 2014-09 will have a material impact on the recognition of revenue from product sales. We do expect that ASU 2014-09 will impact the timing of recognition of revenue for our collaboration arrangements. We expect to reclassify deferred revenue to retained earnings (a concept known as lost revenue) for amounts associated with our collaboration arrangements with Ipsen and Takeda upon recording our transition adjustment to accumulated loss on January 1, 2018, primarily due to the timing of recognition of revenue related to intellectual property licenses that we have transferred for development and commercialization of our products. Additionally, for all of our collaboration arrangements, the timing of recognition of certain of our development and regulatory milestones could change as a result of the variable consideration guidance included in ASU 2014-09. In any event, we will continue to evaluate the impact of the new standard on all of our revenues, including those mentioned above, and our preliminary assessments may change in the future based on our continuing evaluation. The application of existing or future financial accounting standards, particularly those relating to the way we account for revenues and costs, could have a significant impact on our reported results.

Risks Related to Our Relationships with Third Parties

We are dependent upon our collaborations with major companies, which subjects us to a number of risks.*

We have established collaborations with leading pharmaceutical and biotechnology companies, including, Ipsen, Takeda, Genentech, Daiichi Sankyo, Merck (known as MSD outside of the U.S. and Canada), BMS and Sanofi for the development and ultimate commercialization of certain compounds generated from our research and development efforts. Our dependence on our relationships with existing collaborators for the development and commercialization of compounds under the collaborations subjects us to, and our dependence on future collaborators for development and commercialization of additional compounds will subject us to, a number of risks, including:

- we are not able to control the amount and timing of resources that our collaborators or potential future collaborators will devote to the development or commercialization of drug candidates or to their marketing and distribution;
- we are not able to control the U.S. commercial resourcing decisions made and resulting costs incurred by Genentech for cobimetinib, which costs we are obligated to share, in part, under our collaboration agreement with Genentech;
- collaborators may delay clinical trials, fail to supply us on a timely basis with the product required for a combination trial, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a drug candidate, repeat or conduct new clinical trials or require a new formulation of a drug candidate for clinical testing;
- disputes may arise between us and our collaborators that result in the delay or termination of the research, development or commercialization of our drug candidates, or that diminish or delay receipt of the economic benefits we are entitled to receive under the collaboration, or that result in costly litigation or arbitration that diverts management’s attention and resources;
- collaborators may experience financial difficulties;
- collaborators may not be successful in their efforts to obtain regulatory approvals in a timely manner, or at all;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our proprietary information or expose us to potential litigation;
- collaborators may not comply with applicable healthcare regulatory laws;
- business combinations or significant changes in a collaborator’s business strategy may adversely affect a collaborator’s willingness or ability to complete its obligations under any arrangement;

- a collaborator could independently move forward with a competing drug candidate developed either independently or in collaboration with others, including our competitors;
- we may be precluded from entering into additional collaboration arrangements with other parties in an area or field of exclusivity;
- future collaborators may require us to relinquish some important rights, such as marketing and distribution rights; and
- collaborations may be terminated or allowed to expire, which would delay, and may increase the cost of development of our drug candidates.

If any of these risks materialize, we may not receive collaboration revenue or otherwise realize anticipated benefits from such collaborations, our product development efforts could be delayed and our business, operating results and financial condition could be adversely affected.

If third parties upon which we rely do not perform as contractually required or expected, we may not be able to obtain regulatory approval for or commercialize cabozantinib for the treatment of additional indications beyond advanced RCC and MTC.

We do not have the ability to conduct clinical trials for cabozantinib independently, including our post-marketing commitments in connection with the approval of COMETRIQ in progressive, metastatic MTC, so we rely on independent third parties for the performance of these trials, such as the U.S. federal government (including NCI-CTEP, a department of the National Institutes of Health, with whom we have our CRADA), third-party contract research organizations, medical institutions, clinical investigators and contract laboratories to conduct our clinical trials. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if the third parties must be replaced or if the quality or accuracy of the data they generate or provide is compromised due to their failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our preclinical development activities or clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for or commercialize cabozantinib for additional indications beyond the advanced RCC and MTC.

We lack the manufacturing capabilities necessary for us to produce cabozantinib for clinical development or for commercial sale and rely on third parties to do so, which subjects us to various risks.

We do not own or operate manufacturing or distribution facilities for clinical or commercial production and distribution of CABOMETYX and COMETRIQ. Instead, we have multiple contractual agreements in place with third party contract manufacturing organizations who, on our behalf, manufacture clinical and commercial supplies of CABOMETYX and COMETRIQ, and will continue to do so for the foreseeable future. To establish and manage this supply chain requires a significant financial commitment, the creation of numerous third-party contractual relationships and continued oversight of these third parties. Although we maintain significant resources to directly oversee the activities and relationships with companies in our supply chain effectively, we do not have direct control over their operations. Our third party manufacturers may not be able to produce material on a timely basis or manufacture material with the required quality standards, or in the quantity required to meet our development and commercial needs and applicable regulatory requirements. Additionally, as part of our collaboration with Ipsen, we are responsible for the manufacturing and supply of finished, labeled cabozantinib products to Ipsen. Failure to meet our supply obligations under the collaboration could impair Ipsen’s ability to successfully commercialize cabozantinib and generate revenues to which we are entitled under the collaboration.

If our third party contract manufacturers and suppliers do not continue to supply us with our products or product candidates in a timely fashion and in compliance with applicable quality and regulatory requirements, or otherwise fail or refuse to comply with their obligations to us under our supply and manufacturing arrangements, we may not have adequate remedies for any breach, and their failure to supply us could impair or preclude our ability to meet our and/or Ipsen’s commercial needs, or our supply needs for clinical trials.

Risks Related to Our Intellectual Property

Data breaches and cyber-attacks could compromise our intellectual property or other sensitive information and cause significant damage to our business and reputation.

In the ordinary course of our business, we collect, maintain and transmit sensitive data on our networks and systems, including our intellectual property and proprietary or confidential business information (such as research data and personal

information) and confidential information with respect to our customers, clinical trial patients and our business partners. We have also outsourced significant elements of our information technology infrastructure and, as a result, third parties may or could have access to our confidential information. The secure maintenance of this information is critical to our business and reputation. We believe that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, ranging in sophistication from an individual hacker to a state-sponsored attack and motive (including corporate espionage). Cyber threats may be generic, or they may be custom-crafted against our information systems. Cyber-attacks continue to become more prevalent and much harder to detect and defend against. Our network and storage applications and those of our vendors may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents. These data breaches and any unauthorized access or disclosure of our information or intellectual property could compromise our intellectual property and expose sensitive business information. A data security breach could also lead to public exposure of personal information of our clinical trial patients, customers and others. Cyber-attacks could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. Our network security and data recovery measures and those of our vendors may not be adequate to protect against such security breaches and disruptions. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

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 upon our ability to obtain patents and maintain adequate protection of the intellectual property related to our technologies and products. The patent positions of biopharmaceutical 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. We will continue to apply for patents covering our technologies and products as, where and when we deem appropriate. However, these applications may be challenged or may fail to result in issued patents. Our issued patents have been and may in the future be challenged by third parties as invalid or unenforceable under U.S. or foreign laws, or they may be infringed by third parties. As a result, we are from time to time involved in the defense and enforcement of our patents or other intellectual property rights in a court of law, U.S. Patent and Trademark Office inter partes review or reexamination proceeding, foreign opposition proceeding or related legal and administrative proceeding in the U.S. and elsewhere. The costs of defending our patents or enforcing our proprietary rights in post-issuance administrative proceedings and litigation may be substantial and the outcome can be uncertain. An adverse outcome may allow third parties to use our intellectual property without a license and negatively impact our business.

In addition, because patent applications can take many years to issue, third parties may have pending applications, unknown to us, which may later result in issued patents that cover the production, manufacture, commercialization or use of our product candidates. 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, if, for example, others were the first to invent or to file patent applications for closely related inventions.

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. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties (for example, the patent owner has failed to “work” the invention in that country or the third party has patented improvements). In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. Compulsory licensing of life-saving drugs is also becoming increasingly popular in developing countries either through direct legislation or international initiatives. Such compulsory licenses could be extended to include our products or product candidates, which could limit our potential revenue opportunities. Moreover, the legal systems of certain countries, particularly certain developing countries, do not favor the aggressive enforcement of patent and other intellectual property protection, which makes it difficult to stop infringement. We rely on trade secret protection for some of 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 upon our ability to avoid infringing patents and proprietary rights of third parties and not to breach any licenses that we have entered into with regard to our technologies and the technologies of third parties. Other parties have filed, and in the future are likely to file, patent applications covering 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 obtain licenses from third parties, which may not be available on commercially reasonable terms, or at all, and may require us to pay substantial royalties, grant a cross-license to some of our patents to another patent holder or redesign the formulation of a product candidate so that we do not infringe third-party patents, which may be impossible to obtain or could require substantial time and expense. 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 on their 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.

We may be subject to damages resulting from claims that we, our employees or independent contractors have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees and independent contractors were previously employed at universities or other biotechnology, biopharmaceutical or pharmaceutical companies, including our competitors or potential competitors. We may be subject to claims that these employees, independent contractors or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers, or used or sought to use patent inventions belonging to their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and divert management's attention. If we fail in defending such claims, in addition to paying money claims, we may lose valuable intellectual property rights or personnel. A loss of key research personnel and/or their work product could hamper or prevent our ability to commercialize certain product candidates, which could severely harm our business.

Risks Related to Employees and Location

If we are unable to manage our growth, our business, financial condition, results of operations and prospects may be adversely affected.

We have experienced and expect to continue to experience growth in the number of our employees and in the scope of our operations. This growth places significant demands on our management, operational and financial resources, and our current and planned personnel, systems, procedures and controls may not be adequate to support our growth. To effectively manage our growth, we must continue to improve existing, and implement new, operational and financial systems, procedures and controls and must expand, train and manage our growing employee base, and there can be no assurance that we will effectively manage our growth without experiencing operating inefficiencies or control deficiencies. We expect that we may need to increase our management personnel to oversee our expanding operations, and recruiting and retaining qualified individuals is difficult. In addition, the physical expansion of our operations may lead to significant costs and may divert our management and capital resources. If we are unable to manage our growth effectively, or are unsuccessful in recruiting qualified management personnel, our business, financial condition, results of operations and prospects may be adversely affected.

The loss of key personnel or the inability to retain and, where necessary, attract additional personnel could impair our ability to operate and expand our operations.

We are highly dependent upon the principal members of our management, as well as clinical, commercial and scientific staff, the loss of whose services might adversely impact the achievement of our objectives. Also, we may not have sufficient personnel to execute our business plan. Retaining and, where necessary, recruiting qualified clinical, commercial

and scientific personnel will be critical to support activities related to advancing the development program for cabozantinib and our other compounds, successfully executing upon our commercialization plan for cabozantinib and our internal proprietary research and development efforts. Competition is intense for experienced clinical, commercial and scientific personnel, and we may be unable to retain or recruit such personnel with the expertise or experience necessary to allow us to successfully develop and commercialize our products. Further, all of our employees are employed "at will" and, therefore, may leave our employment at any time.

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 advisors and collaborators are not our employees and may have other commitments that limit their availability to us. Although these 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 such a circumstance, we may lose work performed by them, and our development efforts with respect to the matters on which they were working may be significantly delayed or otherwise adversely affected. 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.

Our headquarters are located near known earthquake fault zones, and the occurrence of an earthquake or other disaster could damage our facilities and equipment, which could harm our operations.

Our headquarters are located in the San Francisco Bay Area, California and, therefore our facilities are vulnerable to damage from earthquakes. We do not carry earthquake insurance. We are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures, terrorism and similar events since any insurance we may maintain may not be adequate to cover our losses. If any disaster were to occur, our ability to operate our business at our facilities could 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. Accordingly, an earthquake or other disaster could materially and adversely harm our ability to conduct business.

We plan to move our headquarters and may face disruption and turnover of employees.*

In 2018, we plan to move our corporate headquarters from South San Francisco, California to Alameda, California. As a result, we expect to incur additional expenses, including those related to tenant improvements to and furniture for the new corporate headquarters, as well as moving and exit costs, and may encounter disruption of operations related to the move, all of which could have an adverse effect on our financial condition and results of operations. In addition, relocation of our corporate headquarters may make it more difficult to retain certain of our employees, and any resulting need to recruit and train new employees could be disruptive to our business.

Facility security breaches may disrupt our operations, subject us to liability and harm our operating results.

Any break-in or trespass at our facilities that results in the misappropriation, theft, sabotage or any other type of security breach with respect to our proprietary and confidential information, including research or clinical data, or that results in damage to our research and development equipment and assets, could subject us to liability and have a material adverse impact on our business, operating results and financial condition.

Risks Related to Environmental and Product Liability

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 face liability for any injury or contamination that results from our use or the use by third parties of these materials, and such 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. In the event of a lawsuit or investigation, 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 face potential product liability exposure far in excess of our limited insurance coverage.

We may be held liable if any product we or our collaborators develop or commercialize causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. Regardless of merit or eventual outcome, product liability claims could result in decreased demand for our products and product candidates, injury to our reputation, withdrawal of patients from our clinical trials, product recall, substantial monetary awards to third parties and the inability to commercialize any products that we may develop. These claims might be made directly by consumers, health care providers, pharmaceutical companies or others selling or testing our products. We have obtained limited product liability insurance coverage for our clinical trials and commercial activities for cabozantinib in the amount of $20.0 million per occurrence and $20.0 million in the aggregate. However, our insurance may not reimburse us or may not be sufficient to reimburse us for expenses or losses we may suffer. Moreover, if insurance coverage becomes more expensive, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. On occasion, juries have awarded large judgments in class action lawsuits for claims based on drugs that had unanticipated side effects. In addition, the pharmaceutical, biopharmaceutical and biotechnology industries, in general, have been subject to significant medical malpractice litigation. A successful product liability claim or series of claims brought against us could harm our reputation and business and would decrease our cash reserves.

Risks Related to Our Common Stock

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 to volatility, including:

- the commercial success of both CABOMETYX and COMETRIQ and the revenues we generate from those approved products;
- customer ordering patterns for CABOMETYX and COMETRIQ, which may vary significantly from period to period;
- the overall level of demand for CABOMETYX and COMETRIQ, including the impact of any competitive products and the duration of therapy for patients receiving CABOMETYX or COMETRIQ;
- the commercial success of COTELLIC and the revenues generated through our share of related profits and losses for the commercialization of COTELLIC in the U.S. and royalties from COTELLIC sales outside the U.S. under our collaboration with Genentech;
- costs associated with maintaining our sales, marketing, medical affairs and distribution capabilities for CABOMETYX, COMETRIQ and COTELLIC;
- our ability to obtain regulatory approval for cabozantinib as a treatment for patients with previously untreated advanced RCC;
- the achievement of stated regulatory and commercial milestones, under our collaboration agreements;
- the progress and scope of other development and commercialization activities for cabozantinib and our other compounds;
- future clinical trial results, notably the results from CELESTIAL, our phase 3 pivotal trial in patients with advanced HCC;
- our future investments in the expansion of our pipeline through drug discovery and corporate development activities;
- the inability to obtain adequate product supply for any approved drug product or inability to do so at acceptable prices;
- recognition of upfront licensing or other fees or revenues;
- payments of non-refundable upfront or licensing fees, or payment for cost-sharing expenses, to third parties;
- the introduction of new technologies or products by our competitors;

- the timing and willingness of collaborators to further develop or, if approved, commercialize our product candidates out-licensed to them;
- the termination or non-renewal of existing collaborations or third party vendor relationships;
- regulatory actions with respect to our product candidates and any approved products or our competitors' products;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- the timing and amount of expenses incurred for clinical development and manufacturing of cabozantinib;
- adjustments to expenses accrued in prior periods based on management's estimates after the actual level of activity relating to such expenses becomes more certain;
- the impairment of acquired goodwill and other assets;
- additions and departures of key personnel;
- general and industry-specific economic conditions that may affect our or our collaborators' research and development expenditures; and
- other factors described in this "Risk Factors" section.

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 securities analysts and investors, which could result in a decline in the price of our common stock.

Our stock price may be extremely volatile.

The trading price of our common stock has been highly volatile, and we believe the trading price of our common stock will remain highly volatile and may fluctuate substantially due to factors such as the following, many of which we cannot control:

- adverse results or delays in our or our collaborators' clinical trials;
- the announcement of FDA approval or non-approval, or delays in the FDA review process, of cabozantinib or our collaborators' product candidates or those of our competitors or actions taken by regulatory agencies with respect to our, our collaborators' or our competitors' clinical trials;
- the commercial success of both CABOMETYX and COMETRIQ and the revenues we generate from those approved products;
- the timing of achievement of our clinical, regulatory, partnering and other milestones, such as the commencement of clinical development, the completion of a clinical trial, the filing for regulatory approval or the establishment of collaborative arrangements for cabozantinib or any of our other programs or compounds;
- actions taken by regulatory agencies with respect to cabozantinib or our clinical trials for cabozantinib;
- the announcement of new products by our competitors;
- quarterly variations in our or our competitors' results of operations;
- developments in our relationships with our collaborators, including the termination or modification of our agreements;
- the announcement of an in-licensed product candidate or strategic acquisition;
- conflicts or litigation with our collaborators;
- litigation, including intellectual property infringement and product liability lawsuits, involving us;
- failure to achieve operating results projected by securities analysts;
- changes in earnings estimates or recommendations by securities analysts;
- the entry into new financing arrangements;
- developments in the biotechnology, biopharmaceutical or pharmaceutical industry;
- sales of large blocks of our common stock or sales of our common stock by our executive officers, directors and significant stockholders;
- departures of key personnel or board members;

- FDA or international regulatory actions;
- third-party coverage and reimbursement policies;
- disposition of any of our technologies or compounds; and
- general market, economic and political conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

These factors, as well as general economic, political and market conditions, may materially adversely affect the market price of our common stock. In addition, the stock markets in general, and the markets for biotechnology and pharmaceutical stocks in particular, have historically experienced significant volatility that has often been unrelated or disproportionate to the operating performance of particular companies. For example, negative publicity regarding drug pricing and price increases by pharmaceutical companies has negatively impacted, and may continue to negatively impact, the markets for biotechnology and pharmaceutical stocks. Likewise, as a result of the United Kingdom's pending withdrawal from the European Union and/or significant changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade and health care spending and delivery, including the potential repeal and/or replacement of all or portions of PPACA or greater restrictions on free trade stemming from Trump Administration policies, the financial markets could experience significant volatility that could also negatively impact the markets for biotechnology and pharmaceutical stocks. These broad market fluctuations have adversely affected and may in the future adversely affect the trading price of our common stock. Excessive volatility may continue for an extended period of time following the date of this report.

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.

Future sales of our common stock or the perception that such sales or conversions may occur, may depress our stock price.

A substantial number of shares of our common stock are reserved for issuance upon the exercise of stock options, upon vesting of restricted stock unit awards, upon a purchase under our employee stock purchase program and upon exercise of certain outstanding warrants. The issuance and sale of substantial amounts of our common stock or the perception that such issuances and sales may occur, could adversely affect the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-related securities in the future at a time and price that we deem appropriate.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent or deter attempts by our stockholders to replace or remove our current management, which could cause the market price of our common stock to decline.

Provisions in our corporate charter and bylaws may discourage, delay or prevent an acquisition of us, a change in control, or attempts by our stockholders to replace or remove members of our current Board of Directors. Because our Board of Directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. These provisions include:

- a classified Board of Directors;
- a prohibition on actions by our stockholders by written consent;
- the inability of our stockholders to call special meetings of stockholders;
- the ability of our Board of Directors to issue preferred stock without stockholder approval, which could be used to institute a "poison pill" that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our Board of Directors;
- limitations on the removal of directors; and
- advance notice requirements for director nominations and stockholder proposals.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

Our ability to use net operating losses to offset future taxable income may be subject to limitations.

Under the Internal Revenue Code, or the Code, and similar state provisions, certain substantial changes in our ownership could result in an annual limitation on the amount of net operating loss carry-forwards that can be utilized in future years to offset future taxable income. The annual limitation may result in the expiration of net operating losses and credit carry-forwards before utilization. We concluded, as of December 31, 2016, that an ownership change, as defined under Section 382, had not occurred. However, if there is an ownership change under Section 382 of the Code in the future, we may not be able to utilize a material portion of our net operating losses, or NOLs. Furthermore, our ability to utilize our NOLs, other than the NOLs expected to be utilized to offset income in 2017, is conditioned upon our attaining profitability and generating U.S. federal taxable income. We have incurred significant cumulative operating losses since our inception; thus, we do not know whether or when we will generate the U.S. federal taxable income necessary to utilize our remaining NOLs. A full valuation allowance has been provided for the entire amount of our remaining NOLs.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits

See the Exhibit Index immediately following the signature page to this Quarterly Report on Form 10-Q, which is incorporated by reference here.

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.

August 2, 2017
Date

By: /s/ CHRISTOPHER J. SENNER
Christopher J. Senner
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/ Appendix Reference	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Exelixis, Inc.	10-K	000-30235	3.1	3/10/2010	
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Exelixis, Inc.	10-K	000-30235	3.2	3/10/2010	
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Exelixis, Inc.	8-K	000-30235	3.1	5/25/2012	
3.4	Certificate of Ownership and Merger Merging X-Ceptor Therapeutics, Inc. with and into Exelixis, Inc.	8-K	000-30235	3.1	10/15/2014	
3.5	Certificate of Change of Registered Agent and/or Registered Office of Exelixis, Inc.	8-K	000-30235	3.2	10/15/2014	
3.6	Amended and Restated Bylaws of Exelixis, Inc.	8-K	000-30235	3.1	12/5/2011	
4.1	Specimen Common Stock Certificate.	S-1, as amended	333-96335	4.1	4/7/2000	
4.2	Registration Rights Agreement dated January 22, 2014 by and among Exelixis, Inc., Deerfield Partners, L.P. and Deerfield International Master Fund, L.P.	8-K	000-30235	4.2	1/22/2014	
4.3	Form of Warrant to Purchase Common Stock of Exelixis, Inc. issued to OTA LLC	10-Q	000-30235	4.5	11/10/2015	
10.1	Lease Agreement dated May 2, 2017, between Ascentris 105, LLC and Exelixis, Inc.					X
10.2	Exelixis, Inc. 2017 Equity Incentive Plan	8-K	000-30235	10.1	5/25/2017	
10.3	Form of Agreements used in connection with the Exelixis, Inc. 2017 Equity Incentive Plan	8-K	000-30235	10.2	5/25/2017	
10.4	Non-Employee Director Equity Compensation Policy					X
10.5*	Third Amendment dated July 19, 2017, to Collaboration Agreement between Exelixis, Inc. and Genentech dated December 22, 2006					X
12.1	Statement Re Computation of Earnings to Fixed Charges					X
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a).					X
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).					X
32.1‡	Certification by the Chief Executive Officer and the 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).					X

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/ Appendix Reference	Filing Date	
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Confidential treatment requested for certain portions of this exhibit.

‡ 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 Exelixis, Inc. 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.

WATERFRONT AT HARBOR BAY

ALAMEDA, CA

LEASE AGREEMENT

between

ASCENTRIS 105, LLC,

as Landlord, and

EXELIXIS, INC.,

as Tenant

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LEASE AGREEMENT
WATERFRONT AT HARBOR BAY
ALAMEDA, CALIFORNIA

THIS LEASE AGREEMENT ("Lease") is entered into as of the Lease Date, and by and between Landlord and Tenant, identified in Section 1.1 below.

1. BASIC LEASE DEFINITIONS, EXHIBITS AND ADDITIONAL DEFINITIONS.

Basic Lease Definitions. In this Lease, the following defined terms have the meanings indicated:

(a) "Lease Date" means that date set forth under Landlord's signature at the end of this Lease.

(b) "Landlord" means Ascentris 105, LLC, a Colorado limited liability company.

(c) "Tenant" means Exelixis, Inc., a Delaware corporation.

(d) "Premises" means the following:

(i) ***Temporary Space; 1751 Space***. Notwithstanding anything to the contrary in this Lease, Landlord shall deliver possession of Suite 225 located on the second floor of the 1751 Building and identified on Exhibit A (the "Temporary Space") on the Lease Date. Tenant may use and occupy the Temporary Space, including conducting business therein, from the Lease Date until the Commencement Date (as defined in Paragraph 1(a) of Exhibit B) occurs (the "Temporary Space Period"), at no cost to Tenant, including payment of Rent, but on all of the other terms and conditions of this Lease. The parties acknowledge that upon the Commencement Date, the Temporary Space Period will end and the Temporary Space will become part of the Premises in accordance with the terms and conditions of this Lease and the Work Letter and shall, upon becoming part of the Premises, be referred to as the "1751 Space," which contains approximately 11,965 square feet of Rentable Area, which shall not be subject to re-measurement except as set forth in Section 2.6 below;

(ii) ***1801 Space***. Premises known as Suites 100, 150, 175, 200 and 210 located on the first and second floors of the 1801 Building and identified on Exhibit A (the "1801 Space"), which contains approximately 41,342 square feet of Rentable Area, which shall not be subject to re-measurement except as set forth in Section 2.6 below; and

(iii) ***1851 Space***. Premises known as Suites 1000, 125, 150, 200 and 210 located on the first and second floors of the 1851 Building identified on Exhibit A (the "1851 Space"), which constitute the entire Building and contain approximately 57,476 square feet of the Rentable Area, which shall not be subject to re-measurement except as set forth in Section 2.6 below.

The Premises contains a total of 110,783 square feet of Rentable Area, which shall not be subject to re-measurement except as set forth in Section 2.6 below. The Premises do not include any areas above the finished ceiling or below the finished floor covering installed in the Premises or any other areas not shown on Exhibit A as being part of the Premises.

(e) "Buildings" or "Building" means the office buildings in which the Premises is located. A "Multi User Building" means a Building occupied by Tenant and one or more other tenants or includes vacant space that could be marketed for lease to other tenants. A "Single User Building" means a Building occupied by Tenant and no other tenants and does not include vacant space that could be marketed for lease to other tenants. The Buildings are further described as follows:

(i) 1751 Harbor Bay Parkway, Alameda, California, in which the Temporary Space is located (the "1751 Building"), which Building contains 74,170 square feet of Rentable Area and is a Multi User Building;

(ii) 1801 Harbor Bay Parkway, Alameda, California, in which the 1801 Space is located (the "1801 Building"), which Building currently contains 57,685 square feet of Rentable Area and is a Multi User Building; and

(iii) 1851 Harbor Bay Parkway, Alameda, California, in which the 1851 Space is located (the "1851 Building"), which Building contains 57,476 square feet of Rentable Area and is a Single User Building.

(f) "Project" means the multiple building project, of which the Buildings are a part, known as of the Lease Date as 1750 North Loop Road and 1601, 1701, 1751, 1801 and 1851 Harbor Bay Parkway, Alameda, California, and related parking areas, walkways, landscaping areas and other common areas, less any portions that may be owned separately from the Buildings by a party other than Landlord from time to time. On the Lease Date, the Project contains 384,579 square feet of Rentable Area.

(g) "Use" means general office uses throughout the Premises, research and development uses throughout the Premises, vivarium in the 1801 Building and the 1851 Building only, manufacturing in the 1801 Building and the 1851 Building only, and ancillary uses related to the foregoing uses, subject to obtaining any required approvals.

(h) "Term" means the duration of this Lease, which will be approximately 120 months, beginning on the "Commencement Date" (as defined in Paragraph 1(a) of Exhibit B) and ending on the "Expiration Date" (as defined below), unless terminated earlier or extended further as provided in this Lease. The "Expiration Date" means (i) if the Commencement Date is the first day of a month, the date which is 120 months from the date preceding the Commencement Date; or (ii) if the Commencement Date is not the first day of a month, the date which is 120 months from the last day of the month in which the Commencement Date occurs.

(i) "Base Rent" means the Rent payable according to Section 3.1, which will be in an amount per month or portion thereof during the Term as follows:

Months	Monthly Rental Rate	Base Rent Payable Per Month
Months 1 – 12	$1.65	$182,791.95*
Months 13** – 24	$1.70	$188,275.71
Months 25 – 36	$1.75	$193,923.98
Months 37 – 48	$1.80	$199,741.70
Months 49 – 60	$1.86	$205,733.95
Months 61 – 72	$1.91	$211,905.97
Months 73 – 84	$1.97	$218,263.15
Months 85 – 96	$2.03	$224,811.04
Months 97 – 108	$2.09	$231,555.37
Months 109 – 120	$2.15	$238,502.03

* **12 Month Rent Abatement Period.** Base Rent for this period will be partially abated in the amount of $83,791.95 per month (the "Rent Abatement") beginning on the Commencement Date and ending on the date that is 12 calendar months after the Commencement Date (the "Rent Abatement Period"). By way of example, if the Commencement Date occurs on October 10, 2017, then the Rent Abatement Period shall expire on October 9, 2018. However, if Landlord terminates this Lease as a result of a "Default" (as defined in Section 20.1) at any time during the Term, in addition to all other remedies available to Landlord, the unamortized portion of any Rent that is abated pursuant to this Section 1.1(i) will automatically become immediately due and payable. At any time on or before the Rent Abatement Period, upon notice to Tenant, Landlord shall have the right to purchase any Rent Abatement relating to the remaining Rent Abatement Period by paying to Tenant an amount equal to the "Rent Abatement Purchase Price" (as defined below). As used herein, "Rent Abatement Purchase Price" shall mean the aggregate amount of the Rent Abatement remaining during the Rent Abatement Period, as of the date of payment of the Rent Abatement Purchase Price by Landlord. Upon Landlord's payment of the Rent Abatement Purchase Price to Tenant, Tenant shall be required to pay Rent in accordance with the provisions of Sections 1.1(i) and 3.1 and there shall be no further Rent Abatement.

****Proration for Partial Months**. If the Commencement Date is not the first day of the month, then for purposes of this Section 1.1(i), "Month 13" of the Term will be the first full calendar month after the expiration of the Rent Abatement Period, together with the days in the prior calendar month after the expiration of the Rent Abatement Period (the "Partial Month"), and Rent for the Partial Month will be payable at the same rate as set forth in this Section 1.1(i) for Month 13, prorated based on the number of days in the Partial Month and the number of days in such prior calendar month. Except for the increase immediately following the Rent Abatement Period, all increases will occur on the first day of the applicable month.

(j) "Building Shares" or "Building Share" means, with respect to the calculation of Operating Expenses according to Section 1.3(j), the following:

(i) With respect to the 1751 Building, percentage obtained by dividing the Rentable Area of the 1751 Space by the total Rentable Area of the 1751 Building and multiplying the resulting quotient by 100 and rounding to the second decimal place (the "1751 Building Share"). As of the Commencement Date, upon which the Temporary Space becomes part of the Premises (and is thereafter referred to as the 1751 Space), the 1751 Building Share will be 16.13%, subject to adjustment pursuant to Section 2.6 below.

(ii) With respect to the 1801 Building, percentage obtained by dividing the Rentable Area of the 1801 Space which has been Delivered by Landlord by the total Rentable Area of the 1801 Building and multiplying the resulting quotient by 100 and rounding to the second decimal place (the "1801 Building Share"). As of the Lease Date, the 1801 Building Share will be 71.67%, subject to adjustment pursuant to Section 2.6 below.

(iii) With respect to the 1851 Building, percentage obtained by dividing the Rentable Area of the 1851 Space which has been Delivered by Landlord by the total Rentable Area of the 1851 Building and multiplying the resulting quotient by 100 and rounding to the second decimal place (the "1851 Building Share"). As of the Lease Date, the 1851 Building Share will be 100%, subject to adjustment pursuant to Section 2.6 below.

(k) "Project Shares" or "Project Share" means, with respect to the calculation of Operating Expenses according to Section 1.3(j), the following:

(i) With respect to the 1751 Building, percentage obtained by dividing the Rentable Area of the 1751 Space by the total rentable square footage of the Project and multiplying the resulting quotient by 100 and rounding to the second decimal place (the "1751 Project Share"). As of the Commencement Date, upon which the Temporary Space becomes part of the Premises (and is thereafter referred to as the 1751 Space), the 1751 Project Share will be 3.11%, subject to adjustment pursuant to Section 2.6 below.

(ii) With respect to the 1801 Building, percentage obtained by dividing the Rentable Area of the 1801 Space that has been Delivered by Landlord by the total rentable square footage of the Project and multiplying the resulting quotient by 100 and rounding to the second decimal place (the "1801 Project Share"). As of the Lease Date, the 1801 Project Share will be 10.75%, subject to adjustment pursuant to Section 2.6 below.

(iii) With respect to the 1851 Building, percentage obtained by dividing the Rentable Area of the 1851 Space which has been Delivered by Landlord by the total rentable square footage of the Project and multiplying the resulting quotient by 100 and rounding to the second decimal place (the "1851 Project Share"). As of the Lease Date, the 1851 Project Share will be 14.95%, subject to adjustment pursuant to Section 2.6 below.

The Rentable Area of the Project (and therefore, Project Shares) will be subject to adjustment based on the number of buildings in the Project that Landlord may own, from time to time.

(l) "Security Deposit" means $0.00. See, however, Sections 1.1(r) and 28 regarding the "Letter of Credit."

(m) "Landlord's Manager's Address" means:

Jones Lang LaSalle Americas, Inc.
1601 Harbor Bay Parkway Suite 110
Alameda, CA 94502
Attention: Chris Wakefield – General Manager

(n) “Landlord’s General Address” means:

Ascentris 105, LLC
1401 17th Street, 12th Floor
Denver, Colorado 80202
Attention: Robert A. Toomey, Jr., Manager

(o) “Landlord’s Payment Address” means:

Ascentris 105, LLC
c/o Jones Lang LaSalle
P.O. Box 748365
Los Angeles, CA 90074-8365

(p) “Tenant’s Notice Address” means:

for notices given before the Commencement Date:

Exelixis, Inc.
210 East Grand Avenue
South San Francisco CA 94080
Attention: Executive Vice President, General Counsel and Secretary

and for notices given after the Commencement Date:

Exelixis, Inc.
1851 Harbor Bay Parkway
Alameda, California 94502
Attention: Executive Vice President, General Counsel and Secretary

In each case, with a copy to:

Cooley LLP
101 California Street, 5th Floor
San Francisco, California 94111-5800
Attn: Anna B. Pope

(q) “Tenant’s Invoice Address” means:

Exelixis, Inc.
1851 Harbor Bay Parkway
Alameda, California 94502
Attention: Accounts Payable APGroup@exelixis.com

(r) “Letter of Credit” means a single irrevocable, standby letter of credit as security for the performance of the obligations of Tenant hereunder in a form substantially similar to that attached as Exhibit F and consistent with the terms of Section 28 of this Lease in the initial amount of $500,000.00 (the “L/C Amount”). Within two (2) business days following mutual execution of this Lease (the “Deposit Date”), Tenant will deliver the Letter of Credit to Landlord, as additional consideration to induce Landlord to enter into this Lease. Provided that no default of the Lease by Tenant has occurred beyond any applicable cure period (unless transmittal of

notice of a default of the Lease by Tenant is barred by applicable Laws, in which case no such notice or cure period will be required with respect to such default), the L/C Amount shall periodically decrease in accordance with this Section 1.1(r), including the schedule set forth below, with each period during which the L/C Amount is at a certain level being a "L/C Amount Period" and the months set forth below being the months after the Commencement Date. Notwithstanding the foregoing, until the last L/C Amount Period, upon the occurrence of any monetary or insolvency Default during a L/C Amount Period (without limiting Landlord's other remedies under this Lease), the next applicable reduction of the L/C Amount will automatically be extended one full L/C Amount Period, and all subsequent reductions will be postponed for a corresponding period of time. For instance, if Tenant first commits a monetary or insolvency Default, in Month 28 of the Term, the L/C Amount will not be decreased from $405,000.00 to $364,500.00 until Month 49 of the Term, and will not be decreased from $364,500.00 to $328,050.00 until Month 61 of the Term.

L/C Amount Period (Months after the Commencement Date)	**L/C Amount***
Deposit Date** through Month 12	$500,000.00
Months 13 through 24	$450,000.00
Months 25 through 36	$405,000.00
Months 37 through 48	$364,500.00
Months 49 through 60	$328,050.00
Months 61 through 72	$295,245.00
Months 73 through 84	$265,720.50
Months 85 through 120	$252,698.10

* These changes in the L/C Amount may be delayed as set forth above, and Tenant will be responsible for causing any such modifications of the applicable Letter of Credit to be made at Tenant's sole cost.

** The first L/C Amount Period will begin on the date Tenant deposits the Letter of Credit with Landlord and end on Month 12 of the Term.

(s) "Brokers" means the following brokers who will be paid by Landlord: Kidder Matthews and Cushman Wakefield; and the following brokers who will be paid by Tenant: None.

Exhibits and Riders. The Exhibits and Riders listed below are attached to and incorporated in this Lease. In the event of any inconsistency between such Exhibits or Riders and the terms and provisions of this Lease, the terms and provisions of the Exhibits and Riders will control. The Exhibits to this Lease are:

Exhibit A	–	Plan Delineating the Premises and Tenant Maintained Outdoor Areas
Exhibit B	–	Possession and Leasehold Improvements Exhibit
Exhibit C	–	Occupancy Estoppel Certificate
Exhibit D	–	Rules and Regulations
Exhibit E	–	Intentionally Omitted
Exhibit F	–	Form of Letter of Credit
Exhibit G	–	HVAC Equipment List

Additional Definitions. In addition to those terms defined in Section 1.1 and other sections of this Lease, the following defined terms when used in this Lease have the meanings indicated:

(a) "Additional Rent" means the Rent payable according to Section 3.2.

