



---

**2015 ANNUAL REPORT**

---

---





To Our Stockholders:

In 2015, the Exelixis team made significant progress on our commitment to bring new treatment options to patients with cancer. Our lead compound, cabozantinib, delivered positive data from our pivotal trial in patients with advanced kidney cancer and moved closer to potential regulatory approvals in the United States (U.S.) and European Union (EU). Cobimetinib, discovered by Exelixis and moving forward in the hands of our partner, received three regulatory approvals in territories around the world. At the same time, we continued to plan for the next phase of Exelixis' growth through sound financial management and the selection of a partner for regions outside the U.S., Canada, and Japan to help us maximize the potential for a global cabozantinib franchise.

Cabozantinib generated a significant amount of clinical data last year, but none were as anticipated as the results from METEOR, our phase 3 pivotal trial in 658 patients with previously-treated advanced renal cell carcinoma (RCC). The five-year survival rate for patients with advanced or late-stage metastatic RCC is under ten percent with no identified cure for the disease, so physicians and patients have been vocal in their calls for new treatment options.<sup>1</sup> The METEOR trial met its primary endpoint of progression-free survival (PFS) with high statistical significance, delivering a 42 percent reduction in the rate of disease progression or death for cabozantinib as compared to everolimus, an active standard of care therapy for previously-treated patients. The initial analyses also identified a strong trend in overall survival (OS), a secondary endpoint in the trial, favoring cabozantinib. Subsequent presentations highlighted a statistically significant benefit to objective response rate (ORR) and confirmed that the benefits in PFS and ORR were consistent across various subgroups.

Based on the METEOR results, Exelixis submitted U.S. and EU regulatory applications for cabozantinib as a treatment for patients with advanced RCC who have received one prior therapy. In the U.S., cabozantinib received Breakthrough Therapy designation and Priority Review, with a Prescription Drug User Fee Act action date of June 22, 2016. In the EU, regulators granted accelerated assessment, making our application eligible for a shortened 150-day review. Following consultation with regulators, we conducted a second interim analysis for OS and shared the results with them in February 2016. This second interim analysis for OS demonstrated that cabozantinib conveyed a highly statistically significant and clinically meaningful increase in OS versus everolimus, and presentation of these results is planned at a medical meeting later this year. In totality, the METEOR results are unprecedented, making cabozantinib the only therapy to demonstrate statistically significant improvements in the three key efficacy parameters of OS, PFS and ORR as compared with an active standard of care treatment in a large, pivotal trial of patients with previously-treated RCC.

Since receipt of the positive results from METEOR, Exelixis has moved expeditiously to be fully prepared to bring cabozantinib to the RCC community in the event of approvals this year. In late February 2016, we completed the staffing necessary to be launch-ready in the United States. We believe the totality of clinical data from METEOR has the potential to significantly differentiate cabozantinib from the other therapies used by physicians who treat the approximately 17,000 RCC patients in the U.S. who have progressed through first-line therapy and are seeking additional treatment options.<sup>2</sup>

<sup>1</sup> <http://www.cancer.org/cancer/kidneycancer/detailedguide/kidney-cancer-adult-survival-rates>

<sup>2</sup> *ACS Cancer Facts and Figures 2015*; Heng et al., *Ann Oncol* (2012) vol. 23 no. 6; internal data on file; Motzer et al., *N Engl J Med* (2007) vol. 356 no. 2; NCIN (UK) report, April 2014, Available at <http://www.ncin.org.uk/view?rid=2676>.

Outside the U.S., cabozantinib's commercialization in RCC will be led by Ipsen Pharma SAS (Ipsen), the global specialty-driven biotechnology firm with which we entered into an exclusive licensing agreement in February 2016. Under the agreement, Exelixis granted Ipsen exclusive commercialization rights for current and future cabozantinib indications outside of the U.S., Canada and Japan. In exchange, Exelixis received a \$200 million upfront payment and is eligible to receive a \$60 million regulatory milestone payment for approval for RCC in the EU, as well as additional milestones for EU filing and approval for advanced hepatocellular cancer (HCC). Exelixis is also eligible to receive up to \$545 million in potential commercial milestones plus tiered royalties up to 26 percent on Ipsen's net sales of cabozantinib in its territories. In Ipsen, we gain a partner with significant commercial experience in Europe and other key regions around the world, while we maintain our focus on maximizing the U.S. commercial launch in advanced RCC later this year, pending regulatory approval.

The agreement with Ipsen also includes a collaboration on the development of cabozantinib for current and potential future indications, bringing added momentum to a broad, global clinical development program already encompassing more than 45 ongoing or planned clinical trials. These trials include Exelixis-sponsored studies such as CELESTIAL, the phase 3 pivotal trial in advanced HCC for which data are anticipated in 2017, as well as trials sponsored by our collaborators at the National Cancer Institute (NCI) and through our investigator-sponsored trial program. Recent highlights from the development program have included positive data from two trials of cabozantinib in molecularly-defined subtypes of non-small cell lung cancer, as well as continued progress on clinical trials in other tumor types setting up potential data announcements this year. In particular, the NCI-sponsored phase 1b trial combining cabozantinib with several immunotherapies in patients with genitourinary tumors, including RCC, could provide initial results in 2016. We also anticipate data in 2016 from a second NCI-sponsored trial, CABOSUN, a phase 2 study of cabozantinib versus sunitinib in previously-untreated patients with intermediate or poor risk advanced RCC, which will give us some insight into how cabozantinib may perform in the first-line setting.

While Exelixis focused its efforts on cabozantinib in 2015, another compound discovered in our laboratories, cobimetinib, moved forward in the hands of our partner Genentech, a member of the Roche Group. Most notably, cobimetinib, in combination with vemurafenib, received regulatory approval in Switzerland, the U.S. and the EU as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma; Canadian approval followed in February 2016. In all approved countries, cobimetinib is marketed as COTELLIC™. Per our collaboration agreement, Exelixis is working alongside Genentech to commercialize COTELLIC in the U.S., where we are entitled to an initial equal share of profits and losses, and where we field 25 percent of the sales force. Outside of the U.S., we receive low double-digit royalties on sales. In October 2015, we and Genentech also announced that coBRIM, the phase 3 pivotal trial of cobimetinib and vemurafenib that served as the basis for the COTELLIC regulatory filings, met its OS secondary endpoint.

Cobimetinib continues to be the subject of a broad clinical development program aimed at evaluating its potential in combination with a variety of investigational and approved therapies in disease settings including KRAS-mutant metastatic colorectal cancer, metastatic melanoma, and metastatic triple-negative breast cancer.

In the midst of this clinical and commercial progress, we continued to execute on our plan for the long-term growth of the company. Exelixis ended 2015 with cash on hand of \$253.3 million, including \$146 million raised through an equity offering in the third quarter.<sup>3</sup> With the cash on hand at the start of 2016, as well as disciplined expense management and the upfront payment and anticipated milestones from our agreement with Ipsen, we expect the company to be in a very healthy cash position by year-end, with a committed objective toward becoming cash flow positive. Our singular focus for 2016 will be executing on the potential U.S. launch in advanced RCC, a significant milestone we have been aspiring to since the early days of our work in this disease setting.

---

<sup>3</sup> Includes cash and cash equivalents, short- and long-term investments and short- and long-term restricted cash and investments

The past year has been an eventful one, but 2016 has the potential to be even more impactful. By year-end, we could see regulatory approvals for cabozantinib as a treatment for advanced RCC in the U.S. and EU, as well as continued execution on the U.S. launch of COTELLIC and that compound's clinical development program. As we reflect on our recent progress and future plans, we remain grateful for the support of all our stakeholders: the physicians, patients and caregivers who make our clinical trials possible; the stockholders who see the potential of our products and product candidates; and the Exelixis team members whose efforts have been unwavering. We are excited for what the future holds for Exelixis and for the patients we serve.



Michael M. Morrissey, Ph.D.  
President and Chief Executive Officer  
Exelixis, Inc.

### **Forward-Looking Statements**

The statements in this Annual Report relating to business plans and commitments, potential regulatory events, the therapeutic and commercial potential of cabozantinib and cobimetinib, receipt of potential milestone payments and royalties under collaboration agreements, clinical development plans, future data presentations and results, financial resources and goals are forward-looking statements that involve many risks and uncertainties. In some cases, forward-looking statements are indicated by the use of words such as “commitment,” “potential,” “moving forward,” “continue,” “plan,” “believe,” “will,” “eligible,” “focus,” “anticipate,” “may,” “entitled,” “expect,” “could,” “future,” and similar words and phrases, including the negatives of these terms, or other variations of these terms. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in Part I, Item 1A—“Risk Factors” included in the Form 10-K which is part of this Annual Report. We disclaim any obligation to update any forward-looking statements contained in this Annual Report.

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended: January 1, 2016, or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-30235

**EXELIXIS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-3257395**  
(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)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock \$.001 Par Value per Share	The Nasdaq Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$663,207,633 (Based on the closing sales price of the registrant's common stock on that date. Excludes an aggregate of 3,588,303 shares of the registrant's common stock held by persons who were directors and/or executive officers of the registrant at July 3, 2015 on the basis that such persons may be deemed to have been affiliates of the registrant at such date. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.)

As of February 19, 2016, there were 228,191,131 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than April 30, 2016, in connection with the registrant's 2016 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Annual Report on Form 10-K.

**EXELIXIS, INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**INDEX**

	<u>Page</u>
<b>PART I</b>	
Item 1. Business .....	1
Item 1A. Risk Factors .....	26
Item 1B. Unresolved Staff Comments .....	49
Item 2. Properties .....	49
Item 3. Legal Proceedings .....	49
Item 4. Mine Safety Disclosures .....	49
<b>PART II</b>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	50
Item 6. Selected Financial Data .....	52
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	53
Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....	78
Item 8. Financial Statements and Supplementary Data .....	79
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure .....	121
Item 9A. Controls and Procedures .....	121
Item 9B. Other Information .....	123
<b>PART III</b>	
Item 10. Directors, Executive Officers and Corporate Governance .....	124
Item 11. Executive Compensation .....	124
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	124
Item 13. Certain Relationships and Related Transactions, and Director Independence .....	125
Item 14. Principal Accounting Fees and Services .....	125
<b>PART IV</b>	
Item 15. Exhibits, Financial Statement Schedules .....	126
SIGNATURES .....	127



## PART I

*Some of the statements under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” and elsewhere in this Annual Report on Form 10-K are forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry and involve known and unknown risks, uncertainties and other factors that may cause our company’s or our industry’s results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “focus,” “assume,” “goal,” “objective,” “will,” “may,” “would,” “could,” “estimate,” “predict,” “target,” “potential,” “continue,” “encouraging” 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 “Item 1A. Risk Factors” as well as those discussed elsewhere in this Annual Report on Form 10-K. These and many other factors could affect our future financial and operating results. We undertake no obligation to update any forward-looking statement to reflect events after the date of this report.*

*Exelixis has adopted a 52- or 53-week fiscal year that generally ends on the Friday closest to December 31st. Fiscal year 2011, a 52-week year, ended on December 30, 2011, fiscal year 2012, a 23-week year, ended on December 28, 2012, fiscal year 2013, a 52-week year, ended on December 27, 2013, fiscal year 2014, a 53-week year, ended on January 2, 2015, fiscal year 2015, a 52-week year, ended on January 1, 2016, and fiscal year 2016 will end on December 30, 2016. For convenience, references in this report as of and for the fiscal years ended December 30, 2011, December 28, 2012, December 27, 2013, January 2, 2015 and January 1, 2016, are indicated on a calendar year basis, ended December 31, 2011, 2012, 2013, 2014 and 2015, respectively. The quarter ended January 2, 2015 is a 14-week fiscal quarter; all other interim periods presented are 13-week fiscal quarters.*

### ITEM 1. BUSINESS

#### Overview

Exelixis, Inc. (“Exelixis,” “we,” “our” or “us”) is a biopharmaceutical company that discovers, develops and commercializes small molecule therapies for the treatment of cancer. Our business focuses predominantly on the development and commercialization of cabozantinib, an internally-discovered inhibitor of multiple receptor tyrosine kinases, in various tumor indications. Cabozantinib is currently approved in the United States and European Union for the treatment of progressive, metastatic medullary thyroid cancer, or MTC, and is marketed under the brand name COMETRIQ®.

In the past year, we obtained positive clinical results from our phase 3 pivotal trial METEOR (Metastatic RCC Phase 3 Study Evaluating Cabozantinib vs. Everolimus), suggesting that cabozantinib also has the potential to make a meaningful difference in the lives of patients suffering from advanced renal cell carcinoma, or RCC, a serious form of cancer with a significantly larger patient population than MTC. Following the positive results from METEOR, the U.S. Food and Drug Administration, or FDA, granted Breakthrough Therapy and Fast Track designations for cabozantinib in RCC. These data from METEOR ultimately formed the basis of a New Drug Application, or NDA, submission to the FDA, which was completed in December 2015. On January 27, 2016, the FDA granted priority review to the NDA, with a Prescription Drug User Fee Act, or PDUFA, action date of June 22, 2016. We are actively preparing for a potential commercial launch of cabozantinib in advanced RCC, and we are now launch-ready, from a staffing perspective, for this indication should a positive regulatory decision come in the United States.

In January 2016, our Marketing Authorization Application, or MAA, for cabozantinib as a treatment for patients with advanced RCC who have received one prior therapy was accepted for review and granted accelerated assessment by the European Medicines Agency, or EMA. On February 29, 2016, we entered into a collaboration and license agreement with Ipsen Pharma SAS, or Ipsen, pursuant to which Ipsen has exclusive commercialization rights for current and potential future cabozantinib indications outside of the United States, Canada and Japan. The companies have agreed to collaborate on the development of cabozantinib for current and potential future indications. With respect to remaining markets, we are evaluating opportunities to partner cabozantinib in Japan and intend to seek regulatory approval for cabozantinib in Canada and commercialize the drug there ourselves.

Beyond MTC and RCC, we are engaged in a broad development program to explore the clinical potential of cabozantinib in additional tumor types. This program includes late stage trials that we conduct ourselves, such as CELESTIAL (Cabozantinib Phase 3 Controlled Study In Hepatocellular Carcinoma), our phase 3 trial of cabozantinib in advanced hepatocellular carcinoma, or HCC, and earlier stage trials 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, or IST, program. We intend to use these earlier stage trials to prioritize our later stage development program.

During 2015, there was also significant progress with respect to the clinical development, regulatory status and commercial potential of certain of our partnered compounds. For example, cobimetinib, a compound we out-licensed in 2006 to Genentech, Inc. (a member of the Roche Group), or Genentech, was approved by the FDA on November 10, 2015, under the brand name COTELLIC™, in combination with vemurafenib, as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma. COTELLIC in combination with vemurafenib has also been approved in Switzerland, the European Union and Canada for use in the same indication. Genentech has launched COTELLIC in these markets, and in the United States we contribute 25% of the sales force to the commercialization effort. Pursuant to the terms of our collaboration agreement with Roche/Genentech for cobimetinib, we are entitled to an initial equal share of U.S. profits and losses for cobimetinib, with our share decreasing as sales increase. We are entitled to low double-digit royalties on ex-U.S. net sales. Cobimetinib is also being evaluated in a broad development program comprising several clinical trials investigating cobimetinib in combination with a variety of agents in multiple tumor types.

## **Our Strategy**

Our primary objective is to build cabozantinib into a significant oncology franchise as a single agent, and potentially in combination with other therapies. The strategy to achieve this objective comprises the following elements:

- **Capitalizing on the Opportunity for the Potential Commercialization of Cabozantinib in Advanced RCC.**

The second and later-line RCC market is large and growing. Published studies suggest that these settings encompass approximately 17,000 drug-eligible patients in the United States and 37,000 globally. However, only modest progress has been made in treating this disease. Everolimus and axitinib, the most frequently prescribed treatment options for patients suffering from second or later line RCC, were approved on the basis of modest improvements in progression free-survival, or PFS. These agents did not demonstrate a benefit in overall survival, or OS. Despite this limitation, however, these products continue to generate significant sales.

In November of 2015, the FDA approved nivolumab, an immune-oncology agent, for the treatment of patients with RCC who have received prior anti-angiogenic therapy. FDA's approval was based on nivolumab improving the duration of OS as compared with everolimus; however, nivolumab did not show an improvement in the duration of PFS, the measure of therapeutic benefit familiar to RCC-treating physicians based on the historic standard of care.

On February 1, 2016, we announced that a second interim analysis of OS, a secondary endpoint in the METEOR pivotal trial, showed a highly statistically significant and clinically meaningful increase in OS for patients randomized to cabozantinib as compared to everolimus. These data built upon previously reported positive results that demonstrated that cabozantinib, as compared to everolimus, had nearly doubled PFS, the primary endpoint, and showed a consistent benefit in objective response rate, or ORR. As a result, among all the existing agents evaluated in large pivotal trials in patients with advanced RCC, including nivolumab, cabozantinib is the first and only therapy to unequivocally demonstrate robust and statistically-significant improvements in all three key efficacy parameters of OS, PFS, and ORR. Cabozantinib's safety profile in the METEOR study was consistent with that of other tyrosine kinase inhibitors, or TKIs, approved in RCC, and the rate of treatment discontinuation for adverse events unrelated to disease progression was low and similar to that of everolimus. Based on the strength and consistency of the clinical benefits demonstrated in the METEOR trial by cabozantinib, we believe that, if it is approved, physicians who treat patients with advanced RCC may view cabozantinib as a therapeutic option that is uniquely differentiated from the other medicines that are available or in late-stage development for this disease.

Given the strength of cabozantinib's clinical profile in advanced RCC, we have rapidly expanded our commercialization capabilities in anticipation of this medicine's potential approvals in the United States and European Union. In the United States, once approved, we intend to make cabozantinib accessible to previously treated patients with advanced RCC with our own commercial efforts as quickly as possible. For territories outside the United States, Canada and Japan, our collaboration with Ipsen, a company already engaged in global distribution of oncology medicines, will enable us to make the compound more broadly available around the world and fully capitalize on its potential.

- **Exploring the Opportunity for Cabozantinib in Advanced HCC.**

Published studies indicate that an estimated 700,000 new cases of HCC present each year worldwide, with 39,000 of these cases resident in the United States. While, patients with localized disease may be candidates for surgery or other therapies such as embolization, treatment options for advanced disease are limited. Currently, sorafenib is the only approved agent for treatment of advanced, unresectable HCC. However, patients typically progress despite sorafenib treatment, at which point there is no approved therapy available to them. While a number of vascular endothelial growth factor, or VEGF, receptor targeting agents have been tested in phase 2/3 trials in the post-sorafenib setting, none have shown benefit vs placebo. Thus, second-line advanced HCC represents an area of substantial unmet medical need.

The receptor tyrosine kinase MET is the receptor for hepatocyte growth factor, and plays a crucial role in liver development and regeneration. Expression of MET is elevated in HCC, particularly in metastatic HCC, and high MET levels are associated with reduced OS and resistance to sorafenib treatment. In preclinical models, upregulation of MET has been shown to drive escape from VEGF receptor inhibition, and to promote an increase in invasion and metastases. Consistent with this, treatment of HCC patients with sorafenib can result in increases in tumor MET expression. These findings provide a strong parallel with the RCC setting, where high levels of MET expression and activation are also associated with poor prognosis and resistance to and escape from first-line treatment with VEGF receptor inhibitors.

We believe that targeting both MET and VEGF receptors with cabozantinib in HCC may provide benefit in second-line HCC by maintaining VEGF receptor inhibition while also targeting MET, which is thought to be a key oncogenic and resistance pathway. In an initial test of this hypothesis, a cohort of HCC patients, including a subset whose disease had progressed despite prior sorafenib treatment, was enrolled in our phase 2 randomized discontinuation study, or RDT. Based on the encouraging data that emerged from this trial, we launched CELESTIAL, our phase 3 pivotal trial comparing cabozantinib to placebo in patients with advanced HCC who had received previous treatment with sorafenib. We anticipate top-line results from CELESTIAL in 2017.

- **Developing Cabozantinib in Other Indications by Leveraging External Resources.**

In an effort to broadly survey the activity of cabozantinib both as a single agent and in combination with other therapies, we have engaged in a CRADA with NCI-CTEP and an IST program. This approach has enabled us to investigate cabozantinib for the treatment of a wide variety of cancer indications in over 45 ongoing or planned clinical trials. In this manner, we engage with leading clinicians in the United States and internationally to expand our collective understanding of cabozantinib's potential, while conserving our internal resources for late stage trials based on the signals that may emerge from these earlier trials. We believe this staged approach to building cabozantinib's value with a far lesser upfront expenditure of funds has been rational and cost-effective. We expect results this year from several clinical studies being conducted under our collaboration with NCI-CTEP, including a phase 2 trial comparing cabozantinib to sunitinib in the first-line treatment of intermediate or poor risk RCC patients, a phase 1b trial of cabozantinib plus nivolumab alone, or in combination with ipilimumab, in patients with genitourinary tumors, including bladder cancer and RCC and a phase 2 trial evaluating single agent cabozantinib in recurrent endometrial cancer.

- **Continuing to Execute Successfully on the COMETRIQ commercialization plan for MTC.**

As COMETRIQ, cabozantinib is an important treatment option for patients suffering from progressive, metastatic MTC. Although this patient population is relatively small, the COMETRIQ opportunity in MTC has afforded us valuable commercialization experience, and revenue from COMETRIQ sales contributes to the working capital we require to operate our day-to-day business activities. We therefore intend to continue to execute on our COMETRIQ commercialization plans in the U.S. and internationally, with our collaboration partner, Ipsen, by promoting this medicine's use appropriately and ensuring that patients have access.

Beyond our efforts for cabozantinib, we are working with our corporate partners under the terms of our various collaboration agreements to realize the potential value of the compounds and programs we have out-licensed to them. In the aggregate, these partnered compounds could be of significant value to us if their development programs progress successfully. For additional information regarding our work with our corporate partners, please see the section entitled *Collaborations*.

## **Cabozantinib Development Program**

Cabozantinib inhibits the activity of tyrosine kinases, including VEGF receptors, MET, AXL and RET. These receptor tyrosine kinases are involved in both normal cellular function and in pathologic processes such as oncogenesis, metastasis, tumor angiogenesis, and maintenance of the tumor microenvironment. We are evaluating cabozantinib in a broad development program comprising over 45 ongoing or planned clinical trials across multiple indications. We are the sponsor of some of those trials, including our two pivotal studies in advanced RCC and HCC, with the remaining trials being conducted through our CRADA with NCI-CTEP or our IST program. Based on the widespread interest we observe among clinical oncologists in taking part in further investigation of cabozantinib, we believe the drug's therapeutic profile continues to be attractive to this community as a potential improvement over existing therapies for many types of cancer.

## **RCC**

In July 2015, we announced positive results of METEOR, a phase 3 pivotal trial comparing cabozantinib in a tablet formulation to everolimus in patients with advanced RCC who have experienced disease progression following treatment with at least one prior VEGF receptor inhibitor. The METEOR results now offer us the potential opportunity to commercialize cabozantinib in a market with a significantly larger patient population than that for MTC. We have expanded our medical affairs and commercial capabilities so that we are in a position to execute successfully on the potential RCC opportunity, while continuing to build a foundation that will permit us to take advantage of potential future approved indications for cabozantinib.