(b) "Affiliates" of a party means that party's parent, subsidiary and affiliated corporations and its and their managers, members, partners, venturers, directors, officers, shareholders, agents, servants and employees.

(c) "Building Standard" means the scope and quality of leasehold improvements, Building systems or Building services, as the context may require, generally offered from time to time to all office tenants of the Buildings.

(d) "Business Hours" means the hours from 7:00 a.m. to 7:00 p.m. on Monday through Friday.

(e) "Common Areas" means certain interior and exterior common and public areas located on the Project and in the respective Buildings as may be designated by Landlord for the nonexclusive use in common by Tenant, Landlord and other tenants, and their employees, guests, customers, agents and invitees, including any fitness center in the Project made available to tenants; it being understood that the Common Areas will not include the Tenant Maintained Outdoor Areas. With respect to Single User Buildings, there will be no interior Common Areas within such Buildings; provided, however, Landlord will have access to the Single User Buildings in accordance with this Lease, including, without limitation, Sections 2.4 and 5.

(f) "Costs" means the aggregate of all ordinary and customary real property operating costs (other than those expressly excluded below) incurred or accrued during each calendar year according to standard real estate accounting principles for operating, managing, administering, equipping, securing and protecting (to the extent such services are provided by Landlord), insuring, heating, cooling, ventilating, lighting, repairing, replacing, renewing, cleaning, maintaining, decorating, inspecting, and providing water, sewer and other energy and utilities to, any portion of the Project, Buildings and Common Areas (any of which may be furnished by Landlord, an Affiliate of Landlord, or a third party, including an owners' association or declarant under a Declaration); the total amounts paid by or due from Landlord in satisfaction of any charges or assessments made by any association or other party in connection with providing any services or benefits to the Premises, Buildings or the Project pursuant to any Declaration, but excluding the costs of electricity used in the Premises, which will be paid by Tenant pursuant to Section 5.2(f); management fees calculated according to the management agreement between Landlord and its managing agent, which management fees will be at a then-current market rate) and shall never exceed 3% of gross revenues with respect to the portion of the Premises located in a Multi User Building and 2% of gross revenues with respect to the portion of the Premises located in a Single User Building (and the percentage will be adjusted accordingly if a Multi User Building is converted into a Single User Building and vice versa) and shall never exceed rates charged by third party commercial real estate property managers for comparable services at comparable business parks in the San Francisco Bay Area; reasonable fees and expenses incurred in connection with Landlord's registration of the Buildings and/or Project with the Environmental Protection Agency's Energy Star® Portfolio Manager system (the "Portfolio Manager System") and with Landlord's collection, tracking and disclosure of energy consumption information with respect to the Buildings and/or Project as may be reasonably

necessary to comply with California Public Resources Code Section 25402.10; fees and expenses (including reasonable attorneys' fees) incurred in contesting, in good faith, the validity of any Laws that would cause an increase in Costs, provided that Landlord believes, in good faith, that the cost savings will be greater than the fees required to pursue such contest; depreciation and amortization on materials, tools, supplies and vendor type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party where such depreciation and amortization would otherwise have been included in the charge for such third party's services, all as determined in accordance with generally accepted accounting principles, consistently applied, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life ("Permitted Depreciation and Amortization"); and, except as otherwise expressly set forth in this Lease, costs (whether capital or not) that (i) are incurred in order to conform to changes subsequent to the Lease Date in any Laws, or (ii) have been or are incurred with the reasonably expectation of a substantial reduction in Costs or the rate of increase in Costs (the costs described in clauses (i) and (ii) will be charged to Costs in annual installments over the useful life of the items for which such costs are incurred [in the case of items required by changes in Laws] or over the period Landlord reasonably estimates that it will take for the savings in Costs achieved by such items to equal their cost [in the case of items intended to reduce Costs or their rate of increase], and in either case together with interest, at the average Prime Rate in effect during each calendar year that such costs are charged to Costs, on the unamortized balance) (collectively, "Permitted Capital Expenditures").

Costs will not include (1) principal, interest, points or fee on debt or amortization on any mortgage or mortgages or any other debt instrument encumbering the Building or Project; (2) ground lease payments; (3) leasing commissions; (4) costs of advertising space for lease in the Project; (5) costs for which Landlord is reimbursed by insurance proceeds or from tenants of the Project (other than such tenants' regular contributions to Costs); (6) any amortization or depreciation, except for Permitted Depreciation and Amortization and Permitted Capital Expenditures, (7) and capital expenditures as determined in accordance with generally accepted accounting principles, except for Permitted Capital Expenditures; (8) legal fees and other costs incurred in connection with negotiating leases or collecting rents, (9) legal fees and other costs incurred in connection with disputes with present or prospective tenants, other occupants of the Building or Project, or other third parties; (10) costs directly and solely related to the maintenance and operation of the entity that constitutes Landlord, such as accounting fees incurred solely for the purpose of reporting Landlord's financial condition; (11) any fines, costs, penalties or interest resulting from Landlord's failure to comply with Laws, except as expressly provided above; (12) expenses in connection with services or other benefits which are exclusively offered to one tenant in the Project but not offered to Tenant or other tenants generally or for which Tenant is charged directly but which are not provided to another tenant or occupant of the Building or Project; (13) costs incurred by Landlord due to the violation by Landlord or any other tenant other than Tenant of the terms and conditions of any lease of space in the Building or Project; (14) any compensation paid to clerks, attendants, or other persons in commercial concessions operated by Landlord other than reasonable payments to food trucks to meet sales minimums; (15) (intentionally omitted); (16) all items and services for which Tenant or any other tenant of the Building or Project reimburses or is obligated to reimburse Landlord and which Landlord provides selectively to one or more tenants in the Project but not offered to Tenant or other tenants generally; (17) (intentionally omitted); (18) electric power costs for which any tenant directly contracts with the local public service company; (19) services provided and costs incurred in connection with any operation of any retail, restaurant or deli in the Building, if any; (20) (intentionally omitted);

(21) (intentionally omitted); (22) wages, salaries, fees and fringe benefits paid to administrative or executive personnel or officers or partners of Landlord or management agent or anyone else over the level of Project supervisor; (23) the cost of correcting defects in the original construction of the Buildings; (24) the cost of any repair made by Landlord because of the total or partial destruction of the Building or Project, or the condemnation of a portion of the Building or Project that is reimbursed by insurance or condemnation award; (25) the cost of overtime or other expense to Landlord due to Landlord's defaults or incurred while performing work expressly provided in this lease to be borne at Landlord's expense (but not including overtime related to emergencies or required weekend work); (26) allowances, concessions, permits, licensees, inspections, and other costs and expenses incurred in completing, fixturing, renovating, decorating or redecorating space for tenants (including Tenant), prospective tenants or other occupants or prospective occupants of the Building or Project, or vacant leasable space in the Building or Project, or constructing or finishing demising walls (but not including paint touch-up) and public corridors with respect to any such space whether such work or alteration is performed for the initial occupancy by such tenant or occupant or thereafter; (27) after hours or overtime HVAC costs or electricity costs if chargeable or charged separately to other Building tenants; (28) expenses incurred by Landlord with respect to a tenant's space located in another project in connection with such tenant's leasing of space in the Project; (29) any cost representing an amount paid for first-class services or materials to a related person, firm, or entity to the extent such amount exceeds the amount that would be paid for such first-class services or materials at the then-existing market rates to an unrelated person, firm, or entity; (30) costs incurred due to the late payment of taxes, utility bills or other amounts owing, so long as Landlord was obligated to make such payments and did not in good faith dispute the amount of such payments; (31) general corporate overhead and general administrative expenses and accounting, record-keeping and clerical support of Landlord or the management agent, except as otherwise included in Landlord's management fees; (32) any increase in insurance premiums caused by Landlord's or any tenant's acts (other than Tenant's acts) with respect to "Hazardous Material" (as defined in Section 4.4); (33) moving expense costs of tenants of the Building or Project; (34) costs incurred for any items to the extent Landlord recovers under a manufacturer's, materialmen's vendor's or contractor's warranty; (35) costs of acquisition (but not maintenance and repair) of sculpture, paintings, or other objects of art; (36) any rent or expenses for storage space or other facilities that solely benefits Landlord; (37) costs incurred to test, survey, clean up, contain, abate, remove or otherwise remedy Hazardous Material and/or indoor air quality problems from the Building or Project, subject, however, to Tenant's obligations with respect to Hazardous Material as set forth in Section 4.4; (38) costs directly resulting from the gross negligence or intentional misconduct of Landlord, or its Affiliates; (39) costs or fees relating to the defense of Landlord's title or interest in the real estate containing the Building or Project, or any part thereof; (40) costs or expenses incurred by Landlord in financing, refinancing, pledging, selling, granting or otherwise transferring or encumbering ownership rights in the Building or Project; (41) (intentionally omitted); (42) the cost of installing, operating and maintaining any specialty service operated by the Landlord, such as an athletic or recreational club in the Building, unless Tenant has access to the same; (43) any bad debt loss; (44) costs and expenses incurred in connection with any transfer of an interest in the Landlord, the Building or the Project; and (45) any other expenses that under standard real estate accounting principles consistently applied would not be considered normal maintenance, repair, management or operation expenses.

For each calendar year during the Term, the amount by which those Costs that vary with occupancy (such as cleaning costs and utilities) would have increased had the Project been 100% occupied

and operational and had all Project services been provided to all tenants will be reasonably determined and the amount of such increase will be included in Costs for such calendar year.

Costs shall be reduced by all cash discounts, trade discounts or quantity discounts received by Landlord or its Affiliates in the purchase of any goods, utilities or services in connection with the prudent operation of the Buildings and Project. In the calculation of any expenses hereunder, it is understood that the same exact expense shall not be charged more than once. Landlord shall use its best efforts in good faith to effect an equitable proration of bills for services rendered to a Building and to any other property owned by Landlord or its Affiliates. In the event there exists a conflict as to an expense which is specified to be included in Costs and is also specified to be excluded from Costs within the above list, the exclusions listed above shall prevail and the expenses shall be deemed excluded. Landlord shall not recover more than 100% of the Costs actually incurred by Landlord.

(g) "Declarations" means any declaration, reciprocal easement agreement or other similar instrument or agreement relating to access, use and/or maintenance of the Project and improvements thereon that now affect or in the future may affect the Project and is recorded in the real property records of Alameda County, California, as they may be recorded, amended and otherwise modified. This Lease and all of Tenant's rights hereunder are and will be subject and subordinate to all Declarations. While such subordination will occur automatically, Tenant agrees to execute and deliver to Landlord or the applicable association or party contemplated by the applicable Declaration, within 10 days after request and without cost to Landlord, such commercially reasonable instrument(s) as may be reasonably required to evidence such subordination. Notwithstanding the foregoing, from and after the Lease Date, Landlord shall not voluntarily create or acquiesce to the creation of any new Declaration or a modification of any existing Declaration which would materially diminish the rights of Tenant under this Lease, materially increase Tenant's costs under this Lease, materially reduce the available parking spaces for Tenant's use at the Buildings or Project, or materially interfere with Tenant's access to the Buildings or parking areas in the Project.

(h) "Delivers" (or "Deliver" or "Delivered", as the context may require) means Landlord tenders possession of the applicable portion of the Premises in the condition required by Section 2.2 of this Lease and Exhibit B attached hereto.

(i) "Laws" means any and all present or future federal, state or local laws, statutes, ordinances, rules, regulations or orders of any and all governmental or quasi-governmental authorities having jurisdiction.

(j) "Operating Expenses" means the sum of (i) the 1751 Building Share multiplied by the Costs and Taxes incurred by Landlord in such calendar year in connection with the 1751 Building, (ii) the 1801 Building Share multiplied by the Costs and Taxes incurred by Landlord in such calendar year in connection with the 1801 Building, (iii) the 1851 Building Share multiplied by the Costs and Taxes incurred by Landlord in such calendar year in connection with the 1851 Building, (iv) the 1751 Project Share multiplied by all Costs and Taxes incurred by Landlord in such calendar year in connection with the Project, (v) the 1801 Project Share multiplied by all Costs and Taxes incurred by Landlord in such calendar year in connection with the Project, (vi) the 1851 Project Share multiplied by all Costs and Taxes incurred by Landlord in such calendar year in connection with the Project; the Project Shares shall include a share of all Costs and Taxes incurred by Landlord in connection with the Common Areas of the Project, but shall exclude Costs and Taxes incurred by Landlord with respect to any particular building

in the Project, as equitably and reasonably determined by Landlord in accordance with sound property management accounting principles.

(k) "Portfolio Manager System" has the meaning set forth in Section 1.3(f).

(l) "Prime Rate" means the rate of interest announced from time to time by Wells Fargo Bank, or any successor to it, as its prime rate. If Wells Fargo Bank or any successor to it ceases to announce a prime rate, Landlord will designate a reasonably comparable financial institution for purposes of determining the Prime Rate.

(m) "Rent" means the Base Rent, Additional Rent and all other amounts required to be paid by Tenant under this Lease.

(n) "Rentable Area" means the rentable area, measured in square feet, of any described space within the respective Buildings or Project, as applicable, as determined pursuant to a Standard Method for Measuring Floor Area in Office Buildings, ANSI/BOMA Z65.1-1996.

(o) "Taxes" means the amount incurred or accrued during each calendar year according to generally accepted accounting principles for: all ad valorem real and personal property taxes and assessments, special or otherwise, levied upon or with respect to the respective Buildings or Project, the personal property used in operating the respective Buildings or Project, and the rents and additional charges payable by tenants of the respective Buildings or Project, and imposed by any taxing authority having jurisdiction; all taxes, levies and charges which may be assessed, levied or imposed in replacement of, or in addition to, all or any part of ad valorem real or personal property taxes or assessments as revenue sources, and which in whole or in part are measured or calculated by or based upon the respective Buildings or Project, the leasehold estate of Landlord or the tenants of the respective Buildings or Project, or the rents and other charges payable by such tenants; capital and place-of-business taxes, and other similar taxes assessed relating to the Common Areas; and any reasonable expenses incurred by Landlord in attempting to reduce or avoid an increase in Taxes, including, without limitation, reasonable legal fees and costs. Notwithstanding the foregoing, if a reassessment of the respective Buildings or Project for ad valorem property tax purposes, including any reassessment pursuant to California Constitution Article 13A and Sections 60 through 67 of the California Revenue & Taxation Code, occurs, then Tenant will be obligated to pay the Building Shares and/or the Project Shares of any such additional Taxes resulting from any such reassessment with respect to the respective Buildings or Project. Notwithstanding the foregoing, Taxes shall not include any tax upon Landlord's net income or profits and shall also not include: business professional, occupational and license taxes (BPOL), federal, state or local income taxes, franchise, gift, transfer, excise, capital stock, estate, succession, or inheritance taxes (collectively, "Excluded Taxes"). Landlord shall pay all real property taxes and assessments by the date due, and shall, upon Tenant's written request, furnish Tenant with evidence of such payment. Taxes shall not include any interest, late fees or other changes incurred as a result of Landlord's failure to pay Taxes as and when due. Landlord shall not include in taxes any interest or penalties incurred by Landlord by reason of Landlord's failure to pay in a timely manner any real property taxes and assessments. Landlord shall not recover more than 100% of the Taxes actually incurred by Landlord.

(p) "Tenant Maintained Outdoor Areas" means certain exterior areas located outside of the 1801 Building and the 1851 Building as depicted in Exhibit A, as may be adjusted by Landlord from time to time, that will be maintained by Tenant for the use by Tenant and its employees, guests, customers, agents and invitees; provided, however, that the exterior areas

surrounding the 1801 Building will not be considered part of the Tenant Maintained Outdoor Areas until the time, if ever, the 1801 Building is converted into a Single User Building.

2. GRANT OF LEASE.

2.1 Demise. Subject to the terms, covenants, conditions and provisions of this Lease, Landlord leases to Tenant and Tenant leases from Landlord the Premises, together with the exclusive right to use the Tenant Maintained Outdoor Areas and the non-exclusive right to use the Common Areas, for the Term. Subject to the terms and conditions of this Lease and Landlord's right to close the Buildings or Project in the event of an emergency, Tenant shall have access to the Premises 24 hours per day, seven days per week. Tenant's exclusive right to use the Tenant Maintained Outdoor Areas will mean Tenant can erect and maintain fences and hedges to exclude others from the Tenant Maintained Outdoor Areas and may reasonably request that such persons leave the Tenant Maintained Outdoor Areas.

2.2 Acceptance of Premises. On the applicable "Start Dates" (as defined in Exhibit B), Landlord will deliver the Premises to Tenant in a clean condition, with the roof of each Building in good condition and repair, with all base building and Premises systems in good working order and condition, and, to the extent expressly required by the City of Alameda, with the path of travel to the applicable portion of the Premises and Common Areas in each Building in compliance with all regulatory/municipal requirements, including Americans with Disabilities Act of 1990, 42 U.S.C. §12101 et seq. Any capital expenditures required exclusively for such work to the base building systems, path of travel, or the Common Areas will be the responsibility of Landlord, at Landlord's cost, and shall not be included as a Cost. Except as expressly set forth in this Lease, Tenant acknowledges that Landlord has not made any representation or warranty with respect to the condition of the Premises, the Buildings or the Project or with respect to the suitability or fitness for the conduct of the Use or for any other purpose. On the applicable Start Dates, Tenant agrees to accept the Premises in its "as is" physical condition without any agreements, representations, understandings or obligations on the part of Landlord to perform any alterations, repairs or improvements (or to provide any allowance for same), except as expressly set forth in this Lease.

2.3 Quiet Enjoyment. Landlord covenants that during the Term, Tenant will have quiet and peaceable possession of the Premises free from claims by, through and under Landlord, subject to the terms, covenants, conditions and provisions of this Lease, and Landlord will not disturb such possession except as expressly provided in this Lease.

2.4 Landlord and Tenant Covenants. Landlord covenants to observe and perform all of the terms, covenants and conditions applicable to Landlord in this Lease. Tenant covenants to pay the Rent when due, and to observe and perform all of the terms, covenants and conditions applicable to Tenant in this Lease.

2.5 Landlord's Reserved Rights. With respect to Multi User Buildings, Landlord reserves, for Landlord's exclusive use, any of the following (other than those installed for Tenant's exclusive use) that may be located in such Multi User Buildings: janitor closets, stairways and stairwells; fan, mechanical, electrical, telephone and similar rooms; and elevator, pipe and other vertical shafts, flues and ducts. With respect to Single User Buildings, Landlord will have access to the roofs, all structural elements, the heating, ventilation and air conditioning ("HVAC") systems and elevators located in such Single User Buildings for the purposes of inspection and performance of Landlord's obligations under this Lease. In connection with the foregoing, and in addition to other rights in favor of Landlord set forth herein, Landlord, its agents and employees will have the right to enter the Premises from time to time at reasonable times and upon at least 24 hours' written notice (which may be by email), unless a

shorter time frame is agreed to by Tenant on a case-by-case basis, and except in case of emergency, in which case, Landlord shall endeavor to provide notice to Tenant as soon as practicable, to examine the same, obtain ingress to and egress from the portions of the Premises to which Landlord has a right to access under this Lease, show them to prospective purchasers, lenders, investors, employees or consultants (and during the last 24 months of the Term or any time during the Term if Tenant is in Default, to prospective tenants), to supply janitorial services or any other services to be provided by Landlord to Tenant, to inspect or cause a consultant to inspect all portions of the Premises to ensure Tenant's compliance with its maintenance and operational obligations under this Lease, to post notices of non-responsibility, to record any amendments to the Declarations and to create any related associations; without liability to Tenant for any loss or damage incurred as a result of such entry, provided that Landlord will take reasonable steps in connection with such entry to minimize any disruption to Tenant's business or its use of the Premises. In any entrance into the Premises pursuant to the provisions of this Section 2.5, Landlord shall ensure compliance with Tenant's reasonable security and operational procedures previously detailed by Tenant to Landlord, except to the extent Landlord or its agents determine that an emergency makes compliance with such procedures impracticable. Tenant may from time to time upon five days' advance written notice to Landlord designate, as secured areas of the Premises, areas where unusually confidential information is kept; provided that such secured areas must be reasonably located so that such secured areas do not interfere with Landlord performing its obligations under this Lease. Except in the case of emergency (as determined by Landlord in good faith), Landlord shall not enter such secured areas unless accompanied by a representative of Tenant. Tenant agrees to make such representative available to Landlord during Business Hours upon reasonable advance written request by Landlord (which may be by email) at least 24 hours' in advance. Landlord shall at all times be provided with a means of entry to the secured areas in the event of an emergency.

2.6 Rentable Area Adjustments. For purposes of all amounts, percentages and figures appearing or referred to in this Lease (including, without limitation, Building Shares and Project Shares), the Rentable Area of the Project, Buildings or Premises shall not be subject to remeasurement, except as follows: if the Premises, Building or Project shall be materially physically expanded or contracted, Landlord may cause its architect to measure and certify to Landlord and Tenant the Rentable Area of the Project, Buildings or Premises pursuant to standards set forth in Section 1.3(n) and, upon the request of Landlord, Landlord and Tenant will execute an amendment to this Lease to modify all amounts, percentages and figures appearing or referred to in this Lease (including, without limitation, Building Shares and Project Shares) as may be necessary to conform to such remeasurement.

3. RENT.

3.1 Base Rent. Commencing on the Commencement Date and then throughout the Term, Tenant agrees to pay Landlord Base Rent according to the following provisions. Base Rent during each month (or portion of a month) described in Section 1.1(i) will be payable in equal monthly installments for such month (or portion), in advance, on or before the first day of each and every month during the Term; provided, however, that the first full months' Base Rent payment due (less applicable Rent Abatement) will be made upon execution of this Lease by Tenant. However, if the Term commences on a date other than the first day of a month or the Term ends on a date other than the last day of a month, Base Rent for such month will be appropriately adjusted on a prorated basis. Notwithstanding anything to the contrary contained in this Lease, in no event shall Tenant be obligated to pay Base Rent on a given portion of the Premises prior to the date Landlord has delivered such portion of the Premises. No Base Rent shall be payable on the Temporary Space until the Commencement Date occurs.

3.2 Additional Rent. Commencing on the Commencement Date and then throughout the Term, Tenant agrees to pay Landlord, as Additional Rent, in the manner provided below, Operating Expenses.

(a) Estimated Payments. Prior to the Commencement Date and as soon as practicable after the beginning of each calendar year thereafter, Landlord will notify Tenant in writing of Landlord's estimate of the Operating Expenses for the ensuing calendar year. On or before the first day of each month during the Term, commencing on the applicable Commencement Date for each portion of the Premises, Tenant will pay to Landlord, in advance, 1/12th of such estimated amounts, provided that until such notice is given with respect to the ensuing calendar year, Tenant will continue to pay on the basis of the prior calendar year's estimate until the month after the month in which such notice is given. However, if a Commencement Date falls on a date other than the first day of a month or the Term ends on other than the last day of a month, Operating Expenses for such month will be appropriately adjusted on a prorated basis. In the month Tenant first pays based on Landlord's new estimate, Tenant will pay to Landlord 1/12th of the difference between the new estimate and the prior year's estimate for each month which has elapsed since the beginning of the current calendar year.

(b) Annual Settlement. As soon as practicable after the close of each calendar year, but by no later than May 1 following the close of such calendar year, Landlord will deliver to Tenant its written statement setting forth in reasonable detail the Operating Expenses for such calendar year. If on the basis of such statement Tenant owes an amount that is less than the estimated payments previously made by Tenant for such calendar year, Landlord will either refund such excess amount to Tenant or credit such excess amount against the next payment(s), if any, due from Tenant to Landlord. If on the basis of such statement Tenant owes an amount that is more than the estimated payments previously made by Tenant for such calendar year, Tenant will pay the deficiency to Landlord within 30 days after the delivery of such statement. If this Lease commences on a day other than the first day of a calendar year or terminates on a day other than the last day of a calendar year, Operating Expenses applicable to the calendar year in which such commencement or termination occurs will be prorated on the basis of the number of days within such calendar year that are within the Term.

(c) Final Payment. Tenant's obligation to pay the Additional Rent provided for in this Section 3.2 which is accrued but not paid for periods prior to the expiration or early termination of the Term will survive such expiration or early termination. Prior to or as soon as practicable after the expiration or early termination of the Term, Landlord may submit an invoice to Tenant stating Landlord's estimate of the amount by which Operating Expenses through the date of such expiration or early termination will exceed Tenant's estimated payments of Additional Rent for the calendar year in which such expiration or termination has occurred or will occur. Tenant will pay the amount of any such excess to Landlord within 30 days after the date of Landlord's invoice. Notwithstanding the foregoing, in the event that Landlord shall fail to invoice Tenant for any Additional Rent pursuant to this Section 3.2 by May 1 following the close of the calendar year in which the expiration or earlier termination of the Term occurs, then Landlord shall be deemed to have waived its right to collect such Additional Rent. In the event that Tenant is entitled to a refund pursuant to this Section 3.2, Landlord shall pay such amount within 30 days after the end of the Term and Landlord's obligation to refund any such amounts will survive termination or expiration of the Term.

(d) Tenant's Right to Audit. Tenant will have the right to inspect and audit Landlord's books and records with respect to Operating Expenses covered by such annual statement (an "Audit"), provided that Tenant provides Landlord 10 days' prior notice of Tenant's intention to conduct such Audit, which notice must be delivered to Landlord on or before the date that is 90 days after Tenant's receipt of the applicable annual statement (including an annual statement received after the expiration or earlier termination of the Term). In the event Tenant does not give Landlord notice of its election to conduct an Audit within such 90-day period, the terms and amounts set forth in such annual statement will be conclusive and final, and Tenant shall have no further right to conduct an Audit with respect to such annual statement or the Operating Expenses related thereto. Tenant may only use a private accounting firm retained on an hourly or fixed-fee basis or Tenant's internal accounting staff to conduct an Audit; in no event may Tenant use any auditor paid on a contingency fee or result-based basis. If the conclusion of the Audit (which conclusion must be reasonably supported by the documentation reviewed in connection with the Audit) reveals that the amount charged by Landlord for Operating Expenses was greater than actual Operating Expenses, Landlord will credit against Rent next coming due after the completion of the Audit (or if the Term has expired, Landlord will pay to Tenant within 30 days after the completion of the Audit) the amount due to Tenant based on such difference, and if such conclusion of the Audit is that the amount charged by Landlord for Operating Expenses was less than actual Operating Expenses, Tenant will pay to Landlord the amount due from Tenant based on such difference within 30 days after the completion of the Audit. If the conclusion of the Audit reveals that the amount charged by Landlord for Operating Expenses was greater than 105% of the actual Operating Expenses, Landlord will be responsible for its own costs and expenses related to the Audit and will reimburse Tenant for the actual and reasonable costs charged by the accounting firm retained by Tenant, if any, to conduct the Audit, excluding travel and lodging expenses within 30 days after Landlord's receipt of Tenant's request and evidence of such costs. A permitted assignee of Tenant's interest in this Lease may conduct an Audit, but only with respect to annual statements delivered after the effective date of the applicable assignment of the Tenant's interest in this Lease. No subtenant of the Premises will be permitted to conduct an Audit.

3.3 Other Taxes. Tenant will reimburse Landlord upon demand for any and all taxes payable by Landlord (other than Excluded Taxes and taxes included in the definition of Taxes) whether or not now customary or within the contemplation of Landlord and Tenant: (a) upon, measured by or reasonably attributable to the cost or value of Tenant's equipment, furniture, fixtures and other personal property located in the Premises; (b) upon or measured by Rent; (c) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion of the Premises; and (d) upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises. If it is not lawful for Tenant to reimburse Landlord, the Base Rent payable to Landlord under this Lease will be revised to yield to Landlord the same net rental after the imposition of any such tax upon Landlord as would have been payable to Landlord prior to the imposition of any such tax.

3.4 Terms of Payment. All Base Rent, Additional Rent and other Rent will be paid to Landlord in lawful money of the United States of America, at Landlord's Payment Address or to such other person or at such other place as Landlord may from time to time designate in writing, without notice or demand and without right of deduction, abatement or set-off, except as otherwise expressly provided in this Lease.

3.5 Interest on Late Payments, Late Charge. Tenant hereby acknowledges that the late payment by Tenant to Landlord of any amount payable under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. All amounts payable under this Lease by Tenant to Landlord, if not paid within five days after such amounts are past due, will bear interest from the due date until paid at the lesser of the highest interest rate permitted by law or 4% in excess of the then-current Prime Rate. Landlord, at Landlord's option, in addition to past due interest, may charge Tenant a late charge for all payments not paid within five days after such amounts are past due, equal to the lesser of 4% of the amount of said late payment or the maximum amount permitted by law. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord will in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder.

3.6 Right to Accept Payments. No receipt by Landlord of an amount less than Tenant's full amount due will be deemed to be other than payment "on account", nor will any endorsement or statement on any check or any accompanying letter effect or evidence an accord and satisfaction. Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance or pursue any right of Landlord. No payments by Tenant to Landlord: (a) after the expiration or other termination of the Term, or after termination of Tenant's right to possession of the Premises, will reinstate, continue or extend the Term; or (b) will invalidate or make ineffective any notice (other than a demand for payment of money) given prior to such payment by Landlord to Tenant. After notice or commencement of a suit, or after final judgment granting Landlord possession of the Premises, Landlord may receive and collect any sums of Rent due under this Lease, and such receipt will not void any notice or in any manner affect any pending suit or any judgment obtained.

4. USE AND OCCUPANCY

4.1 Use. Tenant agrees to use and occupy the Premises only for the Use described in Section 1.1(g), or for such other purpose as Landlord expressly authorizes in writing.

4.2 Compliance. Tenant agrees to use the Premises and the Tenant Maintained Areas in compliance with all Laws applicable to Tenant's use, occupancy or alteration of the Premises and the Tenant Maintained Areas or the condition of the Premises and the Tenant Maintained Areas resulting from such use, occupancy or alteration, at Tenant's sole cost and expense.

4.3 Occupancy. Tenant will not do or permit anything which obstructs or unreasonably interferes with other tenants' rights or with Landlord's providing Building or Project services, or which injures or annoys other tenants, as determined by Landlord in good faith. Tenant will not cause, maintain or permit any nuisance in or about the Premises and will keep the Premises free of debris, and anything (other than the "Permitted Hazardous Materials" [as defined in Section 4.4(b) below]) of a dangerous, noxious, toxic or offensive nature or which could create a fire hazard or undue vibration, heat or noise. If any item of equipment, building material or other property (other than the Permitted Hazardous Materials) brought into the Project by Tenant or on Tenant's request causes a dangerous, noxious, toxic or offensive effect (including an environmental effect) and in Landlord's reasonable opinion such effect will not be permanent but will only be temporary and is able to be eliminated, then Tenant will not be required to remove such item, provided that Tenant promptly and diligently causes such effect to be eliminated, pays for all costs of elimination and indemnifies Landlord against all liabilities arising from such effect. Tenant will not make or permit any use of the Premises which would be reasonably expected to cause the cancellation of any insurance coverage, increase the cost of insurance or require additional

insurance coverage. If by reason of Tenant's failure to comply with the provisions of this Section 4.3, (a) any insurance coverage becomes unavailable, then Landlord will have the option to terminate this Lease; or (b) any insurance premiums increase, then Landlord may, upon written notice to Tenant, require Tenant to promptly pay to Landlord as Rent the amount of the increase in insurance premiums.

4.4 Hazardous Material.

(a) The term "Hazardous Material" as used in this Lease means any product, substance, chemical, material, or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release, or effect, either by itself or in combination with other materials expected to be owned or about the Premises is either: (i) potentially injurious to the public health, safety, or welfare, the environment, or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for liability of Landlord to any governmental agency or third party under applicable statute or common law theory. Hazardous Material will include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil, or any products, by-products or fractions thereof, asbestos, chlorofluorocarbons, polychlorinated biphenyls (PCBs) and formaldehyde. Tenant will not bring, place, hold, treat, or dispose of any Hazardous Material on, under, or about the Premises, the Buildings, or the Project except in compliance with "Applicable Environmental Laws" (as defined below). The term "Hazardous Materials" does not include office supplies (such as cleaning materials and toner ink) used in the ordinary course of business in compliance with Applicable Environmental Laws. Except as permitted pursuant to Section 4.4(b) below, Tenant will not cause or allow any Hazardous Material to be incorporated into any improvements or alterations which it makes or causes to be made to the Premises.

(b) Tenant may utilize certain Hazardous Materials in the designated laboratory and manufacturing areas of the Premises in connection with Tenant's research and development operations that (i) are necessary or useful to Tenant's business, (ii) will be used, kept, and stored in a safe manner consistent with then-current best practices and in compliance with all Applicable Environmental Laws, and (iii) for which Tenant obtains, at Tenant's sole cost and expense, any environmental permits, plans or approvals required for its operations under this Lease and for the Premises, including, but not limited to Hazardous Materials Business Plans, Storm Water Pollution Prevention Plans, Spill Response Plans, Air Pollution Control Permits, and Waste Discharge Requirements (Hazardous Materials meeting the criteria in this sentence are "Permitted Hazardous Materials"). Upon Landlord's request, Tenant shall promptly provide to Landlord copies of any Safety Data Sheets (as required by the Occupational Safety and Health Act) relating to such Permitted Hazardous Materials. Tenant will be solely liable for any damages due to or arising from the Permitted Hazardous Materials. Tenant will indemnify, defend and hold harmless Landlord, its managers, members, partners, officers, directors, subsidiaries, affiliates, employees and agents and Property Manager from and against any and all liability, loss, claims, demands, damages or expenses (including reasonable attorneys' fees) due to or arising from the Permitted Hazardous Materials.

(c) Tenant will promptly comply with the requirements of Section 25359.7(b) of the California Health and Safety Code and/or any successor or similar statute. Accordingly, if Tenant knows, or has reasonable cause to believe, that Hazardous Material, or a condition involving or resulting from same, has come to be located in, on, under, or about the Premises, in violation of Applicable Environmental Laws, Tenant will promptly give written notice of such fact to Landlord. Tenant will also promptly give Landlord a copy of any written statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given

to, or received from, any governmental authority or private party, or persons entering or occupying the Premises, concerning the presence, spill, release, discharge off, or exposure to, any Hazardous Material, or contamination in, on, under, or about the Premises in violation of Applicable Environmental Laws. Should Tenant fail to so notify Landlord, Landlord will have all rights and remedies provided for such a failure by such Section 25359.7(b) in addition to all other rights and remedies which Landlord may have under this Lease or otherwise. Additionally, Tenant will immediately notify Landlord in writing of (i) any enforcement, clean-up, removal, or other governmental action instituted, completed, or threatened with regard to Hazardous Material involving the Premises, the Buildings, or the Project, (ii) any claim made or threatened by any person against Tenant, Landlord, the Premises, the Buildings, or the Project related to damage, contribution, cost recovery, compensation, loss, or injury resulting from or claimed to result from any Hazardous Material, (iii) any reports made to any environmental agency arising out of or in connection with any Hazardous Material at or removed from the Premises, the Buildings, or the Project, including any complaints, notices, warnings, or assertions of any violation in connection therewith, and (iv) any spill, release, discharge, or disposal of Hazardous Material that occurs with respect to the Premises or Tenant's operations, including, without limitation, those that would constitute a violation of California Health and Safety Code Section 25249.5 or any other Applicable Environmental Law.

(d) Tenant will promptly and diligently abate any Hazardous Material brought, placed, or leaked onto, or under, the Premises during the Term by Tenant or any of Tenant's employees, agents, representatives, licensees, guests, contractors or invitees, in violation of Applicable Environmental Laws. Additionally, to the extent Tenant brings, places, holds, treats, disposes of, or utilizes any chlorofluorocarbons on or about the Premises, Tenant will remove all such chlorofluorocarbons prior to, or upon, termination of the Lease, regardless of whether such chlorofluorocarbons are then defined, recognized, known or supposed to be Hazardous Material. Tenant, however, will not take any remedial action related to Hazardous Material located in or about the Premises, the Buildings or the Project in violation of Applicable Environmental Laws and will not enter into a settlement, consent decree, or compromise in response to any claim related to Hazardous Material, without first notifying Landlord in writing of Tenant's proposed action and affording Landlord a reasonable opportunity to appear, intervene, or otherwise participate in any discussion or proceeding for the purposes of protecting Landlord's interest in the Premises, the Buildings and the Project.

(e) In addition to any other indemnity contained in this Lease, Tenant hereby will protect, defend, indemnify, and hold Landlord, its partners, managers, members, officers, directors, subsidiaries, affiliates, lenders, employees and agents, and Landlord's property manager ("Property Manager") and ground lessor, if any (individually a "Landlord Party" and collectively "Landlord Parties"), and the Premises, harmless, unless due to the gross negligence or willful misconduct of any Landlord Party, from and against any and all losses, liabilities, general, special, consequential and/or incidental damages, injuries, costs, expenses, claims of any and every kind whatsoever (including, without limitation, court costs, reasonable attorneys' fees, damages to any person, the Premises, the Buildings, the Project, or any other property or loss of rents) which at any time or from time to time may be paid, incurred, or suffered by or asserted against Landlord with respect to, or as a result of: (i) breach by Tenant of any of the covenants set forth in this Section 4.4, and/or (ii) to the extent caused or allowed by Tenant, or any agent, employee, contractor, invitee, or licensee of Tenant, the presence on, under, or the escape, seepage, leakage, spillage, discharge, emission, release from, onto, or into the Premises, the Buildings, the Project, any land, the atmosphere, or any watercourse, body of water, or ground

water, of any Hazardous Material (including, without limitation, any losses, liabilities, damages, injuries, costs, expenses, or claims asserted or arising under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. §§ 9601 et seq.), any so-called "Superfund" or "Superlien" law, the Resource Conservation and Recovery Act of 1980 (42 U.S.C. §§ 6901 et seq.), the Federal Water Pollution Control Act (33 U.S.C. §§ 1251 et seq.), the Safe Drinking Water Act (42 U.S.C. §§ 300f et seq.), the Toxic Substances Control Act (15 U.S.C. §§ 2601 et seq.), the Clean Air Act (42 U.S.C. §§ 7401 et seq.), California Health & Safety Code §§ 25100 et seq. and §§ 39000 et seq., the California Safe Drinking Water & Toxic Enforcement Act of 1986 (California Health & Safety Code §§ 25249.5 et seq.), the Porter-Cologne Water Quality Control Act (California Water Code §§ 13000 et seq.), any and all amendments and recodifications of the foregoing statutes, or any other federal, state, local, or other statute, law, ordinance, code, rule, regulation, permit, order, or decree regulating, relating to or imposing liability or standards of conduct concerning Hazardous Material; all of the foregoing will collectively be referred to as "Applicable Environmental Laws"). The undertaking and indemnification set forth in this Section 4.4 will survive the termination of this Lease and will continue to be the personal liability and obligation of Tenant.