METEOR was initiated in May 2013. The trial was designed to enroll 650 patients at approximately 200 sites. Patients were stratified based on the number of prior VEGF receptor inhibitors received, and on commonly applied RCC risk criteria. Patients were randomized 1:1 to receive 60 mg of cabozantinib daily or 10 mg of everolimus daily, and no cross-over was allowed between the study arms. The METEOR trial was designed to provide adequate power to assess both the primary endpoint of PFS, and the secondary endpoint of OS. The trial protocol specified that the primary analysis of PFS would be conducted among the first 375 patients randomized while the secondary endpoint of OS would be conducted among all 650 patients randomized. This design was employed to ensure sufficient follow up and a PFS profile that would not be primarily weighted toward early events. Such disproportionate weighting of events was a potential risk if the entire study population required for the secondary endpoint analysis of OS had also served as the population for the primary analysis of PFS. On September 26, 2015, *The New England Journal of Medicine* published the complete, detailed positive top-line results from the primary analysis of METEOR, and these results were also presented during the Presidential Session I at the European Cancer Congress 2015. The trial met its primary endpoint, demonstrating a statistically significant increase in PFS for cabozantinib, as determined by an independent radiology review committee, or IRRRC, among the first 375 patients enrolled. The median PFS was 7.4 months for the cabozantinib arm versus 3.8 months for the everolimus arm, and the hazard ratio [HR] was 0.58 (95% confidence interval [CI] 0.45-0.75,  $p < 0.001$ ), corresponding to a 42% reduction in the rate of disease progression or death for cabozantinib compared to everolimus. The trial also showed a strong positive trend for the secondary endpoint of OS, although at the time of the July 2015 interim analysis, the p-value to achieve statistical significance was not reached. On February 1, 2016, we announced that in a second interim analysis for OS, the results showed a highly statistically significant and clinically meaningful increase in OS for patients randomized to cabozantinib as compared to everolimus.

In January 2016, an analysis of PFS among all 658 patients enrolled was presented at the 2016 Genitourinary Cancers Symposium, and revealed consistent results with the primary analysis showing a median PFS of 7.4 months for the cabozantinib arm versus 3.9 months for the everolimus arm, and a HR of 0.52 (95% CI 0.43-0.64,  $p < 0.001$ ), corresponding to a 48% reduction in the rate of disease progression or death for cabozantinib as compared to everolimus. In addition, subgroup analyses for PFS showed consistent beneficial effect of cabozantinib versus everolimus; subgroups included: ECOG performance status; commonly applied RCC risk groups as described by Motzer et al.; organ involvement, including bone and visceral metastases and overall tumor burden; extent and type of prior VEGF receptor inhibitor therapy; and prior PD-1/PD-L1 therapy. For patients without prior PD-1/PD-L1 therapy, median PFS was 7.4 months for cabozantinib and 3.9 months for everolimus (HR = 0.54, 95% CI 0.44-0.66). For patients who had received prior PD-1/PD-L1 therapy, the median PFS for cabozantinib was not reached, and the median PFS for everolimus was 4.1 months (HR = 0.22, 95% CI 0.07-0.65). Subgroup analyses for ORR also showed consistent benefit for cabozantinib as compared to everolimus. A review of adverse events, or AEs, demonstrated that the frequency of AEs of any grade regardless of causality was approximately balanced between study arms, and the rate of treatment discontinuation due to adverse events was 9% and 10% for cabozantinib and everolimus, respectively.

On the basis of the data from the METEOR trial, we completed the submission of our rolling NDA with the FDA in December 2015, and on January 27, 2016, the FDA granted priority review to the NDA, with a PDUFA action date of June 22, 2016. The FDA previously granted both Breakthrough Therapy and Fast Track designations to cabozantinib for the treatment of patients with advanced RCC who have received one prior therapy. In January 2016, the EMA accepted for review our MAA for cabozantinib as a treatment for patients with advanced RCC who have received one prior therapy. The EMA's Committee for Medicinal Products for Human Use previously granted accelerated assessment to cabozantinib for RCC, and as a result, our MAA will be eligible for accelerated review.

We have designed our commercial and medical affairs organizations and strategic commercial approach to maintain flexibility in response to market opportunities. In the United States, we have increased our sales, marketing, medical affairs and distribution capabilities and we are now ready, from a staffing perspective, to launch cabozantinib for the treatment of patients with advanced RCC. Internationally, our collaboration with Ipsen provides us with the ability to capitalize on cabozantinib's international clinical and commercial potential.

## ***HCC***

The most advanced clinical program for cabozantinib beyond progressive, metastatic MTC and advanced RCC is focused on the treatment of advanced HCC. Based on the encouraging data that emerged from a cohort of HCC patients treated with cabozantinib in our phase 2 RDT, we launched CELESTIAL, our phase 3 pivotal trial comparing cabozantinib to placebo in patients with advanced HCC who had received previous treatment with sorafenib. The trial is designed to enroll 760 patients at approximately 200 sites. Patients are being randomized 2:1 to receive 60 mg of cabozantinib daily or placebo. The primary endpoint for CELESTIAL is OS, and the secondary endpoints include ORR and PFS. We anticipate top-line results from CELESTIAL in 2017.

### ***Trials Conducted through our CRADA with NCI-CTEP and our IST Program***

We have initiated or are evaluating the initiation of pivotal trials exploring cabozantinib's potential in other tumor types, based on our belief that these investigations will increase the value of the cabozantinib asset, spread the development and commercialization risk for cabozantinib across multiple opportunities, and eventually enhance future revenue growth. Our CRADA with NCI-CTEP, which commenced in November 2011, and our IST program initiated in October 2010 have enabled us to expand the cabozantinib development program beyond our internal development efforts. We intend to continue to expand the cabozantinib development program based on encouraging interim data that emerge from these programs, in addition to data that have emerged from our phase 2 RDT. Objective tumor responses have been observed in patients treated with cabozantinib in more than 20 individual tumor types investigated in phase 1 and 2 clinical trials to date, reflecting the medicine's broad clinical potential. In addition, we have observed resolution of metastatic bone lesions on bone scan in patients with metastatic castration-resistant prostate cancer, or mCRPC, metastatic breast cancer or melanoma in the RDT, in patients with RCC or differentiated thyroid cancer in a phase 1 clinical trial, and in patients with bladder cancer in an NCI-CTEP-sponsored phase 2 clinical trial.

To support the future development of cabozantinib, our Medical Affairs department is responsible for responding to unsolicited physician inquiries with appropriate scientific and medical education and information, supporting scientific presentations and publications, and overseeing the IST process. Our IST program helps us to continue to evaluate cabozantinib across a broad range of tumor types, including non-small cell lung cancer, or NSCLC, bladder cancer, melanoma, breast cancer, differentiated thyroid cancer and others, to support further prioritization of our clinical and commercial options.

## ***NSCLC***

In November 2014, we announced positive top-line results from a randomized phase 2 trial of cabozantinib and erlotinib alone or in combination as second- or third-line therapy in patients with stage IV EGFR wild-type NSCLC. This trial (Study E1512) is sponsored through our CRADA with NCI-CTEP. Study E1512 was designed and is being conducted by the ECOG-ACRIN Cancer Research Group. Study E1512 enrolled 125 patients with EGFR wild-type metastatic NSCLC who had received at least one or two prior chemotherapy regimens; of these, 113 patients were evaluable for efficacy and 118 patients were evaluable for safety. Patients were randomized 1:1:1 to receive erlotinib (150 mg daily), cabozantinib (60 mg daily), or the combination of erlotinib plus cabozantinib (150 mg plus 40 mg daily).

On May 31, 2015, positive results from this trial were reported at the American Society of Clinical Oncology, or ASCO, 2015 Congress. The study met its primary endpoint, demonstrating significant increases in PFS for cabozantinib and the combination of cabozantinib plus erlotinib when individually compared to the erlotinib arm. The median PFS for the combination of cabozantinib and erlotinib was 4.7 months versus 1.9 months for erlotinib alone, a more than two-fold increase that corresponds to a 65% reduction in the risk of disease worsening (HR=0.35, 80% CI 0.23-0.52, p=0.0005). The median PFS for cabozantinib monotherapy was 4.2 months versus 1.9 months for erlotinib alone, and the HR was 0.38 (80% CI 0.27-0.55, p=0.0004),

corresponding to a 62% reduction in the rate of disease worsening. OS was a secondary endpoint of the trial. Median OS was 13.3 months for the combination of cabozantinib and erlotinib, and 9.2 months for cabozantinib alone, as compared to 4.1 months for erlotinib alone. When individually compared to the erlotinib arm, HR for OS was 0.44 (p=0.004), corresponding to a 56% reduction in the rate of death for the combination of cabozantinib plus erlotinib, and 0.59 (p=0.03), corresponding to a 41% reduction in the rate of death for the cabozantinib monotherapy arm. ORR, another secondary endpoint, was 8% for the combination arm (2 partial responses [PR]), 14% (4 PRs) for the cabozantinib monotherapy arm, and 3% (1 PR) for the erlotinib arm. Stable disease as a best response was observed in 47% of patients in the combination arm and 42% in the cabozantinib monotherapy arm, compared with 17% in the erlotinib arm. One hundred and eighteen patients were evaluable for safety. The most common treatment-related adverse events, or AEs, grade 3 or higher, for the combination arm (n=39) were: diarrhea (27%), fatigue (15%), and syncope (8%). For the cabozantinib monotherapy arm, the most common AEs, grade 3 or higher, were: hypertension (26%), fatigue (15%), mucositis (10%) and thromboembolic events (8%). The most common AEs, grade 3 or higher, for the erlotinib arm were fatigue (12%) and diarrhea (8%). Overall, the rate of grade 3 or higher adverse events was 72% in the combination arm and 67% in the cabozantinib monotherapy arm, compared with the erlotinib arm (35%).

Informed by these clinical results, we are actively working with clinical collaborators to explore cabozantinib's further development in NSCLC, including potential combination approaches with immunology agents.

#### *Other Cancer Indications*

Clinical trials approved to date under the CRADA include the following:

- Phase 2 or phase 1/2 clinical trials to help prioritize future pivotal trials of cabozantinib in disease settings where there is substantial unmet medical need and in which cabozantinib has previously demonstrated clinical activity, consisting of randomized phase 2 clinical trials in first line RCC (CABOSUN), ocular melanoma, prostate cancer and second/third line EGFR-wt NSCLC;
- Additional phase 2 or phase 1/2 clinical trials to explore cabozantinib's potential utility in other tumor types, including endometrial cancer, bladder cancer, sarcomas, NSCLC (EGFR-activating mutation positive), differentiated thyroid cancer, triple-negative breast cancer, hormone-receptor-positive breast cancer, cutaneous melanoma (molecularly selected patients), pancreatic neuroendocrine and carcinoid tumors. Positive results in these indications could lead to further study in randomized phase 2 or phase 3 clinical trials; and
- Additional phase 1 clinical trials to further evaluate cabozantinib, consisting of a combination trial of cabozantinib and immune-oncology agents (nivolumab with or without ipilimumab) in genitourinary tumors, a trial to evaluate the safety and pharmacokinetics of cabozantinib in pediatric patients, and a trial of cabozantinib in patients with advanced solid tumors and human immunodeficiency virus.

Commencement of each of the proposed trials approved under the CRADA is subject to protocol development and satisfaction of certain other conditions. The proposed trials approved under the CRADA will be conducted under an investigational new drug, or IND, application held by NCI-CTEP. We believe our CRADA reflects a major commitment by NCI-CTEP to support the broad exploration of cabozantinib's potential in a wide variety of cancers, each representing a substantial unmet medical need. NCI-CTEP provides funding for as many as 20 active clinical trials each year for a five-year period. We believe the agreement will enable us to broadly expand the cabozantinib development program in a cost-efficient manner.

We expect results this year from the following clinical studies being conducted under our collaboration with NCI-CTEP:

- CABOSUN, the randomized phase 2 trial comparing cabozantinib to sunitinib in the treatment of intermediate or poor risk first-line RCC patients, which completed enrollment in early 2015 and is being conducted by The Alliance for Clinical Trials in Oncology;

- A phase 1b trial of cabozantinib plus nivolumab alone, or in combination with ipilimumab, in patients with genitourinary tumors, including bladder cancer and RCC; and
- A phase 2 trial evaluating single agent cabozantinib in recurrent endometrial cancer.

Cabozantinib is also being evaluated in a variety of indications under our IST program. Patients have enrolled in 28 trials, 18 of which are currently accruing patients. An additional study is expected to initiate accrual soon.

### ***COMETRIQ (cabozantinib) capsules for MTC***

MTC is a rare form of thyroid cancer. We currently estimate that there are between 500 and 700 first and second line metastatic MTC patients diagnosed in the United States each year who will be eligible for COMETRIQ. Following FDA approval on November 29, 2012, COMETRIQ capsules became commercially available in the United States in January 2013. In March 2014, the European Commission granted COMETRIQ conditional marketing authorization for the treatment of adult patients with progressive, unresectable locally advanced or metastatic MTC.