(f) Landlord represents and warrants to Tenant that to the actual knowledge of Jake Rome, who is the individual in Landlord's organization in the best position to have knowledge of such matters, as of the Lease Date, Landlord has not received any written notice from any governmental entity of any violations of Applicable Environmental Laws affecting or applicable to the Premises or Buildings that have not been cured as of the Lease Date.

(g) Tenant will obtain insurance or other evidence of financial capability satisfactory to Landlord (in its reasonable discretion) to assure compliance with the indemnity and other obligations of Tenant related to Hazardous Material set forth in this Lease or otherwise now or in the future required by Laws.

(h) Subject to the limitations set forth in Section 2.5, Landlord and Landlord's lender(s) will have the right to enter the Premises for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Lease and with all Applicable Environmental Laws, and to employ experts and/or consultants in connection therewith and/or to advise Landlord with respect to Tenant's activities including but not limited to the installation, operation, use, monitoring, maintenance, or removal of any Hazardous Material from the Premises. The costs and expenses of such inspection will be paid by the party requesting same, unless a Default of this Lease, violation of Applicable Environmental Law, or a contamination, caused or contributed to by Tenant is found to exist or be imminent, or unless the inspection is required or ordered by governmental authority as the result of any such existing or imminent violation or contamination. In any such case, Tenant will upon request reimburse Landlord or Landlord's lender(s), as the case may be, for the costs and expenses of such inspections.

4.5 Civil Code Section 1938 Disclosure. California law requires the following disclosure:

> "A Certified Access Specialist ("CASp") can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if

requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises."

Tenant will only be permitted to have a CASp conduct an inspection as required by applicable Laws, and Landlord will only be required to contribute to the cost of repairs (as contemplated by this Section 4.5) to the extent required by applicable Laws.

5. SERVICES AND UTILITIES; REPAIR AND MAINTENANCE OBLIGATIONS.

5.1 Landlord's Standard Services (and Repair and Maintenance Responsibilities) for Multi User Buildings. During the Term, Landlord will operate and maintain the Multi User Buildings and the Project in compliance with all applicable Laws and according to those standards from time to time prevailing for comparable office buildings in the Alameda, California market area. Landlord will provide the following services according to such standards, the costs of which will be included in Costs to the extent provided in Section 1.3(f):

(a) repair, maintenance and replacement of the Common Areas, including the fitness center, the roofs and all structural elements of the Multi User Buildings and all general mechanical, plumbing and electrical systems installed in the Project serving the Multi User Buildings, but excluding those portions of any mechanical, plumbing or electrical systems that exceed Building Standard and exclusively serve the Premises;

(b) HVAC in any Multi User Building (except any HVAC components exclusively serving the Premises, for which Tenant shall have maintenance, repair and replacement responsibility) for the Premises located therein and interior Common Areas during Business Hours, at temperatures and in amounts as may be reasonably required for comfortable use and occupancy under normal business office and research and development laboratory operations with "Customary Equipment" (as used in this Lease, "Customary Equipment" includes typewriters, calculators, dictation recorders, desk top personal computers, printers and similar devices and equipment, but will not include any machines, devices or equipment that materially and adversely affect the temperature otherwise maintained in the Premises or that require a voltage other than 120 volts, single phase, such as, for instance, data processing or heavy-duty computer or reproduction equipment);

(c) electricity for lighting and operating Customary Equipment in the Premises located in a Multi User Building during Business Hours;

(d) water for Tenant's laboratory, small kitchens, washrooms and drinking fountains located in a Multi User Building, 24 hours per day, 7 days per week;

(e) janitorial services to the Premises located in a Multi User Building and Common Areas, Monday through Friday, excluding national holidays;

(f) passenger elevators in a Multi User Building for access to and from the floor(s) on which the Premises, 24 hours per day, 7 days per week;

(g) toilet facilities in or serving any portion of the Premises located in a Multi User Building, including necessary washroom supplies sufficient for Tenant's normal use, 24 hours per day, 7 days per week;

(h) electric lighting for all Common Areas in a Multi User Building that require electric light during the day or are open at night, including replacement of tubes and ballasts in lighting fixtures, 24 hours per day, 7 days per week; and

(i) replacement of tubes and ballasts in those Building Standard lighting fixtures installed in the Premises located in a Multi User Building.

5.2 Additional Services in Multi User Buildings.

(a) If Tenant requires HVAC for the Premises located in Multi User Building during hours other than Business Hours, Landlord will furnish the same for the hours specified in a request from Tenant, provided the request is made in the manner reasonably designated by Landlord for such requests from time to time and by 3:00 p.m. of the business day before the day that the additional service is required. Tenant will pay for such additional services at the standard hourly rate reasonably determined by Landlord from time to time.

(b) If Tenant requires electric current, water or any other energy at times or in amounts in excess of those provided by Landlord in Multi User Buildings according to Section 5.1, such excess electric, water or other energy requirements will be supplied only with Landlord's consent, which consent will not be unreasonably withheld, conditioned or delayed. If Landlord grants such consent, Tenant will pay all reasonable costs of meter service and installation of facilities or professional services necessary to measure and/or furnish the excess requirements and the entire cost of such additional electricity, water or other energy so required, which costs will be reasonably determined by Landlord and charged to Tenant (i) by metering at applicable rates, where meters exist or are installed at Landlord's direction, including all service and meter installation and/or reading charges; and/or (ii) by use and engineering surveys identifying all costs relating to consumption of such additional electricity, water or other energy (including, without limitation, survey costs, labor, utility rates and Landlord's administrative fees to the extent allowed by applicable Laws and not in excess of 5% of such costs). For purposes of this Section 5.2(b), and subject to the limitations set forth in Section 2.5, from time to time during the Term, Landlord may enter the Premises located in a Multi User Building to install, maintain, replace or read meters for such excess requirements and/or to evaluate Tenant's consumption of and demand for them.

(c) If Tenant installs any machines, equipment or devices in the Premises located in a Multi User Building that do not constitute Customary Equipment and such machines, equipment or devices cause the temperature in any part of the Premises to exceed the temperature the mechanical system of the respective Building would be able to maintain in the Premises were it not for such machines, equipment or devices, then Landlord reserves the right to install supplementary air conditioning units in the Premises located in a Multi User Building, and Tenant will pay Landlord all actual costs of installing, operating and maintaining such supplementary units.

(d) If Tenant requires any janitorial or cleaning services for Premises located in a Multi User Building in excess of the amounts provided by Landlord according to Section 5.1 (such as cleaning services beyond normal office janitorial services for kitchens, computer rooms

or other special use areas), Landlord will provide such excess services to Tenant within a reasonable period after Tenant's request made to Property Manager, provided that such excess services are available from Landlord's regular janitorial or cleaning contractor. Tenant will pay the cost of such excess services. Landlord will also provide, within a reasonable period after Tenant's request made to Property Manager, at Tenant's cost and to the extent available to Landlord, replacement of bulbs, tubes or ballasts in any non-Building Standard lighting fixtures in the Premises located in a Multi User Building.

(e) Tenant will pay as Rent, within 30 days after the date of Landlord's invoice, all costs which may become payable by Tenant to Landlord under this Section 5.2.

(f) Notwithstanding anything to the contrary set forth in this Section 5.2, Landlord may determine, during its review of the "Preliminary Plans" (as defined in Exhibit B) or other plans for Alterations, in its reasonable discretion, to have the Premises separately submetered by Landlord, as opposed to the utility company, for electricity serving the lights and convenience outlets in the Premises located in a Multi User Building. The costs for installing such separate submeter will be included in "Tenant's Work" (as defined in Exhibit B), and Landlord will pay the applicable utility company for such electricity. During the Term, Tenant will reimburse Landlord, as Additional Rent and at the same rate as charged by the utility company, for all costs incurred by Landlord for such electricity used in the Premises located in a Multi User Building, as reflected by such submeter.

5.3 Landlord's Standard Services (and Repair, Maintenance and Replacement Responsibilities) For Single User Buildings. During the Term, Landlord will operate and maintain the Single User Buildings as follows, in compliance with all applicable Laws and in a manner consistent with those standards from time to time prevailing for comparable office and laboratory buildings in the Alameda, California market area; provided, however, that such operational and maintenance obligations for Single User Buildings will be limited to those matters contemplated in this Section 5.3, with the understanding that Tenant will have significant operational and maintenance obligations with respect to Single User Buildings under Section 5.4, and the foregoing standard will not apply to matters that are the subject of such obligations. Landlord will provide the following services to Single User Buildings according to such standards, the costs of which will be included in Costs to the extent provided in Section 1.3(f) except as otherwise expressly provided below:

(a) repair, maintenance and replacement of the exterior Common Areas, the roofs and all structural elements of the Single User Buildings;

(b) electricity for lighting and operating Customary Equipment in the Premises located in a Single User Building, provided, however, that Landlord will cooperate with Tenant if Tenant desires to arrange for the electricity in the Single User Buildings to be separately metered by the utility company. The costs for installing such separate meter will be included in "Tenant's Work" (as defined in Exhibit B), and Tenant will directly pay the applicable utility company for such electricity, as reflected by such meter.

(c) water for Tenant's laboratory, kitchens, washrooms and drinking fountains, 24 hours per day, 7 days per week;

(d) electric lighting for all exterior Common Areas that require electric light during the day or are open at night, including replacement of tubes and ballasts in lighting fixtures, 24 hours per day, 7 days per week; and

(e) repair and replacement of the building systems serving any Single User Buildings, including, without limitation, general mechanical, plumbing and electrical systems, HVAC systems, elevators and any other component of the Single User Building (excluding any portion of Tenant's Work or any "Tenant Alterations" [as defined in Section 7.1]), to the extent that any single repair or replacement exceeds $75,000.00 (each, a "Major Replacement" and the costs incurred by Landlord in connection with a Major Replacement being a "Major Replacement Expenditure").

5.4 Tenant's Services (and Repair, Maintenance and Replacement Responsibilities) For Single User Buildings. During the Term, Tenant will, at its cost and expense, operate and maintain the Single User Buildings in compliance with all applicable Laws and according to those standards from time to time prevailing for comparable Class A buildings in the Alameda, California market area; provided, however, that the foregoing will not limit Landlord's obligations under Section 5.3. Tenant will be responsible for the following services according to such standards:

(a) repair, maintenance and replacement of all portions of the Single User Buildings (except as otherwise set forth in this Lease) and all general mechanical, plumbing and electrical systems installed within the Single User Building (other than Major Replacement Expenditures);

(b) landscaping, maintenance, repair and replacement of the Tenant Maintained Outdoor Areas. Tenant will construct any signage, fencing or hedges (which will be subject to Landlord's approval, not to be unreasonably withheld, conditioned or delayed) to indicate Tenant's exclusive right to use the Tenant Maintained Outdoor Areas in accordance with Section 7.1 below;

(c) HVAC in accordance with Section 5.5 below;

(d) janitorial services to any Single User Building, Monday through Friday, excluding national holidays;

(e) elevators in accordance with Section 5.6, 24 hours per day, 7 days per week;

(f) toilet facilities in the Premises located in any Single User Building, including necessary washroom supplies sufficient for Tenant's normal use, 24 hours per day, 7 days per week; and

(g) replacement of tubes and ballasts in those Building Standard lighting fixtures installed in any Single User Building.

5.5 HVAC For Single User Buildings. Other than Major Replacement Expenditures, Tenant will pay the cost for all HVAC service provided to a Single User Building, including the cost of maintenance, repair and replacement of the equipment, ducting and other connections providing the same, subject to Sections 5.7 and 5.8.

5.6 Elevators For Single User Buildings. Other than Major Replacement Expenditures, Tenant will pay the cost for any elevators located in a Single User Building, including the cost of maintenance, repair and replacement of the equipment, ducting and other connections providing the same, subject to Sections 5.7 and 5.8.

5.7 Contactors and Contracts for Tenant's Maintenance Obligations.

(a) Maintenance Contractors. Tenant will engage one or more third-party contractors to perform the repair, maintenance and replacement obligations of Tenant under Sections 5.4, 5.5 and 5.6 with respect to the Single User Building(s) (each, a "Maintenance Contractor"). Each Maintenance Contractor will be selected by Tenant and approved by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. In the event Tenant's Maintenance Contractor fails to perform its obligations in a commercially reasonable manner, Landlord, at its option, may remove the applicable Maintenance Contractor and arrange for a replacement Maintenance Contractor; provided, however, Landlord has notified Tenant of the failure of the applicable Maintenance Contractor to comply with the maintenance requirements set forth herein and Tenant has failed to cure such noncompliance within 10 business days from receipt by Tenant of Landlord's notice. Any replacement Maintenance Contractor will be subject to Tenant's approval, which approval will not be unreasonably withheld, conditioned or delayed.

(b) Preventative Maintenance Contracts. In connection with its obligations under Sections 5.5 and 5.6, Tenant will enter into and keep in place preventative maintenance contracts on such equipment as is reasonably prudent under the circumstances, including, without limitation, the HVAC and elevator equipment serving each Single User Building (each, a "Preventative Maintenance Contract"). Such Preventative Maintenance Contracts will provide for periodic maintenance in accordance with the manufacturer's specifications, and such maintenance will be performed by a licensed Maintenance Contractor in a manner which is consistent with and will not void, limit or impair any warranty then in effect for the applicable equipment or any other element of the Building such as, by way of example only, the roof. In the event Tenant fails to maintain such Preventative Maintenance Contract, Landlord, at its option, may arrange for a replacement Preventative Maintenance Contract for the applicable equipment, which Replacement Preventative Contract will be subject to Tenant's approval, which will not be unreasonably withheld, conditioned or delayed; provided, however, Landlord has notified Tenant of such failure of Tenant to maintain a Preventative Maintenance Contract as set forth herein and Tenant has failed to cure such noncompliance within 10 business days from receipt by Tenant of Landlord's notice, in which event the cost of such Preventative Maintenance Contract will be billed directly to Tenant and will be paid within 10 days of receipt of invoice therefor.

5.8 Request for Major Replacement; Reimbursement of Major Replacement Expenditures. Tenant will provide notice to Landlord if a Major Replacement is required. Landlord will have the right to review and inspect the equipment requiring the Major Replacement and to approve the Major Replacement, which approval will not be unreasonably withheld, conditioned or delayed. Upon such approval, Landlord will cause such Major Replacement to be performed. Notwithstanding anything to the contrary contained in this Lease, Landlord will be permitted to include in Costs annual installments for the amortization of each Major Replacement Expenditure over the useful life of the applicable Major Replacement.

5.9 Interruption of Services. If any of the services provided for in Sections 5.1, 5.2 or 5.3 are interrupted or stopped, Landlord will use due diligence to resume the service; provided, however, no irregularity or stoppage of any of these services will create any liability for Landlord (including, without limitation, any liability for damages to Tenant's personal property caused by any such irregularity or stoppage), constitute an actual or constructive eviction or, except as expressly provided below, cause any abatement of the Rent payable under this Lease or in any manner or for any purpose relieve Tenant from any of its obligations under this Lease. If, due to reasons within Landlord's reasonable control, any of the services required to be provided by Landlord under this Section 5 should become unavailable

and should remain unavailable for a period in excess of 60 hours after notice of such unavailability from Tenant to Landlord, and if such unavailability should render all or any portion of the Premises untenantable, then commencing upon the expiration of such 60-hour period, Tenant's Rent will equitably abate in proportion to the portion of the Premises so rendered untenantable for so long as such services remain unavailable for such reasons. Without limiting those reasons for an irregularity or stoppage of services that may be beyond Landlord's control, any such irregularity or stoppage that is required in order to comply with any Laws or that is required or recommended by governmental agencies for health or safety reasons will be deemed caused by a reason beyond Landlord's control. Tenant hereby waives the provisions of Sections 1932, 1933(4) and 1942 of the Civil Code of California or any similar or successor statutes to the fullest extent permitted by Laws, and Tenant acknowledges that, except as specifically provided herein, in the event Landlord fails to make a repair or perform maintenance, Tenant's sole remedy for such breach by Landlord will be an action for damages, and that Tenant will not be entitled to terminate this Lease, withhold Rent, or make any repair and deduct the cost of repair from Rent payable under this Lease.

5.10 Security. Only Landlord will determine the type and amount of any security services to be provided to the Project. Tenant may utilize any existing card readers installed at the entrance of the Premises; provided, however, that Tenant, at Tenant's sole cost and expense, shall be obligated to install its own security system software for managing such card readers and controlling access and shall maintain and repair the software, hardware and firmware with respect to the card readers. In no event will Landlord be liable to Tenant, and Tenant hereby waives any claim against Landlord, for (a) any entry of third parties into the Premises, the Buildings and/or the Project; (b) any damage or injury to persons or property; or (c) any loss of property in or about the Premises, the Buildings and/or the Project, if the subject event described in the foregoing clause (a), (b) or (c) occurs as a result of any unauthorized or criminal acts of third parties, regardless of any action, inaction, failure, breakdown, malfunction or insufficiency of the security services provided by Landlord.

5.11 Amenities. Throughout the Term, the fitness center located in the Project will remain part of the Common Areas, and Landlord will endeavor to maintain such fitness center in a condition that is substantially the same as the condition that exists as of the Lease Date. The café located in the Project is currently leased by a third-party tenant. In the event that such tenant no longer operates the café, Landlord will endeavor to obtain a new café tenant and cause such café to be maintained in a condition that is substantially the same as the condition that exists as of the Lease Date.

6. TENANT'S REPAIR AND MAINTENANCE OBLIGATIONS.

6.1 Repairs Within the Premises. Subject to the terms of Sections 3.6, 5, 10 and 12, and except to the extent Landlord is required to perform or pay for certain maintenance or repairs according to those sections, Tenant will, at Tenant's own expense: (a) at all times during the Term, maintain the Premises, all fixtures and equipment in the Premises and those portions of any mechanical, plumbing or electrical systems that exceed Building Standard and exclusively serve portions of the Premises located in Multi User Building, or are located in Single User Buildings, in good order and repair and in a condition that complies with all applicable Laws; and (b) promptly and adequately repair all damage to the Premises and replace or repair all of such fixtures, equipment and portions of the mechanical, plumbing or electrical systems that are damaged or broken, all under the supervision of Landlord (provided that in the event of a conflict between the foregoing clause and the provisions of Section 10, Section 10 shall control). All work done by Tenant or its contractors (which contractors will be subject to Landlord's reasonable approval) will be done in a first-class workmanlike manner using only grades of materials at least equal in quality to Building Standard materials and will comply with all insurance requirements and all applicable Laws. Tenant will not place any object or series of objects on the floors of the Premises in

such a manner as to exceed the load capacity of the floors on a per square foot basis as determined by any architect, engineer, or other consultant of Landlord, or as otherwise limited by any applicable Laws.

6.2 Failure to Maintain Premises. If Tenant fails to perform any of its obligations under Section 6.1, and Tenant fails to commence performance of its obligations within five business days after receipt of written notice from Landlord of the need for repairs or thereafter fails to diligently pursue the applicable repair to completion, then Landlord may perform such obligations and Tenant will pay as Rent to Landlord the cost of such performance, including an amount sufficient to reimburse Landlord for overhead and supervision, within 30 days after the date of Landlord's invoice. For purposes of performing such obligations, or to inspect the Premises, Landlord may enter the Premises subject to the terms and conditions in Section 2.5; provided that if the time is of the essence for making a repair (for instance, if the cost of repair or risk associated with not making the repair increases with time), it shall be deemed an emergency.

6.3 Notice of Damage. Tenant will notify Landlord promptly after Tenant learns of (a) any fire or other casualty in the Premises; (b) any damage to or defect in the Premises, including the fixtures and equipment in the Premises, for the repair of which Landlord might be responsible; and (c) any damage to or defect in any parts or appurtenances of the sanitary, electrical, heating, air conditioning, elevator or other systems located in or passing through the Premises.

7. ALTERATIONS.

7.1 Alterations by Tenant. Tenant may, from time to time, at its own expense make changes, additions and improvements to the Premises to better adapt the same to its business (each a "Tenant Alteration"), provided that any such Tenant Alteration will (a) comply with all applicable Laws; (b) be made only with the prior written consent of Landlord, which consent will not be unreasonably withheld, conditioned or delayed; (c) equal or exceed Building Standard; and (d) be carried out only by persons selected by Tenant and approved in writing by Landlord (such approval to not be unreasonably withheld, conditioned or delayed). Notwithstanding the foregoing, Tenant may, without Landlord's consent but upon at least 10 business days' prior notice to Landlord (and provided that all other provisions of this Section 7.1 will otherwise apply), make Tenant Alterations which (a) do not exceed $5.00 per square foot of Rentable Area of the Premises affected by such change, addition or improvement, (b) do not affect the structural components of such Building, (c) do not materially affect the mechanical, electrical, plumbing, HVAC, fire suppression or similar Building systems, (d) do not affect the exterior of such Building and (e) do not cause any part of the Premises to become non-compliant with applicable Laws ("Permitted Alterations"). Landlord will have the right to post notices of non-responsibility or similar notices on the Premises, and to record such notices in the real property records of Alameda County, California, all in accordance with Section 8844 of the California Civil Code in order to protect the Premises, Buildings and Project against any liens resulting from such Work. Tenant will maintain, and will contractually cause the persons performing any such work relating to a Tenant Alteration to maintain (and Tenant's contract with such persons will so provide that such person is obligated to maintain), worker's compensation insurance and public liability and property damage insurance (with Landlord named as an additional insured), in amounts, with companies and in a form reasonably satisfactory to Landlord, which insurance will remain in effect during the entire period in which the work will be carried out and for such additional time as may be further required for completed operations coverage. If requested by Landlord, Tenant will deliver to Landlord proof of all such insurance. In addition to the foregoing, Tenant will cause the persons performing such work relating to such Tenant Alterations to execute agreements relating to reasonable rules and regulations, whereby such persons will agree to maintain insurance as set forth in such rules and regulations and to provide proof of such insurance upon request of Landlord. Landlord has the right to deny entry to the Premises to any persons performing

work in the Premises relating to such Tenant Alterations until such persons have executed and delivered to Landlord such agreements relating to rules and regulations. Tenant will indemnify, defend and hold harmless Landlord, its managers, members, partners, officers, directors, subsidiaries, affiliates, employees and agents and Property Manager from and against any and all liability, loss, claims, demands, damages or expenses (including reasonable attorneys' fees) due to or arising out of Tenant's failure to cause any persons performing work in the Premises relating to such Tenant Alterations to obtain the insurance required by this Lease. Subject to Exhibit B, Tenant will promptly pay, when due, the cost of all such work and, upon completion, Tenant will deliver to Landlord, to the extent not previously received by Landlord, evidence of payment, contractors' affidavits and full and final waivers of all liens for labor, services or materials. Tenant will also pay any increase in property taxes on, or fire or casualty insurance premiums for, the Project attributable to such Tenant Alteration and the cost of any modifications to the Project outside the Premises that are required to be made in order to make the Tenant Alteration to the Premises. Tenant, at its expense, will have promptly prepared and submitted to Landlord reproducible as-built plans of any such Tenant Alteration upon its completion. Within 10 days after the completion of such Tenant Alteration, Tenant will, at its expense, record in the real property records of Alameda County, California a notice of completion in accordance with Section 8182 of the California Civil Code and provide Landlord with a copy of the same. All Tenant Alterations, whether temporary or permanent in character, will be Tenant's property throughout the Term of this Lease and shall automatically become Landlord's property upon termination of this Lease, or termination of Tenant's right to possession of the Premises, without compensation to Tenant. If at the time Landlord consents to their installation (or in the case of Permitted Alterations, Landlord makes the request 10 business days prior to the expiration of the Term), Landlord requests or approves the removal by Tenant of any such Tenant Alterations upon termination of this Lease or the termination of Tenant's right to possession of the Premises, Tenant will remove the same upon termination of this Lease, or termination of Tenant's right to possession of the Premises, as provided in Section 15.1; provided that under no circumstances shall Tenant be required to remove any portion of the Leasehold Improvements (other than Specialized Tenant Improvements) constructed in accordance with Exhibit B. All other Tenant Alterations and the Leasehold Improvements shall be Landlord's property upon termination of this Lease, or termination of Tenant's right to possession of the Premises, and will be relinquished to Landlord in good condition, ordinary wear and tear and casualty excepted. Any and all Tenant Alterations that are "Telecom Equipment" (as defined below) will also be governed by the terms and conditions of Section 26, and if there is any conflict between the requirements of this Section 7.1 and those of Section 26 with respect to Telecom Equipment, Section 26 will govern.

7.2 Alterations by Landlord. Landlord may from time to time make repairs, changes, additions and improvements to the Project, the Buildings, Common Areas and those Project and Building systems necessary to provide the services described in Section 5, and for such purposes, Landlord may enter the Premises subject to the terms and conditions in Section 2.5, without liability to Tenant for any loss or damage incurred as a result of such entry, provided that in doing so Landlord will not disturb or interfere with Tenant's use of the Premises and operation of its business any more than is reasonably necessary in the circumstances and will repair any damage to the Premises caused by such entry, nor will Landlord unreasonably restrict or impair Tenant's access to the Premises or parking areas. No change, addition or improvement made by Landlord will materially impair Tenant's use of the Premises for the Use, materially impair Tenant's access to the Premises or reduce the amount of available parking Tenant is entitled to pursuant to this Lease.

8. LIENS. Tenant agrees to pay before delinquency all costs for work, services or materials furnished to Tenant for the Premises, the nonpayment of which could result in any lien against the Project or Buildings. Tenant will keep title to the Project and Buildings free and clear of any such lien. Tenant

will promptly notify Landlord of the filing of any such lien or any pending claims or proceedings relating to any such lien and will protect, defend, indemnify and hold Landlord harmless from and against all loss, damages and expenses (including reasonable attorneys' fees) suffered or incurred by Landlord as a result of such lien, claims and proceedings. In case any such lien attaches, Tenant agrees to cause it to be immediately released and removed of record (failing which Landlord may do so at Tenant's sole expense), unless Tenant has a good faith dispute as to such lien in which case Tenant may contest such lien by appropriate proceedings so long as Tenant deposits with Landlord a bond or other security in an amount reasonably acceptable to Landlord (but not more than 150% of the amount in dispute) which may be used by Landlord to release such lien if Tenant's contest is abandoned or is unsuccessful. Upon final determination of any permitted contest, Tenant will promptly pay any judgment rendered and cause the lien to be released.

9. INSURANCE.

9.1 Landlord's Insurance. During the Term, Landlord will provide and keep in force the following insurance:

(a) commercial general liability insurance relating to Landlord's operation of the Project, including coverage for personal and bodily injury and death, and damage to others' property;

(b) "special causes of loss" property insurance relating to the Project (but excluding Tenant's fixtures, furnishings, equipment, personal property, inventory, stock in trade, documents, files and work products and all leasehold improvements in the Premises that are owned by Landlord during the Term; for purposes of this Section 9.1(b) and Section 9.2(d) below, unless this Lease provides that certain leasehold improvements, including, without limitation, equipment installed to serve the Premises, are owned by Tenant, then they will be deemed to be owned by Landlord);

(c) loss of rental income insurance or loss of insurable gross profits commonly insured against by prudent landlords; and

(d) such other insurance (including boiler and machinery insurance) as Landlord reasonably elects to obtain or any Project or Building mortgagee requires.

Insurance effected by Landlord under this Section 9.1 will be in amounts which Landlord from time to time reasonably determines sufficient or any Project or Building mortgagee requires; will be subject to such deductibles and exclusions as Landlord reasonably determines; and will otherwise be on such terms and conditions as Landlord from time to time reasonably determines sufficient.

9.2 Tenant's Insurance. The insurance carried by Tenant or such insurance carried by Tenant's contractors or subcontractors pursuant to this Lease will be primary and non-contributory insurance over any insurance carried by Landlord. During the Term, Tenant will provide, pay for, and maintain in full force and effect, the insurance outlined herein, covering claims arising out of or in connection with the use, occupancy or maintenance of the Premises, and all areas appurtenant thereto, by Tenant, its agents, representatives, employees, contractors or subcontractors.

(a) Commercial General Liability. Tenant will maintain commercial general liability insurance covering liability arising out of the use, occupancy or maintenance of the Premises and the Tenant Maintained Outdoor Areas on an occurrence basis against claims for bodily injury,

property damage and personal injury. Such insurance will provide minimum limits and coverage as follows:

(i) Minimum Limits.

(A) $1,000,000 Each Occurrence (Bodily Injury and Property Damage per location or project, as applicable).

(B) $2,000,000 General Aggregate.

(C) $2,000,000 Products / Completed Operations Aggregate.

(D) $1,000,000 Personal and Advertising Injury.

(E) $300,000 Fire Damage.

(ii) Coverages.

(A) 1986 (or current equivalent) ISO Commercial General Liability Form (Occurrence Form)

(B) Additional Insured, but only with respects to occurrences within the Premises and all areas appurtenant thereto: Landlord, its partners, managers, members, officers and directors, employees, agents, subsidiaries, affiliates, lender and Property Manager.

(C) Waiver of Subrogation in favor of Landlord and Property Manager.

(b) Automobile Liability. Tenant will maintain business auto liability covering liability arising out of any owned, hired and non-owned autos.

(i) Minimum Limits. $1,000,000 Combined Single Limit for each accident.

(c) Workers Compensation. Tenant will maintain workers compensation and employers liability insurance applicable to its operations in the State of California.

(i) Minimum Limits.

(A) Workers Compensation: Statutory Limits.

(B) Employers Liability:

(I) Bodily Injury for Each Accident – $500,000.

(II) Bodily Injury by Disease for Each Employee – $500,000.

(III) Bodily Injury Disease Aggregate – $500,000.

(ii) Coverages. Waiver of Subrogation in favor of Landlord and Property Manager.

(d) Personal Property. Tenant will maintain property insurance covering all personal property and equipment (including, but not limited to Tenant's fixtures, furnishings, equipment, personal property, inventory, stock in trade, documents, files and work products and all leasehold improvements not required to be insured by the Landlord pursuant to Section 9.1(b)) in the Premises on a full replacement cost basis in amounts sufficient to prevent Tenant from becoming a coinsurer and insuring against Special Causes of Loss, including an amount of no less than $1,000 for money and securities (inside and outside of the Premises) and vandalism and malicious mischief.

(e) Umbrella/Excess Liability. Tenant will maintain umbrella/excess liability insurance as shown below. The insurance will be on an occurrence basis in excess of the underlying insurance described in Sections 9.2(a), (b) and (c)(i)(B) and will be at least as broad as each and every one of the underlying policies.

(i) Minimum Limits.

(A) $5,000,000 per Occurrence.

(B) $5,000,000 Aggregate.

(f) Other Insurance Provisions. Tenant will name, and will cause its contractors to name, Landlord, Property Manager, their Affiliates and their respective partners, managers, members, officers, directors and employees as additional insureds with respect to liability arising out of Tenant's or its contractors' or subcontractors' use, occupancy, or maintenance of the Premises or activities performed thereon, on all liability policies carried by Tenant and/or Tenant's contractors and subcontractors. All liability insurance policies carried by Tenant will include provisions for contractual liability coverage. It is expressly understood and agreed that the coverages required represent Landlord's minimum requirements and such are not to be construed to void or limit Tenant's indemnity obligations contained in this Lease. Neither (i) the insolvency, bankruptcy or failure of any insurance company covering Tenant, (ii) the failure of any insurance company to pay claims occurring nor (iii) any exclusion from or insufficiency of coverage will be held to affect, negate or waive any of Tenant's indemnity obligations under Sections 4.3, 4.4(e), 7.1, 8, 11.3, 23 or 26.5 hereof or any other provision of this Lease. The amount of liability insurance under insurance policies maintained by Tenant shall not be reduced by the existence of insurance coverage under policies separately maintained by Landlord. Tenant shall be solely responsible for any premiums, assessments, penalties, deductible assumptions, retentions, audits, retrospective adjustments or any other kind of payment due under its policies. Tenant's occupancy of the Premises without delivering the certificates and/or other evidence of insurance, will not constitute a waiver of Tenant's obligations to provide the required coverages. If Tenant provides to Landlord a certificate that does not evidence the coverages required herein, or that is faulty in any respect, Landlord's acceptance of such certificate will not constitute a waiver of Tenant's obligations to provide the proper insurance.

(g) Proof of Insurance. Prior to execution of this Lease, Tenant will furnish Property Manager with certificates of insurance evidencing the coverage outlined above and the Other Insurance Provisions outlined above. Insurance is to be placed with insurers with a Best's rating of no less than A-IX by carriers authorized to furnish insurance in the State of California. No such policy will be cancelable, non renewed or modified except after 30 days' written notice to Property Manager. Tenant will maintain all of the foregoing insurance coverages in full force and effect until the expiration or earlier termination of this Lease.

9.3 Waiver of Subrogation. Landlord and Tenant agree that all insurance required to be carried under Sections 9.1(b), (c) and (d) and 9.2(d) and other property damage insurance which may be carried by either of them will be endorsed with a clause providing that any release from liability of, or waiver of claim for, recovery from the other party entered into in writing by the insured thereunder prior to any loss or damage will not affect the validity of such policy or the right of the insured to recover under such policy, and providing further that the insurer waives all rights of subrogation which such insurer might have against the other party (and, when the "other party" is Landlord, such waiver will apply to Property Manager as well). Without limiting any release or waiver of liability or recovery set forth elsewhere in this Lease, and notwithstanding anything in this Lease which may appear to be to the contrary, each of the parties hereto waives all claims for recovery from the other party for any loss or damage to any of its property insured (or required by the terms of this Lease to be insured) under valid and collectible insurance policies to the extent of any recovery collectible (or would have been collectible if the insurance required under this Lease had been maintained) under such insurance policies, and this waiver will expressly apply to any amount that is not reimbursable or paid by the damaged party's insurer because of the deductible or self-insured retention portion of the damaged party's insurance coverage.

10. DAMAGE OR DESTRUCTION.

10.1 Termination Options. If any portion of the Premises, the respective Buildings or a portion of the Project reasonably necessary for the continued use of each Building and/or the Premises are damaged by fire or other casualty Landlord will, promptly after learning of such damage, notify Tenant in writing of the time necessary to repair or restore such damage, as estimated by Landlord's architect, engineer or contractor. If such estimate states that repair or restoration of all of such damage that was caused to a portion of the Premises or to any other portion of the Buildings or Project necessary for Tenant's occupancy cannot be completed within 365 days from the date of such damage (or within 30 days from the date of such damage if such damage occurred within the last 12 months of the Term), then Tenant will have the option to terminate this Lease with respect to the applicable portion of the Premises affected by such damage. If such estimate states that repair or restoration of all of such damage that was caused to the Buildings or applicable portion of the Project cannot be completed within 365 days from the date of such damage, or if such damage occurred within the last 12 months of the Term and such estimate states that repair or restoration of all such damage that was caused to a portion of the Premises or to any other portion of the Buildings or the Project necessary for Tenant's occupancy cannot be completed within 60 days from the date of such damage (provided that if Tenant has exercised, or proceeds to validly exercise an option to extend the Term within 15 business days of the occurrence of such damage, the "Term" for the purposes of the foregoing clause shall refer to the Term so extended), or if such damage is not insured against by the insurance policies required to be maintained by Landlord according to Section 9.1 (and Tenant does not agree to pay the shortfall in the cost of restoration), then Landlord or Tenant will have the option to terminate this Lease with respect to the applicable portion of the Premises affected by such damage. Any option to terminate granted above must be exercised by written notice to the other party given within 10 business days after Landlord delivers to Tenant the notice of estimated repair time. If either party exercises its option to terminate this Lease with respect to a portion of the Premises, such termination will occur 30 days after notice of termination is delivered; provided, however, that Rent for the period commencing on the date of such damage until the date this Lease terminates will be reduced to the reasonable value of any use or occupation of any portion of the Premises by Tenant during such period.

10.2 Repair Obligations. If the Premises, the Buildings and/or Project are damaged by fire or other casualty and neither party terminates this Lease according to Section 10.1, then Landlord will repair and restore such damage with reasonable promptness, subject to delays for insurance adjustments

and delays caused by matters beyond Landlord's control. Landlord will have no liability to Tenant and Tenant will not be entitled to terminate this Lease if such repairs and restoration are not in fact completed within the estimated time period, provided that Landlord promptly commences and diligently pursues such repairs and restoration to completion. In no event will Landlord be obligated to repair, restore or replace any of the property required to be insured by Tenant according to Section 9.2. Notwithstanding anything to the contrary contained herein, Tenant hereby waives the provisions of the California Civil Code, Section 1932, Subsection 2, and Section 1933, Subsection 4 (and any other successor statutes thereof permitting Tenant to terminate this Lease as a result of any damage or destruction).