### ***EXAM Pivotal Trial***

COMETRIQ's safety and efficacy were assessed in an international, multi-center, randomized double-blinded controlled trial of 330 patients with progressive, metastatic MTC, known as EXAM (Efficacy of XL184 (Cabozantinib) in Advanced Medullary Thyroid Cancer). Patients were required to have evidence of actively progressive disease within 14 months prior to study entry. This assessment was performed by an IRRC, in 89% of patients and by the treating physicians in 11% of patients. Patients were randomized 2:1 to receive COMETRIQ 140 mg (n = 219) or placebo (n = 111) orally, once daily until disease progression determined by the treating physician or until intolerable toxicity. Randomization was stratified by age ( $\leq 65$  years vs.  $> 65$  years) and prior use of a TKI. No cross-over was allowed at the time of progression. The primary endpoint was to compare PFS in patients receiving COMETRIQ versus patients receiving placebo. Secondary endpoints included ORR and OS. The main efficacy outcome measures of PFS, ORR and response duration were based on IRRC-confirmed events using modified Response Evaluation Criteria in Solid Tumors (RECIST), which is a widely used set of rules that define when cancer patients improve ("respond"), stay the same ("stabilize") or worsen ("progress") during treatments.

EXAM served as the basis for the regulatory approval of COMETRIQ in the United States and European Union. A statistically significant prolongation in PFS was demonstrated among COMETRIQ-treated patients compared to those receiving placebo [HR 0.28 (95% CI: 0.19-0.40);  $p < 0.0001$ ], with median PFS of 11.2 months in the COMETRIQ arm and 4.0 months in the placebo arm. Partial responses were observed only among patients in the COMETRIQ arm (27% vs. 0%;  $p < 0.0001$ ). The median duration of objective response was 14.7 months (95% CI: 11.1-19.3) for patients treated with COMETRIQ. In November 2014, we announced completion of the OS analysis, the secondary endpoint of the study. Consistent with an earlier interim analysis, there was no statistically significant difference in OS between the treatment arms. The median OS was 26.6 months for the COMETRIQ arm and 21.1 months for the placebo arm (HR = 0.85; 95% CI 0.64-1.12;  $p = 0.2409$ ). The subgroup analysis by RET M918T mutation status, a known negative prognostic factor in MTC, revealed a large improvement in OS of 25.4 months for COMETRIQ-treated patients positive for the RET M918T mutation; the median OS was 44.3 months for the COMETRIQ arm and 18.9 months for the placebo arm (HR = 0.60; 95% CI 0.38-0.95;  $p = 0.026$ , not adjusted for multiple subgroup testing). We presented the final results at the ASCO 2015 Congress and submitted the results to regulatory authorities to satisfy post-marketing commitments.



### *Post-marketing Commitments*

In connection with the approval of COMETRIQ for the treatment of progressive, metastatic MTC, we are subject to the following post-marketing requirements:

- A clinical study comparing a lower dose of COMETRIQ with the labeled dose of 140 mg. This study is evaluating safety and PFS in progressive, metastatic MTC patients.
- Submission of the OS analysis from the EXAM study (see above).
- Two clinical pharmacology studies assessing the pharmacokinetics of COMETRIQ, one to address the effect of administering COMETRIQ in conjunction with agents that increase gastric pH such as proton pump inhibitors, and the other study to assess the pharmacokinetics of COMETRIQ in patients with hepatic impairment. Both studies have been completed.
- Four non-clinical studies to further assess the carcinogenicity, mutagenicity and teratogenicity of COMETRIQ. The mutagenicity and teratogenicity studies and one of the two carcinogenicity studies have been completed.

### *Commercialization*

We market COMETRIQ in the United States using an internal commercial team.

To help ensure that all eligible progressive, metastatic MTC patients have appropriate access to COMETRIQ, we have established a comprehensive reimbursement and support program called Exelixis Access Services. Through Exelixis Access Services, we: provide co-pay assistance to qualified, commercially insured patients to help minimize out-of-pocket costs; provide free drug to uninsured patients who meet certain clinical and financial criteria; and make contributions to an independent co-pay assistance charity to help patients who do not qualify for our co-pay assistance program. In addition, Exelixis Access Services is designed to provide comprehensive reimbursement support services, such as prior authorization support, benefits investigation and, if needed, appeals support. COMETRIQ is distributed in the United States exclusively through Diplomat Specialty Pharmacy, an independent specialty pharmacy that allows for efficient delivery of the medication by mail directly to patients.

To respond to external inquiries regarding the appropriate clinical use of COMETRIQ, our Medical Affairs department is responsible for responding to physician inquiries with regularly updated and well-substantiated scientific, medical education and information.

### *COMETRIQ in the European Union*

In February 2009, COMETRIQ received orphan drug designation in the European Union from the Committee for Orphan Medicinal Products for the treatment of MTC. The European Commission granted COMETRIQ conditional approval for the treatment of adult patients with progressive, unresectable, locally advanced or metastatic MTC in March 2014.

During 2013, we entered into an agreement with Swedish Orphan Biovitrum, or Sobi, to support the distribution and commercialization of COMETRIQ for the approved MTC indication primarily in the European Union, Switzerland, Norway, Russia and Turkey, and potentially other countries in the event that COMETRIQ is approved for commercial sale in such jurisdictions. In January 2015, the parties amended and restructured their agreement, which was due to expire on December 31, 2015, extending its term to December 31, 2019. The agreement remains limited to the approved MTC indication in the indicated territories, and we continue to maintain commercial rights for all other potential cabozantinib oncology indications on a global basis. Under the amended terms, however, our payments to Sobi transitioned from fixed fees paid by Exelixis to Sobi to support initial build out of the COMETRIQ European infrastructure to a sales margin-based approach.

The terms of our commercialization agreement with Sobi provide us with the ability to terminate the agreement at will upon payment of certain pre-determined termination fees. In connection with the establishment of our collaboration with Ipsen, we intend to provide Sobi with notice of termination and following a transition period, Ipsen will become responsible for the continued distribution and commercialization of COMETRIQ for the approved MTC indication in territories currently supported by Sobi and potentially other countries in the event that COMETRIQ is approved for commercial sale in such territories.

#### *Named Patient Use Program*

Through our agreement with Sobi, we established the infrastructure to make COMETRIQ available upon request under a named patient use, or NPU, program in countries of the European Union and in other regions outside of the United States where it is not yet commercially approved. An NPU program provides access to drugs unapproved in that country, but approved elsewhere, for a single patient or a group of patients in a particular country.

Following a transition period our NPU program will be transferred to Ipsen.

### **XL888**

XL888 is an Exelixis-discovered highly potent small molecule oral inhibitor of Heat Shock Protein 90 (HSP90), a molecular chaperone protein that affects the activity and stability of a range of key regulatory proteins, including kinases such as BRAF, MET and VEGFR2, which are implicated in cancer cell proliferation and survival. After completing phase 1 testing of the compound, we deprioritized XL888 and our other pipeline assets to focus our limited resources on our lead compound, cabozantinib. Investigators at the H. Lee Moffitt Cancer Center went on to conduct additional preclinical work showing activity of XL888 in vemurafenib-resistant melanoma models, the results of which provided the rationale for the initiation of an investigator-sponsored phase 1 trial conducted by investigators at the Moffitt Cancer Center.

In November 2014, we announced positive preliminary results from this phase 1 trial, which evaluated the safety and activity of XL888 in combination with vemurafenib in patients with unresectable stage III/IV BRAF V600 mutation-positive melanoma. The primary endpoint of the trial was to determine the safety and tolerability of the combination, including determination of a maximum tolerated dose, or MTD, for XL888. Secondary endpoints included objective response rate (RECIST-1 criteria), estimates of PFS and OS, and analysis of pharmacodynamic biomarkers. The trial had enrolled fifteen subjects, and at the time of data cut-off, objective tumor regression was observed in 11 of 12 response-evaluable patients (two complete responses and nine partial responses), for an objective response rate of 92%. Safety data for the combination identified tolerable dose levels of XL888 with full dose vemurafenib.

Based on these results, as well as findings from coBRIM, the phase 3 pivotal trial of cobimetinib, an Exelixis-discovered MEK inhibitor, and vemurafenib in previously untreated metastatic melanoma patients with a BRAF V600E or V600K mutation, investigators at the Moffitt Cancer Center plan to initiate a phase 1b IST of the triple combination of vemurafenib, cobimetinib, and XL888 in a similar patient population.

### **Collaborations**

#### ***Cabozantinib Collaboration***

On February 29, 2016, we entered into a collaboration and license agreement with Ipsen for the commercialization and further development of cabozantinib. Pursuant to the terms of this agreement, Ipsen will have exclusive commercialization rights for current and potential future cabozantinib indications outside of the United States, Canada and Japan. The companies have agreed to collaborate on the development of cabozantinib for current and potential future indications.

The parties' efforts will be governed through a joint steering committee and appropriate subcommittees established to guide and oversee the collaboration's operation and strategic direction; provided, however, that we will retain final decision-making authority with respect to cabozantinib's ongoing development. The agreement anticipates the transfer to Ipsen of sponsorship of our MAA for cabozantinib in RCC, currently on file with the EMA. It also anticipates transfer of Marketing Authorization Holder status for COMETRIQ for the MTC indication approved in the European Union to Ipsen and the transition of rights regarding COMETRIQ outside the United States from Sobi, our current international partner for COMETRIQ, to Ipsen, in accordance with the terms of our agreement with Sobi.

In consideration for the exclusive license and other rights contained in the agreement, Ipsen will pay us an upfront payment of \$200.0 million. We will be eligible to receive regulatory milestones, including a \$60.0 million milestone payment upon approval of cabozantinib by the EMA in second-line RCC and milestone payments of \$10.0 million upon the filing and \$40.0 million upon the approval of cabozantinib in second-line HCC, as well as additional regulatory milestones payments for potential further indications. The agreement also provides that we will be eligible to receive payments of up to \$545.0 million associated with potential commercial milestone payments, including two \$10.0 million milestone payments upon the launch of the product in the first two of the following countries: Germany, France, Italy, Spain and the United Kingdom. Exelixis will also receive royalties on net sales of cabozantinib outside of the United States, Canada and Japan. We will receive a 2% royalty on the initial \$50 million of net sales, and 12% royalty on the next \$100 million of net sales. After this initial period, Exelixis will receive a tiered royalty of 22% to 26% on annual net sales. These tiers will reset each calendar year. Exelixis is responsible for funding cabozantinib related development costs for existing trials; development costs for potential future trials will be shared between the parties, with Ipsen to reimburse us for 35% of such costs. Pursuant to the terms of the 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, we entered into a supply agreement which provides that through the end of the second quarter of 2018, we will supply finished, labeled product to Ipsen for distribution in the territories outside of the United States, Canada and Japan, and from the end of the second quarter of 2018 forward, we will supply primary packaged bulk tablets to Ipsen.

Unless terminated earlier, the agreement has a term that continues, on a product-by-product and country-by-country basis, until the latter of (i) the expiration of patent claims related to cabozantinib, (ii) the expiration of regulatory exclusivity covering cabozantinib or (iii) ten years after the first commercial sale of cabozantinib, other than COMETRIQ. The 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. We may terminate the agreement if Ipsen challenges or opposes any patent covered by the agreement. Ipsen may terminate the agreement if the FDA or EMA orders or requires substantially all cabozantinib clinical trials to be terminated or if the EMA refuses to approve our MAA for cabozantinib in advanced RCC in such region. Ipsen also has the right to terminate the agreement on a region-by-region basis after the first commercial sale of cabozantinib in advanced RCC in the given region. Upon termination by either party, all licenses granted by us to Ipsen will automatically terminate, and, except in the event of a termination by Ipsen for our material breach, the licenses granted by Ipsen to us shall survive such termination and shall automatically become worldwide, or, if Ipsen terminated only for a particular region, then for the terminated region. Following termination by us for Ipsen's material breach, or termination by Ipsen without cause or because we undergo a change of control by a party engaged in a competing program, Ipsen is prohibited from competing with us for a period of time.

### ***Cobimetinib Collaboration***

Our second most advanced asset is cobimetinib (GDC-0973/XL518) which we discovered. Cobimetinib is a potent, highly selective inhibitor of MEK, a kinase that is a component of the RAS/RAF/MEK/ERK pathway. This pathway mediates signaling downstream of growth factor receptors, and is prominently activated in a wide variety of human tumors. In December 2006, we out-licensed the development and commercialization of

cobimetinib to Genentech pursuant to a worldwide collaboration agreement. The FDA approved cobimetinib in the United States under the brand name COTELLIC on November 10, 2015. It is indicated in combination with vemurafenib as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma. COTELLIC in combination with vemurafenib has also been approved in Switzerland, the European Union and Canada for use in the same indication.

Genentech paid upfront and milestone payments of \$25.0 million in December 2006 and \$15.0 million in January 2007 upon signing of the collaboration agreement and with the submission of the IND application for cobimetinib. Under the terms of the agreement, we were responsible for developing cobimetinib through the determination of the maximum-tolerated dose, or MTD in a phase 1 clinical trial, and Genentech had the option to co-develop cobimetinib, which Genentech could exercise after receipt of certain phase 1 data from us. In March 2008, Genentech exercised its option to co-develop cobimetinib, triggering a payment to us of \$3.0 million. In March 2009, we granted to Genentech an exclusive worldwide revenue-bearing license to cobimetinib, at which point Genentech became responsible for completing the phase 1 clinical trial and subsequent clinical development. We received an additional \$7.0 million payment in March 2010.

In July 2014, we announced positive top-line results from coBRIM, the phase 3 pivotal trial conducted by Genentech evaluating cobimetinib in combination with vemurafenib in previously untreated patients with unresectable locally advanced or metastatic melanoma harboring a BRAF V600E or V600K mutation. Data were subsequently presented at European Society for Medical Oncology in September 2014. The trial met its primary endpoint of demonstrating a statistically significant increase in investigator-determined PFS. The median PFS was 9.9 months for the combination of cobimetinib and vemurafenib versus 6.2 months for vemurafenib alone (HR=0.51, 95 percent CI 0.39-0.68;  $p < 0.0001$ ), demonstrating the combination reduced the risk of the disease worsening by half (49 percent). The median PFS as established by an IRRC, a secondary endpoint, was 11.3 months for the combination arm compared to 6.0 months for the control arm (HR=0.60, 95 percent CI 0.45-0.79;  $p = 0.0003$ ). Objective response rate, another secondary endpoint, was 68% for the combination versus 45% for vemurafenib alone ( $p < 0.0001$ ). Updated results for PFS and ORR from coBRIM were presented at the 2015 Annual Meeting of the ASCO and showed a median PFS of 12.3 months for vemurafenib plus cobimetinib versus 7.2 months for vemurafenib alone (HR=0.58, 95 percent CI 0.46-0.72) and an ORR of 70% for the combination of vemurafenib and cobimetinib versus 50% for vemurafenib alone. In November 2015, we announced that the coBRIM trial also met its OS secondary endpoint, demonstrating a statistically significant increase in OS for the combination of cobimetinib and vemurafenib compared to vemurafenib monotherapy. The median OS was 22.3 months for the combination of cobimetinib and vemurafenib versus 17.4 months for vemurafenib alone, corresponding to a 30% reduction in the rate of death for the combination as compared to vemurafenib alone (HR=0.70, 95 percent CI 0.55-0.90,  $p = 0.005$ ). The safety profile of the combination was consistent with that observed in a previous study.

coBRIM served as the basis for the regulatory approval of COTELLIC in combination with vemurafenib as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma in the United States, Switzerland, the European Union and Canada.

In addition to the coBRIM trial, additional Phase 1 and Phase 2 clinical trials are ongoing studying the combination of cobimetinib with a variety of agents in multiple tumor types. These include:

- The combination of cobimetinib and vemurafenib in additional melanoma patient populations and settings;
- A phase 2 trial of cobimetinib in combination with paclitaxel in triple negative breast cancer; and
- Phase 1 studies of cobimetinib in combination with atezolizumab in melanoma, NSCLC and colorectal cancer, in combination with MEHD7945A in KRAS mutant solid tumors including NSCLC and colorectal cancer and in combination with GDC-0994 in advanced metastatic solid tumors.

A complete listing of all ongoing trials can be found at [www.clinicaltrials.gov](http://www.clinicaltrials.gov).

Under the terms of our collaboration agreement with Genentech for cobimetinib, we are entitled to a share of U.S. profits and losses for cobimetinib. The profit share has multiple tiers: we are entitled to 50% of profits and losses from the first \$200 million of U.S. actual sales, decreasing to 30% of profits and losses from U.S. actual sales in excess of \$400 million. We are entitled to low double-digit royalties on ex-U.S. net sales. In November 2013, we exercised an option under the collaboration agreement to co-promote in the United States, if commercialized. Following the approval of COTELLIC in the United States in November 2015, we began fielding 25% of the sales force promoting COTELLIC in combination with vemurafenib as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma.

We believe that cobimetinib has the potential to provide us with a second meaningful source of revenue. Our objective, therefore, is to continue to work with Genentech on the execution of the U.S. COTELLIC commercial plan and maximize the revenue potential of cobimetinib under our collaboration with Genentech. We have accrued for our COTELLIC expense obligations under the collaboration agreement, but are in discussions with Genentech over the level and type of expenses that have been allocated to COTELLIC under the collaboration.

### ***Other Collaborations***

We have established collaborations with other leading pharmaceutical and biotechnology companies, including, Bristol-Myers Squibb Company, or Bristol-Myers Squibb, Sanofi, Merck (known as MSD outside of the United States and Canada) and Daiichi Sankyo Company Limited, or Daiichi Sankyo, for various compounds and programs in our portfolio. Pursuant to these collaborations, we have fully out-licensed compounds or programs to a partner for further development and commercialization. We have no further development cost obligations under our collaborations and may be entitled to receive milestones and royalties, or in the case of cobimetinib, a share of profits (or losses) from commercialization.

With respect to our partnered compounds, other than cabozantinib and cobimetinib, we are eligible to receive potential contingent payments totaling approximately \$2.3 billion in the aggregate on a non-risk adjusted basis, of which 10% are related to clinical development milestones, 42% are related to regulatory milestones and 48% are related to commercial milestones, all to be achieved by the various licensees, which may not be paid, if at all, until certain conditions are met.

### ***Bristol-Myers Squibb—ROR Collaboration Agreement***

In October 2010, we entered into a worldwide collaboration with Bristol-Myers Squibb pursuant to which each party granted to the other certain intellectual property licenses to enable the parties to discover, optimize and characterize ROR antagonists that may subsequently be developed and commercialized by Bristol-Myers Squibb. In November 2010, we received a nonrefundable upfront cash payment of \$5.0 million from Bristol-Myers Squibb. Additionally, for each product developed by Bristol-Myers Squibb under the collaboration, we will be eligible to receive payments upon the achievement by Bristol-Myers Squibb of development and regulatory milestones of up to \$252.5 million in the aggregate and commercialization milestones of up to \$150.0 million in the aggregate, as well as royalties on commercial sales of any such products. The collaboration agreement was amended and restated in April 2011 in connection with an assignment of patents to a wholly-owned subsidiary.

Under the terms of the collaboration agreement, we were responsible for activities related to the discovery, optimization and characterization of the ROR antagonists during the collaborative research period. In July 2011, we earned a \$2.5 million milestone payment for achieving certain lead optimization criteria. The collaborative research period began on October 8, 2010 and ended on July 8, 2013. Since the end of the collaborative research period, Bristol-Myers Squibb has and will continue to have sole responsibility for any further research, development, manufacture and commercialization of products developed under the collaboration and will bear all costs and expenses associated with those activities.

Bristol-Myers Squibb may, at any time, terminate the collaboration agreement upon certain prior notice to us on a product-by-product and country-by-country basis. In addition, either party may terminate the agreement for the other party's uncured material breach. In the event of termination by Bristol-Myers Squibb at will or by us for Bristol-Myers Squibb's uncured material breach, the license granted to Bristol-Myers Squibb would terminate, the right to such product would revert to us and we would receive a royalty-bearing license for late-stage reverted compounds and a royalty-free license for early-stage reverted compounds from Bristol-Myers Squibb to develop and commercialize such product in the related country. In the event of termination by Bristol-Myers Squibb for our uncured material breach, Bristol-Myers Squibb would retain the right to such product, subject to continued payment of milestones and royalties.

#### *Bristol-Myers Squibb—LXR Collaboration*

In December 2005, we entered into a collaboration agreement with Bristol-Myers Squibb for the discovery, development and commercialization of novel therapies targeted against LXR, a nuclear hormone receptor implicated in a variety of cardiovascular and metabolic disorders. This agreement became effective in January 2006, at which time we granted Bristol-Myers Squibb an exclusive worldwide license with respect to certain intellectual property primarily relating to compounds that modulate LXR, including BMS-852927 (XL041). During the research term, we jointly identified drug candidates with Bristol-Myers Squibb that were ready for IND-enabling studies. After the selection of a drug candidate for further clinical development by Bristol-Myers Squibb, Bristol-Myers Squibb agreed to be solely responsible for further preclinical development as well as clinical development, regulatory, manufacturing and sales/marketing activities for the selected drug candidate. We do not have rights to reacquire the drug candidates selected by Bristol-Myers Squibb. The research term expired in January 2010 and we transferred the technology to Bristol-Myers Squibb in 2011 to enable it to continue the LXR program. BMS has terminated development of XL041 and we have been advised that BMS is continuing additional preclinical research on the program. The collaboration agreement was amended and restated in April 2011 in connection with an assignment of patents to a wholly-owned subsidiary.

Under the collaboration agreement, Bristol-Myers Squibb paid us a nonrefundable upfront cash payment in the amount of \$17.5 million and was obligated to provide research and development funding of \$10.0 million per year for an initial research period of two years. In September 2007, the collaboration was extended at Bristol-Myers Squibb's request through January 12, 2009, and in November 2008, the collaboration was further extended at Bristol-Myers Squibb's request through January 12, 2010. Under the collaboration agreement, Bristol-Myers Squibb is required to pay us contingent amounts associated with development and regulatory milestones of up to \$138.0 million per product for up to two products from the collaboration. In addition, we are also entitled to receive payments associated with sales milestones of up to \$225.0 million and royalties on sales of any products commercialized under the collaboration. In connection with the extension of the collaboration through January 2009 and subsequently through January 2010, Bristol-Myers Squibb paid us additional research funding of approximately \$7.7 million and approximately \$5.8 million, respectively. In December 2007, we received \$5.0 million in connection with the achievement by Bristol-Myers Squibb of a development milestone with respect to BMS-852927 (XL041).

#### *Sanofi*

In May 2009, we entered into a global license agreement with Sanofi for SAR245408 (XL147) and SAR245409 (XL765), leading inhibitors of phosphoinositide-3 kinase, or PI3K, and a broad collaboration for the discovery of inhibitors of PI3K for the treatment of cancer. The license agreement and collaboration agreement became effective on July 7, 2009. In connection with the effectiveness of the license and collaboration, on July 20, 2009, we received upfront payments of \$140.0 million (\$120.0 million for the license and \$20.0 million for the collaboration), less applicable withholding taxes of \$7.0 million, for a net receipt of \$133.0 million. We received a refund payment in December 2011 with respect to the withholding taxes previously withheld.

Under the license agreement, Sanofi received a worldwide exclusive license to SAR245408 (XL147) and SAR245409 (XL765), which are in phase 1, phase 1b/2 or phase 2 clinical trials, and has sole responsibility, including funding, for all subsequent clinical, regulatory, commercial and manufacturing activities. We will be eligible to receive contingent payments associated with development, regulatory and commercial milestones under the license agreement of \$745.0 million in the aggregate, as well as royalties on sales of any products commercialized under the license. Sanofi may, upon certain prior notice to us, terminate the license as to products containing SAR245408 (XL147) and SAR245409 (XL765). In the event of such termination election, Sanofi's license relating to such product would terminate and revert to us, and we would receive, subject to certain terms, conditions and potential payment obligations, licenses from Sanofi to research, develop and commercialize such products.