10.3 Rent Abatement. If any fire or casualty damage renders all or a portion of the Premises untenantable and if this Lease is not terminated with respect to all or a portion of the Premises according to Section 10.1, then Rent attributable to the untenantable portion of the Premises will abate beginning on the date of such damage. Such abatement will end on the date Landlord has substantially completed the repairs and restoration Landlord is required to perform according to Section 10.1 and Tenant has had a reasonable period of time to substantially complete any repairs and restoration Tenant is required to perform according to Section 10.1. Such abatement will be in an amount bearing the same ratio to the total amount of Rent for such period as the untenantable portion of the Premises bears to the entire Premises. In no event will Landlord be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from damage caused by fire or other casualty or the repair of such damage, provided however that, to the extent Tenant remains in possession of any portion of the Premises, Landlord will take all reasonable steps to minimize the disruption to Tenant's business and use of such portion of the Premises during the period of repair.

11. WAIVERS AND INDEMNITIES

11.1 Tenant's Waivers. Except to the extent caused by the willful or negligent act or omission or breach of this Lease by Landlord or anyone for whom Landlord is legally responsible, Landlord and its Affiliates will not be liable or in any way responsible for, and Tenant waives all claims against Landlord and its Affiliates for, any loss, injury or damage suffered by Tenant or others relating to (a) loss or theft of, or damage to, property of Tenant or others; (b) subject to Section 9.3, injury or damage to persons or property resulting from fire, explosion, falling plaster, escaping steam or gas, electricity, water, rain or snow, or leaks from any part of the Buildings or Project or from any pipes, appliances or plumbing, or from dampness; or (c) damage caused by other tenants, occupants or persons in the Premises or other premises in the Buildings or Project, or caused by the public or by construction of any private or public work.

11.2 Landlord's Indemnity. Subject to Sections 5.9, 5.10, 9.3 and 11.1 and except to the extent caused by the willful misconduct or grossly negligent act or omission by Tenant, to the fullest extent permitted by applicable Laws, Landlord will indemnify, defend and hold harmless Tenant from and against any and all liability, loss, claims, demands, damages or expenses (including reasonable attorneys' fees) due to or arising out of (a) Landlord's maintenance, operation and management of the Common Areas as required by this Lease, (b) the gross negligence or willful misconduct of Landlord or its Affiliates, and (c) any claim arising directly from Landlord's material breach of this Lease. Landlord's obligations under this Section 11.2 will survive the expiration or early termination of the Term.

11.3 Tenant's Indemnity. Subject to Section 9.3 and except to the extent caused by the willful misconduct or grossly negligent act or omission by Landlord, to the fullest extent permitted by applicable Laws, Tenant will indemnify, defend and hold harmless Landlord, Property Manager, their Affiliates and their respective partners, managers, members, officers, directors and employees from and against

any and all liability, loss, claims, demands, damages or expenses (including reasonable attorneys' fees) due to or arising out of (a) Tenant's use and occupancy of the Premises and/or the Tenant Maintained Outdoor Areas, (b) the gross negligence or willful misconduct of Tenant or its Affiliates and (c) any claim arising directly from Tenant's material breach of this Lease. Tenant's obligations under this Section 11.3 will survive the expiration or early termination of the Term.

12. CONDEMNATION.

12.1 Full Taking. If all or substantially all of the Project, Buildings or Premises are taken for any public or quasi-public use under any applicable Laws or by right of eminent domain, or are sold to the condemning authority in lieu of condemnation, then this Lease will terminate as of the date when the condemning authority takes physical possession of the Project, Buildings or Premises.

12.2 Partial Taking.

(a) Landlord's Termination of Lease. If only part of the Project, a Building or Premises is thus taken or sold, and such partial taking materially impairs Tenant's use of the Premises, and if after such partial taking, in Landlord's reasonable judgment, alteration or reconstruction is not economically justified, then Landlord (whether or not the Premises are affected) may terminate this Lease by giving notice to Tenant within 60 days after the taking.

(b) Tenant's Termination of Lease. If over 20% of the 1801 Space and/or the 1851 Space is thus taken or sold and Landlord is unable to provide Tenant with comparable replacement premises in the Buildings or Project, Tenant may terminate this Lease if in Tenant's reasonable judgment such portion of the Premises cannot be operated by Tenant in an economically viable fashion because of such partial taking. Such termination by Tenant must be exercised by notice to Landlord given not later than 60 days after Tenant is notified of the taking of such portion of the Premises.

(c) Effective Date of Termination. Termination by Landlord or Tenant will be effective as of the date when physical possession of the applicable portion of the Project, Buildings or Premises is taken by the condemning authority.

(d) Election to Continue Lease. If neither Landlord nor Tenant elects to terminate this Lease upon a partial taking of a portion of the Premises, the Rent payable under this Lease will be diminished by an amount allocable to the portion of the Premises which was so taken or sold. If this Lease is not terminated upon a partial taking of the Project, Buildings or Premises, Landlord will, at Landlord's sole expense, promptly restore and reconstruct the Project, Buildings and Premises to substantially their former condition to the extent the same is feasible. However, Landlord will not be required to spend for such restoration or reconstruction an amount in excess of the net amount received by Landlord as compensation or damages for the part of the Project, the Buildings or Premises so taken.

(e) Waiver. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of the California Code of Civil Procedure.

12.3 Awards. As between the parties to this Lease, Landlord will be entitled to receive, and Tenant assigns to Landlord, all of the compensation awarded upon taking of any part or all of the Project, Buildings or Premises, including any award for the value of the unexpired Term. However, Tenant may assert a claim in a separate proceeding against the condemning authority for any damages resulting from

the taking of Tenant's trade fixtures or personal property, or for moving expenses, business relocation expenses or damages to Tenant's business incurred as a result of such condemnation.

13. ASSIGNMENT AND SUBLETTING.

13.1 Limitation. Without Landlord's prior written consent, Tenant will not assign all or any of its interest under this Lease, sublet all or any part of the Premises or permit the Premises to be used by any parties other than Tenant and its employees, subject, however, to the terms and conditions of this Section 13, which terms and conditions Tenant and Landlord agree are reasonable. Notwithstanding anything contained herein to the contrary, any assignment or sublease to an entity which controls, is controlled by, or is under common control with Tenant, or which is the result of a merger or consolidation with Tenant, or which acquires all or substantially all of Tenant's assets will not require the consent of Landlord (a "Permitted Transfer"), provided that Tenant will provide prior written notice to Landlord, unless such notice is prohibited by law, in which case it will be provided as soon as reasonably possible, and deliver to Landlord any documents or information reasonably required by Landlord regarding such assignment or sublease, the proposed assignee or sublessee has a net worth equal to or greater than the net worth of Tenant as of the Lease Date, and such an assignment or sublease is not an effort by Tenant to avoid any of its obligations under this Lease, including, without limitation, the obligations under this Section 13. For purposes of this Section 13.1, in order for an entity to control another, the controlling entity must have voting control of and own greater than 50% of every class of voting stock and/or other voting equity interest of the entity, when the controlled entity is a corporation; the controlling entity must be the owner of greater than 50% of the partnership or limited liability company interests in the assets, liabilities, income, loss and distributions of the controlled entity, when the controlled entity is a partnership or limited liability company; or the controlling entity must be the sole beneficiary of the controlled entity, when the controlled entity is a trust.

13.2 Notice of Proposed Transfer; Landlord's Options. Other than a Permitted Transfer, if Tenant desires to enter into any assignment of this Lease or a sublease of all or any part of the Premises, Tenant will first give Landlord notice of the proposed assignment or sublease, which notice will contain the name and address of the proposed transferee, the proposed use of the Premises, statements reflecting the proposed transferee's current financial condition and income and expenses for the past two years, and the principal terms of the proposed assignment or sublease. Landlord will have the following options, which must be exercised, if at all, by notice given to Tenant within 10 business days after Landlord's receipt of Tenant's notice of the proposed transfer (other than a Permitted Transfer):

(a) if Tenant's notice relates to an assignment of this Lease, to cancel and terminate this Lease. If Landlord exercises its option to terminate this Lease, this Lease will cancel and terminate on the last day of the month following such 10 business day period and Tenant will be released from any further liability under this Lease, and Landlord may, at its option, lease the Premises to the proposed assignee, or to any other person or entity, without liability to Tenant; or

(b) if Tenant's notice relates to a subletting for the remainder of the Term, to cancel and terminate this Lease with respect to such portion of the Premises that would be subject to the proposed sublease. If this Lease shall be terminated with respect to less than the entire Premises pursuant to this Section 13.2(b), the Base Rent and Operating Expenses shall be adjusted on the basis of the number of square feet of Rentable Area retained by Tenant in proportion to the number of square feet of Rentable Area contained in the original Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of same. In addition to the foregoing, Landlord

shall construct and erect, at its sole cost, such partitions as may be required to separate the space to be retained by Tenant from the space recaptured by Landlord. Landlord may, at its option, lease any recaptured portion of the Premises to the proposed subtenant or to any other person or entity without liability to Tenant.

Notwithstanding anything to the contrary, if Landlord elects to terminate this Lease pursuant to the terms of this Section 13.2, provided that Tenant is not in default under this Lease, Tenant will have the right to revoke its request for Landlord's consent by giving Landlord notice within five business days after Landlord's delivery of its termination notice, thereby nullifying Landlord's exercise of its termination right, and no assignment or sublease, as the case may be, will then occur. Except in the event of termination of this Lease by Landlord as provided in this Section 13.2, no provision of this Section will be construed to relieve Tenant of the obligations as set forth in this Lease.

13.3 Consent Not to be Unreasonably Withheld. To the extent Landlord's consent is required, and if Landlord does not exercise any of its applicable options under Section 13.2, then Landlord will not unreasonably withhold, condition or delay its consent to the proposed assignment or subletting, except with respect to a proposed assignment or sublease to an existing tenant or other occupant in the Project or to a party who has been engaged in negotiations with Landlord for a lease in the Project within six months prior to Tenant's request for Landlord's approval of such assignment or sublease, for which Landlord may withhold its consent in its sole and absolute discretion. Landlord shall send written notice to Tenant exercising one of its applicable options under Section 13.2 within 15 business days of Landlord's receipt of the information required under Section 13.2.

13.4 Form of Transfer. If Landlord consents to a proposed assignment or sublease, Landlord's consent will not be effective unless and until Tenant delivers to Landlord an original duly executed assignment or sublease, as the case may be, that provides, in the case of a sublease, that the sublease is subject and subordinate to this Lease and the subtenant will comply with all applicable terms and conditions of this Lease and, in the case of an assignment, an assumption by the assignee of all of the obligations which this Lease requires Tenant to perform and an acknowledgment by Tenant that it remains liable for the performance of all of such obligations.

13.5 Payments to Landlord. If Landlord does not exercise its applicable option under Section 13.2 and Tenant effects an assignment or sublease or in case of a Permitted Transfer, then Landlord will be entitled to receive and collect, either from Tenant or directly from the transferee, 50% of the amount by which the consideration required to be paid by the transferee for the use and enjoyment of Tenant's rights under this Lease (after deducting from such consideration Tenant's reasonable costs incurred in effecting the assignment or sublease, including, without limitation, tenant improvements, rent abatements and similar concessions, as well as market brokerage and legal fees) exceeds the Rent payable by Tenant to Landlord allocable to the transferred space or interest. Such percentage of such amount will be payable to Landlord at the time(s) Tenant receives the same from its transferee (whether in monthly installments, in a lump sum or otherwise). Tenant shall reimburse Landlord for any costs incurred in the review of a sublease of the Premises or assignment of this Lease, not to exceed $2,000 per request.

13.6 Change of Ownership. Except for a Permitted Transfer, any change by Tenant in the form of its legal organization (such as, for example, a change from a general to a limited partnership), any transfer of 51% or more of Tenant's assets, and any other transfer of interest effecting a change in identity of persons exercising effective control of Tenant will be deemed an "assignment" of this Lease requiring Landlord's prior written consent. The transfer of any outstanding capital stock of a corporation

whose stock is publicly traded will not, however, be deemed a "transfer of interest" under this Section 13.6.

13.7 Effect of Transfers. Unless Landlord agrees to the contrary in writing, no subletting or assignment (including a Permitted Transfer) will release Tenant from any of its obligations under this Lease and such obligations of Tenant will continue in full force and effect as if no subletting or assignment had been made, regardless of any action taken by or on behalf of a subtenant or assignee, or limitations imposed on remedies against a subtenant or assignee, in any bankruptcy, insolvency, receivership, reorganization or dissolution proceeding instituted by or against such subtenant or assignee. Acceptance of Rent by Landlord from any person other than Tenant will not be deemed a waiver by Landlord of any provision of this Section 13. Consent to one assignment or subletting will not be deemed a consent to any subsequent assignment or subletting. In the event of any default by any assignee or subtenant or any successor of Tenant in the performance of any Lease obligation, Landlord may proceed directly against Tenant without exhausting remedies against such assignee, subtenant or successor. The voluntary or other surrender of this Lease by Tenant or the cancellation of this Lease by mutual agreement of Tenant and Landlord will not work a merger and will, at Landlord's option, terminate all or any subleases or operate as an assignment to Landlord of all or any subleases; such option will be exercised by notice to Tenant and all known subtenants in the Premises. The discovery of the fact that any financial statement relied upon by Landlord in giving its consent to an assignment or subletting was materially false or misleading will, at Landlord's election, render Landlord's said consent null and void.

13.8 Applicability to Subsequent Transfers. If Tenant assigns its rights under this Lease or subleases any portion of the Premises, and subsequently (a) the applicable assignee desires to either sublease a portion of the Premises or further assign its interest in this Lease, or (b) the applicable subtenant desires to sub-sublease any portion of the Premises, then Landlord's rights under this Section 13 will apply to any such subsequent assignment, sublease or sub-sublease, as well as to any other subsequent transfer of Tenant's interest in this Lease and/or the Premises.

13.9 Letter of Credit. Notwithstanding anything to the contrary in this Lease, it will be a condition precedent to any assignment of Tenant's interest in this Lease or any sublease of all or a portion of the Premises (including a Permitted Transfer) that, after the consummation of such assignment or sublease, Landlord will continue to have full and unaltered access to the Letter of Credit provided by Tenant under Section 1.1(r) and Section 28, or a replacement letter of credit from such assignee or subtenant in the amount and form required pursuant to this Lease, issued by financial institution acceptable to Landlord, in its reasonable discretion, and any such assignment or subletting will be void and of no force or effect if it adversely affects Landlord's ability to obtain the full benefits of the Letter of Credit.

14. PERSONAL PROPERTY.

14.1 Installation and Removal. Tenant may install in the Premises its personal property (including Tenant's usual trade fixtures) in a proper manner, provided that no such installation will materially and adversely interfere with or damage the mechanical, plumbing or electrical systems or the structure of the Buildings and/or Project, and provided further, that if such installation would require any Tenant Alteration, such installation will be subject to Section 7.1. If neither a Default nor any fact or circumstance that would constitute a Default with the giving of notice and/or the passage of time then exists, any such personal property installed in the Premises by Tenant (a) may be removed from the Premises from time to time in the ordinary course of Tenant's business or in the course of making any Tenant Alterations permitted under Section 7.1, and (b) will be removed by Tenant at the end of the Term

according to Section 15.1. Tenant will promptly repair at its expense any damage to the Buildings and/or Project resulting from such installation or removal.

14.2 Responsibility. Tenant will be solely responsible for all costs and expenses related to personal property used or stored in the Premises. Tenant will pay any taxes or other governmental impositions levied upon or assessed against such personal property, or upon Tenant for the ownership or use of such personal property, on or before the due date for payment. Such personal property taxes or impositions are not included in Taxes. Tenant agrees that all personal property of whatever kind, including, without limitation, inventory and/or goods stored at or about the Premises, Tenant's trade fixtures, and Tenant's interest in tenant improvements which may be at any time located in, on or about the Premises or the Buildings, whether owned by Tenant or third parties, will be at the sole risk or at the risk of those claiming through Tenant, and that Landlord will not be liable for any damage to or loss of such property except for loss or damage arising from or caused by the sole gross negligence or willful misconduct of Landlord or any of Landlord's officers, employees, agents, or authorized representatives.

15. END OF TERM.

15.1 Surrender. Upon the expiration or other termination of the Term, or termination of Tenant's right to possession of the Premises, Tenant will immediately vacate and surrender possession of the Premises, in good order, repair and condition, except for ordinary wear and tear, any portion of the Premises for which Landlord is responsible for repair and maintenance under the terms of this Lease, and casualty damage governed by Section 10. Upon the expiration or other termination of the Term, or termination of Tenant's right to possession of the Premises, Tenant agrees to remove (a) all Tenant Alterations (other than the Leasehold Improvements) the removal of which Landlord requested or approved according to Section 7.1 at the time Landlord consented to their installation, and (b) all Specialized Tenant Improvements which Tenant designated for removal according to Paragraph 20 of Exhibit B, (c) all of Tenant's trade fixtures, office furniture, office equipment and other personal property, and (d) any other specialized tenant improvements installed by and paid for by Tenant, as identified and mutually agreed to in writing by Landlord and Tenant prior to installation. Tenant will repair any damage to the Premises, Buildings and/or Project caused by the installation or removal of any such items or, if Tenant fails to make sure repairs within a reasonable time, Landlord may, at its option, make sure repairs and Tenant will reimburse Landlord for the reasonable cost of such repair following receipt of demand and reasonable back-up. Notwithstanding the foregoing, (i) except pursuant to the express provisions of this Lease (including, without limitation, Sections 10.1, 12.2(b) and Section 29), Tenant may not unilaterally terminate this Lease prior to the expiration of the Term and (ii) Tenant will be responsible for removing all Telecom Equipment installed by or at Tenant's request at the expiration or earlier termination of the Term, or termination of Tenant's right to possession of the Premises, in accordance with Section 26.6 below. Any of Tenant's property remaining in the Premises after the expiration or earlier termination of the Term, or termination of Tenant's right to possession of the Premises, will be conclusively deemed to have been abandoned by Tenant and may be appropriated, stored, sold, destroyed or otherwise disposed of by Landlord without notice or obligation to account to or compensate Tenant, and Tenant will pay Landlord on demand all reasonable costs incurred by Landlord relating to such abandoned property, including the cost to remove or demolish such property. Tenant's obligations under this Section 15.1 will survive the expiration or early termination of this Lease and no surrender of possession of the Premises by Tenant will limit Tenant's liability under this Lease. No act or thing done by Landlord or Landlord's agents during the Term of this Lease will be deemed an acceptance of a surrender of the Premises, unless in writing signed by Landlord. The delivery of the keys to an employee or agent of Landlord will not operate as a termination of this Lease or a surrender of the Premises.

15.2 Holding Over. Tenant understands that it does not have the right to hold over at any time and Landlord may exercise any and all remedies at law or in equity to recover possession of the Premises, as well as any damages incurred by Landlord, due to Tenant's failure to vacate the Premises and deliver possession to Landlord as required by this Lease. If Tenant holds over after the Expiration Date, Tenant will be deemed to be a tenant from month-to-month, at a monthly Base Rent, payable in advance, equal to 150% of monthly Base Rent payable during the last year of the Term, and Tenant will be bound by all of the other terms, covenants and agreements of this Lease as the same may apply to a tenancy at sufferance. If Tenant fails to surrender the Premises upon expiration of this Lease despite demand to do so by Landlord, Tenant will indemnify and hold Landlord harmless from all loss, cost, expense, or liability, including without limitation, any claim made by any succeeding tenant founded on or resulting from such failure to surrender and any attorneys' fees and other costs of legal proceedings.

16. ESTOPPEL CERTIFICATES. Promptly upon Landlord's request after Tenant has occupied the Premises, Tenant will execute and deliver to Landlord an Occupancy Estoppel Certificate in the form of Exhibit C. In addition, Tenant agrees that at any time and from time to time (but on not less than 10 business days' prior request by Landlord), Tenant will execute, acknowledge and deliver to Landlord a certificate indicating any or all of the following: (a) the Commencement Date and Expiration Date; (b) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that this Lease is in full force and effect, as modified, and stating the date and nature of each modification); (c) the date, if any, through which Base Rent, Additional Rent and any other Rent payable have been paid; (d) that, to Tenant's actual knowledge, no default by Landlord or Tenant exists which has not been cured, except as to defaults stated in such certificate; (e) that, to Tenant's actual knowledge, Tenant has no existing defenses or set-offs to enforcement of this Lease, except as specifically stated in such certificate; (f) provided such events have occurred, that Tenant has accepted the Premises and that all improvements required to be made to the Premises by Landlord have been completed according to this Lease; (g) that, except as specifically stated in such certificate, Tenant, and only Tenant, currently occupies the Premises; and (h) such other factual matters as may be reasonably requested by Landlord. Any such certificate may be relied upon by Landlord and any prospective purchaser or present or prospective mortgagee, deed of trust beneficiary or ground lessor of all or a portion of the Buildings and/or Project. Tenant's failure to deliver such certificate will be deemed to establish conclusively that this Lease is in full force and effect and that the statements set forth in Landlord's proposed certificate are true and correct.

17. TRANSFERS OF LANDLORD'S INTEREST.

17.1 Sale, Conveyance and Assignment. Subject only to Tenant's rights under this Lease, nothing in this Lease will restrict Landlord's right to sell, convey, assign or otherwise deal with the Project, Buildings or Landlord's interest under this Lease.

17.2 Effect of Sale, Conveyance or Assignment. A sale, conveyance or assignment of Landlord's interest in the leases of the Buildings and/or the Project (when coupled with the transfer of the Letter of Credit, and Security Deposit, if any, to Landlord's transferee) will automatically release Landlord from liability under this Lease from and after the effective date of the transfer, except for any liability relating to the period prior to such effective date; and Tenant will look solely to Landlord's transferee for performance of Landlord's obligations relating to the period after such effective date. This Lease will not be affected by any such sale, conveyance or assignment and Tenant will attorn to Landlord's transferee.

17.3 Subordination and Nondisturbance. This Lease is and will be subject and subordinate in all respects to any ground lease, first mortgage or first deed of trust now or later encumbering the Buildings or Project, and to all their renewals, modifications, supplements, consolidations and

replacements (an "Encumbrance"). With respect to any Encumbrance first encumbering the Buildings or Project subsequent to the Lease Date of this Lease, Landlord will use its commercially reasonable efforts to cause the holder of such Encumbrance to agree (by delivery of a commercially reasonable subordination, non-disturbance and attornment agreement) that so long as Tenant is not in Default of its obligations under this Lease, this Lease will not be terminated and Tenant's possession of the Premises will not be disturbed by the termination or foreclosure, or proceedings for enforcement, of such Encumbrance. While such subordination will occur automatically, Tenant agrees, upon request by and without cost to Landlord or any successor in interest, to execute and deliver to Landlord or the holder of an Encumbrance such commercially reasonable instrument(s) as may be reasonably required to evidence such subordination within 10 business days after Landlord's request therefor. In the alternative, however, the holder of an Encumbrance may unilaterally elect to subordinate such Encumbrance to this Lease.

17.4 Attornment. If the interest of Landlord is transferred to any person (a "Transferee") by reason of the termination or foreclosure, or proceedings for enforcement, of an Encumbrance, or by delivery of a deed in lieu of such foreclosure or proceedings, Tenant will immediately and automatically attorn to the Transferee. Upon attornment this Lease will continue in full force and effect as a direct lease between the Transferee and Tenant, upon all of the same terms, conditions and covenants as stated in this Lease, except the Transferee (a) will not be subject to any set offs or claims which Tenant might have against any prior landlord; (b) will not be liable for any act or omission of any prior landlord (except to the extent any non-performance of this Lease continues after such transfer); (c) will not be bound by any payment of Rent for more than one month in advance, unless such amounts are actually transferred to the Transferee; and (d) will not be bound by any amendment or modification of this Lease made without the express written consent of Transferee. Tenant agrees, upon request by and without cost to the Transferee, to promptly execute and deliver to the Transferee such commercially reasonable instrument(s) as may be reasonably required to evidence such attornment.

18. RULES AND REGULATIONS. Tenant agrees to observe and comply with the Rules and Regulations set forth on Exhibit D and with all reasonable, nondiscriminatory modifications and additions to such Rules and Regulations and/or Telecommunications Rules from time to time adopted by Landlord and of which Tenant is notified in writing. No such modification or addition will contradict or abrogate any right expressly granted to Tenant under this Lease. Landlord's enforcement of the Rules and Regulations and/or Telecommunications Rules will be uniform and nondiscriminatory, but Landlord will not be responsible to Tenant for the failure of any person to comply with the Rules and Regulations and/or Telecommunications Rules. In the event of any conflict between the Rules and Regulations and the terms, covenants and conditions of this Lease, this Lease will control.

19. PARKING. Tenant may utilize up to 410 unassigned parking spaces within the Project at no charge. Landlord reserves the right to specify the areas or portions of the Project in which Tenant's employees and agents must park, and if so specified, Tenant's employees and agents will only park in such specified area or portion; provided that Landlord will use best efforts to designate such areas within reasonable walking distance to the Premises. Tenant's rights to use the Project's parking areas are nonexclusive, and are conditioned upon this Lease being in full force and effect. Tenant will not abuse its privileges with respect to such parking areas and will use the same in accordance with Landlord's reasonable directions. Landlord's inability to make any of the parking spaces available at any time during the Term for reasons beyond Landlord's reasonable control will not be deemed a default by Landlord giving rise to any claim by Tenant; provided, however, if any event or action or omission by Landlord renders Tenant's parking space allocation for the Premises for whatever reason inaccessible, unusable, unsafe, or which causes the number of parking spaces for the Buildings or Tenant's parking

space allocation for the Premises to be reduced below applicable local code requirements (which reasons may include but are not limited to repairs, maintenance, casualty, condemnation, or displacement or dislocation caused by future construction), Landlord shall immediately provide substitute parking areas for Tenant's use and its invitees which areas shall (i) unless required by Laws, cause no net reduction in Tenant's parking space allocation, (ii) be similarly convenient in terms of location, quality and safety, as reasonably determined based on the circumstances, and (iii) except in the case of an emergency, be designated by prior written notice to Tenant with the exact location and anticipated duration of such substitute parking areas.

20. DEFAULT AND REMEDIES.

20.1 Tenant's Default. The occurrence of any one or more of the following events if uncured before the expiration of the cure periods set forth below, if any, will be a material default and breach of this Lease by Tenant ("Default"). Any notice required by the terms of this Lease in connection with any such default will be in lieu of, and not in addition to, any notice required under Sections 1161, et seq., of the California Code of Civil Procedure:

(a) Tenant fails to pay any Rent payment or other sum due under this Lease after the same will be due and payable, and such failure continues for a period of five days after written notice thereof from Landlord to Tenant. Without limiting the foregoing, Tenant will only be given one such notice and/or cure period per calendar year; after such notice given to Tenant by Landlord, any subsequent failure by Tenant to pay amounts when due during such calendar year will constitute a Default without Landlord providing further notice or opportunity to cure.

(b) Tenant fails to perform or observe any term, condition, covenant, or obligation required to be performed or observed by it under this Lease for a period of 30 days (or such shorter time provided herein) after notice thereof from Landlord; provided, however, that if the term, condition, covenant, or obligation to be performed by Tenant is of such nature that the same cannot reasonably be cured within 30 days and if Tenant commences such performance within said 30-day period and thereafter diligently undertakes to complete the same, then such failure will not be a Default hereunder if it is cured within 60 days following Landlord's notice.

(c) A trustee, disbursing agent, or receiver is appointed to take possession of all or substantially all of Tenant's assets in, on or about the Premises or of Tenant's interest in this Lease (and Tenant or any guarantor of Tenant's obligations under this Lease does not regain possession within 90 days after such appointment); or Tenant makes an assignment for the benefit of creditors; or all or substantially all of Tenant's assets in, on or about the Premises or Tenant's interest in this Lease are attached or levied upon under execution (and Tenant does not discharge the same within 90 days thereafter).

(d) A petition in bankruptcy, insolvency, or for reorganization or arrangement is filed by or against Tenant or any guarantor of Tenant's obligations under this Lease pursuant to any federal or state statute, and, with respect to any such petition filed against it, Tenant or such guarantor fails to secure a stay or discharge thereof within 90 days after the filing of the same. In the event that any provision of this Section 20.1(d) is contrary to any applicable Laws, such provision will be of no force or effect.

(e) Any assignment, subletting, or other transfer for which the prior written consent of the Landlord was required pursuant to Section 13, but was not obtained.

(f) Discovery of any knowingly false or misleading statement of material fact concerning financial information submitted by Tenant to Landlord in connection with obtaining this Lease or any other consent or agreement by Landlord.

(g) Tenant's admission in writing of its inability to pay its debts as they mature.

(h) Suspension of Tenant's right to conduct its business, caused by the order, judgment, decree, decision, or other act of any court or governmental agency for more than 60 days.

(i) Tenant's failure to execute, acknowledge, and deliver to Landlord, within the 10 business day period specified in Section 17, any documents required to effectuate an attornment, a subordination, or to make this Lease or any option granted herein prior to the lien of any mortgage, deed of trust, or ground lease, or any estoppel certificate, as the case may be, where such failure continues for more than five business days following Tenant's receipt of a written notice from Landlord stating that "Tenant's failure to respond to this notice within five business days will constitute a breach of the Lease."

(j) Intentionally deleted.

(k) Any default by Tenant (after the expiration of any applicable cure period) under a written agreement with Landlord relating to Telecom Equipment, if applicable.

(l) Tenant's failure to timely replace the Letter of Credit as required by, and in accordance with, Section 28.

20.2 Landlord's Remedies. Upon the occurrence of any Default, Landlord will have the following rights and remedies, in addition to those allowed by law or in equity, any one or more of which may be exercised or not exercised without precluding the Landlord from exercising any other remedy provided in this Lease or otherwise allowed by law or in equity:

(a) Landlord may terminate this Lease and Tenant's right to possession of the Premises. If Tenant has abandoned and vacated the Premises, the mere entry onto the Premises by Landlord in order to perform acts of maintenance, cure defaults, preserve the Premises, or attempt to relet the Premises, or the appointment of a receiver in order to protect the Landlord's interest under this Lease, will not be deemed a termination of Tenant's right to possession or a termination of this Lease unless Landlord has notified Tenant in writing that this Lease is terminated. If Landlord terminates this Lease and Tenant's right to possession of the Premises pursuant to this Section 20.2(a), then Landlord may recover from Tenant:

(i) The worth at the time of the award of unpaid Rent, including, without limitation, Operating Expenses, which had been earned at the time of termination; plus

(ii) The worth at the time of the award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of the award of the amount by which the unpaid Rent for the balance of the term after the time of the award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) Any other amounts necessary to compensate Landlord for all of the detriment proximately caused by Tenant's failure to perform its obligations under this Lease which in the ordinary course of things would be likely to result therefrom, including, without limitation, recovery of Base Rent, Additional Rent, and additional or other forms of Rent, for any unamortized period of free Rent theretofore enjoyed by Tenant (with amortization for the Term calculated including an interest factor of 10% per annum); recovery of the unamortized portion (with amortization for the Term calculated including an interest factor of 10% per annum) of any tenant improvement allowance or other leasehold improvement costs paid by Landlord to install leasehold improvements on the Premises which is applicable to that portion of the Term, including option periods, which is unexpired as of the date on which this Lease terminated; any legal expenses, brokers' commissions, or finders' fees in connection with reletting the Premises, and the unamortized portion of any leasing commission paid by Landlord in connection with this Lease which is applicable to the portion of the Term, including option periods, which is unexpired as of the date on which this Lease terminated; the costs of repairs, cleanup, refurbishing, removal, and storage or disposal of Tenant's personal property, equipment, fixtures, and anything else that Tenant is required under this Lease to remove but does not remove (including those alterations which Tenant is required to remove pursuant to an election by Landlord, and which Landlord actually removes, whether or not notice to remove will be delivered to Tenant); and any costs for alterations, additions, and renovations incurred by Landlord in regaining possession of and reletting (or attempting to relet) the Premises.

All computations of the "worth at the time of the award" of amounts recoverable by Landlord under Sections 20.2(a)(i) and (ii) hereof will be computed by allowing interest at the 10% plus the Prime Rate as of the date on which the Default occurred. The "worth at the time of the award" recoverable by Landlord under Section 20.2(a)(iii) and the discount rate for purposes of determining any amounts recoverable under Section 20.2(a)(iv), if applicable, will be computed by discounting the amount recoverable by Landlord at the discount rate of the Federal Reserve Bank of California San Francisco at the time of the award plus 1%. If Tenant tenders to Landlord in an offer of settlement all sums due under this Section 20.2(a) after Landlord has notified Tenant of exercise of the remedies under this Section 20.2(a), then the "worth at the time of the award" will be determined at the time of the tender of payment of the entire amount of such sums by Tenant.

(b) Upon termination of this Lease, whether by lapse of time or otherwise, Tenant will immediately vacate the Premises and deliver possession to Landlord. If Tenant has vacated the Premises and Landlord or any of its agents has reason to believe that Tenant does not intend to reoccupy the Premises, and current or past Rent has been due or unpaid for at least 14 consecutive days, then Landlord will have the right to send Tenant a notice of belief of abandonment pursuant to Section 1951.3 of the California Civil Code. The Premises will be deemed abandoned, and the Tenant's right to possession of the Premises will terminate on the date set forth in such notice, unless Landlord receives (at its address for notices pursuant to this Lease) before such date a notice from Tenant stating (i) Tenant's intent not to abandon the Premises, and (ii) an address at which Tenant may be served in any action for unlawful detainer of the Premises and/or damages or other relief available at law or in equity. If the Premises are deemed abandoned (either through the aforementioned procedure or due to any statement by Tenant to that effect), or if Landlord or any of its agents acts pursuant to a court order, then

Landlord or any of its agents will have the right, without terminating this Lease, to re-enter the Premises and remove all persons therefrom and any or all of Tenant's fixtures, equipment, furniture, and other personal property (herein collectively referred to as "Unclaimed Property") from the Premises, without being deemed in any manner liable for trespass, eviction, or forcible entry or detainer, or conversion of Unclaimed Property, and without relinquishing any right given to Landlord under this Lease or by operation of law. If Landlord re-enters the Premises in such situation, all Unclaimed Property removed from the Premises by Landlord or any of its agents and not claimed by the owner may be handled, removed, or stored, in a commercial warehouse or otherwise by Landlord at Tenant's risk and expense, and Landlord will in no event be responsible for the value, preservation, or safekeeping thereof. Before the retaking of any such Unclaimed Property from storage, Tenant will pay to Landlord, upon demand, all expenses incurred in such removal and all storage charges against such Unclaimed Property. Any such Unclaimed Property of Tenant not so retaken from storage by Tenant within 30 days after such Unclaimed Property is removed from the Premises will be deemed abandoned and may be either disposed of by Landlord pursuant to Section 1988 of the California Civil Code or retained by Landlord as its own property.

(c) Notwithstanding Landlord's right to terminate this Lease pursuant to Section 20.2(a), Landlord may, at its option, even though Tenant has breached this Lease and abandoned the Premises, continue this Lease in full force and effect and not terminate Tenant's right to possession, and enforce all of Landlord's rights and remedies under this Lease. In such event, Landlord will have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover Rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations). Further, in such event, Landlord will be entitled to recover from Tenant all costs of maintenance and preservation of the Premises, and all costs, including reasonable attorneys' fees and receivers' fees, incurred in connection with appointment of and performance by a receiver to protect the Premises and Landlord's interest under this Lease. No reentry or taking possession of the Premises by Landlord pursuant to this Section 20.2(c) will be construed as an election to terminate this Lease unless a written notice (signed by a duly authorized representative of Landlord) of intention to terminate this Lease is given to Tenant. Landlord may at any time after default by Tenant elect to terminate this Lease pursuant to Section 20.2(a), notwithstanding Landlord's prior continuance of this Lease in effect for any period of time, and upon and after Tenant's default under this Lease, Landlord may, but need not, relet the Premises or any part thereof for the account of Tenant to any person, firm, partnership, corporation, or other business entity for such Rent, for such time, and upon such terms as Landlord, in its sole discretion, will determine. Subject to the provisions of this Lease regarding assignment and subletting in Section 13, Landlord will not be required to accept any substitute tenant offered by Tenant or to observe any instructions given by Tenant regarding such reletting. Landlord may remove (and repair any damage caused by such removal) and store (or dispose of) any of Tenant's personal property, equipment, fixtures, and anything else Tenant is required (under this Lease at the election of Landlord or otherwise) to remove but does not remove, and Landlord may also make repairs, renovations, alterations, and/or additions to the Premises to the extent deemed by Landlord necessary or desirable in connection with any attempt to relet the Premises. Tenant will upon demand pay the cost of such repairs, alterations, additions, removal, storage and renovations, together with any reasonable legal expenses, brokers' commissions or finders' fees and any other expenses incurred by Landlord in connection with its entry upon the Premises and attempt to relet the Premises. If Landlord is able to relet the Premises for Tenant's account during the remaining portion of the Term and the consideration collected by Landlord from any reletting is

not sufficient to pay monthly the full amount of Base Rent and Additional Rent payable by Tenant under this Lease, together with any reasonable legal expenses, brokers' commissions or finders' fees, any cost for repairs, alterations, additions, removal, storage and renovations, and any other cost and expense incurred by Landlord in re-entering the Premises and reletting the Premises, then Tenant will pay to Landlord the amount of each monthly deficiency upon demand. Any rentals received by Landlord from any such reletting will be applied as follows:

(i) First, to the payment of any costs of reentry and reletting the Premises;

(ii) Second, to the payment of costs of any such alterations, repairs, additions, removal, storage, and renovations to the Premises;

(iii) Third, to the payment of any other Rent due and unpaid under this Lease; and

(iv) The residue, if any, will be held by Landlord and applied as payment of future Rent as the same may become due and payable under this Lease.

(d) No act or omission by Landlord or its agents during the Term will be an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises will be valid, unless made in writing and signed by a duly authorized representative of Landlord. Neither any remedy set forth in this Lease nor pursuit of any particular remedy will preclude Landlord from any other remedy set forth in this Lease or otherwise available at law or in equity. Landlord will be entitled to a restraining order or injunction to prevent Tenant from breaching or defaulting under any of its obligations under this Lease other than the payment of Rent or other sums due hereunder.

(e) Neither the termination of this Lease nor the exercise of any remedy under this Lease or otherwise available at law or in equity will affect the right of Landlord to any right of indemnification set forth in this Lease or otherwise available at law or in equity by reason of Tenant's occupancy of the Premises, and all rights to indemnification or other obligations of Tenant will survive termination of this Lease and termination of Tenant's right to possession under this Lease.

(f) Landlord may, at Landlord's option but without obligation to do so, and without releasing Tenant from any obligations under this Lease, make any payment or take any action as Landlord deems necessary or desirable to cure any Default in such manner and to such extent as Landlord deems necessary or desirable. Landlord may do so without additional demand on, or additional written notice to, Tenant and without giving Tenant an additional opportunity to cure such Default. Tenant covenants and agrees to pay Landlord, upon demand, all advances, costs and expenses of Landlord in connection with making any such payment or taking any such action, including reasonable attorneys' fees, together with interest at the rate described in Section 3.5, from the date of payment of any such advances, costs and expenses by Landlord.

20.3 Intentionally Omitted.

20.4 Landlord's Default and Tenant's Remedies.

(a) It will be a default and breach of this Lease by Landlord if it fails to perform or observe any term, condition, covenant or obligation required to be performed or observed by it under this Lease for a period of 30 days after written notice thereof from Tenant; provided,

however, that if the term, condition, covenant or obligation to be performed by Landlord is of such nature that the same cannot reasonably be performed within such 30-day period, such default will be deemed to have been cured if Landlord commences such performance within said 30-day period and thereafter diligently undertakes to complete the same.

(b) Tenant will not have the right based upon a default of Landlord to terminate this Lease or to withhold, offset or abate Rent, Tenant's sole recourse for Landlord's default being an action for damages against Landlord for the period of Landlord's default, which is proximately caused by Landlord's default and/or an injunction or other equitable remedy. Tenant will not have the right to terminate this Lease or to withhold, offset or abate the payment of Rent based upon the unreasonable or arbitrary withholding by Landlord of its consent or approval of any matter requiring Landlord's consent or approval, including, but not limited to, any proposed assignment or subletting, Tenant's remedies in such instance being limited to a declaratory relief action, specific performance, injunctive relief or an action of actual damages. Tenant will not in any case be entitled to any consequential or punitive damages based upon any Landlord default or withholding of consent or approval.

20.5 Non-waiver of Default. The failure or delay by Landlord to enforce or exercise at any time any of its rights or remedies or other provisions of this Lease will not be construed to be a waiver thereof, nor affect the validity of any part of this Lease or the right of Landlord thereafter to enforce each and every such right or remedy or other provision. No waiver by Landlord of any Default or breach of this Lease will be held to be a waiver of any other or subsequent Default or breach. The receipt by Landlord of less than the full Rent due will not be construed to be other than a payment on account of Rent then due, no statement on Tenant's check or any letter accompanying Tenant's check be deemed an accord and satisfaction, and Landlord may accept any payment without prejudice to Landlord's right to recover the balance of the Rent due or to pursue any other remedies provided in this Lease or available at law or in equity.

21. SIGNAGE.

21.1 Signage Provided by Landlord. Landlord, at its sole cost and expense, will provide in Multi User Buildings (a) identification of Tenant in the main floor lobby directory of each Building and (b) Building Standard identification signage at the designated suite entrances to the Premises. Notwithstanding the foregoing, Tenant, at its sole cost and expense, may install custom signage at the entrances to the Premises with Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Any subsequent changes to the suite identification will be at Tenant's sole cost.

21.2 Monument Signage. Subject to approval of a signage package by the City of Alameda and the Harbor Bay Business Park Association and the terms of this Section 21.2, Tenant may, at its sole cost and expense, install a monument sign in a location mutually designated by Landlord and Tenant (the "Monument Sign"). The size, design and method of attachment of the Monument Sign must be approved in writing by Landlord prior to installation, which approval shall not be unreasonably withheld, conditioned or delayed, and the Monument Sign must comply with all applicable Laws, Landlord's signage and design criteria, any Declarations and any applicable association and/or any related architectural control committee. Tenant, at its sole cost and expense, will obtain all necessary permits with respect to the Monument Sign. Tenant will maintain the Monument Sign in good and operating condition. If the Monument Sign is damaged or inoperative, Tenant will commence repair of such Monument Sign as soon as practicable, but in no event later than 48 hours (exclusive of Saturdays, Sundays and nationally recognized bank holidays) after receipt of notice from Landlord, and thereafter,

Tenant will diligently pursue completion of such repair. Upon vacation of the Premises, or the removal or alteration of the Monument Sign for any reason, Tenant will be responsible for the repair, maintenance and/or replacement of the land where the applicable Monument Sign is removed from, if applicable. Landlord, at Landlord's option after reasonable notice to Tenant, may perform any of Tenant's obligations to install, repair, maintain and/or replace the Monument Sign and the applicable land where such Monument Sign is located, and Landlord will be entitled to reimbursement from Tenant for the costs and expenses related thereto. Tenant's obligations under this Section 21.2 will survive expiration or earlier termination of this Lease.

21.3 Exterior Building Signage. Subject to the terms of this Section 21.3, Tenant may, at its sole cost and expense, install signage on the exterior of the 1801 Building and the 1851 Building in locations designated by Landlord (the "Exterior Signs"). The size, design and method of attachment of the Exterior Signs must be approved in writing by Landlord prior to installation, and the Exterior Signs must comply with all applicable Laws, Landlord's signage and design criteria, any Declarations and any applicable association and/or any related architectural control committee. Tenant, at its sole cost and expense, will obtain all necessary permits with respect to the Exterior Signs. Tenant will maintain the Exterior Signs in good and operating condition. If either Exterior Sign is damaged or inoperative, Tenant will commence repair of such Exterior Sign as soon as practicable, but in no event later than 48 hours (exclusive of Saturdays, Sundays and nationally recognized bank holidays) after receipt of notice from Landlord, and thereafter, Tenant will diligently pursue completion of such repair. Upon vacation of the Premises, or the removal or alteration of the Exterior Signs for any reason, Tenant will be responsible for the repair, maintenance and/or replacement of the Building fascia surface where the applicable Exterior Sign is removed from, if applicable. Landlord, at Landlord's option after reasonable notice to Tenant, may perform any of Tenant's obligations to install, repair, maintain and/or replace each Exterior Sign and the applicable Building fascia surface where such Exterior Sign is attached, if applicable, and Landlord will be entitled to reimbursement from Tenant for the costs and expenses related thereto. Except as set forth above, Tenant will not, without Landlord's prior written consent, (a) make any changes to or paint the exterior of the Building, (b) affix signs, advertisements, banners or other materials to the inside or outside of exterior windows or to any doors, columns or storefront walls. Tenant's obligations under this Section 21.3 will survive expiration or earlier termination of this Lease.

21.4 General. All signs, whether erected by Landlord or Tenant, will conform to Landlord's Building Standard signage and to all Laws. In the event of a violation of the foregoing by Tenant, Landlord may remove same without any liability, and may charge the expense incurred in such removal to Tenant. Tenant will remove all approved signs which it has erected upon the termination of this Lease, or termination of Tenant's right to possession of the Premises, and repair all damage caused by such removal.

22. SECURITY DEPOSIT.

22.1 Amount. Upon execution of this Lease, Tenant will deposit the Security Deposit with Landlord in the amount described in Section 1.1(l), if any. Landlord and Tenant intend the Security Deposit to be used solely as security for Tenant's faithful and diligent performance of all of Tenant's obligations under this Lease. The Security Deposit will remain in Landlord's possession for the entire Term, and Landlord will not be required to segregate it from Landlord's general funds. Tenant will not be entitled to any interest on the Security Deposit.

22.2 Use and Restoration. If Tenant fails to perform any of its obligations under this Lease, Landlord may, at its option, use, apply or retain all or any part of the Security Deposit for the payment of (a) any Rent in arrears; (b) any expenses Landlord may incur as a direct or indirect result of Tenant's

failure to perform; and (c) any other losses or damages Landlord may suffer as a direct or indirect result of Tenant's failure to perform. If Landlord so uses or applies all or any portion of the Security Deposit, Landlord will notify Tenant of such use or application and Tenant will, within 10 business days after the date of Landlord's notice, deposit with Landlord a sum sufficient to restore the Security Deposit to the amount held by Landlord immediately prior to such use or application. Tenant's failure to so restore the Security Deposit will constitute a Default.

22.3 Transfers. Tenant will not assign or encumber the Security Deposit without Landlord's express written consent. Neither Landlord nor its successors or assigns will be bound by any assignment or encumbrance unless Landlord has given its consent. Landlord will have the right, at any time and from time to time, to transfer the Security Deposit to any purchaser or lessee of an entire Building and/or Project and deliver to Tenant the notice required by Section 1950.7 of the Civil Code of California. Upon any such transfer, Tenant agrees to look solely to the new owner or lessee for the return of the Security Deposit.

22.4 Refund. Provided that Tenant has fully and faithfully performed all of its obligations under this Lease, Landlord will refund the Security Deposit, or any balance remaining, to Tenant or, at Landlord's option, to the latest assignee of Tenant's interest under this Lease, within 45 days after the expiration or early termination of the Term and Tenant's vacation and surrender of the Premises to Landlord in the condition required by Section 15.1. If Tenant fails to make any final estimated payment of Additional Rent required by Landlord according to Section 3.2(c), Landlord may withhold such final payment from the amount of the Security Deposit refund. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code and all other provisions of law, now or hereafter in effect, which provide that Landlord may claim from a Security Deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums specified in this Section 22 above and/or those sums reasonably necessary to compensate Landlord for any other loss or damage, foreseeable or unforeseeable, caused by the acts or omissions of Tenant or any officer, employee, agent, contractor or invitee of Tenant.

23. BROKERS. Landlord and Tenant represent and warrant that no broker or agent negotiated or was instrumental in negotiating or consummating this Lease except the Brokers. Neither party knows of any other real estate broker or agent who is or might be entitled to a commission or compensation in connection with this Lease. Landlord will pay all fees, commissions or other compensation payable to the Brokers to be paid by Landlord according to Section 1.1(s) and Tenant will pay all fees, commissions or other compensation payable to the Brokers to be paid by Tenant according to Section 1.1(s). Tenant and Landlord will indemnify and hold each other harmless from all damages paid or incurred by the other resulting from any claims asserted against either party by brokers or agents claiming through the other party.

24. LIMITATIONS ON LANDLORD'S LIABILITY. Any liability for damages, breach or nonperformance by Landlord, or arising out of the subject matter of, or the relationship created by, this Lease, will be collectible only out of Landlord's interest in the Project and no personal liability is assumed by, or will at any time be asserted against, Landlord, its parent and affiliated corporations, its and their partners, venturers, directors, officers, shareholders, members, managers, agents and employees, or any of its or their successors or assigns; all such liability, if any, being expressly waived and released by Tenant. In no event will Landlord be liable to Tenant or any other person for consequential, special or punitive damages, including, without limitation lost profits. Landlord's review, supervision, commenting on or approval of any aspect of work to be done by or for Tenant (under Section 7, Exhibit B or otherwise)

are solely for Landlord's protection and, except as expressly provided, create no warranties or duties to Tenant or to third parties.

25. NOTICES. Unless specifically permitted otherwise by the terms of this Lease, all notices required or permitted under this Lease must be in writing and will only be deemed properly given and received (a) when actually given and received, if delivered in person to a party who acknowledges receipt in writing; or (b) one business day after deposit with a private courier or overnight delivery service, if such courier or service confirms delivery; or (c) two business days after deposit in the United States mails, certified or registered mail with return receipt requested and postage prepaid. All such notices must be transmitted by one of the methods described above to the party to receive the notice at, in the case of notices to Landlord, both Landlord's Manager's Address and Landlord's General Address, and in the case of notices to Tenant, the applicable Tenant's Notice Address, or, in either case, at such other address(es) as either party may notify the other of according to this Section 25. Any notice to be given by Landlord under this Lease will be effective if given by Landlord or its agents or attorneys.

26. TELECOMMUNICATIONS.

26.1 Certain Definitions. The following definitions are applicable to this Section 26:

(a) "Telecom Equipment" means telephone, internet and any other communications equipment, all Connections (as defined below) and any technological evolution or replacement thereof.

(b) "Connections" means any wires, cables, fiber optic lines, antennas, switches and other equipment or infrastructure located in the Project, but outside the Premises, that are installed by or on behalf of Tenant for, or related to, the operation of other Telecom Equipment. All Connections are also Telecom Equipment.

(c) "Telecom Provider" means a provider of Telecom Equipment or services using Telecom Equipment.

(d) "Telecom Services" means services provided by a Telecom Provider using Telecom Equipment.

26.2 Installation and Use of Telecommunications Technologies. Tenant will install Telecom Equipment, including WiMax systems, antennae and satellite dishes, within the Premises and/or within or on the Project in compliance with Section 7.1. Tenant may not utilize the services of a Telecom Provider whose equipment is not then servicing the Project, nor may Tenant require or request that a Telecom Provider materially expand the Telecom Services or Connections it currently provides or has provided in or to the Project, without first securing the prior written approval of Landlord, which approval will not be unreasonably withheld, conditioned or delayed.

26.3 Limitation of Responsibility. Tenant acknowledges and agrees that all Telecom Equipment will be obtained, installed, maintained, repaired, replaced and removed at the sole expense of Tenant. Landlord will have no responsibility for the operation, maintenance, repair or replacement of Tenant's Telecom Equipment, including, without limitation, Tenant's Connections. Tenant agrees that, to the extent any Telecom Services are interrupted, curtailed or discontinued, Landlord will have no obligation or liability with respect thereto, and it will be the sole obligation of Tenant at its expense to obtain substitute Telecom Services. No approval by Landlord under this Section 26 will be deemed any kind of warranty or representation by Landlord, including, without limitation, any warranty or

representation as to the suitability, competence or financial strength of any Telecom Provider or the quality or fitness for any particular purpose of any Telecom Equipment or Telecom Services. Landlord does not make, and expressly disclaims, any representation, warranty or endorsement regarding or relating to any Telecom Provider, Telecom Services or Telecom Equipment.

26.4 Necessary Service Interruptions. With respect to Multi User Buildings, Landlord will have the right to interrupt Tenant's telecommunications services or disable Tenant's Telecom Equipment in the event of emergency or as necessary in connection with repairs to any portion of the Project or installation of Telecom Equipment for other tenants or occupants of the Project. Landlord will provide Tenant with at least 48 hours' prior notice of any such interruption or disabling (or less time in case of emergency or if approved by Tenant), except in the event of an emergency, in which case Landlord will provide Tenant as much advance notice as reasonably possible. Landlord will exercise commercially reasonable efforts to perform any scheduled interruptions outside of Business Hours.

26.5 Interference. In the event that Telecom Equipment, including, without limitation, wiring, cabling or satellite and antenna equipment of any type installed by or at the request of Tenant within the Premises, on the roof of a Building or elsewhere within or on the Project causes interference to equipment (including Telecom Equipment) used by another party, Tenant will be responsible for, and indemnify and defend Landlord against, all liability related to such interference. Tenant will use reasonable efforts, and will cooperate with Landlord and other parties, to promptly eliminate such interference. In the event that Tenant is unable to eliminate such interference, Tenant will substitute alternative equipment. If such interference persists after such alternative equipment is installed, Tenant will discontinue the use of its Telecom Equipment as necessary to discontinue such interference, and, at Landlord's discretion, remove such Telecom Equipment according to specifications required by Landlord.

26.6 Removal of Telecom Equipment, Wiring and Other Facilities. Prior to the expiration or earlier termination of the Term, Tenant will remove any and all Telecom Equipment installed in the Premises or elsewhere in the Project by or on behalf of Tenant, including all connections once the Telecom Equipment is no longer in use, at Tenant's sole cost or, if Landlord so elects, Landlord may perform such removal at Tenant's sole cost, with the cost thereof to be paid to Landlord as Additional Rent. Such costs may also include, if Tenant has not provided plans and specifications, location of such Telecom Equipment and/or preparation of as-built plans or drawings of the Telecom Equipment serving the Premises and located in the Project. Landlord will have the right, however, upon written notice to Tenant, given at least 45 days prior to the expiration or earlier termination of the Term, to require Tenant to abandon and leave in place, without additional payment to Tenant or credit against Rent, any and all connections or selected components thereof, whether located in the Premises or elsewhere in the Project. The terms and conditions of this Section 26.6 will survive expiration or earlier termination of this Lease.

26.7 No Third Party Beneficiary. Notwithstanding any provision of the preceding paragraphs to the contrary, the provisions of this Lease, including this Section 26, may be enforced solely by Tenant and Landlord, are not for the benefit of any other party (including any subtenant), and specifically, but without limitation, no Telecom Provider will be deemed a third party beneficiary of this Lease or this Section 26.

27. MISCELLANEOUS.

27.1 Binding Effect. Each of the provisions of this Lease will extend to, bind or inure to the benefit of, as the case may be, Landlord and Tenant and their respective heirs, successors and assigns, provided that this clause will not permit any transfer by Tenant contrary to the provisions of Section 13.

27.2 Complete Agreement; Modification. All of the representations and obligations of the parties are contained in this Lease and no modification, waiver or amendment of this Lease or of any of its conditions or provisions will be binding upon a party unless it is in writing signed by such party.

27.3 Delivery for Examination. Submission of the form of this Lease for examination will not bind Landlord in any manner, and no obligations will arise under this Lease until it is signed by both Landlord and Tenant and delivery is made to each.

27.4 No Air Rights. This Lease does not grant any easements or rights for light, air or view. Any diminution or blockage of light, air or view by any structure or condition now or later erected will not affect this Lease or impose any liability on Landlord.

27.5 Enforcement Expenses. Each party agrees to pay, upon demand, all of the other party's costs, charges and expenses, including the fees and out-of-pocket expenses of counsel, agents and others retained incurred in successfully enforcing the other party's obligations under this Lease and any other disputes arising out of this Lease (with successful enforcement being determined by the presiding judge or tribunal). In addition, Landlord will be entitled to recover from Tenant those reasonable costs, charges and expenses related to preparation, delivery and/or service of notices pursuant to applicable forcible entry and detainer statutes in anticipation of commencing litigation, even if litigation is not commenced or pursued to final judgment after such notices are delivered and/or served.

27.6 Intentionally Omitted.

27.7 Project Name. Tenant will not, without Landlord's consent, use Landlord's or the Project's name, or any facsimile or reproduction of the Project (or any portion thereof), for any purpose; except that Tenant may use the Project's name in the address of the business to be conducted by Tenant in the Premises. Landlord reserves the right, upon reasonable prior notice to Tenant, to change the name or address of the Building and/or the Project.

27.8 Press Release; Recording; Confidentiality. Landlord, with the prior consent of Tenant, which shall not be unreasonably withheld, conditioned or delayed, may issue a press release or otherwise communicate to the media the existence of the leasing arrangement between Landlord and Tenant under this Lease, provided that the language in such press release will be reasonably approved by Tenant. Tenant will not record this Lease, or a short form memorandum, without Landlord's written consent and any such recording without Landlord's written consent will be a Default. Tenant agrees to keep this Lease's terms, provisions and conditions confidential and will not disclose them to any other person without Landlord's prior written consent. However, Tenant may disclose this Lease's terms, provisions and conditions to Tenant's accountants, attorneys, managing employees and others in privity with Tenant, as reasonably necessary for Tenant's business purposes, without such prior consent, provided that, upon such disclosure, Tenant's accountants, attorneys, managing employees and others in privity with Tenant will be bound by the terms of this Section 27.8. Notwithstanding the foregoing, Tenant may file, post or distribute this Lease as required by applicable Laws, including, without limitation, in full compliance with the filing and reporting requirements of the Securities and Exchange Commission.

27.9 Captions. The captions of sections are for convenience only and will not be deemed to limit, construe, affect or alter the meaning of such sections.

27.10 Invoices. All bills or invoices to be given by Landlord to Tenant will be sent to Tenant's Invoice Address. Tenant may change Tenant's Invoice Address by notice to Landlord given according to Section 25. If Tenant fails to give Landlord specific notice of its objections within 60 days after

receipt of any bill or invoice from Landlord, such bill or invoice will be deemed true and correct and Tenant may not later question the validity of such bill or invoice or the underlying information or computations used to determine the amount stated.

27.11 Severability. If any provision of this Lease is declared void or unenforceable by a final judicial or administrative order, this Lease will continue in full force and effect, except that the void or unenforceable provision will be deemed deleted and replaced with a provision as similar in terms to such void or unenforceable provision as may be possible and be valid and enforceable.

27.12 Jury Trial. LANDLORD AND TENANT WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY LANDLORD OR TENANT AGAINST THE OTHER WITH RESPECT TO ANY MATTER ARISING OUT OF OR IN CONNECTION WITH THIS LEASE, TENANT'S USE AND OCCUPANCY OF THE PREMISES, OR THE RELATIONSHIP OF LANDLORD AND TENANT. However, such waiver of jury trial will not apply to any claims for personal injury.

27.13 Only Landlord/Tenant Relationship. Landlord and Tenant agree that neither any provision of this Lease nor any act of the parties will be deemed to create any relationship between Landlord and Tenant other than the relationship of landlord and tenant.

27.14 Covenants Independent. The parties intend that this Lease be construed as if the covenants between Landlord and Tenant are independent and not dependent and that the Rent will be payable without offset, reduction or abatement for any cause except as otherwise specifically provided in this Lease.

27.15 Force Majeure. Except for Tenant's obligation to pay Rent, neither party shall incur liability to the other party with respect to, and shall not be responsible for any failure to perform, any of its obligations hereunder if such failure is caused by any reason beyond the control of such party including, but not limited to, strike, labor trouble, governmental rule, regulations, ordinance, statute or interpretation, or by fire, earthquake, civil commotion, war, shortages of labor or materials, or failure or disruption of utility services. The amount of time for either party to perform any of its obligations (including, without limitation, delivery of the Premises to Tenant, but not including the payment of Rent) shall be extended by the amount of time such party is delayed in performing such obligation by reason of any force majeure occurrence whether similar to or different from the foregoing types of occurrences.

27.16 Governing Law. This Lease will be governed by and construed according to the laws of the State of California.

27.17 Financial Reports. If Tenant's financials are not publicly available, within 15 days after Landlord's request, Tenant will furnish Tenant's most recent audited financial statements (including any notes to them) to Landlord, or, if no such audited statements have been prepared, such other financial statements (and notes to them) as may have been prepared by an independent certified public accountant or, if those are not so prepared, Tenant's internally prepared financial statements. Tenant will discuss its financial statements with Landlord and will give Landlord access to Tenant's books and records in order to enable Landlord to verify the financial statements. Landlord will not disclose any aspect of Tenant's financial statements that Tenant designates to Landlord as confidential except (a) to Landlord's Affiliates, attorneys, accountants and consultants, subject to the foregoing confidentiality requirements; (b) to Landlord's lenders or prospective purchasers of the project, (c) in litigation between Landlord and Tenant, and (d) if required by court order.

27.18 Joint and Several Liability. If two or more parties execute this Lease as Tenant, the liability of each such party to pay all Rent and other amounts due hereunder and to perform all the other covenants of this Lease will be joint and several.

27.19 Signing Authority. If either Tenant or Landlord is a corporation, partnership or limited liability company, each individual executing this Lease on behalf of said entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity in accordance with: (a) if it is a corporation, a duly adopted resolution of the Board of Directors of said corporation or in accordance with the by-laws of said corporation, (b) if it is a partnership, the terms of the partnership agreement, and (c) if it is a limited liability company, the terms of its operating or limited liability company agreement, and that this Lease is binding upon said entity in accordance with its terms.

27.20 Dates and Time. As used herein, the term "business day" shall mean all days, excluding Saturdays, Sundays and all days observed by either the State of California or the United States government as legal holidays. All references to "days" that do not specifically refer to "business days" will refer to calendar days. For purposes of determining dates under this Lease (a) a day that is a specified number of days after a given date will be the day that occurs the specified number of days after (but not including) the given date (so that, for example, the day that is 10 days after January 1 will be January 11); and (b) a day that is a specified number of months after a given date will be the day that occurs on the same day of the calendar month as the given date the specified number of months later (so that, for example, the day that is three months after January 15 will be April 15), except that if the day is the last day of a month, it will also be the last day of the month that is the specified number of months later (so that, for example, the day that is three months after January 31 will be April 30). If any date set forth in this Lease for the delivery of any document or the happening of any event should, under the terms hereof, fall on a day that is not a business day, then such date will be automatically extended to the next succeeding business day.

27.21 Counterparts; Electronic Execution. This Lease may be executed in counterparts, each of which will constitute an original, but all of which, when taken together, will constitute but one agreement. Executed copies hereof may be delivered by telecopier, email or other electronic means and upon receipt will be deemed originals and binding upon the parties hereto, regardless of whether originals are delivered thereafter.

28. LETTER OF CREDIT.

28.1 Generally. Within two (2) business days following mutual execution of this Lease and as a condition precedent to Landlord's obligations under this Lease, Tenant will deliver to Landlord the Letter of Credit issued in Landlord's favor by a bank or other financial institution acceptable to Landlord in Landlord's commercially reasonable discretion (the "Issuer") in the applicable L/C Amount, as determined pursuant to Section 1.1(r) in substantially the form attached to this Lease as Exhibit F. Landlord hereby approves Wells Fargo as the initial Issuer. If Tenant fails to deliver the Letter of Credit when due, Landlord will have the right to terminate this Lease at any time prior to Tenant's delivery of the Letter of Credit as required by this Lease, and upon such termination, all rights and obligations under this Lease will no longer be in force and effect except to the extent that they expressly survive the expiration or earlier termination of this Lease. The Letter of Credit may be replaced from time to time pursuant to this Section 28. Any Letter of Credit will be in a form reasonably acceptable to Landlord and consistent with the terms of Section 1.1(r) and this Section 28. In advance of the issuance of any Letter of Credit, Tenant will deliver a draft of the form of the applicable Letter of Credit to Landlord, and Landlord will have the right to review and require modifications to such form to ensure that it

conforms to the requirements of Section 1.1(r) and this Section 28 prior to issuance of the final Letter of Credit.

28.2 Use and Restoration. If Tenant fails to perform any of its obligations under this Lease beyond applicable notice and cure periods (unless transmittal of notice of a default of the Lease by Tenant is barred by applicable Laws, in which case no such notice or cure period will be required with respect to such default), Landlord may, at its option, use, apply or retain all or any portion of the Letter of Credit proceeds for the payment of (a) any Rent in arrears; (b) any expenses Landlord may incur as a direct or indirect result of Tenant's failure to perform; and (c) any other losses or damages Landlord may suffer as a direct or indirect result of Tenant's failure to perform its obligations under this Lease. If Landlord so uses or applies all or any portion of the Letter of Credit, Landlord shall notify Tenant of such use or application in writing, and Tenant will, within five business days after its receipt of Landlord's notice, restore the Letter of Credit to the amount required under this Lease. Tenant's failure to so restore the Letter of Credit will constitute a Default by Tenant without an additional notice or cure period.

28.3 Transfers by Tenant. Tenant will not assign or encumber the Letter of Credit, except as may be expressly contemplated by this Section 28, without Landlord's express prior written consent. Neither Landlord nor its successors or assigns will be bound by any assignment or encumbrance by Tenant unless Landlord has given such consent in advance.

28.4 Transfers and Assignments by Landlord. This Section 28 will also apply to subsequent grantees and transferees of Landlord. The Letter of Credit will provide both that it will be transferable and that the proceeds of the Letter of Credit will be assignable, in each case, one or more times by Landlord.

(a) Landlord will have the right, at any time and from time to time, to transfer the Letter of Credit to any purchaser or lessee of Landlord's interest in this Lease (or a lender of Landlord or of any such purchaser or lessee). Tenant will be responsible for the payment of any fees charged by the Issuer in connection with such transfer. Upon any such transfer, Tenant agrees to look solely to the new owner or lessee for the return of the Letter of Credit or any funds resulting from a draw thereon.

(b) Further, Tenant will, from time to time, cooperate with Landlord and any lender of Landlord to collaterally assign Landlord's rights to receive the proceeds of the Letter of Credit to such lender or to secure the debt owed by Landlord to such lender with Landlord's interest in the Letter of Credit or the proceeds thereof. Landlord or its lender will be responsible for customary fees charged by the Issuer in connection with any such collateral assignment.

28.5 Replacement. If necessary and without notice from Landlord, Tenant will provide for replacements of the Letter of Credit to be issued and delivered to Landlord at least 30 days prior to the expiration of the then-effective Letter of Credit, time being of the essence and any such failure will constitute a Default by Tenant without an additional cure period, and Landlord will be entitled, without notice to Tenant, to draw the entire Letter of Credit prior to its expiration if the Letter of Credit is not timely replaced or renewed as set forth above. If Landlord draws the entire Letter of Credit due to Tenant's failure to timely replace or renew the Letter of Credit, Tenant will provide a replacement Letter of Credit within 10 business days after Landlord's draw. To the extent that Landlord is holding the proceeds of a Letter of Credit because of Tenant's failure to timely replace or renew such Letter of Credit, Landlord may apply such proceeds to any Default of the Lease by Tenant. Landlord will have the right, at any time and from time to time, to transfer Landlord's rights to such funds to any successor to Landlord's interest as landlord under this Lease, and upon any such transfer, Tenant agrees to look solely to the new

owner for the return of such funds. Notwithstanding the foregoing, Tenant shall deliver a replacement Letter of Credit in the same form and in the amount of the then-effective Letter of Credit from a bank or other financial institution acceptable to Landlord in Landlord's commercially reasonable discretion (the "Substitute Issuer"), within 10 business days after any of the following occur: (a) the original Issuer enters into or becomes subject to any form of regulatory or governmental receivership or other similar regulatory or governmental proceeding, including any receivership instituted or commenced by the Federal Deposit Insurance Corporation or any other governmental agency responsible for the regulation and/or oversight of the original Issuer (in each instance, the "Bank Regulator"), is otherwise declared insolvent or downgraded by the Bank Regulator, or is placed on a Bank Regulator "watchlist"; or (b) the Bank Regulator repudiates the Letter of Credit.

28.6 Landlord's Ability to Draw. Subject to this Section 28, if a Default of this Lease by Tenant has occurred beyond any applicable notice and cure period, including a failure to timely provide a replacement Letter of Credit, Landlord may, but will not be obligated to, draw on the Letter of Credit and apply the proceeds of any such draw to cure the Default of this Lease by Tenant or to apply such funds as otherwise permitted under this Section 28. Tenant will not have the right to call upon Landlord to draw upon all or any part of the Letter of Credit to cure any Default of this Lease by Tenant or to fulfill any obligation of Tenant, but instead, the decision to draw on the Letter of Credit will be solely in the discretion of Landlord. The Letter of Credit will be payable to Landlord upon presentation at the Issuer's offices of a sight draft signed by Landlord, together with a separate certification of Landlord: (a) that the person signing the certification is duly authorized to do so, and (b) that (i) a default of this Lease by Tenant exists and has continued beyond any applicable notice and cure period under this Lease, (ii) Tenant has committed a default under this Lease and the transmittal of notice of such default is barred by applicable Laws, or (iii) Tenant has failed to deliver a replacement Letter of Credit to Landlord at least 30 days prior to the expiration date of the Letter of Credit. Notwithstanding the foregoing, if the terms or requirements of the applicable Letter of Credit with respect to certifications, drafts or other documentation necessary for Landlord to draw on the Letter of Credit differ from that otherwise required by this Section 28, then Landlord will only be required to comply with the terms of the Letter of Credit and will not be required to comply with the terms of this Section 28 except to the extent consistent with the Letter of Credit. Nothing in this Section 28 will require Landlord to submit, or prohibit Landlord from submitting, partial draws of the Letter of Credit, it being acknowledged that Landlord may (but is in no way required to) draw the entire amount of the Letter of Credit to protect its interest in the funds resulting from such draw, provided that notwithstanding such right, the Letter of Credit will not be considered a security deposit upon Landlord's receipt of such funds.

28.7 Return. Provided that Tenant has fully and faithfully performed all of its obligations under this Lease, if Landlord has not drawn on the Letter of Credit, Landlord will deliver the Letter of Credit to Tenant or the Issuer, as Tenant may direct, after the expiration of the Term.

29. TERMINATION OPTION.

29.1 Grant of Option. Tenant shall have a one-time option to terminate this Lease with regard to all of the Premises subject to this Lease at the time of exercise (the "Termination Option") pursuant to the provisions of this Section 29. If properly exercised, the termination of this Lease pursuant to the Termination Option shall be effective on the last day of Month 96 of the Term of this Lease (the "Early Termination Date").

29.2 Conditions for Exercise. The Termination Option is granted on and subject to the following terms and conditions:

(a) No earlier than the first day of Month 78 of the Term, but not later than the last day of Month 84 of the Term, Tenant must give Landlord written notice of Tenant's election to exercise the Termination Option; and

(b) No Default exists either on the date that Tenant exercises the Termination Option or at any time thereafter up to and including the Early Termination Date; and

(c) Tenant pays to Landlord a fee equal to the sum of (i) the amount of Base Rent and Additional Rent that would have been due for Months 97 through 102 of the Term had this Lease not been terminated, plus (ii) the unamortized transaction costs incurred by Landlord in connection with this Lease for tenant improvement costs and leasing commissions, amortized at an annual interest rate of 10% over the Term (collectively, the "Termination Fee"). After receipt of Tenant's timely notice of election to exercise the Termination Option, Landlord will notify Tenant in writing of the amount of the Termination Fee. Tenant will pay 50% of the Termination Fee within five business days after receipt of Landlord's notice of the Termination Fee amount and the other 50% of the Termination Fee on the Early Termination Date.

29.3 Early Termination. If the conditions described in Section 29.2 have been met, then this Lease will terminate on the Early Termination Date, whereupon Tenant will surrender the Premises in accordance with Section 15.1 and both parties will thereafter be relieved of any obligations under this Lease that would otherwise have accrued subsequent to the Early Termination Date, except those that survive the expiration or early termination of this Lease. Notwithstanding Tenant's payment of the Termination Fee, all Rent will continue to be due as provided in Section 3 through the Early Termination Date.

29.4 Limitations on Tenant's Rights. Any assignment of this Lease or subletting of the Premises by Tenant (excluding an assignment that is a Permitted Transfer) terminates Tenant's rights with respect to the Termination Option, unless Landlord consents to the contrary in writing at the time of such subletting or assignment.

30. RIGHT OF FIRST OFFER.

30.1 Terms of Right. If at any time during the Term, any office space in the 1751 Building, the 1801 Building, the 1851 Building and the office buildings located at 1601 and 1701 Harbor Bay Parkway, Alameda, California to the extent owned by Landlord (the "ROFO Space") becomes available or is becoming available for lease, Landlord will notify Tenant in writing that such ROFO Space is available for lease or is becoming available, and such notice will set forth the terms upon which Landlord is willing to lease the ROFO Space to prospective tenants (the "Offer Notice"). The ROFO Space shall not be deemed available or becoming available for lease to the extent (a) that it is subject to, or becomes subject to, any rights or options in favor of any other parties that are superior to Tenant's with respect to the ROFO Space as of the Lease Date, and/or (b) the ROFO Space is subject to a then-existing lease, as such lease may be modified, amended, extended or renewed. Provided that a Default does not then exist, and subject to the provisions of this Section 30, Tenant will have 10 business days after the receipt of the Offer Notice in which to deliver a written notice to Landlord exercising Tenant's right to lease all, but not less than all, of the ROFO Space subject to the applicable Offer Notice (the "ROFO Acceptance Notice"). If Tenant delivers the ROFO Acceptance Notice to Landlord within such 10 business-day period, then Landlord and Tenant will promptly amend this Lease to include the ROFO Space on the terms stated in the Offer Notice. If Tenant fails to deliver the ROFO Acceptance Notice within such 10 business-day period, Tenant will be deemed to have rejected the Offer Notice. If Tenant rejects or is deemed to have rejected the Offer Notice, Tenant's right of first offer with respect to the ROFO Space

which is the subject of the Offer Notice will terminate and be of no further force or effect, and Landlord will be free to lease any or all of the ROFO Space that is the subject of such Offer Notice to any prospective tenant at any time after the earlier of the date Tenant rejects the Offer Notice or the expiration of such 10 business day period; provided, however, if Landlord has not entered into a lease for all or any portion of such ROFO Space with a third party within 270 days following the delivery by Landlord to Tenant of the Offer Notice, then, so long as Landlord is not engaged in good faith negotiations with a third party to lease all or a portion of such Offered Space, Landlord agrees that Tenant's rights under this Section 30 with respect to such ROFO Space shall be reinstated and Landlord shall provide Tenant with an Offer Notice if, as, and to the extent, required under the terms of this Section 30. Tenant's right of first offer will be deemed a continuing right and will apply to each ROFO Space that becomes available or is becoming available for lease; provided, however, that, except as expressly provided in this Section 30.1, upon Tenant's rejection or deemed rejection of an Offer Notice, Tenant will have no rights under this Section 30 with respect to the ROFO Space subject to such Offer Notice until after the expiration of the term of any lease (and any applicable renewals) by and between Landlord and a third party relating to such ROFO Space.