In December 2011, we entered into an agreement with Sanofi pursuant to which the parties terminated the discovery collaboration agreement and released each other from any potential liabilities arising under the collaboration agreement prior to effectiveness of the termination in December 2011. Each party retains ownership of the intellectual property that it generated under the collaboration agreement, and we granted Sanofi covenants not-to-enforce with respect to certain of our intellectual property rights. The termination agreement also provided that Sanofi would make a payment to us of \$15.3 million, which we received in January 2012. If either party or its affiliate or licensee develops and commercializes a therapeutic product containing an isoform-selective PI3K inhibitor that arose from such party's work (or was derived from such work) under the collaboration agreement, then such party will be obligated to pay royalties to the other party based upon the net sales of such products. The termination agreement provides that Sanofi will make a one-time payment to us upon the first receipt by Sanofi or its affiliate or licensee of marketing approval for the first therapeutic product containing an isoform-selective PI3K inhibitor that arose from Sanofi's work (or was derived from such work) under the collaboration agreement.

#### *Merck*

In December 2011, we entered into an agreement with Merck pursuant to which we granted Merck an exclusive worldwide license to our PI3K-delta, or PI3K-d, program, including XL499 and other related compounds. Pursuant to the terms of the agreement, Merck has sole responsibility to research, develop, and commercialize compounds from our PI3K-d program. The agreement became effective in December 2011.

Merck paid us an upfront cash payment of \$12.0 million in January 2012 in connection with the agreement. We will be eligible to receive payments associated with the successful achievement of potential development and regulatory milestones for multiple indications of up to \$239.0 million. We will also be eligible to receive payments for combined sales performance milestones of up to \$375.0 million and royalties on net-sales of products emerging from the agreement. Contingent payments associated with milestones achieved by Merck and royalties are payable on compounds emerging from our PI3K-d program or from certain compounds that arise from Merck's internal discovery efforts targeting PI3K-d during a certain period. In July 2015 we received a \$3.0 million milestone payment from Merck in connection with Merck's selection of a compound from our PI3K-d program to advance into clinical trials.

Merck may at any time, upon specified prior notice to us, terminate the license. In addition, either party may terminate the agreement for the other party's uncured material breach. In the event of termination by Merck at will or by us for Merck's uncured material breach, the license granted to Merck would terminate. In the event of a termination by us for Merck's uncured material breach, we would receive a royalty-free license from Merck to develop and commercialize certain joint products. In the event of termination by Merck for our uncured material breach, Merck would retain the licenses from us, and we would receive reduced royalties from Merck on commercial sales of products.

## *Daiichi Sankyo*

In March 2006, we entered into a collaboration agreement with Daiichi Sankyo for the discovery, development and commercialization of novel therapies targeted against the mineralocorticoid receptor, or MR, a nuclear hormone receptor implicated in a variety of cardiovascular and metabolic diseases. Under the terms of the agreement, we granted to Daiichi Sankyo an exclusive, worldwide license to certain intellectual property primarily relating to compounds that modulate MR, including CS-3150 (an isomer of XL550). Daiichi Sankyo is responsible for all further preclinical and clinical development, regulatory, manufacturing and commercialization activities for the compounds and we do not have rights to reacquire such compounds, except as described below.

Daiichi Sankyo paid us a nonrefundable upfront payment in the amount of \$20.0 million and was obligated to provide research and development funding of \$3.8 million over a 15-month research term. In June 2007, our collaboration agreement with Daiichi Sankyo was amended to extend the research term by six months over which Daiichi Sankyo was required to provide \$1.5 million in research and development funding. In November 2007, the parties decided not to further extend the research term. For each product from the collaboration, we are also entitled to receive payments upon attainment of pre-specified development, regulatory and commercialization milestones. In December 2010, we received a milestone payment of \$5.0 million in connection with an IND filing made by Daiichi Sankyo for CS-3150 and, in August 2012, we received a milestone payment of \$5.5 million in connection with the initiation of a phase 2 clinical trial for CS-3150. CS-3150 is currently the subject of Phase 2 trials for patients in Japan with hypertension, hypertension with renal impairment, and hypertension with diabetic nephropathy. We are eligible to receive additional development, regulatory and commercialization milestone payments of up to \$145.0 million. In addition, we are also entitled to receive royalties on any sales of certain products commercialized under the collaboration. Daiichi Sankyo may terminate the agreement upon 90 days' written notice in which case Daiichi Sankyo's payment obligations would cease, its license relating to compounds that modulate MR would terminate and revert to us and we would receive, subject to certain terms and conditions, licenses from Daiichi Sankyo to research, develop and commercialize compounds, that were discovered under the collaboration.

## **Manufacturing and Distribution**

We do not own or operate manufacturing or distribution facilities or resources for clinical or commercial production and distribution of COMETRIQ. Instead, we deploy internal resources to manage and oversee third parties working on our behalf under contract. These third parties manufacture raw materials, the active pharmaceutical ingredient, or API, and finished drug product for use in clinical studies and for commercial distribution. All manufacturing occurs at facilities that comply with FDA requirements and the requirements of regulatory agencies from the other jurisdictions where we have obtained approval or are seeking approval.

The suppliers of our clinical and commercial supplies are located in multiple countries. Raw materials are sourced from multiple third-party suppliers in Asia and North America. Contract manufacturers in Europe and North America then convert these raw materials into API for clinical and commercial purposes. We use different contract manufacturers to supply finished drug product for clinical purposes and for commercial purposes. We use a single third party logistics provider to handle shipping and warehousing of our commercial supply of COMETRIQ in the United States and a single specialty pharmacy to dispense COMETRIQ to patients in fulfillment of prescriptions. Should cabozantinib be approved by the FDA for advanced RCC, our warehousing and distribution model will expand appropriately for commercial supply of that larger market. Outside the U.S., we currently rely on Sobi, to distribute and commercialize COMETRIQ; however, following a transition period, the responsibility for distribution and commercialization of COMETRIQ, and for the COMETRIQ NPU program, will transfer to Ipsen under the terms of our collaboration.

We are confident in the reliability of this supply chain and intend to continue to rely upon it for the foreseeable future.



## Government Regulation

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture and marketing of pharmaceutical products. These agencies and other federal, state and local entities regulate, among other things, research and development activities and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, distribution, export, import, record keeping, approval, advertising and promotion of our products.

The process required by the FDA before product candidates may be marketed in the United States generally involves the following:

- preclinical laboratory and animal tests that must be conducted in accordance with Good Laboratory Practices;
- submission of an IND, which must become effective before clinical trials may begin;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug candidate for its intended use;
- pre-approval inspection of manufacturing facilities and selected clinical investigators for their compliance with Good Manufacturing Practices, or GMP, and Good Clinical Practices, or GCP; and
- FDA approval of a NDA for commercial marketing, or of an NDA supplement, for approval of a new indication if the product is already approved for another indication.

The testing and approval process requires substantial time, effort and financial resources. Prior to commencing the first clinical trial with a product candidate, we must submit an IND to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the clinical trial. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Submission of an IND may not result in FDA authorization to commence a clinical trial. A separate submission to the existing IND must be made for each successive clinical trial conducted during product development. Further, an independent institutional review board for each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial and provide its informed consent form before the trial commences at that center. Regulatory authorities or an institutional review board or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

For purposes of NDA approval, human clinical trials are typically conducted in three sequential phases that may overlap.

- Phase 1 – Studies are initially conducted in a limited patient population to test the product candidate for safety, dosage tolerance, absorption, metabolism, distribution and excretion in healthy humans or patients.
- Phase 2 – Studies are conducted with groups of patients afflicted with a specified disease in order to provide enough data to evaluate the preliminary efficacy, optimal dosages and expanded evidence of safety. Multiple phase 2 clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive phase 3 clinical trials. In some cases, a sponsor may decide to run what is referred to as a “phase 2b” evaluation, which is a second, confirmatory phase 2 trial that could, if positive, serve as a pivotal trial in the approval of a product candidate.
- Phase 3 – When phase 2 evaluations demonstrate that a dosage range of the product is effective and has an acceptable safety profile, phase 3 trials are undertaken in large patient populations to further evaluate dosage, to provide replicate statistically significant evidence of clinical efficacy and to further test for safety in an expanded patient population at multiple clinical trial sites.

The FDA may require, or companies may pursue, additional clinical trials after a product is approved. These so-called phase 4 studies may be made a condition to be satisfied after a drug receives approval. Failure to satisfy such post-marketing commitments can result in FDA enforcement action, up and to including withdrawal of NDA approval. The results of phase 4 studies can confirm the effectiveness of a product candidate and can provide important safety information to augment the FDA's adverse drug reaction reporting system. The results of product development, preclinical studies and clinical trials are submitted to the FDA as part of an NDA, or as part of an NDA supplement. The submission of an NDA or NDA supplement requires payment of a substantial user fee to FDA. The FDA may convene an advisory committee to provide clinical insight on NDA review questions. The FDA may deny approval of an NDA or NDA supplement by way of a Complete Response letter if the applicable regulatory criteria are not satisfied, or it may require additional clinical data and/or an additional pivotal phase 3 clinical trial. Even if such data are submitted, the FDA may ultimately decide that the NDA or NDA supplement does not satisfy the criteria for approval. An NDA may be approved with significant restrictions on its labeling, marketing and distribution under a Risk Evaluation and Mitigation Strategy. Once issued, the FDA may withdraw product approval if ongoing regulatory standards are not met or if safety problems occur after the product reaches the market. In addition, the FDA may require testing and surveillance programs to monitor the effect of approved products that have been commercialized, and the FDA has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs.

Satisfaction of FDA requirements or similar requirements of state, local and foreign regulatory agencies typically takes several years and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease. Government regulation may delay or prevent marketing of product candidates or new diseases for a considerable period of time and impose costly procedures upon our activities. The FDA or any other regulatory agency may not grant approvals for new indications for our product candidates on a timely basis, if at all. Success in early stage clinical trials does not ensure success in later stage clinical trials. Targets and pathways identified in vitro may be determined to be less relevant in clinical studies and results in animal model studies may not be predictive of human clinical results. Data obtained from clinical activities is not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. Even if a product candidate receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations and dosages. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market.

Any products manufactured or distributed by us pursuant to FDA approvals are subject to continuing regulation by the FDA, including record-keeping requirements and reporting of adverse experiences with the drug. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with GMP, which impose certain procedural and documentation requirements upon us and our third-party manufacturers.

The FDA closely regulates the marketing and promotion of drugs. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising and potential civil and criminal penalties. Physicians may, in their independent medical judgment, prescribe legally available drugs for uses that are not described in the product's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behavior of physicians in their choice of treatments. The FDA does, however, restrict manufacturers' communications on the subject of off-label use. Additionally, a significant number of pharmaceutical companies have been the target of inquiries and investigations by various U.S. federal and state regulatory, investigative, prosecutorial and administrative entities in connection with the promotion of products for off-label uses and other sales practices. These investigations have alleged violations of various U.S. federal and state laws and regulations, including claims asserting antitrust violations, violations of the Food, Drug and Cosmetic Act, false claims laws, the Prescription

Drug Marketing Act, anti-kickback laws, and other alleged violations in connection with the promotion of products for unapproved uses, pricing and Medicare and/or Medicaid reimbursement.

The United States Orphan Drug Act promotes the development of products that demonstrate promise for the diagnosis and treatment of diseases or conditions that affect fewer than 200,000 people in the United States. Upon FDA receipt of Orphan Drug Designation, the sponsor is eligible for tax credits of up to 50% for qualified clinical trial expenses, the ability to apply for annual grant funding, waiver of PDUFA application fee, and upon approval, the potential for seven years of market exclusivity for the orphan-designated product for the orphan-designated indication.

The FDA has various programs, including Fast Track, priority review and accelerated approval, which are intended to expedite or simplify the process for developing and reviewing promising drugs, or to provide for the approval of a drug on the basis of a surrogate endpoint. Generally, drugs that are eligible for these programs are those for serious or life-threatening conditions, those with the potential to address unmet medical needs and those that offer meaningful benefits over existing treatments. For example, Fast Track is a process designed to facilitate the development and expedite the review of drugs to treat serious or life-threatening diseases or conditions and fill unmet medical needs. Priority review is designed to give drugs that offer major advances in treatment or provide a treatment where no adequate therapy exists an initial review within six months of NDA filing as compared to a standard review time of 10 months from NDA filing. Although Fast Track and priority review do not affect the standards for approval, the FDA will attempt to facilitate early and frequent meetings with a sponsor of a Fast Track designated drug and expedite review of the application for a drug designated for priority review. Accelerated approval provides for an earlier approval for a new drug that is intended to treat a serious or life-threatening disease or condition and that fills an unmet medical need based on a surrogate endpoint. As a condition of approval, the FDA may require that a sponsor of a product candidate receiving accelerated approval perform post-marketing clinical trials to confirm the clinically meaningful outcome as predicted by the surrogate marker trial. In addition to the Fast Track, accelerated approval and priority review programs, the FDA also designates Breakthrough Therapy status to drugs that are intended, alone or in combination with one or more other drugs, to treat a serious or life-threatening disease or condition, and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. Drugs designated as breakthrough therapies are also eligible for accelerated approval. The FDA will seek to ensure the sponsor of a breakthrough therapy product candidate receives: intensive guidance on an efficient drug development program; intensive involvement of senior managers and experienced staff on a proactive, collaborative and cross-disciplinary review; and rolling review.

### ***Regulation Outside of the United States***

In addition to regulations in the United States, we are subject to regulations of other countries governing clinical trials and commercial sales and distribution of our products outside of the United States. Whether or not we obtain FDA approval for a product, we must obtain approval by the comparable regulatory authorities of countries outside of the United States before we can commence clinical trials in such countries and approval of the regulators of such countries or economic areas, such as the European Union, before we may market products in those countries or areas. The approval process and requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from place to place, and the time may be longer or shorter than that required for FDA approval.

Under European Union regulatory systems, a company may submit marketing authorization applications either under a centralized or decentralized procedure. The centralized procedure provides for the grant of a single marketing authorization that is valid for all European Union member states. The decentralized procedure provides for mutual recognition of national approval decisions. Under this procedure, the holder of a national marketing authorization may submit an application to the remaining member states. Within 90 days of receiving

the applications and assessments report, each member state must decide whether to recognize approval. If a member state does not recognize the marketing authorization, the disputed points are eventually referred to the European Commission, whose decision is binding on all member states.

As in the United States, we may apply for designation of a product as an Orphan drug for the treatment of a specific indication in the European Union before the application for marketing authorization is made. Orphan drugs in Europe enjoy economic and marketing benefits, including up to ten years of market exclusivity for the approved indication unless another applicant can show that its product is safer, more effective or otherwise clinically superior to the orphan-designated product.

### ***Healthcare Regulation***

Federal and state healthcare laws, including fraud and abuse and health information privacy and security laws, also apply to our business. If we fail to comply with those laws, we could face substantial penalties and our business, results of operations, financial condition and prospects could be adversely affected. The laws that may affect our ability to operate include, but are not limited to: the federal Anti-Kickback Statute, which prohibits, among other things, soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce, or in return for, the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs; and 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. Additionally, we are subject to state law equivalents of each of the above federal laws, which may be broader in scope and apply regardless of payer, and many of which differ from each other in significant ways and may not have the same effect, further complicate compliance efforts.

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 the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology and Clinical Health Act, or 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, including healthcare providers, 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 Europe and between European countries and the United States. Failure to provide adequate privacy protections and maintain compliance with safe harbor mechanisms could jeopardize business transactions across borders and result in significant penalties.

In addition, the Patient Protection and Affordable Care Act, as amended by the Health Care Education Reconciliation Act, or the PPACA, created a federal requirement under the federal Open Payments program, that requires certain manufacturers to track and report to the Centers for Medicare and Medicaid Services, or CMS, annually certain payments and other transfers of value provided to physicians and teaching hospitals made in the previous calendar year. In addition, there are also an increasing number of state laws that require manufacturers to make reports to states on pricing and marketing information. These laws may affect our sales, marketing, and other promotional activities by imposing administrative and compliance burdens on us. In addition, given the lack of clarity with respect to these laws and their implementation, our reporting actions could be subject to the penalty provisions of the pertinent state and federal authorities.

For those marketed products which are covered in the United States by the Medicaid programs, we have various obligations, including government price reporting and rebate requirements, which generally require products be offered at substantial rebates/discounts to Medicaid and certain purchasers (including “covered entities” purchasing under the 340B Drug Discount Program). We are also required to discount such products to authorized users of the Federal Supply Schedule of the General Services Administration, under which additional laws and requirements apply. These programs require submission of pricing data and calculation of discounts and rebates pursuant to complex statutory formulas, as well as the entry into government procurement contracts governed by the Federal Acquisition Regulations, and the guidance governing such calculations is not always clear. Compliance with such requirements can require significant investment in personnel, systems and resources, but failure to properly calculate our prices, or offer required discounts or rebates could subject us to substantial penalties. One component of the rebate and discount calculations under the Medicaid and 340B programs, respectively, is the “additional rebate”, a complex calculation which is based, in part, on the rate at which a branded drug price increases over time more than the rate of inflation (based on the CPI-U). This comparison is based on the baseline pricing data for the first full quarter of sales associated with a branded drug’s NDA, and baseline data cannot generally be reset, even on transfer of the NDA to another manufacturer. This “additional rebate” calculation can, in some cases where price increase have been relatively high versus the first quarter of sales of the NDA, result in Medicaid rebates up to 100% of a drug’s “average manufacturer price” and 340B prices of one penny. Subject to the control of Directive 89/105/EEC, pricing and reimbursement in the EU/EEA is governed by national rules and policy and may vary from Member State to Member State.

### ***Reimbursement***

Sales of COMETRIQ, COTELLIC and any future products of ours will depend, in part, on the extent to which their costs will be covered by third-party payers, such as government health programs, commercial insurance and managed healthcare organizations. Patients are unlikely to use our products unless coverage is provided and reimbursement is adequate to cover a significant portion of the cost of our products. Third-party payers may limit coverage to specific drug products on an approved list, also known as a formulary, which might not include all of the FDA-approved drugs for a particular indication. Moreover, a third-party payer’s decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Additionally, one third-party payer’s decision to cover a particular drug product does not ensure that other payers will also provide coverage for the drug product, or will provide coverage at an adequate reimbursement rate.

In the United States and other potentially significant markets for our products, government authorities and third-party payors are increasingly attempting to limit or regulate the price of medical products and services, particularly for new and innovative products and therapies, which has resulted in lower average selling prices. Further, the increased emphasis on managed healthcare in the United States and on country-specific and regional pricing and reimbursement controls in the European Union will put additional pressure on product pricing, reimbursement and usage, which may adversely affect our future product sales and results of operations. These pressures can arise from rules and practices of managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and healthcare reform, pharmaceutical reimbursement policies and pricing in general.

The United States and some foreign jurisdictions are considering or have enacted a number of additional legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. Among policy makers and payors in the United States 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. There has been particular and increasing legislative and enforcement interest in the United States with respect to specialty drug pricing practices over the course of 2015, particularly with respect to drugs that have been subject to relatively large price increases over relatively short time periods. 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, and reform government program reimbursement methodologies for drugs. In the United States, the pharmaceutical industry has already been significantly affected by major legislative initiatives, including, for example, the PPACA. The PPACA, among other things, imposes a significant annual fee on companies that manufacture or import branded prescription drug products. It also contains substantial provisions intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, and impose additional health policy reforms, any or all of which may affect our business. The PPACA, compounded by the intense public scrutiny of drug pricing in the United States, is likely to continue the downward pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase our regulatory burdens and operating costs. Other legislative changes have also been proposed and adopted since the PPACA was enacted. For example, the Budget Control Act of 2011 resulted in aggregate reductions in Medicare payments to providers of up to 2% per fiscal year, starting in 2013, and the American Taxpayer Relief Act of 2012, among other things, reduced Medicare payments to several types of providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. Such laws, and others that may affect our business that have been recently enacted or may in the future be enacted, may result in additional reductions in Medicare and other healthcare funding. In the future, there will likely continue to be additional proposals relating to the reform of the United States healthcare system, some of which could further limit coverage and reimbursement of drug products, including our product candidates. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability or commercialize our products.

In addition, in some non-U.S. jurisdictions, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country. For example, the European Union provides options for its member states to restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. A member state may approve a specific price for the medicinal product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market. There can be no assurance that any country that has price controls or reimbursement limitations for pharmaceutical products will allow favorable reimbursement and pricing arrangements for any of our products. Historically, products launched in the European Union do not follow the price structures of the United States and generally tend to be priced significantly lower.

## **Competition**

There are many companies focused on the development of small molecules and antibodies for cancer. Our competitors and potential competitors include major pharmaceutical and biotechnology companies, as well as academic research institutions, clinical reference laboratories and government agencies that are pursuing research activities similar to ours. Many of our competitors and potential competitors have significantly more financial, technical and other resources than we do, which may allow them to have a competitive advantage.

### *Competition for Cabozantinib*

We believe that our ability to successfully compete will depend on, among other things:

- efficacy, safety and reliability of cabozantinib;
- timing and scope of regulatory approval;
- the speed at which we develop cabozantinib for the treatment of additional tumor types beyond progressive, metastatic MTC;
- our ability to complete preclinical testing and clinical development and obtain regulatory approvals for cabozantinib;

- our ability to manufacture and sell commercial quantities of cabozantinib to the market;
- our ability to successfully commercialize cabozantinib and secure coverage and adequate reimbursement in approved indications;
- product acceptance by physicians and other health care providers;
- skills of our employees and our ability to recruit and retain skilled employees;
- protection of our intellectual property; and
- the availability of substantial capital resources to fund development and commercialization activities.

We believe that the quality and breadth of activity observed with cabozantinib, the skill of our employees and our ability to recruit and retain skilled employees, our patent portfolio and our capabilities for research and drug development are competitive strengths. However, many large pharmaceutical and biotechnology companies have significantly larger intellectual property estates than we do, more substantial capital resources than we have, and greater capabilities and experience than we do in preclinical and clinical development, sales, marketing, manufacturing and regulatory affairs.

The markets for which we intend to pursue regulatory approval of cabozantinib are highly competitive. We are aware of products in research or development by our competitors that are intended to treat all of the tumor types we are targeting, and should they demonstrate suitable clinical evidence, any of these products may compete with cabozantinib.

Should cabozantinib be approved for the treatment of advanced RCC as a result of positive results from the METEOR trial, its principal competition may include: Pfizer's axitinib, sunitinib and temsirolimus; Novartis' everolimus and pazopanib; Bristol-Myers Squibb's nivolumab; Bayer's and Onyx Pharmaceuticals' sorafenib; Genentech's bevacizumab; and Eisai's lenvatinib. The potential for immediate competition from Bristol-Myers Squibb's nivolumab is particularly significant. Nivolumab was approved for the treatment of advanced RCC on November 23, 2015, following a rapid review by the FDA. That approval was based in large part on the results of Bristol-Myers Squibb's phase 3 trial comparing nivolumab to everolimus in patients who had received previous antiangiogenic therapy for advanced RCC (Checkmate 025), in which nivolumab met its primary endpoint of showing a statistically-significant improvement in OS over everolimus, a current standard of care for the treatment of second line RCC patients. Nivolumab failed to demonstrate a statistically-significant PFS benefit over everolimus. Nivolumab also demonstrated an acceptable safety profile and may be rapidly adopted by physicians for the treatment of advanced RCC.

Should cabozantinib be approved for the treatment of HCC, the other indication for which we have an ongoing phase 3 pivotal trial, its principal competition may include: Bayer's and Onyx Pharmaceuticals' sorafenib; Bayer's regorafenib; ArQule's tivantinib; Eisai's lenvatinib; Bristol-Myers Squibb's nivolumab; and Eli Lilly and Company's ramucirumab.