30.2 Limitations on Tenant's Rights. Tenant will have no right to lease any ROFO Space and its ROFO Acceptance Notice will be ineffective if a Default exists at the time such notice is given or at the time the amendment to this Lease is scheduled to be executed by Landlord and Tenant. Any termination of this Lease terminates all rights under this Section 30. Any assignment or subletting by Tenant of this Lease or of all or a portion of the Premises (including a Permitted Transfer) terminates Tenant's rights with respect to the ROFO Space, unless Landlord consents to the contrary in writing at the time of such subletting or assignment.

31. RENEWAL OPTIONS.

31.1 Grant of Rights. Subject to the terms and provisions of this Section 31, Tenant, at its option, may extend the Term of this Lease for a period of 60 months at the end of the initial Term (the "First Renewal Term") with respect to the Premises as it exists as of the last day of the Term (the "First Renewal Option"), and if Tenant exercises the First Renewal Option, Tenant may further extend the Term of this Lease for another period of 60 months at the end of the First Renewal Term (the "Second Renewal Term") with respect to the Premises as it exists as of the last day of the First Renewal Term (the "Second Renewal Option"). The First Renewal Term and the Second Renewal Term will be referred to individually as a "Renewal Term" or, collectively, as the "Renewal Terms." The First Renewal Option and the Second Renewal Option will be referred to individually as a "Renewal Option" or, collectively, as the "Renewal Options."

31.2 Exercise. To exercise either such Renewal Option, Tenant must deliver notice of the exercise thereof (a "Renewal Notice") to Landlord no earlier than 15 months and no later than 9 months prior to the expiration of the initial Term, with respect to the exercise of the First Renewal Option, and prior to the expiration of the First Renewal Term, with respect to the exercise of the Second Renewal Option. Tenant's delivery of a Renewal Notice will constitute Tenant's irrevocable election to renew the Lease for the applicable Renewal Term.

31.3 Determination of Market Rental Rate. Within 10 days after Tenant delivers a Renewal Notice, Landlord will notify Tenant in writing (the "Rate Notice") of the "Market Rental Rate" (as defined below). If Tenant agrees that the rental rate set forth in the Rate Notice is the Market Rental Rate, such rental rate will be the Market Rental Rate for the purposes of this Section 31, and Base Rent for the applicable Renewal Term will be the Market Rental Rate. If Tenant disagrees with the Market Rental Rate in the Rate Notice, then Tenant will have 30 days after receipt of the Rate Notice to object

to the rental rate in the Rate Notice by giving notice to Landlord. If Tenant fails to object within such 30 day period, Tenant will be deemed to have agreed that the Rate Notice contains the Market Rental Rate. If Tenant timely notifies Landlord of Tenant's objection to the rate set forth in the Rate Notice, then Landlord and Tenant will, for a period of 20 days from and after Tenant gives its objection to the Rate Notice, negotiate to determine a Market Rental Rate acceptable to both Landlord and Tenant.

(a) Parties' Brokers. If the parties are unable to agree upon the Market Rental Rate during such 20 day period, then, within five business days after the expiration of such 20 day period, Landlord and Tenant will each appoint their own licensed real estate broker who has at least 10 years' full-time experience in commercial office and lab/research and development leasing in the Alameda, California market area (the "Parties' Brokers"). The Parties' Brokers will negotiate in good faith for 10 days after the date that both Parties' Brokers have been appointed to determine a Market Rental Rate acceptable to both Landlord and Tenant. If the Parties' Brokers cannot reach agreement on the Market Rental Rate within such 10 day period, then within five days after the expiration of such 10 day period, Landlord will deliver to Tenant a written determination of the Market Rental Rate as determined by Landlord and its broker using the criteria set forth below ("Landlord's Determination"). Tenant will have five business days from the date of Landlord's delivery of Landlord's Determination to notify Landlord of Tenant's acceptance of Landlord's Determination or deliver to Landlord Tenant's written determination of the Market Rental Rate using the criteria set forth below ("Tenant's Determination"). If Tenant does not deliver Tenant's Determination to Landlord within such five business day period, Tenant will be deemed to have accepted Landlord's Determination and the rental rate set forth in Landlord's Determination will be the Market Rental Rate. If Tenant does deliver Tenant's Determination within such five business day period, then the Parties' Brokers will have an additional seven days from the date of delivery of Tenant's Determination to negotiate a Market Rental Rate acceptable to both Landlord and Tenant.

(b) Third Broker. If no agreement can be reached as to the Market Rental Rate within such seven day period, then, within five days after such seven day period expires, the Parties' Brokers shall cooperate to appoint a third broker (the "Third Broker"). The Third Broker will be a person who has not previously acted in any capacity for either party and who meets the same experience qualifications as required for the Parties' Brokers. If Parties' Brokers cannot agree on the Third Broker within such five-day period, either of the Parties' Brokers may submit a request to the Chairman of the Board of Governors of the California Commercial Brokers Association to appoint the Third Broker, and such appointment will be binding on Landlord, Tenant and the Parties' Brokers. Within 10 days of his or her appointment, the Third Broker will review Landlord's Determination and Tenant's Determination of the Market Rental Rate and such other information as he or she deems necessary and will select either Landlord's Determination or Tenant's Determination of the Market Rental Rate (but no other rate) as being more reasonable. The Third Broker will be instructed, in deciding whether Landlord's Determination or Tenant's Determination is more reasonable, to use the criteria as to the Market Rental Rate set forth below. The Third Broker will immediately notify the parties of his or her selection of the Landlord's Determination or the Tenant's Determination as being more reasonable, and then such selected determination will be the Market Rental Rate. Each of the parties will bear the entire cost of their own broker and 1/2 of the cost of the Third Broker.

(c) Interim Rate. Notwithstanding anything in this Lease to the contrary, if no agreement can be reached as to the Market Rental Rate prior to the expiration of the Term, with respect to the exercise of the First Renewal Option, and/or prior to the expiration of the First

Renewal Term, with respect to the exercise of the Second Renewal Option, Tenant shall pay Base Rent to Landlord in accordance with the rental rate set forth in Landlord's Rate Notice (the "Interim Rate") for the period (the "Interim Period") beginning on the day immediately following the last day of the Term and/or the First Renewal Term, as applicable, and ending on the date the Market Rental Rate is determined pursuant to this Section 31 (the "Determination Date"). If the amount of Base Rent Tenant paid to Landlord during the Interim Period, prorated based on the number of days in such period (the "Interim Base Rent"), is more than the amount Tenant would have paid if the Market Rental Rate had been in effect during such Interim Period, Landlord will credit such excess amount against the next payment(s) of Base Rent due from Tenant to Landlord. If the Interim Base Rent is less than the amount Tenant would have paid if the Market Rental Rate had been in effect during such Interim Period, Tenant will pay the deficiency to Landlord within 30 days after the Determination Date.

31.4 Market Rental Rate Defined. "Market Rental Rate" means the prevailing renewal rate and periodic increases thereof, if any, then charged by landlords of similar buildings in the Alameda, California market area of comparable quality, amenities and age as the Building for similar space to tenants similar to Tenant in size, credit quality and stature, taking into account the length of the applicable Renewal Term, as well as the project amenities, views, parking ratios, concessions and inducements offered at comparable properties.

31.5 After Exercise. During each Renewal Term, all of the terms and provisions of this Lease will apply, except that (a) after the Second Renewal Term there will be no further right of renewal; and (b) during each Renewal Term, Base Rent will be payable at the applicable Market Rental Rate, as determined pursuant to this Section 31, multiplied by the rentable square feet of the Premises as of the commencement of the applicable Renewal Term. The "Term" of this Lease will include any properly exercised Renewal Term.

31.6 Limitations on Tenant's Rights. At Landlord's option, Tenant will have no right to extend the Term, and Tenant's Renewal Notice will be ineffective, if a Default exists at the time a Renewal Notice is given or at the time the applicable Renewal Term is scheduled to commence. Any termination of this Lease terminates all rights under this Section 31. Any assignment of this Lease or subletting of Premises by Tenant (excluding an assignment that is a Permitted Transfer) terminates Tenant's rights under this Section 31, unless Landlord consents to the contrary in writing at the time of such subletting or assignment.

32. LANDLORD'S HVAC WORK AND ALLOWANCE.

32.1 Landlord's HVAC Work. Landlord shall update the base building HVAC and boiler systems in the 1801 Building (the "1801 HVAC Systems") by replacing the existing equipment listed on Exhibit G attached hereto (the "HVAC Equipment List") in the 1801 Building with new, substantially similar equipment, which work will be referred to herein as "Landlord's HVAC Work". Landlord will work with Tenant collaboratively to produce the plans and specifications for Landlord's HVAC Work so that it is designed and constructed to maximize efficiency and meet the needs of Tenant. Landlord shall perform Landlord's HVAC Work in a good and workmanlike manner, in compliance with applicable Laws and in compliance with plans and specifications approved by Tenant, which approval shall not be unreasonably withheld, conditioned or delayed. The parties acknowledge that the performance of Landlord's HVAC Work will not affect the Start Dates or the Commencement Date as provided in Exhibit B. Tenant shall not be required to remove the 1801 HVAC Systems (or pay the costs therefor) at the expiration or earlier termination of the Lease.

(a) Landlord and Tenant acknowledge that Landlord's HVAC Work is anticipated to be conducted in accordance with a schedule to be agreed upon by Landlord and Tenant with Tenant's Work in the 1801 Building. Landlord may enter the 1801 Building to the extent necessary to perform Landlord's HVAC Work. Landlord will work in harmony with Tenant and use reasonable commercial efforts to avoid unreasonable interference with Tenant's Work or Tenant's operations during the performance of Landlord's HVAC Work.

(b) Tenant acknowledges that, despite Landlord's efforts, Tenant may experience interference with and/or interruption of Tenant's Work in the 1801 Building. Unless caused by the negligence or intentional misconduct (including material noncompliance with Laws or plans and specifications approved by Tenant) of Landlord or its employees, Tenant will hold Landlord harmless from any and all claims, damages and liability against Landlord, either by Tenant or Tenant's employees, customers, contractors, agents or invitees resulting from Landlord's HVAC Work.

32.2 1801 HVAC Allowance. Landlord shall pay for the cost of Landlord's HVAC Work up to a maximum of $600,000.00 (the "1801 HVAC Allowance"), and Tenant shall pay for Landlord's HVAC Work to the extent that the cost of Landlord's HVAC Work exceeds the 1801 HVAC Allowance within 30 days of Landlord's request. A condition precedent to Tenant's reimbursement of the excess costs of Landlord's HVAC Work will be that Tenant has received written notice from Landlord's contractor (or other evidence satisfactory to Tenant) that Landlord's HVAC Work has been completed. Tenant will not be entitled to any credit if Landlord's HVAC Allowance exceeds the cost of Landlord's HVAC Work.

32.3 Completion of Landlord's HVAC Work. Landlord will begin performing Landlord's HVAC Work after the last Start Date for the 1801 Space (as set forth in Exhibit B) and use commercially reasonable efforts to complete Landlord's HVAC Work on or before the Commencement Date. If Landlord is unable to complete Landlord's HVAC Work by such date, then Landlord will continue to use commercially reasonable efforts to complete Landlord's HVAC Work as soon as reasonably feasible.

32.4 Title. Once installed, title in and to the 1801 HVAC Systems and all equipment related thereto will be vested in Landlord throughout the Term and upon expiration or earlier termination of the Term.

33. TENANT'S HVAC WORK AND ALLOWANCE.

33.1 Tenant's HVAC Work. As part of Tenant's Work in the 1851 Space, Tenant shall update the base building HVAC and boiler systems in the 1851 Building (the "1851 HVAC Systems") by replacing the existing equipment listed on the HVAC Equipment List in the 1851 Building with new, substantially similar equipment, which work shall be referred to herein as "Tenant's HVAC Work." Tenant will work with Landlord collaboratively to produce the plans and specifications for Tenant's HVAC Work so that it is designed and constructed to maximize efficiency and meet the needs of Tenant. Tenant and "Contractor" (as defined in Exhibit B) shall perform or cause to be performed Tenant's HVAC Work in accordance with Exhibit B, including, without limitation, Paragraphs 10 through 14 of Exhibit B. Tenant may begin performing Tenant's HVAC Work after the last Start Date for the 1851 Space (as set forth in Exhibit B) and use commercially reasonable efforts to complete Tenant's HVAC Work on or before the Commencement Date.

33.2 1851 HVAC Allowance. Throughout the Term, Tenant will be solely responsible for all costs and expenses incurred in updating, operating, maintaining, repairing and replacing the 1851 HVAC

Systems in accordance with Section 5; provided, however, that Landlord will pay for the cost of Tenant's HVAC Work up to a maximum of $600,000.00 ("1851 HVAC Allowance"), and Tenant shall pay for Tenant's HVAC Work to the extent that the cost of Tenant's HVAC Work exceeds the 1851 HVAC Allowance. A condition precedent to Landlord's payment of the 1851 HVAC Allowance will be that Landlord has received from Tenant the following: (a) written notice from Contractor (or other evidence satisfactory to Landlord) that Tenant's HVAC Work has been completed; (b) final and unconditional lien waivers from Contractor and all subcontractors, suppliers, materialmen and other parties who performed labor at, or supplied materials to, the 1851 Building in connection with Tenant's HVAC Work. Tenant will not be entitled to any credit if the 1851 HVAC Allowance exceeds the cost of Tenant's HVAC Work.

33.3 Title and Liability. Without limiting Tenant's obligations under this Section 33, once installed, title in and to the 1851 HVAC Systems and all equipment related thereto will be Tenant's property throughout the Term of this Lease and shall automatically become Landlord's property upon termination of this Lease, or termination of Tenant's right to possession of the 1851 Space, without compensation to Tenant. Subject to this Section 33 and except to the extent caused by the willful misconduct or grossly negligent act or omission by Landlord, to the fullest extent permitted by applicable laws, codes, rules and regulations, Tenant will indemnify and hold Landlord, its affiliates, its property manager and their respective managers, members, officers, directors, employees and agents harmless from and against any and all claims, costs and liabilities (including reasonable attorneys' fees) arising out of or in connection with Tenant's installation, use, operation, maintenance, repair and replacement of the 1851 HVAC Systems. This Section 33 will survive the expiration or earlier termination of the Term.

(Signatures on the Following Page)

Having read and intending to be bound by the terms and provisions of this Lease, Landlord and Tenant have signed it as of the Lease Date.

TENANT:

EXELIXIS, INC.,
a Delaware corporation

By: /s/ Michael M. Morrissey

Printed Name: Michael M. Morrissey, Ph.D.

Title: President and CEO

And By: /s/ Christopher J. Senner

Printed Name: Christopher J. Senner

Title: EVP and CFO

LANDLORD:

ASCENTRIS 105, LLC,
a Colorado limited liability company

By: /s/ Gabe L. Finke

Printed Name: Gabe L. Finke

Title: Manager

Date: 5/2/2017

WATERFRONT AT HARBOR BAY

EXHIBIT A
PLAN DELINEATING THE PREMISES AND TENANT MAINTAINED OUTDOOR AREAS

1751 SECOND FLOOR HARBOR BAY PARKWAY
THE WATERFRONT, ALAMEDA, CA

1801 FIRST FLOOR HARBOR BAY PARKWAY
THE WATERFRONT ALAMEDA, CA

1801 SECOND FLOOR HARBOR BAY PARKWAY
THE WATERFRONT ALAMEDA, CA

= 1851 Space

1851 FIRST FLOOR HARBOR BAY PARKWAY
THE WATERFRONT ALAMEDA, CA

= 1851 Space

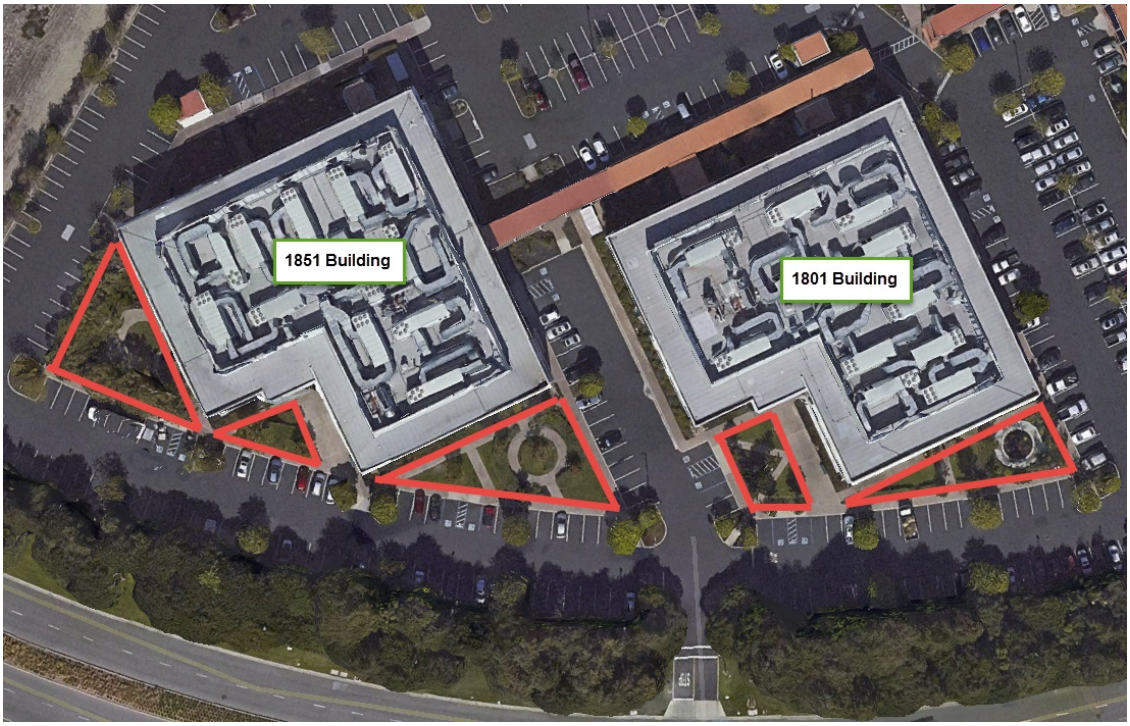
1851 SECOND FLOOR HARBOR BAY PARKWAY
THE WATERFRONT, ALAMEDA, CA

EXEL Premises

	Rentable Area
1751 Space	
Suite 225	11,965
Subtotal	**11,965**
Building Share	*16.13%*
Project Share	*3.11%*
1801 Space	
Suite 200	7,768
Suite 210	21,509
Suite 150	4,899
Suite 175	2,477
Suite 100	4,689
Subtotal	**41,342**
Building Share	*71.67%*
Project Share	*10.75%*
1851 Space	
Suite 200	21,181
Suite 210	7,797
Suite 1000	21,191
Suite 125	3,826
Suite 150	3,481
Subtotal	**57,476**
Building Share	*100.00%*
Project Share	*14.95%*
TOTAL	**110,783**

Denominators	
1751 Building	74,170
1801 Building	57,685
1851 Building	57,476
Project	384,579

TENANT MAINTAINED OUTDOOR AREAS



WATERFRONT AT HARBOR BAY

EXHIBIT B
POSSESSION AND LEASEHOLD IMPROVEMENTS EXHIBIT

1. Conflicts; Terms. If there is any conflict or inconsistency between the provisions of the Lease Agreement to which this Exhibit B is attached and those of this Exhibit B ("Work Letter"), the provisions of this Work Letter will control. Except for those terms expressly defined in this Work Letter, all initially capitalized terms will have the meanings stated for such terms in the Lease. The following terms, which are not defined in the Lease, have the meanings indicated:

(a) "Commencement Date" with respect to the Premises means the first day of the Term, which will be six months after the last Start Date for the entire Premises (other than the Temporary Space). Notwithstanding the foregoing, if Tenant takes possession of any part of the Premises (other than the Temporary Space) for the conduct of business prior to the Commencement Date, Tenant will pay Landlord Base Rent according to Section 3.1 at the rates applicable to Months 1 – 12 of the Term of the Lease (not including the Rent Abatement) and Additional Rent according to Section 3.2, prorated for the time and portion of the Premises so occupied. No early occupancy will change the Commencement Date or the Expiration Date.

(b) "Start Date" with respect to each portion of the Premises means the date that Landlord will "Deliver" (as defined in Section 1.3(h) of the Lease) such portion to Tenant, unless the applicable Start Date is extended according to Paragraph 2 below. The estimated Start Dates are as follows:

Premises	Start Date
1751 Space	
Temporary Space – Suite 225	Lease Date
1801 Space	
Suite 200	Lease Date
Suite 210	Lease Date
Suite 150	5 days after Lease Date
Suite 175	Within five business days after the relocation of BizWorld, estimated to be four months after the Lease Date
Suite 100	Within five business days after the relocation of Metaswitch, estimated to be four months after the Lease Date
1851 Space	
Suite 200	Lease Date
Suite 210	Within five business days after the vacation of PINC Solutions, estimated to be June 1, 2017
Suite 1000	Lease Date
Suite 125	Within five business days after the vacation of AbsolutData, estimated to be 45 days after the Lease Date
Suite 150	Lease Date

(c) "Temporary Space Period" is defined in Section 1.1(d)(i) of the Lease.

(d) "Tenant Finish Period" means with respect to each portion of the Premises, the period beginning on the Start Date applicable to such portion and ending on the Commencement Date applicable to such portion.

(e) "Submission Date" means July 31, 2017.

(f) "Landlord's Representative" means Jones Lang LaSalle Americas, Inc. and NV5.

(g) "Tenant's Representative" means Dana Aftab.

(h) "Tenant's Architect" means DGA, or such other licensed or registered professional architect, designer or space planner as may be selected by Tenant and reasonably approved by Landlord.

(i) "Tenant's Engineers" means the licensed or registered professional engineers selected by Tenant and reasonably approved by Landlord.

(j) "Maximum Allowance Amount" means $5,539,150.00 (which is approximately $50.00 per rentable square foot); provided, however, that if Tenant elects to complete Tenant's Work on a multi-phase basis, Landlord will advance the applicable

prorated portion of the Maximum Allowance Amount based on the area of the portion of the Premises in each such phase. In addition to the Maximum Allowance Amount, Landlord, at its sole cost and expense, will pay up to $15,000.00 for two initial test plans for the Premises.

(k) "Leasehold Improvements" means all alterations, leasehold improvements and installations to be constructed or installed by Landlord or Tenant in the Premises according to this Work Letter.

(l) "Landlord's Work" means those Leasehold Improvements to be constructed or installed by Landlord according to Paragraph 4 below.

(m) "Tenant's Work" means all Leasehold Improvements other than Landlord's Work.

(n) "Preliminary Plans" means space plans and general specifications for Tenant's Work prepared by Tenant's Architect in such form (and on such scale in the case of plans and drawings) as Landlord may reasonably specify.

(o) "Construction Documents" means complete construction plans and specifications for Tenant's Work prepared by Tenant's Architect and Tenant's Engineers in such form (and on such scale in the case of plans and drawings) as Landlord may reasonably specify and detailing all aspects of Tenant's Work, including, without limitation, the location of libraries, safes and other heavy objects, stairwells, walls, doors, computer equipment, telephone and related equipment, and electrical, plumbing, heating, ventilation and air conditioning equipment (including equipment in excess of that required for normal use). Tenant's Engineers will perform all mechanical and electrical design work included in the Construction Documents.

(p) "Tenant's Costs" means all costs required to be expended by Tenant under this Work Letter in connection with Tenant's Work, including, without limitation, the costs of: preparing the Preliminary Plans, Construction Documents and the as-built plans described in Paragraph 8; performing Tenant's Work; obtaining all required insurance, licenses and permits; satisfying all requirements of Laws; letting all contracts; all services provided by or for Landlord under Paragraph 14; the costs of Tenant's construction manager, if any; all required electrical and telephone panels and/or meters; and Landlord's construction management fee (as described in Paragraph 14 below. Tenant's Costs will not, however, include any costs incurred by Tenant for furniture or other personal property, for fixtures or equipment (unless such fixtures or equipment will constitute permanent additions to the Premises and are shown on the Construction Documents), or for moving to the Premises.

2. Tenant Finish Period. The Tenant Finish Period with respect to each portion of the Premises will begin on the applicable Start Dates specified in Paragraph 1(b) above with respect to each portion of the Premises identified there, unless such Start Dates are extended according to the following provisions. If on or before the applicable Start Date specified in Paragraph 1(b), (i) Landlord's Work has not been completed in the applicable portion of the Premises to the extent

that Tenant's Work may begin (except for any Landlord's Work which has been delayed, hindered or prevented by Tenant); or (ii) Tenant has not been permitted entry to the applicable portion of the Premises for the conduct of Tenant's Work, then such Start Date will be extended until the date on which both such events have occurred; provided, however, that Landlord shall have no other liability to Tenant for its failure to deliver a portion of the Premises to Tenant on the applicable Start Date if such delay is caused by a tenant's holding over in a portion of the Premises, so long as Landlord is using commercially reasonable efforts to cause such tenant to vacate the portion of the Premises, which commercially reasonable efforts shall include filing an unlawful detainer action if such holdover continues for a period in excess of 30 days. If the Start Date for a specified portion of the Premises has not occurred within 120 days after the date specified in Paragraph 1(b), then Tenant will have the right to terminate the Lease with respect to such undelivered portion of the Premises (the "Terminated Space") by delivering written notice of termination to Landlord not more than 30 days after the end of such 120-day period. Upon such termination, each party will, upon the other's request, execute and deliver an agreement in recordable form containing a release and surrender of all right, title and interest in and to the Terminated Space or the Premises as a whole, as applicable; neither Landlord nor Tenant will have any further obligations to each other with respect to the Terminated Space or the Premises as a whole, as applicable, including, without limitation, any obligations to pay for work previously performed in the Terminated Space or the Premises as a whole, as applicable; all improvements to the Terminated Space will become and remain the property of Landlord; Landlord will refund to Tenant any sums paid to Landlord by Tenant for the Terminated Space or the Premises as a whole, as applicable, in connection with the Lease; and the Letter of Credit shall be terminated or returned to Tenant, if the Lease is terminated in its entirety. Such postponement of a Start Date and the Commencement Date and such termination and refund right, will be Tenant's sole and exclusive remedies for Landlord's failure to deliver any portion of the Premises by the dates described above, and Tenant expressly waives any other rights, claims or remedies that Tenant might otherwise have against Landlord by reason of Landlord's failure to deliver any portion of the Premises or any delay in commencing or completing any of Landlord's Work.

3. Representatives. Landlord appoints Landlord's Representative to act for Landlord in all matters covered by this Work Letter. Tenant appoints Tenant's Representative to act for Tenant in all matters covered by this Work Letter. All inquiries, requests, instructions, authorizations and other communications with respect to the matters covered by this Work Letter will be made to Landlord's Representative or Tenant's Representative, as the case may be. Tenant will not make any inquiries of or requests to, and will not give any instructions or authorizations to, any other employee or agent of Landlord, including Landlord's architect, engineers and contractors or any of their agents or employees, with regard to matters covered by this Work Letter. Either party may change its Representative under this Work Letter at any time by three days' prior written notice to the other party.

4. Landlord's Work. Landlord, at its expense and as Landlord's Work, will complete in or for the Premises, in a good and workmanlike manner and according to all Laws, the following: None (other than Landlord's HVAC Work in accordance with Section 32 of the Lease).

Landlord will pay for the design costs associated with Landlord's Work; provided that to the extent Landlord's Work requires design information (such as heating or air conditioning load factors) that would be prepared in connection with the preparation of the Preliminary Plans or the Construction Documents, Tenant will be responsible for the cost of such design information. The Premises will be delivered to Tenant when Landlord has substantially completed Landlord's Work, subject only to completion of minor construction details which would not materially interfere with Tenant's Work, and Tenant will accept the Premises upon notice from Landlord that Landlord's Work has been substantially completed. Landlord and Tenant agree that all alterations, improvements and additions made to the Premises according to this Work Letter, whether paid for by Landlord or Tenant, will, without compensation to Tenant, become Landlord's property upon installation and will remain Landlord's property at the expiration or earlier termination of the Term.

5. Landlord's Punch List. Upon substantial completion of Landlord's Work, Landlord's Representative and Tenant's Representative will inspect the Premises and prepare and sign a punch list identifying all items of Landlord's Work which require correction or completion. Landlord will, within 10 days after execution of such punch list, begin correction or completion of any items identified on such punch list and will complete such work in a prompt and diligent manner. Landlord will not be responsible for any items of damage caused by Tenant, its agents, independent contractors or suppliers. Except for any items identified on such punch list, and except for any latent defects in Landlord's Work in a specified portion of the Premises of which Tenant notifies Landlord within one year after the Commencement Date applicable to such portion of the Premises, Tenant's taking possession of any portion of the Premises will be conclusive evidence that such portion of the Premises was in good order and satisfactory condition when Tenant took possession. No promises to alter, remodel or improve the Premises or Building and no representations concerning the condition of the Premises or Building have been made by Landlord to Tenant other than as may be expressly stated in the Lease (including this Work Letter).

6. Early Access. Tenant will not be entitled to exclusive possession of portions of the Premises until Landlord's Work is completed in such portions. Landlord shall permit Tenant to enter certain portions of the Premises at least 30 days prior to the applicable Start Date so that Tenant may do such work as may be required to prepare the Premises for Tenant's Work. If Tenant makes such entry prior to the Start Date, Tenant will work in harmony with Landlord and will not interfere with the performance of Landlord's Work, or with the work of any other tenant or occupant. If at any time such access causes or threatens to cause disharmony or interference, including labor disharmony, Landlord will have the right to immediately terminate such early access. At all times when Tenant enters any portion of the Premises prior to the Commencement Date (including the Tenant Finish Period) applicable to such portion, Tenant will be subject to and will comply with all of the terms and provisions of the Lease, except that no Base Rent or Costs will be payable by Tenant prior to such applicable Commencement Date.

7. Landlord's Approval. All Preliminary Plans and Construction Documents, and any revisions to the same (whether in the form of a change order or otherwise) are expressly subject to Landlord's prior written approval, which shall not be unreasonably withheld, conditioned or delayed. Landlord may engage architects and/or engineers as it deems reasonably necessary to review the

Preliminary Plans and Construction Documents and advise Landlord with respect to such approval. Landlord may withhold its approval of any such items that require work which:

(a) exceeds or adversely affects the capacity or integrity of the Building's structure or any of its heating, ventilating, air conditioning, plumbing, mechanical, electrical, communications or other systems;

(b) is not approved by the holder of any Encumbrance, if such approval is required;

(c) would not be approved by a prudent owner of property similar to the Building;

(d) violates any agreement which affects the Building or binds Landlord;

(e) Landlord reasonably believes will substantially increase the cost of operating or maintaining any of the Building's systems;

(f) Landlord reasonably believes will materially reduce the market value of the Premises or the Building at the end of the Term;

(g) does not conform to applicable building code or is not approved by any governmental authority having jurisdiction over the Premises;

(h) does not meet or exceed Building Standard; or

(i) Landlord reasonably believes will infringe on the architectural integrity of the Building.

8. Tenant's Plans. On or before the Submission Date, Tenant, at its expense, will cause the Preliminary Plans to be prepared and submitted to Landlord for its approval, which shall not be unreasonably withheld, conditioned or delayed. Landlord, at its sole cost and expense, will pay up to $15,000.00 for two initial test plans for the Premises. If the submitted materials are not acceptable to Landlord, Landlord will so notify Tenant by returning the Preliminary Plans with required changes noted within 10 business days following Landlord's receipt. If Landlord so notifies Tenant of any required change to the Preliminary Plans, Tenant will cause the same to be revised according to the returned Preliminary Plans and resubmitted to Landlord. After Landlord notifies Tenant of Landlord's approval of the Preliminary Plans, Tenant, at its expense, will cause, using commercially reasonable efforts, the Construction Documents to be prepared and submitted to Landlord for its approval, which shall not be unreasonably withheld, conditioned or delayed. Such submittal will include a complete color and finish board for Tenant's Work. The Construction Documents must substantially conform to the Preliminary Plans approved by Landlord and must be in all respects sufficient for the purpose of obtaining a building permit for Tenant's Work. If required by Landlord, Tenant will cause the Construction Documents to be resubmitted to Landlord for its approval after Landlord notifies Tenant of any required changes. Tenant's Work will not commence prior to Landlord's approval of the Construction Documents. If Landlord fails to deliver to Tenant Landlord's written approval or its written request for revisions within 15 days after Landlord receives

any submittal by Tenant of Preliminary Plans, Construction Documents or any required revisions to them, or Tenant's request for approval of its Contractor (defined below in Section 11) Tenant will receive a credit against Base Rent beginning on the first day of the Term equal to one day's Base Rent for each day subsequent to the 15th day after Tenant's submittal until the day of Landlord's response. Except as provided in Paragraph 2 above, no delays in the design or performance of Tenant's Work will change the applicable Start Dates or the Commencement Date with respect to any of various portions of the Premises. Upon completion of Tenant's Work in the Premises as a whole, Tenant will provide Landlord a complete set of reproducible as-built plans of the Premises. If Tenant fails to provide such plans, Landlord may obtain them, directly or by field verification, and charge Tenant for all costs incurred by Landlord in doing so. No approval by Landlord of the Preliminary Plans, the Construction Documents or any revisions to them will constitute a representation or warranty by Landlord or its architects or engineers as to the adequacy or sufficiency of such plans, or the improvements to which they relate, for any use, purpose or condition, but such approval will merely be the consent of Landlord to the construction or installation of improvements in the Premises according to such plans.

9. Tenant's Work. During the Tenant Finish Period, Tenant, at its expense (but subject to reimbursement from the Allowance), will construct or cause to be constructed in the Premises all of Tenant's Work according to the Construction Documents approved by Landlord. Tenant, at its expense (but subject to reimbursement from the Allowance), will obtain: (i) all permits (including, without limitation, building permits) required for construction of Tenant's Work; (ii) all contracts and insurance required under this Work Letter; and (iii) all certificates required for occupancy of the Premises from the appropriate governmental authorities. Tenant will cause all Tenant's Work to be diligently completed in a good and workmanlike manner, according to the approved Construction Documents and all Laws, and free and clear of any liens or claims for liens.

10. Tenant's Contractor. Landlord will have the right to approve Tenant's contractor ("Contractor") and all subcontractors, which approvals will not be unreasonably withheld, conditioned or delayed. Landlord will provide Tenant with a list of contractors and subcontractors that are acceptable to Landlord. Tenant may select its Contractor and subcontractors from such list or may request Landlord's approval of a Contractor or subcontractors not on such list. Tenant will not execute any contract for the performance of Tenant's Work until Landlord's approvals of the Contractor and subcontractors have been obtained, and Tenant will cause its proposed Contractor and subcontractors (if the proposed Contractor or subcontractors are other than those set forth on such list) to submit such information, including financial information, as may be reasonably required by Landlord to determine whether such Contractor and subcontractors should be approved.

11. Construction Contract. Tenant's construction contract for Tenant's Work will provide (and Tenant will deliver a copy of it to Landlord so that Landlord may confirm it provides) that: (i) construction of Tenant's Work will not interfere with Landlord's or Landlord's tenants' activities in, or use or enjoyment of, any of the Buildings, as determined by Landlord in good faith; (ii) Contractor will cooperate with other contractors in the Buildings in a commercially reasonable manner to insure harmonious working relationships, including, without limitation, coordinating with other contractors in the Buildings concerning use of elevators, trash removal and water and utility usage; (iii) Contractor will leave all Common Areas in a neat, clean, orderly and safe condition

at the end of each day during construction of Tenant's Work; (iv) Contractor will procure and maintain, and will cause its subcontractors to procure and maintain the insurance and to execute such documents evidencing such obligation to procure and maintain such insurance, as described in Paragraph 12 below; (v) upon completion of Tenant's Work, Contractor will provide to Landlord and Tenant as-built drawings together with mechanical balance reports and any maintenance manuals on equipment installed in the Premises as part of Tenant's Work; (vi) any purchased materials remaining after completion of the subject portion of Tenant's Work (such as, for example, extra paint, wall coverings or carpet) will be given by Contractor to Tenant for use in subsequent repairs; and (vii) all labor and material supplied according to the contract will be fully warranted by Contractor for a period of not less than one year from substantial completion of Tenant's Work and such warranty will provide that it is for the benefit of both Landlord and Tenant and may be enforced by either. The construction contract will also contain the following indemnification and defense provisions:

"To the fullest extent permitted by law, Contractor will indemnify, defend and hold harmless Ascentris 105, LLC, a Colorado limited liability company, and its successors, assigns, property manager, partners, managers, members, officers and directors, subsidiaries, affiliates, employees and agents (collectively, the "Indemnitees") from and against any and all claims, damages, losses and expenses, including, but not limited to, attorneys' fees, arising out of or resulting from performance of the work contemplated by this contract by Contractor or any of its subcontractors, except that the foregoing will not apply to any Indemnitee to the extent such Indemnitee's negligence caused such claim, damage, loss or expense. Such obligations will not be construed to negate, abridge or otherwise reduce any other right or obligation of indemnity which would otherwise exist as to any party or person described in this paragraph.

Contractor agrees to protect, defend, hold harmless and indemnify the Indemnitees from and against any and all claims, actions, liabilities, damages, losses, costs and expenses (including attorneys' fees) arising out of or resulting from Contractor's failure to purchase all insurance required under Paragraph 12 of the Possession and Leasehold Improvements Agreement attached to and made a part of the Lease Agreement dated ____[insert date of Lease]_____ between Ascentris 105, LLC, a Colorado limited liability company, and Exelixis, Inc., a Delaware corporation, and from Contractor's failure to require and obtain proper insurance coverage from its subcontractors. In any and all claims against the Indemnitees or any employee of Contractor or anyone directly or indirectly employed by it or anyone for whose acts it may be liable, the indemnification obligation under this provision will not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable by or for Contractor or any subcontractor under Workers' or Workmen's Compensation Acts, disability benefit acts, or other employee benefit acts.

The indemnification and defense obligations stated above will not apply to any claims, actions, liabilities, damages, losses, costs or expenses caused directly by the negligence or intentional tortious acts of the Indemnitees."

12. Contractor's Insurance. Contractor's insurance or such insurance carried by Contractor's subcontractors or sub-subcontractors pursuant to this Work Letter will be primary and non-contributory insurance over any insurance carried by Landlord. Beginning on the Start Date and thereafter during the Term of the Lease, and for such additional time as may be further required, Tenant will cause Contractor to provide, pay for, and maintain in full force and effect, the insurance outlined herein, covering claims arising out of or in connection with the work or service performed by or on behalf of Contractor for Tenant. Further, Tenant will cause Contractor and any and all subcontractors and sub-subcontractors to execute documentation satisfactory to Landlord, whereby each such subcontractor and/or sub-subcontractors will agree to maintain such types of insurance with limits required by Landlord during the entire period that they conduct any work in the Premises, and to provide proof of such insurance in a form satisfactory to Landlord. Contractor will cause all subcontracts and sub-subcontracts to include these provisions (with applicable insurance limits) and to provide evidence thereof to Landlord promptly after request.

(a) Commercial General Liability. Contractor will maintain commercial general liability insurance covering all operations by or on behalf of Contractor on an occurrence basis against claims for bodily injury, property damage, and personal injury. Such insurance will provide minimum limits and coverage as follows:

(i) Minimum Limits.

A) $1,000,000 Each Occurrence (Combined Single Limit Bodily Injury and Property Damage);

B) $2,000,000 General Aggregate per project site; and

C) $2,000,000 Products / Completed Operations Aggregate.

(ii) Coverages.

A) Products and Completed Operations coverage maintained for at least 3 years from completion of work or warranty period, whichever is greater;

B) Additional Insured status including Products and Completed Operations: Landlord, its partners, managers, members, officers and directors, employees, agents, subsidiaries, affiliates and Property Manager;

C) Insured status for Landlord if Additional Insured status is not available for Products and Completed Operations coverage;

D) Waiver of Subrogation in favor of Landlord and Property Manager; and

E) Subcontractor exception to their work exclusion.

(iii) Unacceptable Exclusions.

A) Residential (if applicable)

B) Condominiums or condominium conversions (if applicable)

C) EIFS (if applicable)

D) Subsidence exclusion

E) Damage to work performed by subcontractors on Contractor's behalf (e.g. CG 22 94 or CG 22 95)

F) Known loss

G) Design professionals

(b) Automobile Liability. Contractor will maintain business auto liability covering liability arising out of any auto (including owned, hired and non-owned autos).

(i) *Minimum Limits.* $1,000,000 Combined Single Limit Each Accident.

(ii) Coverages.

A) Additional Insured: Landlord, its partners, managers, members, officers and directors, employees, agents, subsidiaries, affiliates and Property Manager; and

B) Waiver of Subrogation in favor of Landlord and Property Manager.

(c) Workers Compensation. Contractor will maintain workers compensation and employers liability insurance.

(i) Minimum Limits.

A) Workers Compensation: Statutory Limits; and

B) Employers Liability:

1) Bodily Injury for Each Accident: $1,000,000;

2) Bodily Injury by Disease for Each Employee: $1,000,000; and

3) Bodily Injury Disease Aggregate: $1,000,000.

(ii) *Coverage*.

A) Waiver of Subrogation in favor of Landlord and Property Manager.

(d) Umbrella/Excess Liability. Contractor will maintain umbrella/excess liability insurance as shown below. The insurance will be on an occurrence basis in excess of the underlying insurance described in Paragraphs 12(a), 12(b), 12(c) (i)B) and will be at least as broad as each and every one of the underlying policies.

(i) Minimum Limits.

A) Greater of $5,000,000 or Total Hard Costs of Contract per Occurrence

B) Greater of $5,000,000 or Total Hard Costs of Contract Aggregate

(e) Property Insurance. Contractor and any subcontractor or sub-subcontractor will maintain property insurance covering all personal property, materials and equipment that are used in connection to this Lease. If Contractor or any of its subcontractors or sub-subcontractors elects not to carry this insurance, Landlord's property insurance will not cover Contractor's or any subcontractor's or sub-subcontractor's personal property, materials or equipment including scaffolding, and Contractor, for itself and its subcontractors and sub-subcontractors, hereby waives all claims against Landlord and Property Manager on account of any loss or damage to personal property, materials, equipment or scaffolding used or stored on the property.

(f) Proof of Insurance. Prior to execution of this Lease, or before Contractor performs work at or on the Premises or delivers supplies or materials to the Building, whichever comes first, Contractor will furnish, and will cause the applicable subcontractors and sub-subcontractors to furnish, Property Manager with certificates of insurance evidencing the types of coverage outlined above, and with regard to the subcontractors and sub-subcontractors, with the limits required by Landlord, and all in compliance with the Other Insurance Provisions outlined below. Neither Contractor nor any subcontractor will have the right to enter the Premises or perform any of Tenant's Work unless and until appropriate certificates of insurance and other related documentation, as requested by Landlord and/or Property Manager, has been delivered to Property Manager. Insurance is to be placed with insurers with a Best's rating of no less than A-IX. No such policy will be cancelable, non-renewed or modified except after 30 days' written notice to Property Manager. Except for the provisions of Paragraph 12(a)(ii)A) hereof, Contractor will maintain all of the foregoing insurance coverages in full force and effect until the work or service under this Agreement is fully completed. The requirements for carrying the foregoing insurance will not release Contractor from the provision for indemnification of Landlord by Contractor.

(g) Other Insurance Provisions. Contractor will name, will cause its subcontractors and sub-subcontractors to name and will cause the applicable contracts with

such subcontractors and sub-subcontractors to provide that each such subcontractor and sub-subcontractor will name, Landlord, Landlord's partners, managers, members, officers and directors, employees, agents, subsidiaries, affiliates and the Property Manager as additional insureds with respect to liability arising out of the activities performed by or on behalf of Contractor or its subcontractors or sub-subcontractors on all policies carried by Contractor and/or Contractor's subcontractors or sub-subcontractors, except Workers Compensation. Contractor's and its subcontractor's and sub-subcontractor's Workers' Compensation insurers will agree to waive all rights of subrogation against Landlord, its partners, managers, members, officers and directors, employees and agents, subsidiaries and affiliates and Property Manager, for losses arising from work or activities performed by Contractor or its subcontractor or sub-subcontractor, as applicable. All liability insurance policies carried by Contractor will include provisions for contractual liability coverage insuring Contractor for the performance of its indemnity obligations set forth herein. Contractor is solely responsible for causing its subcontractors and sub-subcontractors to obtain the types of insurance and applicable coverages set forth herein. It is expressly understood and agreed that the coverages required represent Landlord's minimum requirements and such are not to be construed to void or limit Contractor's indemnity obligations contained in this Work Letter. Neither (i) the insolvency, bankruptcy or failure of any insurance company covering Contractor or its subcontractors or sub-subcontractors, (ii) the failure of any insurance company to pay claims occurring nor (iii) any exclusion from or insufficiency of coverage will be held to affect, negate or waive any of Contractor's indemnity obligations set forth herein or under any other provision of this Work Letter. The amount of liability insurance under insurance policies maintained by Contractor or any of its subcontractors or sub-subcontractors will not be reduced by the existence of insurance coverage under policies separately maintained by Landlord. Contractor and each of its subcontractors and sub-subcontractors will be solely responsible for any premiums, assessments, penalties, deductible assumptions, retentions, audits, retrospective adjustments or any other kind of payment due under their respective policies. The entry by Contractor or any subcontractor or sub-subcontractor onto, or the performance of any work by Contractor or any subcontractor or sub-subcontractor in, the Premises without delivering the required certificates and/or other evidence of insurance, will not constitute a waiver of the obligations of Contractor or the applicable subcontractor or sub-subcontractor (as the case may be) to provide the required coverages. If Contractor or any subcontractor or sub-subcontractor provides to Landlord or Property Manager a certificate that does not evidence the coverages required herein, or that is faulty in any respect, acceptance of such certificate by Landlord or Property Manager will not constitute a waiver of the obligations of Contractor or any subcontractor or sub-subcontractor (as the case may be) to provide the proper insurance.

13. Additional Requirements Concerning Tenant's Work. The following additional requirements will apply to Tenant's Work:

(a) All of Tenant's Work will be: (i) of a quality at least equal to Class A buildings in the Alameda, California market area; (ii) completed only according to the Construction Documents approved by Landlord; (iii) conducted in a manner so as to maintain harmonious labor relations and not to interfere with or delay any other work or activities being carried

on by Landlord or Landlord's contractors or other tenants; (iv) designed, performed and completed in substantial compliance with all applicable reasonable standards and reasonable regulations established by Landlord and provided to Tenant in advance of the commencement of construction of Tenant's Work as well as all safety, fire, plumbing and electrical and other codes and governmental and insurance requirements; (v) completed only by the Contractor approved by Landlord; (vi) coordinated by the approved Contractor so as to ensure timely completion; and (vii) performed and conducted in such a manner so as not to alter the structure or systems of the Building without Landlord's prior written consent.

(b) With respect to any Multi User Buildings, under no circumstances will Tenant, Contractor or any of their authorized representatives ever alter or modify or in any manner disturb any "Central" (as defined below) system or installation of the Building, including, without limitation, the Central plumbing system, Central electrical system, Central heating, ventilating and air conditioning system, Central fire protection and fire alert system, Central Building maintenance systems, Central structural system, elevators and anything located within the Central core of the Building, without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Only with Landlord's express written permission will Tenant, Contractor or their authorized representatives alter or modify or in any manner disturb any "Branch" (as defined below) of any Central system or installation of the Building which serves or is located within the Premises. "Central" means that portion of any Building system or component which is within the core of the Building or common to or serves or exists for the benefit of other tenants in the Building, and "Branch" means that portion of any Building system or component which serves to connect or extend Central systems to the Premises. Any and all interfacing with, or tie-ins to, any Central Building systems or Branches will be scheduled with Landlord not later than five days prior to the commencement of any such work. Any such interfacing with, or tie-ins to, any such Building systems, and any checks of such interfacing or tie-ins, will be performed only after the same have been scheduled with, and reasonably approved by, Landlord.

(c) At Tenant's election, Contractor may submit to Landlord written requests for use of any Building Standard materials which have been prestocked by Landlord. Any such request will indicate the quantity and description of the prestocked materials needed. Contractor will be responsible for the relocation and allocation of any such materials to the Premises under the supervision of, and only with the consent of, Landlord's Representative or contractor. Contractor will be solely and exclusively responsible for signing for and verifying any such prestocked materials so used. Landlord will deduct from the amount of the Allowance described in Paragraph 17 below the value of any prestocked materials so requested by Contractor from Landlord. The value of any such prestocked materials will be determined by the quantities required in accordance with generally accepted costs in the metropolitan area in which the Building is located.

(d) If there is a freight elevator, all construction personnel engaged in the performance of Tenant's Work must use the Building's freight elevator, if applicable, and not the passenger elevators for access to any portion of the Premises in any Multi User

Building. All deliveries of materials for use in connection with the construction of Tenant's Work requiring a freight elevator of a Multi User Building must be scheduled reasonably in advance with Landlord. In addition, any of Tenant's Work which is to be performed in a Multi User Building during hours other than the Business Hours must be scheduled in advance with Landlord. With respect to any of Tenant's Work which is to be performed in a Single User Building during hours other than the Business Hours, Tenant will provide reasonable advance notice to Landlord.

(e) Tenant agrees that if Contractor fails to leave all Common Areas in a neat, clean, orderly and safe condition at the end of each day during construction of Tenant's Work, Landlord will have the right to immediately take such action as Landlord deems appropriate to render the Common Areas neat, clean, orderly and safe and Tenant will, upon Landlord's written demand, reimburse Landlord for all Landlord's costs of taking such action.

14. Landlord's Services; Construction Administration. During construction of Tenant's Work, Landlord will provide the following services related to such construction, the cost of which will be paid by Tenant as a part of Tenant's Costs: all electricity and other utilities (provided that Tenant will only be responsible for the cost of electricity beginning during the Tenant Finish Period); refuse removal (including dumpsters); and any other services requested by Tenant or Contractor that Landlord agrees to provide (such as engineering, maintenance or housekeeping services). In addition, Landlord will provide construction administration with respect to Tenant's Work which will include providing Landlord's personnel. Landlord shall not interfere with the progress of the construction of Tenant's Work. Tenant, at its option, will have the right to hire its own construction manager with Landlord's approval, which approval will not be unreasonably withheld, conditioned or delayed. Tenant or its construction manager will be responsible for coordinating all aspects of Tenant's Work from the design process through construction; assistance in obtaining any approvals required from Landlord and any governmental authorities; and assistance in scheduling Tenant's deliveries to the Premises (including Tenant's move to the Premises). Tenant will pay Landlord, as a part of Tenant's Costs, a fee for Landlord's supervision of Tenant's Work in an amount equal to Landlord's actual out-of-pocket costs with no mark-up, in an amount not to exceed $5,000.00 per month during the Tenant Finish Period. All Tenant's Costs that are payable to Landlord will be paid by Tenant within 10 days after the date of Landlord's invoice or, at Landlord's election, shall be subtracted from the Maximum Allowance Amount prior to payment to Tenant.

15. Inspection; Stop Work; Noncomplying Work. Landlord reserves the right to inspect Tenant's Work in the Premises at all reasonable times, provided that such inspection(s) will in no way make Landlord responsible for any of Tenant's Work and will not constitute a representation or warranty by Landlord as to the adequacy or sufficiency of Tenant's Work. Landlord reserves the right to stop any and all work performed (or to be performed) if Landlord reasonably considers any such work, or its performance, to be dangerous or creating a nuisance, or otherwise injurious to Tenant, Landlord or any other Building tenants. If any inspection by Landlord reveals any item of Tenant's Work that does not materially comply with Tenant's obligations under this Work Letter, Landlord may so notify Tenant and require that the item be corrected to so comply. Within 10 days after the date of any such notice from Landlord, Tenant will begin correction of any

such noncomplying item and will then promptly and diligently pursue such correction to completion. If any such item is not so corrected, Landlord may enter the Premises at any time and correct the item at Tenant's expense (to be paid by Tenant promptly upon demand).

16. Mechanics' Liens. In the conduct of Tenant's Work, Tenant will take all action necessary to ensure that no mechanic's or other liens attach to the Premises or Building. Without limitation, Tenant will post notices, with form and content and in the manner as specified by Laws, notifying all persons or entities which may supply labor or materials in connection with Tenant's Work that Landlord's interest in the Premises and Building will not be subject to any lien for the same. If any such lien should be filed, the provisions of Section 8 of the Lease will apply.

17. Landlord's Allowance. Landlord agrees to pay Tenant the "Allowance," to be applied to the cost of designing and performing Tenant's Work, equal to the lesser of (a) Tenant's Costs, or (b) the Maximum Allowance Amount (which may be prorated in accordance with Paragraph 1(j) of this Work Letter). As used below, "Landlord's Percentage" means that percentage obtained by dividing the Maximum Allowance Amount (which may be prorated in accordance with Paragraph 1(j) of the Work Letter) by the then-current estimate of the total Tenant's Costs (based on Tenant's contracts with Tenant's Architect, Tenant's Engineers and Contractor); provided that Landlord's Percentage will never exceed 100%. Landlord will pay the amount of the Allowance to Tenant in progress payments no more than on a monthly basis upon the completion of Tenant's Work in each Building. Such progress payments will be made not later than 30 days after receipt by Landlord from Tenant of copies of Tenant's invoices from Contractor (and, where applicable, copies of Contractor's invoices from its subcontractors or suppliers) together with a certificate from Tenant's Architect (or other evidence satisfactory to Landlord) indicating that the work to which such invoices relate has been substantially completed and/or the materials to which such invoices relate have been installed in, or delivered to, the Premises, and such work is for the completion of Tenant's Work in the applicable Building. Such progress payments will be made payable to Tenant or Contractor, and will be for Landlord's Percentage of the amount of the submitted invoices, less a 10% retainage. As a condition precedent to Landlord delivering the first such progress payment, Tenant will deliver to Landlord original conditional lien waivers for the work completed or materials supplied as of the date of such lien waiver. As a condition precedent to Landlord's issuing any such progress payment subsequent to the first such progress payment, Tenant will deliver to Landlord both original lien waivers from Contractor and any applicable subcontractor or supplier indicating that claims for mechanics' or materialmen's liens with respect to the labor and materials reflected in the invoices submitted for the immediately preceding progress payment have been unconditionally waived and original conditional lien waivers for the work completed or materials supplied as of the date of each such lien waiver subsequent to such preceding progress payment. A further condition precedent to Landlord's issuing the last such payment for the amount of the retainage will be that Landlord has received from Tenant (either prior to or simultaneously with the issuance of such final payment) the following: (i) written notice from Contractor and Tenant's Architect (or other evidence satisfactory to Landlord) that Tenant's Work has been completed (including completion of any punch list items); (ii) final and unconditional original lien waivers from Contractor and all subcontractors, suppliers, materialmen and other parties who performed labor at, or supplied materials to, the Premises in connection with Tenant's Work; and (iii) a copy of the certificate of occupancy for the Premises issued by the appropriate governmental authorities. Landlord will have no obligation to

make any such progress payment at any time that a Default exists under the Lease and the total of all such progress payments will in no event exceed the amount of the Allowance. Landlord will have no obligation to disburse any portion of the Allowance, including any retainage, after the date that is one year following the Start Date. Tenant will not be entitled to any credit if the Maximum Allowance Amount exceeds Tenant's Cost.

18. General. Failure by Tenant to pay any amounts due under this Work Letter beyond the notice and cure period set forth in Section 20.1(a) of the Lease will have the same effect as failure to pay Rent under the Lease, and such failure or Tenant's failure to perform any of its other obligations under this Work Letter beyond the notice and cure period set forth in Section 20.1(b) of the Lease will constitute a Default under Section 20.1(b) of the Lease, entitling Landlord to all of its remedies under the Lease as well as all remedies otherwise available to Landlord.

19. Specialized Tenant Improvements; Removal of Tenant Improvements. Tenant shall designate on the Preliminary Plans and/or Construction Documents those certain specialized trade fixtures and equipment installed by Tenant which Tenant wishes to designate as "Specialized Tenant Improvements." Tenant shall indicate which Specialized Tenant Improvements, if any, it wishes to remove from the Premises upon the expiration or sooner termination of the Term. Landlord shall indicate its approval or modification of Tenant's selection of Tenant's Specialized Tenant Improvements by noting the same on its approval of the Preliminary Plans and/or the Construction Documents. Notwithstanding anything to the contrary contained in this Lease, Landlord shall not require that Tenant remove any of the Leasehold Improvements.

WATERFRONT AT HARBOR BAY

EXHIBIT C
OCCUPANCY ESTOPPEL CERTIFICATE

THIS OCCUPANCY ESTOPPEL CERTIFICATE ("Certificate") is given by EXELIXIS, INC., a Delaware corporation ("Tenant"), to ASCENTRIS 105, LLC ("Landlord"), with respect to that certain Lease Agreement dated _____, 2017 ("Lease"), under which Tenant has leased from Landlord certain premises located in the buildings in the Harbor Bay office project located at 1751, 1801 and 1851 Harbor Bay Parkway, Alameda, California ("Building").

In consideration of the mutual covenants and agreements stated in the Lease, and intending that this Certificate may be relied upon by Landlord and any prospective purchaser or present or prospective mortgagee, deed of trust beneficiary or ground lessor of all or a portion of the Building, Tenant certifies as follows:

1. Except for those terms expressly defined in this Certificate, all initially capitalized terms will have the meanings stated for such terms in the Lease.

2. Landlord first delivered possession of the Premises to Tenant (either for occupancy by Tenant or for the commencement of construction by Tenant) and the Start Dates are as follows:

   (i) With respect to Suites 225 of the 1751 Space, Suites 200 and 210 of the 1801 Space, Suites 1000, 150 and 200 of the 1851 Space, on [_____, 201___];

   (ii) With respect to Suite 150 of the 1801 Space, on _____, 201___;

   (iii) With respect to Suite 210 of the 1851 Space, on [_____,201___];

   (iv) With respect to Suite 125 of the 1851 Space, on [_____, 201___];

   (v) With respect to Suite 175 of the 1801 Space, on [_____, 201___];

   (vi) With respect to Suite 100 of the 1801 Space, on [_____, 201___];

3. Other than the Temporary Space, Tenant moved into the Premises (or otherwise first occupied the Premises for Tenant's business purposes) as follows:

   (i) With respect to Suite 200 of the 1801 Space, on [_____,201___];

(ii) With respect to Suite 210 of the 1801 Space, on [_____,201___];

(iii) With respect to Suite 1000 of the 1851 Space, on [_____,201___];

(iv) With respect to Suite 150 of the 1851 Space, on [_____,201___];

(v) With respect to Suite 200 of the 1851 Space, on [_____, 201___];

(vi) With respect to Suite 150 of the 1801 Space, on [_____, 201___];

(vii) With respect to Suite 210 of the 1851 Space, on [_____,201___];

(viii) With respect to Suite 125 of the 1851 Space, on [_____, 201___];

(ix) With respect to Suite 175 of the 1801 Space, on [_____, 201___];

(x) With respect to Suite 100 of the 1801 Space, on [_____, 201___];

4. The Commencement Date occurred on _____, 201___, and the Expiration Date will occur on _____, 20____.

5. Tenant's obligation to make monthly payments of Base Rent under the Lease began (or will begin) on _____, 201___.

6. Tenant's obligation to make monthly estimated payments of Operating Expenses under the Lease began (or will begin) on _____, 201___.

Executed this _____ day of _____, 201___.

TENANT:

EXELIXIS, INC.,
a Delaware corporation

By:
Printed Name:
Title:

WATERFRONT AT HARBOR BAY

EXHIBIT D
RULES AND REGULATIONS

1. Rights of Entry. Tenant will have the right to enter the Premises at any time, but outside of Business Hours Tenant will be required to furnish proper and verifiable identification when entering any Multi User Building. Landlord will have the right to enter the Premises after Business Hours in any Multi User Building to perform janitorial services and other Landlord services, at all reasonable hours to clean windows and also at any time during the last three months of the Term, with reasonable prior notice to Tenant, to show the Premises to prospective tenants.

2. Right of Exclusion. Landlord reserves the right to exclude or expel from the Project any person who, in Landlord's judgment, is intoxicated or under the influence of alcohol or drugs.

3. Obstructions. Tenant will not obstruct or place anything in or on the sidewalks or driveways outside the building, or in the lobbies in a Multi User Building, corridors in a Multi User Building, stairwells in a Multi User Building or other exterior Common Areas or interior Common Areas in Multi User Buildings. Landlord may remove, at Tenant's expense, any such obstruction or thing without notice or obligation to Tenant. Tenant shall not cause any portion of the Buildings to be in non-compliance with applicable fire codes.

4. Refuse. Tenant will place all refuse in the Premises in proper receptacles provided and paid for by Tenant, or in receptacles provided by Landlord for the Project, and will not place any litter or refuse on or in the sidewalks or driveways outside the Building, or the Common Areas, lobbies, corridors, stairwells, ducts or shafts of the Building.

5. Public Safety. Tenant will not throw anything out of doors, windows or skylights, down passageways or over walls.

6. Keys; Locks. Landlord may from time to time install and change locks on entrances to any Multi User Building and Common Areas in Multi User Buildings and, with the prior consent of Tenant, the Premises, and will provide Tenant a reasonable number of keys to meet Tenant's requirements. If Tenant desires additional keys they will be furnished by Landlord and Tenant will pay a reasonable charge for them. Tenant will not add or change existing locks on any door in or to the Premises without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. If with Landlord's consent, Tenant installs lock(s) incompatible with the Building master locking system:

(a) Landlord, without abatement of Rent, will be relieved of any obligation under the Lease to provide any service that requires access to the affected areas;

(b) Tenant will indemnify Landlord against any expense as a result of forced entry to the affected areas which may be required in an emergency; and

(c) Tenant will, at the end of the Term and at Landlord's request, remove such lock(s) at Tenant's expense.

At the end of the Term, Tenant will promptly return to Landlord all keys for the Building and Premises which are in Tenant's possession.

7. Aesthetics. Tenant will not attach any awnings, signs, displays or projections to the outside or inside walls or windows of the Building which are visible from outside the Premises by an ordinary person at ground level without Landlord's prior written approval, which may be withheld in Landlord's sole but reasonable discretion.

8. Window Treatment. If Tenant desires to attach or hang any curtains, blinds, shades or screens to or in any window or door of the Premises, Tenant must obtain Landlord's prior written approval, which shall not be unreasonably withheld, conditioned or delayed. Tenant will not coat or sunscreen the interior or exterior of any windows without Landlord's express written consent. Tenant will not place any objects on the window sills that cause, in Landlord's reasonable opinion, an aesthetically unacceptable appearance.

9. Directory Boards. Landlord will make every reasonable effort to accommodate Tenant's requirements for the Building directory boards in any Multi User Building in which a portion of the Premises is located. The cost of any changes to the directory board information identifying Tenant requested by Tenant subsequent to the initial installation of such information will be paid for by Tenant.

10. Project Control. Landlord reserves the right to control and operate the exterior Common Areas, and interior Common Areas in any Multi User Building, as well as facilities furnished for the common use of tenants in such manner as Landlord deems best for the benefit of tenants generally. Landlord reserves the right to prevent access to the Project or any portion thereof during an emergency by closing the doors or otherwise, for the safety of tenants and protection of the Project and property in the Project.

11. Engineering Consent. All plumbing, electrical and HVAC work for and in the Premises located in a Multi User Building requires Landlord's prior written consent (not to be unreasonably withheld, conditioned or delayed) to maintain the integrity of the Project's electrical, plumbing and HVAC systems.

12. HVAC Interference. Tenant will not place objects or other obstructions on the HVAC convectors or diffusers and will not permit any other interference with the HVAC system.

13. Plumbing. Tenant will only use plumbing fixtures for the purpose for which they are constructed. Tenant will pay for all damages resulting from any misuse by Tenant of plumbing fixtures.

14. Equipment Location. Landlord reserves the right to specify where Tenant's business machines, mechanical equipment and heavy objects will be placed in the Premises in order to best absorb and prevent vibration, noise and annoyance to other tenants, and to prevent damage

to the Buildings and/or the Project. Tenant will pay the cost of any required professional engineering certification or assistance.

15. Animals. Tenant will not bring into, or keep about, any portion of the Premises located in a Multi User Building any vehicles, birds, animals (other than service animals and laboratory testing animals). Vehicles may only be parked in Project areas designated for such purposes.

16. Carpet Protection. In those portions of the Premises where carpet has been provided by Landlord, Tenant will at its own expense install and maintain pads to protect the carpet under all furniture having castors other than carpet castors.

17. Proper Conduct. Tenant will conduct itself in a manner which is consistent with the character of the Project and will ensure that Tenant's conduct will not impair the comfort or convenience of other tenants in the Project.

18. Elevators. Except as may be expressly permitted by Landlord, in Multi User Buildings, only freight elevators may be used for deliveries. Use of freight elevators in Multi User Buildings after Business Hours must be scheduled through the office of Property Manager.

19. Deliveries. Tenant will ensure that deliveries of materials and supplies to any portion of the Premises located in a Multi User Building are made through such entrances, elevators and corridors and at such times as may from time to time be reasonably designated by Landlord. Tenant will use or cause to be used, in any Multi User Building, hand trucks or other conveyances equipped with rubber tires and rubber side guards to prevent damage to such Multi User Building or property in such Multi User Building. Tenant will promptly pay Landlord the cost of repairing any damage to the Building and/or the Project caused by any person making deliveries to the Premises at the direction or request of Tenant.

20. Moving. Tenant will ensure that furniture and equipment and other bulky matter being moved to or from the Premises located in a Multi User Building are moved through such entrances, elevators and corridors and at such times as may from time to time be reasonably designated by Landlord, and by movers or a moving company reasonably approved by Landlord. Tenant will promptly pay Landlord the cost of repairing any damage to such Building and/or the Project caused by any person moving any such furniture, equipment or matter to or from the Premises.

21. Solicitations. Canvassing, soliciting and peddling in the Project are prohibited and Tenant will cooperate in preventing the same.

22. Food. Tenant may order food to be delivered to the Premises for consumption by its employees and guests within the Premises. Except for the activity described in the preceding sentence, only persons approved from time to time by Landlord may prepare, solicit orders for, sell, serve or distribute food in or around the Project. Except as may be specified in the Lease or in construction drawings for the Premises approved by Landlord, and except for microwave cooking, Tenant will not use the Premises for preparing or dispensing food, or soliciting of orders for sale, serving or distribution of food.

23. Smoking. The smoking of cigarettes, cigars, pipes, etc. is STRICTLY PROHIBITED anywhere in the interior of the Building including the Premises. The ONLY designated smoking areas will be specifically designated by Landlord. STANDING ASH TRAYS WILL BE PROVIDED.

24. Chemical Storage. All chemicals, paints or other similar materials must be stored in compliance with all Laws, including all applicable fire codes. Nothing in this paragraph will permit Tenant to violate Section 3.6 of the Lease.

25. Storage Near Ceiling. Tenant may not store any materials within 18 inches (or any greater distance prescribed, from time to time, by Laws, including applicable fire codes) of the ceiling of the Premises.

26. Weapons. Possession of a firearm or other weapon is STRICTLY PROHIBITED anywhere in the interior of the Building including the Premises. Nothing in this paragraph will prohibit Tenant from carrying Mace or pepper spray for personal defense.

27. Employees, Agents and Invitees. In these Rules and Regulations, "Tenant" includes Tenant's employees, agents, invitees, licensees and others permitted by Tenant to access, use or occupy the Premises.

WATERFRONT AT HARBOR BAY

EXHIBIT E
INTENTIONALLY OMITTED

WATERFRONT AT HARBOR BAY

EXHIBIT F
FORM OF LETTER OF CREDIT

Wells Fargo Bank, N.A.
U. S. TRADE SERVICES – Standby Letters of Credit
MAC xxxxx-xxx
Address Line 1
Address Line 2
Phone: 1(800) 776-3862 Option 2
E-Mail: StandbyLC@wachovia.com

IRREVOCABLE STANDBY LETTER OF CREDIT
NUMBER _____
Issue Date:_____

BENEFICIARY:
Ascentris 105, LLC
1401 17th Street, 12th Floor
Denver, Colorado 80202
Attention: Robert A. Toomey, Jr.

APPLICANT:
Applicant Name
Address
City, State Zip

LETTER OF CREDIT ISSUE AMOUNT: $500,000.00 EXPIRY DATE: ***[Confirm the Expiry Date.]***

Ladies and Gentlemen:

At the request and for the account of the above referenced Applicant, we hereby issue our Irrevocable Standby Letter of Credit (the "Wells Credit") in your favor in the amount of Five Hundred Thousand and 00/100 Dollars ($500,000.00) available with us at our above office by payment against presentation of the following documents:

1. A draft drawn on us at sight marked "Drawn under Wells Fargo Bank, N.A. Standby Letter of Credit No. _____."

2. The original of this Letter of Credit and any amendments thereto.

3. Beneficiary's signed and dated statement worded as follows (with the instructions in brackets therein complied with):

The undersigned, an authorized representative of the beneficiary of Wells Fargo Bank Letter of Credit No. _____, certifies (a) that the amount of the draft accompanying this statement represents the amount due to Beneficiary pursuant to and in connection with that certain Lease Agreement dated **[insert date]**, including any amendments thereto (collectively, the "Lease"), between Applicant, as tenant ("Tenant"), and Beneficiary, as landlord ("Landlord"), and (b) that (i) a default of the Lease by Tenant exists and has continued beyond any applicable notice and cure period under the Lease, (ii) Tenant has committed a default under the Lease and the transmittal of notice of such default is barred by applicable laws, or (iii) Tenant has failed to deliver a replacement letter of credit to Landlord at least 30 days prior to the expiration date of the letter of credit.

Multiple drawings are permitted. In the event of partial drawings, Wells Fargo Bank, N.A. shall endorse the original of this Letter of Credit and return it to the beneficiary.

If any instructions accompanying a drawing under this Letter of Credit request that payment is to be made by transfer to an account with us or at another bank, we and/or such other bank may rely on an account number specified in such instructions as that of the beneficiary's without any further validation.

This Letter of Credit is transferable one or more times to any entity that has succeeded Beneficiary as Landlord under the Lease, but in each instance only to a single transferee and only in the full amount available to be drawn under the Letter of Credit at the time of such transfer. Any such transfer may be effected only through Wells Fargo Bank, N.A. and only upon presentation to us at our presentation office specified herein of a duly executed transfer request in the form attached hereto as Exhibit A, with instructions therein in brackets complied with, together with the original of this Letter of Credit and any amendments thereto and payment of

our transfer fee. Each transfer shall be evidenced by our endorsement on the reverse of the original of this Letter of Credit, and we shall deliver such original to the transferee. The transferee's name shall automatically be substituted for that of the Beneficiary wherever such Beneficiary's name appears within this Letter of Credit. All charges in connection with any transfer of this Letter of Credit are for the Applicant's account.

This Letter of Credit is assignable in its entirety, but not in part, by Beneficiary, as Landlord, to its lender, or by any person or entity who or that succeeds to Landlord's interest under the Lease to its lender, without limit as to the number of assignments; provided, however, that an assignment of proceeds will not be deemed an assignment "in part." Such assignment shall be effected by presentation to us at our presentation office specified herein of a duly executed assignment request, together with the original of this Letter of Credit, and any amendments thereto, and payment of our assignment fee. All charges in connection with any assignment of this Letter of Credit are for the Beneficiary's or the Beneficiary's lender's account.

We are subject to various laws, regulations and executive and judicial orders (including economic sanctions, embargoes, anti-boycott, anti-money laundering, anti-terrorism, and anti-drug trafficking laws and regulations) of the U.S. and other countries that are enforceable under applicable law. We will not be liable for our failure to make, or our delay in making, payment under this Letter of Credit or for any other action we take or do not take, or any disclosure we make, under or in connection with this Letter of Credit (including, without limitation, any refusal to transfer this Letter of Credit) that is required by such laws, regulations, or orders, provided that any failure, delay, action or disclosure is made in good faith.

We hereby engage with you that each draft drawn under and in compliance with the terms and conditions of this Letter of Credit will be duly honored if presented together with the documents specified in this Letter of Credit at our office located at ***[Insert San Leandro address.]*** Attention: U.S. Trade Services, Standby Letters of Credit, on or before the above stated expiry date, or any extended expiry date if applicable.

This Letter of Credit sets forth in full the terms of our undertaking. This undertaking is independent of and shall not in any way be modified, amended, amplified or incorporated by reference to any document, contract or agreement referenced herein other than the stipulated ICC rules and governing laws.

Except as otherwise expressly stated herein, this Letter of Credit is subject to The International Standby Practice 1998, International Chamber of Commerce Publication No. 590 (the "ISP98"). For matters not addressed by the ISP98, this Letter of Credit will be governed by and construed in accordance with the laws of the State of California; provided, however, that in the event of any conflict between the ISP98 and the laws of the State of California, the ISP98 will control.

Very truly yours
WELLS FARGO BANK, N.A.

BY: _____
(AUTHORIZED SIGNATURE)

The original of this Letter of Credit contains an embossed seal over the Authorized Signature.
Please direct any written correspondence or inquires regarding this Letter of Credit, always quoting our reference number, to Wells Fargo Bank, N.A., Attn: U.S. Trade Services, Standby Letters of Credit, ***[Insert San Leandro address.]***.
All phone inquiries regarding this credit should be directed to our Standby Customer Connection Professionals at
1-800-776-3862, Option 2.

WATERFRONT AT HARBOR BAY

EXHIBIT G
HVAC EQUIPMENT LIST

1801 Building

HVAC 1801 AC-1
Manufacturer: Trane
Model: **SXHFC5040U67C7AD600**
Rating: 50 ton pkg unit
Serial: **C99L23825M**

HVAC 1801 AC-6
Manufacturer: Trane
Model: **SXHFC5040U67C7AD600**
Rating: 50 ton pkg unit
Serial: **C99L23824M**

HVAC 1801 AC-11
Manufacturer: Trane
Model: **SXHFC5040U67C7AD600**
Rating: 50 ton pkg unit
Serial: **C99L23828M**

HVAC 1801 AC-12
Manufacturer: Trane
Model: **SXHFC5040U67C7AD600**
Rating: 50 ton pkg unit
Serial: **C99L23829M**

Boiler 1801 B-1
Manufacturer: RITE
Model: **WA180W**
Serial: **27337**

1851 Building

HVAC 1851 1801 AC-1
Manufacturer: Trane
Model: **SCHFC5040U77C8B**
Rating: 50 ton pkg unit
Serial: **C9925795M**

HVAC 1851 AC-6
Manufacturer: Trane
Model: **SCHFC5040U77C8B**
Rating: 50 ton pkg unit
Serial: **C99L25796M**

HVAC 1851 AC-11
Manufacturer: Trane
Model: **SXHFC5040U88C8**
Rating: 50 ton pkg unit
Serial: **C99L25806M**

HVAC 1851 AC-12
Manufacturer: Trane
Model: S**XHFC5040U88C8**
Rating: 50 ton pkg unit
Serial: **C99L25805M**

Boiler 1851 B-1
Manufacturer: RITE
Model: **WA180W**
Serial: **27405**

EXELIXIS, INC.
NON-EMPLOYEE DIRECTOR EQUITY COMPENSATION POLICY

ADOPTED BY THE BOARD OF DIRECTORS: FEBRUARY 23, 2017

Each member of the board of directors (the "***Board***") of Exelixis, Inc. (the "***Company***") who is not an Employee (as defined in the Exelixis, Inc. 2017 Equity Incentive Plan (the "***2017 Plan***")) (each, a "***Non-Employee Director***") will be eligible to receive equity compensation as set forth in this Exelixis, Inc. Non-Employee Director Equity Compensation Policy (this "***Policy***"). The Initial Option Grants, Initial RSU Grants, Annual Option Grants and Annual RSU Grants (each as defined below) described in this Policy will be granted automatically and without further action of the Board to each Non-Employee Director who is eligible to receive such equity compensation, unless such Non-Employee Director declines the receipt of such equity compensation by written notice to the Company; *provided*, *however*, that notwithstanding the foregoing or anything in this Policy to the contrary, any equity grants scheduled to be granted on a certain date pursuant to this Policy will not be granted automatically if (i) the number of shares available for issuance under the 2017 Plan is insufficient to make all such grants on such date or (ii) making any such grants would exceed any applicable limits in the 2017 Plan. This Policy will become effective on the date of the annual meeting of the Company's stockholders held in 2017 (the "***Effective Date***"), provided that the 2017 Plan is approved by the Company's stockholders at such annual meeting, and will remain in effect until it is revised or rescinded by further action of the Board. Upon this Policy becoming effective on the Effective Date, (i) this Policy will replace and supersede in its entirety the Exelixis, Inc. Non-Employee Director Equity Compensation Policy adopted by the Board on February 28, 2014, as amended (the "***Prior Policy***"), which provided for equity grants under the Exelixis, Inc. 2014 Equity Incentive Plan, and (ii) the Prior Policy will be rescinded and no longer in effect as of the Effective Date, provided that any equity grants made pursuant to the Prior Policy will remain subject to the terms of the Prior Policy. Capitalized terms not explicitly defined in this Policy but defined in the 2017 Plan will have the same definitions as in the 2017 Plan.

The equity grants described in this Policy will be granted under the 2017 Plan and will be subject to the terms and conditions of (i) the 2017 Plan, (ii) the forms of grant notices and agreements approved by the Board for the grant of equity to Non-Employee Directors and (iii) this Policy.

(a) Initial Grants. Each person who is elected or appointed for the first time to be a Non-Employee Director automatically will be granted, upon the date of his or her initial election or appointment to be a Non-Employee Director, equity grants with a combined total dollar value of $400,000, which will be divided between approximately 50% in the form of a nonstatutory stock option (an "***Initial Option Grant***") and approximately 50% in the form of a restricted stock unit award (an "***Initial RSU Grant***"), based on the valuation methodology established by the Board. The number of shares of Common Stock subject to each Initial Option Grant and Initial RSU Grant will be based on such methodology and the average of the daily closing sales prices of the Common Stock for all of the trading days during the 30 calendar day period ending on (and including) the last calendar day immediately prior to the grant date of such Initial Option Grant and Initial RSU Grant.

(b) Annual Grants. On the day following each annual meeting of the Company's stockholders, each person who is then a Non-Employee Director automatically will be granted equity grants with a combined total dollar value of $250,000, which will be divided between approximately 50% in the form of a nonstatutory stock option (an "***Annual Option Grant***") and approximately 50% in the form of a restricted stock unit award (an "***Annual RSU Grant***"), based on the valuation methodology established by the Board; *provided*, *however*, that each Non-Employee Director may instead elect to receive 100% of such equity grants in the form of a nonstatutory stock option (in which case, the term "Annual Option Grant" will refer to such nonstatutory stock option). Any such election must be made by a Non-Employee Director by the date required by the Company and will remain in effect until revoked by such Non-Employee Director, provided that any such revocation is made by the date required by the Company. The number of shares of Common Stock subject to each Annual Option Grant and Annual RSU Grant, if any, will be based on such methodology and the average of the daily closing sales prices of the Common Stock for all of the trading days during the 30 calendar day period ending on (and including) the last calendar day immediately prior to the grant date of such Annual Option Grant and Annual RSU Grant, if any.

(c) Terms of Options.

(i) Exercise Price. The exercise price of each Initial Option Grant and Annual Option Grant will be equal to 100% of the Fair Market Value of the Common Stock subject to such option on the date such option is granted.

(ii) Exercisability and Vesting. Subject to Section (e) below, each Initial Option Grant and Annual Option Grant will be fully exercisable upon grant and will vest as follows:

(A) Each Initial Option Grant will provide for vesting of 1/4th of the shares subject to such option on the first anniversary of the date of grant and 1/48th of the shares subject to such option each month thereafter, subject to the Non-Employee Director's Continuous Service through such dates.

(B) Each Annual Option Grant will provide for vesting of 1/12th of the shares subject to such option each month after the date of grant, subject to the Non-Employee Director's Continuous Service through such dates.

(d) Terms of RSUs.

(i) Vesting. Subject to Section (e) below, each Initial RSU Grant and Annual RSU Grant will vest as follows:

(A) Each Initial RSU Grant will provide for vesting of 1/4th of the shares subject to such award on each of the first four anniversaries of the date of grant, subject to the Non-Employee Director's Continuous Service through such dates.

(B) Each Annual RSU Grant will provide for vesting of 100% of the shares subject to such award on the first anniversary of the date of grant, subject to the Non-Employee Director's Continuous Service through such date.

(ii) Delivery of Shares. The shares subject to each Initial RSU Grant and Annual RSU Grant will be delivered on the applicable vesting date or as soon as administratively practicable thereafter.

(e) Corporate Transaction. The provisions in this Section (e) will apply to each Initial Option Grant, Initial RSU Grant, Annual Option Grant, Annual RSU Grant and any other equity award granted to a Non-Employee Director under the 2017 Plan (an "***Other Equity Grant***") and will supersede Section 9(c) of the 2017 Plan in its entirety.

(i) Asset Sale, Merger, Consolidation or Reverse Merger. In the event of (i) a sale, lease or other disposition of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Stock Awards outstanding under the 2017 Plan or shall substitute similar stock awards (including awards to acquire the same consideration paid to the stockholders in the transaction described in this Section (e)(i) for those outstanding under the 2017 Plan). In the event any surviving corporation or acquiring corporation refuses to assume such Stock Awards or to substitute similar stock awards for those outstanding under the 2017 Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated prior to consummation of such event, the vesting of such Stock Awards and any shares of Common Stock acquired under such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full, and the Stock Awards shall terminate if not exercised at or prior to consummation of such event. With respect to any other Stock Awards outstanding under the 2017 Plan, such Stock Awards shall terminate if not exercised prior to consummation of such event.

(ii) Securities Acquisition. In the event of an acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Exchange Act, or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or an Affiliate) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of Directors and provided that such acquisition is not a result of, and does not constitute a transaction described in, Section (e)(i) above, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated prior to consummation of such event, the vesting of such Stock Awards and any shares of Common Stock acquired under such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full.

(f) Change in Control. Section 9(d)(i) of the 2017 Plan will not apply to any Initial Option Grant, Initial RSU Grant, Annual Option Grant, Annual RSU Grant or Other Equity Grant.

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

EXHIBIT 10.5

Third Amendment to the Collaboration Agreement

This third amendment (the "**Amendment**") to the Collaboration Agreement dated December 22, 2006, as amended, (the "**Agreement**") between Exelixis, Inc. ("**Exelixis**") and Genentech, Inc. ("**Genentech**") is made and entered into by Exelixis and Genentech effective July 19, 2017 (the "**Amendment Effective Date**"). All capitalized terms not expressly defined in this Amendment shall have the meaning assigned to them in the Agreement.

Whereas, Exelixis and Genentech are parties to the Agreement, as amended by the First Amendment to the Collaboration Agreement, dated March 13, 2008, and the Second Amendment to the Collaboration Agreement, dated April 30, 2010;

Whereas, Exelixis and Genentech have agreed on a term sheet, dated June 8, 2017 ("**Term Sheet**"), in connection with a settlement between Exelixis and Genentech of the arbitration proceeding entitled *Exelixis, Inc. v. Genentech, Inc.*, JAMS Ref No. 110084603;

Whereas, Exelixis and Genentech wish to amend the terms of the Agreement as set forth herein; and

Whereas, Exelixis and Genentech have executed a settlement agreement ("**Settlement Agreement**") of even date herewith.

Now, therefore, in consideration of the foregoing premises the Parties do hereby agree to amend the Agreement, effective as of the Amendment Effective Date (unless otherwise stated below), as follows:

1. **JSC Meetings.** Section 2.1(e) of the Agreement is hereby amended and restated as follows:

"JSC meetings shall be held [*] on a date mutually agreed by the Parties, with ad hoc meetings as necessary, particularly to address issues described in Sections 2.1(b) and 3.2(d). Meetings will be scheduled for [*] or such additional time as may be necessary to the subject matter of the meeting, at the option of either Party. A proposed agenda prepared by the hosting Party shall be circulated in advance of each meeting. The Parties agree that attendees appropriate to the subject matter of the meeting will be in attendance. Either Party may also raise additional topics for discussion at the meeting even if not included on the original agenda. With the consent of the representatives of each Party serving on the JSC, other representatives of each Party may attend meetings as nonvoting observers (provided such nonvoting observers have confidentiality obligations to such Party that are at least as stringent as those set forth in this Agreement). A JSC meeting may be held by audio, video or internet teleconference with the consent of each Party, but at least one-half (1/2) of the minimum number of meetings shall be held in person, in South San Francisco or Alameda, California, or elsewhere with the consent of each party. Meetings of the JSC shall be effective only if at least one (1) representative of each Party is present or participating. Each Party shall be responsible for all of its own expenses of participating in the JSC meetings. The Parties will alternate hosting of the meeting, and the Party hosting is responsible for preparing and circulating the minutes of such JSC meeting."

2. **JCC Meetings.** The first sentence of Section 2.3(d) of the Agreement is hereby replaced by the following sentence:

"JCC meetings shall be held at least [*] on a date mutually agreed by the Parties, and each meeting will be scheduled for [*], or such additional time as may be necessary to the subject matter of the meeting, at the option of either Party."

3. **Escalation.** New Section 2.4 is hereby added to the agreement as follows:

"2.4 **Escalation.** From time to time, issues may arise before the JSC or JCC wherein, after reasonable discussion and good faith consideration of each Party's view on a particular matter, the representatives of the Parties cannot reach an agreement as to such matter. Such disputed matter shall be reflected in

the minutes for such JSC or JCC meeting, as the case may be. If, within [*] after the date such minutes are prepared by the responsible Party and provided to the other Party, the Parties remain unable to resolve such disputed matter, then at the request of either Party such disputed matter will be escalated to [*] for Genentech and [*] for Exelixis for discussion and resolution. If such officers cannot resolve such disputed matter within [*] after receiving written notice (by electronic mail or other written communication) from the officer of the other Party requesting resolution of such disputed matter, then the Decision Making provisions of Sections 2.1(d) for the JSC and 2.3(c) for the JCC shall control, notwithstanding whether the [*] period set forth in Section 2.1(d) or 2.3(c), as applicable, has or has not expired."

4. Exelixis' Co-Promotion Option. The following sentences are hereby added and inserted at the end of Section 5.6 of the Agreement:

"The Parties confirm and agree that Exelixis has exercised the Co-Promotion option set forth in this Section 5.6. As such, Exelixis shall have the right, but not the obligation, to co-promote all current and future Genentech Combinations (as defined in **Exhibit A**), regardless of the then-current label of Licensed Product, therapeutic components of combination, indication, or the Genentech division to which the sales effort has been assigned."

5. Progress Information. Section 6.2 of the Agreement is hereby amended and restated as follows:

"Each Party shall use Diligent Efforts to keep the other Party informed of its research, development and commercialization (including promotional) activities hereunder, and shall provide to the other Party's representatives on the JCC or JSC, as appropriate, regular summary updates at each meeting, and as necessary between meetings, including copies of presentations and other materials presented at such meeting. [*] Neither Party is required to generate additional data or prepare additional reports to comply with the obligations set forth in this Section 6.2. All reports, information and data provided by a Party shall be considered the providing Party's Confidential Information.

(a) With regard to development activities, Genentech will provide to Exelixis' representatives on the JSC updates with regard to (i) ongoing Clinical Trials, (ii) notification of [*], (iii) notification of [*], (iv) status of [*], (v) anticipated dates for [*] and (vi) such further milestones as the Parties may mutually agree. Key development milestones that may occur in between JSC meetings that would require additional updates shall include: (i) [*] and (ii) [*], to the extent that updates on such intent were not provided at the last prior JSC, and [*] may occur before the next scheduled JSC.

(b) With regard to commercialization (including promotional) activities, each Party will provide to the other Party's representatives on the JCC or JSC, as applicable, the following information to the extent available: (i) key [*]; (ii) updates on [*]; (iii) key [*], including but not limited to a summary of [*] (e.g. [*]); (iv) summary of [*]; (v) [*]; (vi) [*] plans and (vii) significant changes to [*]. In addition, Genentech will provide to Exelixis: [*]. For clarity, any of the foregoing may be redacted in part to protect confidential information unrelated to the Agreement.

(c) If reasonably necessary for a Party to perform its work under this Agreement or to exercise its rights under this Agreement, that Party may request that the other Party provide more detailed information and data regarding the updates it earlier provided, and the other Party shall [*] provide the requesting Party with information and data as is reasonably available and reasonably related to the work under this Agreement."

6. Profit Share in the Profit-Share Territory. Section 8.4(a) of the Agreement is hereby amended and restated as follows:

(a) Profit Share in the Profit-Share Territory.

(i) Profit-Share Ratio. The Parties shall share Operating Profit (Loss) for Licensed Product(s) sold for the Profit-Share Territory as follows:

[*]Total Adjusted Actual Sales of a Licensed Product in the Profit-Share Territory for a Particular Calendar Year	**Genentech's Share of Operating Profit (Loss)**	**Exelixis' Share of Operating Profit (Loss)**
First $200 million	50%	50%
[*]	[*]%	[*]%
Above $400 million	70%	30%

(ii) Quarterly Calculations. Each Party's share of Operating Profit (Loss) will be determined on a calendar quarterly basis using the profit share ratio set forth in clause (i) above. For example, in a calendar year where the Total Adjusted Actual Sales of a Licensed Product is $[*] in each calendar quarter (or a total of $[*] for the calendar year), Exelixis' initial share of Operating Profit would be calculated based on the following profit-share ratios: [*]

(iii) Quarterly True-Up Process and Annual Reconciliation.

(1) In the event [*] are not available for the purpose of determining the Total Adjusted Actual Sales for the current quarterly settlement, then [*] shall be used to determine the current quarter Total Adjusted Actual Sales. The current quarterly settlement shall be trued-up using [*] after the end of the subsequent calendar quarter. If the true-up amount is in Exelixis' favor, then Genentech shall make a catch-up payment with the subsequent quarterly settlement payment. If the true-up amount is in Genentech's favor, then Genentech shall reduce the respective amount from the subsequent quarterly profit-share. If there will be no further or insufficient payment obligations under this Agreement from Genentech to Exelixis, then Exelixis shall, at the request of Genentech, refund such overpaid amount within [*] of receiving such request.

Annually, together with the true-up of the Q4 Total Adjusted Actual Sales, based on [*], each Party's actual share of Operating Profit (Loss) for the calendar year will be calculated and reconciled based on the weighted average profit share ratio for the full year. For example, if there were $[*] annual Total Adjusted Actual Sales in the Profit-Share Territory, the weighted average profit share ratio of [*]%, would be applied to calculate Exelixis' share of the annual Operating Profit (Loss) for such calendar year as set forth in the following table (for illustration purposes only). [*]

If the reconciliation payment based on the above calculation is in Exelixis' favor, then Genentech shall make a catch-up payment with the next quarterly settlement payment. If the reconciliation payment is in Genentech's favor, then Genentech shall reduce the respective amount from the next quarterly profit-share payment(s). If there will be no further or insufficient payment obligations under this Agreement from Genentech to Exelixis, then Exelixis shall, at the request of Genentech, refund such overpaid amount within [*] of receiving such request.

(iv) Budget Overrun. If, for any calendar quarter: (A) Exelixis' share of the budgeted cost for the Operating Profit (Loss) [*] for such calendar quarter [*] is in the aggregate [*] (the "**Budget Overrun**") by at least [*] dollars ($[*]); and (B) a [*] for such calendar quarter, then Exelixis shall [*] for the amount of such Budget Overrun [*] Exelixis to Genentech [*]. If Exelixis' share of the budgeted cost for the Operating Profit (Loss) [*] for such calendar year [*] is in the aggregate [*] what Genentech [*] for such calendar year, then the [*] the budget used in the calculation of the Budget Overrun above.

7. Financial Appendix. **Exhibit A** (Financial Appendix) of the Agreement is hereby amended and restated as attached with effect as of July 1, 2017.

8. Miscellaneous.

(a) Except as expressly and unambiguously stated herein, no other changes are made to the Agreement and all other terms and conditions of the Agreement shall remain in full force and effect. In the event of a conflict between the provisions hereof and the Agreement, the provisions of this Amendment shall control. The Agreement, this Amendment and Settlement Agreement, contain the entire understanding between the Parties hereto with respect to the subject matter hereof and supersede and terminate all prior agreements, understandings and arrangements (including the Term Sheet) between the Parties, whether written or oral with respect to such subject matter.

(b) This Amendment shall be governed by and construed under the substantive laws of the State of California, without regard to conflicts of law rules requiring the application of different law.

(c) The headings of this Agreement are for ease of reference only and are not part of this Agreement for the purpose of construction.

(d) This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[remainder of page intentionally left blank]

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, Exelixis and Genentech have executed this Third Amendment to the Collaboration Agreement by their respective duly authorized representative(s).

EXELIXIS, INC.	**GENENTECH, INC.**
By: /s/ Michael Morrissey	By: /s/ Bill Anderson
Name: Michael Morrissey	Name: Bill Anderson
Title: President and Chief Executive Officer	Title: Chief Executive Officer

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit A

Financial Appendix

1. Principles of Reporting and Profit/Loss Sharing Statement. Determination of Operating Profit (Loss) for a Licensed Product in the Profit-Share Territory will be based on each Party's respective financial information. The interpretation of the defined terms in such report shall be in accordance with GAAP and this Agreement. Each calendar quarter Genentech shall determine the Operating Profit (Loss) as follows:

Total Adjusted Actual Sales
less [*]
= Operating Profit (Loss)

In addition, Genentech shall [*]: (a) [*] and (b) [*]:

[*]

To determine the [*] associated with [*], the total [*] for the Licensed Product will be allocated [*].

Together with each profit and loss statement, Genentech will provide, on a quarterly basis, a breakdown of [*] separated by (i) [*] and (ii) [*].

For clarity, Genentech will not include [*] that do not include the Licensed Product, in any such profit and loss statement.

All [*] incurred by Exelixis for [*] may be applied to the Operating Profit (Loss). Exelixis shall provide to Genentech [*]. For clarity, other than its share of the Operating Profit (Loss), Exelixis is not entitled to any further reimbursement by Genentech for any costs, including [*], incurred in co-promoting Genentech Combinations.

If necessary, a Party will make the appropriate adjustments to the financial information it supplies under the Agreement to conform to the above format of reporting results of operations.

2. Accounting and Cost Categories. Definitions of the various categories of revenues, costs and expenses included in Operating Profit (Loss) shall be interpreted in accordance with GAAP. Any costs included in the calculation under one cost category may not be included in the calculation of another cost category. Where the terms of this Financial Appendix would permit inclusion of a cost within more than one cost category, that cost will be allocated to a single cost category consistent with GAAP and the other provisions of this Agreement. [*].

3. References to "Collaboration". References in this Financial Appendix to the "**Collaboration**" are references to those activities related to the Licensed Product that would form the basis for Operating Profit (Loss) under this Agreement. The Parties may consolidate accounting of operations related to Licensed Products, and the activities subject to that consolidated accounting also will be referred to the "Collaboration." However, the Collaboration is not a legal entity for financial accounting, income tax reporting or any other purposes

4. Reporting. The fiscal year for the Collaboration will be a calendar year.

Each Party is responsible for providing the other Party reports as set forth in the table below, for activities for which it is responsible and costs it incurred and revenue obtained that forms a component of Operating Profit (Loss) for Licensed Products in the Profit-Share Territory.

Reporting will be at the times set forth in the following Report Table, with submissions due on the date indicated or the next business day if such date is a weekend or U.S. holiday:
[*]
The Parties agree to use [*] (or another [*] as mutually agreed by the Parties) as the basis for making Adjusted Actual Sales calculations as set forth in this **Exhibit A**. For the purposes of calculating Adjusted Actual Sales in the Draft Consolidated Operating Profit (Loss), Genentech will use the [*]. For the purposes of calculating Adjusted Actual Sales in the Final Consolidated Operating Profit (Loss), Genentech will use the [*]. For the purposes of

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calculating Adjusted Actual Sales for the True-up of the Consolidated Operating Profit (Loss), Genentech will use the [*].

Report Table [*]
[*]

The Parties may agree to modify the foregoing reporting cycles and deadlines. In the event that a Party substantially or materially changes its internal reporting cycles and deadlines generally, then the Parties shall discuss, in good faith, appropriate revisions to the foregoing reporting cycles and deadlines to reasonably accommodate such change.

Unless otherwise agreed by the Parties consistent with their responsibilities for sales and marketing, Genentech shall record sales. Without limiting the Parties' reporting obligations as set forth in the Report Table above, on a calendar quarterly basis, Exelixis will supply Genentech with a statement setting forth that quarter's Operating Profit (Loss) obtained by Exelixis for Licensed Products in the Profit-Share Territory, including the basis for calculation of such amounts. Genentech shall consolidate any Operating Profit (Loss) reported by Exelixis with those obtained directly by Genentech. Each such report shall be provided as early as possible, on the schedule in the chart above.

Each Party will make available a financial representative to coordinate regarding financial aspects of planning, reporting and information sharing, at the request of the other Party: Upon the reasonable request of either Party, the other Party shall answer any question and address any comment from the other Party pertaining to such financial planning and reporting.

5. Budgets. Genentech will prepare a consolidated budget for Operating Profit (Loss) for the Collaboration on [*] basis; Exelixis shall provide input for that budget regarding its sales force activities.

Budgets are provided for information and planning purposes; final sharing of Operating Profit (Loss) on a calendar year basis are based on actual amounts, subject to Section 8.4(a)(v) of the Agreement.

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

ILLUSTRATIVE EXAMPLES OF PROFIT SHARE CALCULATION

The following examples are intended to illustrate how Genentech will determine the Actual Adjusted Sales as well as the Operating Profits (Losses) in the Profit-Share Territory.

{Redacted content comprises approximately 2 pages.}

[*]

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Definitions for Financial Appendix.

A. "**Actual Sales**" means, with respect to a particular Licensed Product, the Gross Sales less [*].

B. "**Adjusted Actual Sales**" means, (i) with respect to any Genentech Combination, Adjusted Actual Combo Sales or (ii) with respect to any Licensed Product Monotherapy, Adjusted Actual Mono Sales.

C. "Adjusted Actual Combo Sales" shall, with respect to a particular Licensed Product, be calculated by multiplying Actual Sales by the Adjusted Price Factor for each Genentech Combination. The [*] quarterly Actual Sales of Licensed Product allocated to each Genentech Combination shall be based on [*], pursuant to the methodology in **Exhibit G**. As described in **Exhibit G**, [*].

D. "Adjusted Actual Mono Sales" shall, with respect to a particular Licensed Product, be the Actual Sales for Licensed Product Monotherapies. The percentage of quarterly Actual Sales of Licensed Product allocated to Licensed Product Monotherapies shall be based on [*], pursuant to the methodology in **Exhibit G**. As described in **Exhibit G**, [*].

E. "**Adjusted Price Factor**" shall be calculated on a quarterly basis as the percentage calculated as A divided by B divided by C, where:

A is the sum of the Net Prices of Licensed Product and the Other Genentech Product(s) in a Genentech Combination;
B is the sum of 1 (i.e. the Licensed Product) plus the number of Other Genentech Products in the respective Genentech Combination; and
C is the Net Price of the Licensed Product.

F. "Allocable Overhead" means costs incurred by each Party that are attributable to that Party's [*]. The Allocable Overhead shall not include [*], and shall not duplicate General & Administrative Expenses hereunder.

G. "**Average Actual Gross to Net Percentage**" means with respect to a particular Licensed Product or Other Genentech Product, the percentage calculated as A divided by B, where
A is the all Actual Sales for such product in the respective calendar quarter; and
B is the all Gross Sales for such product in the respective calendar quarter.

H. "Cost of Sales" means the sum of: (i) Fully Burdened Manufacturing Cost (or "**FBMC**", as defined below) of a Licensed Product in the Profit-Share Territory (in whatever form), to the extent included pursuant to Section 4.1 of the Agreement; (ii) freight, insurance, customs charges, duty, and other costs of shipping Licensed Products in the Profit-Share Territory to customers (to the extent actually incurred by the shipping Party and not reimbursed by the customer); (iii) temporary storage; and (iv) the actual costs associated with the technology transfer to a Third Party manufacturer to enable Manufacturing of that Licensed Product, including without limitation any upfront and milestone based payments and startup costs associated therewith.

I. "Distribution Costs" means the costs, including applicable Allocable Overhead, specifically identifiable to the distribution of a Licensed Product in the Profit-Share Territory, including customer services, collection of data about sales to hospitals and other end users, order entry, billing, shipping, logistics, credit and collection and other such activities.

J. "Fully Burdened Manufacturing Cost" or **"FBMC"** means one hundred percent (100%) of each Party's actual manufacturing cost (as defined in each Party's accounting policies consistently applied) of goods produced, as determined by each Party manufacturing or contracting with a Third Party for each stage of the manufacturing process, in accordance with GAAP (as used in this definition of FBMC, the "Cost of Goods"), including product quality assurance/control costs, plus applicable Allocable Overhead.

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

K. "**Genentech Combination**" means any therapeutic combination of Licensed Product sold by Genentech or its Affiliates with one or more Other Genentech Products [*].

L. "General and Administrative Costs" or **"G&A Costs"** means costs equal to [*] ("**G&A Rate**") of the sum of [*]. [*] both Parties shall use such revised G&A Rate going forward in calculating General and Administrative Costs.

M. "Gross Sales" means the gross amount invoiced by Genentech, its Affiliates or sublicensees (for the purpose of this definition only, the term sublicensee shall include entities to which Genentech sells a Licensed Product in a form other than final form, including without limitation OEM manufacturer and distributors, whether or not a sublicense is expressly granted) for sales of Licensed Products (such products being in final form intended for use by the end user) in the Profit-Share Territory to any Third Party in arms-length transactions. Consideration for sales of Licensed Products in the Profit-Share Territory for other than cash shall be valued at fair market value at the time of final sale. Sales between Genentech and its Affiliates or sublicensees shall be disregarded for purposes of calculating Gross Sales, except if the purchasing entity is the end-user.

N. "**Licensed Product Monotherapy" or "Licensed Product Monotherapies"** means with respect to a particular Licensed Product, the use in any therapy other than in a Genentech Combination. For clarity, both the use of Licensed Product in a monotherapy and the use in a therapeutic combination without an Other Genentech Product shall be considered a Licensed Product Monotherapy.

O. "Marketing Costs" means the specific direct costs incurred by Genentech for marketing a Licensed Product and/or Genentech Combination in the Profit-Share Territory, including costs incurred for marketing, promotion, advertising, promotional materials, professional education, product related public relations, relationships with opinion leaders and professional societies, market research (before and after product approval), healthcare economics studies, and other similar activities conducted to benefit the Licensed Product and/or Genentech Combination in the Profit-Share Territory, but excluding the portion of such costs for which Genentech is getting reimbursed from any Third Party. Such costs will include internal costs (e.g., salaries, benefits, travel, supplies and materials), applicable Allocable Overhead, and outside services and expenses (e.g., consultants, agency fees, meeting costs), in all cases only as directly applicable to a specific Licensed Product and/or Genentech Combination in the Profit-Share Territory. The Marketing Costs shall also include activities related to obtaining reimbursement from payers and costs of sales and marketing data, in all cases only as directly applicable to a specific Licensed Product and/or Genentech Combination in the Profit-Share Territory. The Marketing Costs will specifically exclude the costs of activities that promote either Party's business as a whole without being product specific (e.g., corporate image advertising). Should the Licensed Product be sold as part of a Genentech Combination, Genentech shall allocate the costs incurred for marketing the Genentech Combination in the Profit-Share Territory as described above to the Licensed Product as follows:

(i) [*]% for Genentech Combinations with one Other Genentech Product (irrespective of combinations with further products);

(ii) [*]% for Genentech Combinations with two Other Genentech Products (irrespective of combinations with further products);

(iii) [*]% for Genentech Combination with X number of Other Genentech Products (irrespective of further combinations with further products).

For clarity, 100% of Genentech's costs incurred for marketing a Licensed Product Monotherapy in the Profit-Share Territory shall be allocated to such Licensed Product Monotherapy.

P. "**Monthly WAC**" means with respect to a particular Licensed Product or an Other Genentech Product used in a particular Genentech Combination, the monthly wholesale acquisition cost for treatment with such product in a month, as calculated by multiplying:

(i) the wholesale acquisition cost per tablet (vial or other single unit as applicable) for a particular Licensed Product or Other Genentech Product, by

(ii) the monthly average number of tablets (vial or other single unit as applicable) of such particular Licensed Product or Other Genentech Product as indicated per the relevant product label for the respective Genentech Combination.

Illustrative Example: **Monthly WAC** Calculation for COTELLIC® and [*]

COTELLIC®

NDC #	Product	WAC effective January 1, 2017
50242-0717-01	COTELLIC® (cobimetinib) 63 count 20 mg tablets	$[*]

Labeled dosage (Source FDA – COTELLIC® Label):

"The recommended dose is **60 mg orally once daily for the first 21 days of each 28-day cycle** until disease progression or unacceptable toxicity." (section 2.2)

[*]

Q. "**Net Price**" shall, with respect to a particular Licensed Product or an Other Genentech Product used in a particular Genentech Combination, be calculated by multiplying Monthly WAC by the Average Actual Gross to Net Percentage.

R. "Operating Profit (Loss)" means Total Adjusted Actual Sales of all Licensed Products in the Profit-Share Territory less the following items with respect to each Licensed Product in the Profit-Share Territory, all for a given period: [*], all of which as properly chargeable and allocable on a Licensed Product-by-Licensed Product basis. All calculations will be made using, and all defined and undefined terms will be construed in accordance with GAAP and consistent with generally accepted costing methods (including appropriate Allocable Overhead) for similar products in the pharmaceutical industry.

S. "**Other Genentech Product**" means a branded pharmaceutical product (other than a Licensed Product) for which Genentech or its Affiliates [*]. When the terms Gross Sales, Actual Sales or Sales Returns and Allowances are used with respect to an Other Genentech Product, any references to Licensed Product in such definitions shall be considered references to such Other Genentech Product. Genentech or its Affiliates shall not undertake any corporate restructuring or enter into a transaction with a Third Party for the purpose of removing a pharmaceutical product from the definition of "Other Genentech Product." [*] shall not be deemed an Affiliate for purposes of this definition, except that if [*] becomes fully owned by Genentech or its Affiliates, then [*] would at that time be deemed an Affiliate for the purposes of this definition.

T. "**Other Operating Income/Expense**" means any of the following: (i) [*] of any Licensed Product in the Profit-Share Territory, to the extent not previously captured; (ii) amounts with respect to [*] that will be shared pursuant to Article [*] of this Agreement; (iii) costs of [*] with respect to the Licensed Product (provided that if such costs are allocated between products the Parties will discuss the method of such allocation, which method must be reasonable); (iv) costs of [*] that, pursuant to Article [*], will be included in Operating Profit (Loss); (v) costs to [*]; (vi) any [*] of Licensed Products in the Profit-Share Territory, excluding any [*] already accounted for in Fully Burdened Manufacturing Cost, and (vii) the annual Branded Prescription Drug Fee to the United States government pursuant to Section 9008 of the Patient Protection and Affordable Care Act, Pub. L. No. 111-148 (as may be amended).

U. "Report Table" means the table set forth in this Appendix that specifies the frequency and timing of submissions for specific reporting events.

V. "**Sales Costs**" means costs, including Allocable Overhead, incurred by a Party pursuant to sales activities pursuant to a Promotion Plan or otherwise authorized under this Agreement for a Licensed Product and/or Genentech Combination in the Profit-Share Territory, , but excluding costs to the extent that Genentech receives payment or reimbursement for such costs from any third party which costs are specifically identifiable with such authorized sales efforts for Licensed Products and/or Genentech Combination in the Profit-Share Territory, with respect to all customer types, including the managed care market. Should the Licensed Product be sold as part of a Genentech Combination, Genentech shall allocate the costs incurred as described above for sales activities for the Genentech Combination in the Profit-Share Territory to the Licensed Product as follows:

(i) [*]% for Genentech Combinations with one Other Genentech Product (irrespective of combinations with further products);

(ii) [*]% for Genentech Combinations with two Genentech Products (irrespective of combinations with further products);

(iii) [*]% for Genentech Combinations with X number of Genentech Products (irrespective of further combinations with further products).

For clarity, 100% of Genentech's costs incurred for sales of a Licensed Product Monotherapy in the Profit-Share Territory shall be allocated to such Licensed Product Monotherapy.

W. **"Sales Returns and Allowances"** means the sum of (x) and (y), where:

(x) is a provision, determined by a Party under GAAP for sales of Licensed Products in the Profit-Share Territory for (i) trade, cash and quantity discounts on Licensed Products in the Profit-Share Territory granted and which are included in the determination of Gross Sales; (ii) credits or allowances given or made for rejection or return of previously sold Licensed Products in the Profit-Share Territory or for retroactive price reductions (including rebates similar to Medicare and/or Medicaid); (iii) sales tax, VAT taxes, and other taxes, duties or other governmental charges levied on or measured by the billing amount for Licensed Products in the Profit-Share Territory, as adjusted for rebates or refunds, that are borne by the seller thereof and that are not refundable; and (iv) discounts pursuant to indigent patient programs and patient discount programs, including the impact of price caps and patient assistance programs; and

(y) is a periodic adjustment of the provision determined in clause (x) to reflect amounts actually incurred by each Party in the Territory for items (i), (ii), (iii), and (iv) in clause (x). The provision allowed in clause (x) and adjustments made in clause (y) (if any) will be reviewed by the financial representatives from the Parties.

X. [*]

Y. "**Total Adjusted Actual Sales**" means the sum of (x) all Adjusted Actual Combo Sales and (y) all Adjusted Actual Mono Sales.

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit G

{Redacted content comprises approximately 2.5 pages}

[*]

This [*] Exhibit illustrates how Genentech will calculate [*] Actual Sales by Genentech Combination and Licensed Product Monotherapies using [*].

[*]

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit 12.1

EXELIXIS, INC.
STATEMENT RE COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands)

Our earnings were insufficient to cover fixed charges for the periods presented except for the six months ended June 30, 2017. The following table sets forth our ratio of earnings to fixed charges for the six months ended June 30, 2017 and our deficiency of earnings to cover fixed charges for the other periods presented.

	Six Months Ended June 30, 2017	Year Ended December 31,			
		2016	2015	2014	2013
Fixed charges:					
Interest expense	$ 8,679	$ 33,060	$ 40,680	$ 41,362	$ 38,779
Interest portion of rental expense	300	721	755	886	935
Total fixed charges	$ 8,979	$ 33,781	$ 41,435	$ 42,248	$ 39,714
Earnings available for fixed charges:					
Net income (loss) before income taxes	$ 35,071	$ (70,222)	$ (161,689)	$ (261,479)	$ (238,288)
Fixed charges per above	8,979	33,781	41,435	42,248	39,714
Total earnings available for fixed charges	$ 44,050	$ (36,441)	$ (120,254)	$ (219,231)	$ (198,574)
Ratio of earnings to fixed charges	4.91	N/A	N/A	N/A	N/A
Deficiency of earnings available to cover fixed charges	N/A	$ (70,222)	$ (161,689)	$ (261,479)	$ (238,288)

Exhibit 31.1

CERTIFICATION

I, Michael M. Morrissey, Ph.D., certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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 the 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 control 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.

/s/ MICHAEL M. MORRISSEY

Michael M. Morrissey, Ph.D.

President and Chief Executive Officer
(Principal Executive Officer)

Date: August 2, 2017

Exhibit 31.2

CERTIFICATION

I, Christopher J. Senner, certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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 the 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 control 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.

/s/ CHRISTOPHER J. SENNER

Christopher J. Senner

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 2, 2017

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code, Michael M. Morrissey, Ph.D., the President and Chief Executive Officer of Exelixis, Inc. (the "Company"), and Christopher J. Senner, the Executive Vice President and Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2017, to which this Certification is attached as Exhibit 32.1 (the "Quarterly 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 Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 2nd day of August 2017.

/s/ MICHAEL M. MORRISSEY

Michael M. Morrissey, Ph.D.

President and Chief Executive Officer
(Principal Executive Officer)

/s/ CHRISTOPHER J. SENNER

Christopher J. Senner

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)