The principal competing anti-cancer therapy to COMETRIQ in progressive, metastatic MTC is AstraZeneca's RET, VEGFR and EGFR inhibitor vandetanib, approved by the FDA and the EMA for the treatment of symptomatic or progressive MTC in patients with unresectable, locally advanced, or metastatic disease. On October 21, 2015, AstraZeneca announced the global completion of the sale of vandetanib to Genzyme, a Sanofi company. We anticipate the potential for increased competition for COMETRIQ in progressive, metastatic MTC as a result of the consolidation of vandetanib into Genzyme's endocrinology portfolio and the company's rare disease expertise. In addition, COMETRIQ also faces competition as a treatment for progressive, metastatic MTC from off-label use of Bayer's and Onyx Pharmaceuticals' (a wholly-owned subsidiary of Amgen) multikinase inhibitor sorafenib, Pfizer's multikinase inhibitor sunitinib, Ariad Pharmaceutical's multikinase inhibitor ponatinib, Novartis' multikinase inhibitor pazopanib, and Eisai's multikinase inhibitor lenvatinib.

Examples of potential competition for cabozantinib in other cancer indications include: other VEGF pathway inhibitors, including Genentech's bevacizumab; other RET inhibitors including Eisai's lenvatinib and Ariad's ponatinib; and other MET inhibitors, including Amgen's AMG 208, Pfizer's crizotinib, ArQule's tivantinib, and Mirati's MGCD265; and immunotherapies such as Bristol-Myers Squibb's ipilimumab and nivolumab, Merck's pembrolizumab and Genentech's atezolizumab.

#### *Competition for Cobimetinib*

Cobimetinib's principal competition amongst targeted agents may include: Novartis' trametinib and dabrafenib, and Array's encorafenib and binimetinib; and within the class of immunotherapies, Bristol-Myers Squibb's ipilimumab and nivolumab and Merck's pembrolizumab. The second category, immunotherapies, are of particular competitive importance vis-a-vis cobimetinib in advanced melanoma as they are already FDA approved in melanoma patient populations that overlap with those that may be eligible for cobimetinib, they have been rapidly incorporated into the National Comprehensive Cancer Network treatment guidelines, and they are viewed with a high degree of enthusiasm by physicians and key opinion leaders. Ongoing and future trials incorporating immune-oncology agents, including combination trials, may further impact usage of cobimetinib in melanoma and potentially in additional tumor types in which cobimetinib may ultimately gain approval.

#### **Financial Information and Significant Customers**

We operate as a single business segment and have operations primarily in the United States. In 2015, we derived 83% of our revenues from Diplomat Specialty Pharmacy, which is located in the United States. Information regarding total revenues, including geographic regions in which they are earned, net loss and total assets is set forth in our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Research and development expenses were \$96.4 million or the year ended December 31, 2015, compared to \$189.1 million for the year ended December 31, 2014 and \$178.8 million for the year ended December 31, 2013. Additional information about our research and development expenses in each of the last three fiscal years is set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **Patents and Proprietary Rights**

We actively seek patent protection in the United States, the European Union, and selected other foreign countries to cover our drug candidates and related technologies. Patents extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends on the type of patent, the scope of its coverage and the availability of legal remedies in the country. We have numerous patents and pending patent applications that relate to methods of screening drug targets, compounds that modulate drug targets, as well as methods of making and using such compounds. While many patent applications have been filed relating to the drug candidates that we have developed, the majority of these are not yet issued or allowed.

Cabozantinib is covered by an issued patent in the United States (U.S. Pat. No. 7,579,473) for the composition-of-matter of cabozantinib and pharmaceutical compositions thereof. Cabozantinib is also covered by an additional issued patent in the United States (covering certain methods of use) and also by an issued patent in Europe (covering cabozantinib's composition-of-matter and certain methods of use) and an issued patent in Japan (covering cabozantinib composition-of-matter). These issued patents would normally expire in September 2024, but we have applied for patent term extension in the United States to extend the term to 2026, a Supplementary Protection Certificate in the Europe to extend the term to 2029 and a patent term extension in Japan to extend the



term to 2029. Foreign counterparts of the issued United States and European patents are pending in Australia and Canada, which, if issued, are anticipated to expire in 2024. We have patent applications pending in the United States, the European Union, Australia, Japan and Canada covering certain synthetic methods related to making cabozantinib, which, if issued, are anticipated to expire in 2024. We have filed patent applications in the United States and other selected countries covering certain salts, polymorphs and formulations of cabozantinib that, if issued, are anticipated to expire in approximately 2030. We have filed several patent applications in the United States and other selected countries relating to combinations of cabozantinib with certain other anti-cancer agents that, if issued, are anticipated to expire in approximately 2030.

Cobimetinib is covered by an issued patent in the United States (U. S. Pat. No 7,803,839) for the composition of matter of cobimetinib and pharmaceutical compositions thereof. Cobimetinib is also covered by an additional issued patent in the United States (covering certain methods of use) and also by an issued patent in Europe (covering cobimetinib's composition-of-matter and certain methods of use). These issued patents will expire October 5, 2026, subject to any available extensions. Foreign counterparts of the issued United States and European patents are issued or pending in Australia, Brazil, Canada, China, Colombia, the Eurasian Patent Organization, Georgia, Hong Kong, India, Indonesia, Israel, Japan, Mexico, Malaysia, New Zealand, Philippines, Singapore, South Africa, South Korea, and Ukraine. We have filed patent applications in the United States and other selected countries covering certain synthetic methods related to making cobimetinib, which if, issued, are anticipated to expire in approximately 2033. Cobimetinib is licensed to Genentech in the United States and to Roche outside of the United States.

We have pending patent applications in the United States and European Union covering the composition-of-matter of our other drug candidates in clinical or preclinical development that, if issued, are anticipated to expire between 2023 and 2030.

We have obtained licenses from various parties that give us rights to technologies that we deem to be necessary or desirable for our research and development. These licenses (both exclusive and non-exclusive) may require us to pay royalties as well as upfront and milestone payments.

## **Employees**

As of December 31, 2015, we had 115 full-time employees worldwide, 19 of whom held Ph.D. and/or M.D. degrees, most of whom were engaged in full-time research and development activities. None of our employees are represented by a labor union, and we consider our employee relations to be good.

## **Corporate Information**

We were incorporated in Delaware in November 1994 as Exelixis Pharmaceuticals, Inc. and changed our name to Exelixis, Inc. in February 2000. Our principal executive offices are located at 210 East Grand Ave., South San Francisco, California 94080. Our telephone number is (650) 837-7000. We maintain a site on the worldwide web at [www.exelixis.com](http://www.exelixis.com); however, information found on our website is not incorporated by reference into this report.

We make available free of charge on or through our website our Securities and Exchange Commission, or SEC, filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Further, copies of our filings with the SEC are available at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a site on the worldwide web that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

## ITEM 1A. RISK FACTORS

*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 presently 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.*

### **Risks Related to Our Need for Additional Financing and Our Financial Results**

*If additional capital is not available to us, we may be forced to delay, reduce or eliminate our product development programs or commercialization efforts and we may breach our financial covenants.*

We may need to access additional capital to:

- fund our operations and clinical trials;
- continue our research and development efforts;
- expand our sales, marketing and distribution capabilities;
- commercialize cabozantinib or any other future product candidates, if any such candidates receive regulatory approval for commercial sale; and
- fund the portion of U.S. sales and marketing costs for cobimetinib that we are obligated to fund under our collaboration with Genentech, or any similar costs we are obligated to fund under collaborations we may enter into in the future.

As of December 31, 2015, we had \$253.3 million in cash and investments, which included \$169.0 million available for operations, \$81.6 million of compensating balance investments that we are required to maintain on deposit with Silicon Valley Bank, and \$2.7 million of long-term restricted investments. We anticipate that our current cash and cash equivalents, and short-term investments available for operations, and product revenues, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. However, our future capital requirements will be substantial, and we may need to raise additional capital in the future. Our capital requirements will depend on many factors, and we may need to use available capital resources and raise additional capital significantly earlier than we currently anticipate. Our capital requirements will depend on many factors including but not limited to:

- the commercial success of COMETRIQ and the revenues we generate from that approved product;
- the pace and progress of our current increase in sales, marketing, medical affairs and distribution capabilities in anticipation of obtaining FDA approval for cabozantinib for the potential treatment of advanced RCC patients;
- the successful establishment of the distribution and commercialization network for COMETRIQ in the approved MTC indication and cabozantinib for the potential treatment of advanced RCC patients, as well as the achievement of stated regulatory and commercial milestones, under our collaboration with Ipsen;
- the commercial success of COTELLIC and the calculation of 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 speed of a potential regulatory approval for cabozantinib for the treatment of advanced RCC and other indications;
- future clinical trial results, notably the results from CELESTIAL, our phase 3 pivotal trial in patients with advanced HCC;

- repayment of the Deerfield Notes (see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Important to Understanding Our Financial Condition and Results of Operations—Deerfield Facility” for a description of these notes) which mature on July 1, 2018, subject to a requirement to make a mandatory prepayment in each of 2017 and 2018 equal to 15% of certain revenues from collaborative arrangements (other than intercompany arrangements) received during the prior fiscal year, subject to a maximum annual prepayment amount of \$27.5 million;
- our ability to repay the Deerfield Notes with our common stock, which we are only able to do under specified conditions;
- repayment of our \$287.5 million aggregate principal amount of the 4.25% Convertible Senior Subordinated Notes due 2019, or the 2019 Notes, (see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Important to Understanding Our Financial Condition and Results of Operations—Convertible Senior Subordinated Notes” for a description of these notes), which mature on August 15, 2019, unless earlier converted, redeemed or repurchased;
- repayment of our term loan from Silicon Valley Bank, which had an outstanding balance at December 31, 2015, of \$80.0 million;
- our ability to control costs;
- our ability to remain in compliance with, or amend or cause to be waived, financial covenants contained in agreements with third parties;
- the cost of clinical drug supply for our clinical trials;
- trends and developments in the pricing of oncologic therapeutics in the United States and abroad, especially in the EU;
- 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.

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

We have incurred net losses since inception through December 31, 2015, with the exception of the 2011 fiscal year. We anticipate net losses and negative operating cash flow for the foreseeable future. For the year ended December 31, 2015, we incurred a net loss of \$169.7 million and as of December 31, 2015, we had an accumulated deficit of \$1.9 billion. These losses have had, and will continue to have, an adverse effect on our stockholders’ deficit and working capital. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses or whether or when we will become profitable, if at all. Excluding fiscal 2011, our research and development expenditures and selling, general and administrative expenses have exceeded our revenues for each fiscal year, and we expect to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. As a result, we expect to continue to incur substantial operating expenses and, consequently, we will need to generate significant additional revenues to achieve future profitability.

We commercially launched COMETRIQ for the treatment of progressive, metastatic MTC in the United States in late January 2013, and from the commercial launch through December 31, 2015, we have generated \$74.3 million in net revenues from the sale of COMETRIQ. Other than revenues from COMETRIQ, we have derived substantially all of our revenues since inception from collaborative research and development agreements, which depend on research funding, the achievement of milestones, and royalties we earn from any future products developed from the collaborative research.

The amount of our net losses will depend, in part, on: the rate of growth, if any, in our sales of COMETRIQ; the level of sales of cabozantinib in the United States for the treatment of advanced RCC, if approved by the FDA for such indication; receipt of the upfront payment, achievement of clinical, regulatory and commercial milestones and the amount of royalties from sales of cabozantinib for the treatment of advanced RCC in the European Union and elsewhere, if approved for such indication under our collaboration with Ipsen; our share of the net profits and losses for the commercialization of COTELLIC in the U.S.; the amount of royalties from COTELLIC sales outside the U.S.; other license and contract revenues; and, the level of expenses primarily with respect to expanded commercialization activities for cabozantinib.

***Our significant level of indebtedness could limit cash flow available for our operations and expose us to risks that could adversely affect our business, financial condition and results of operations.***

We have significant indebtedness and substantial debt service requirements as a result of the Deerfield Notes, our loan and security agreement with Silicon Valley Bank and the 2019 Notes. As of December 31, 2015, our total consolidated indebtedness through maturity was \$492.5 million (excluding trade payables). We may also incur additional indebtedness to meet future financing needs. If we incur additional indebtedness, it would increase our interest expense, leverage and operating and financial costs.

Our indebtedness could have significant negative consequences for our business, results of operations and financial condition, including:

- making it more difficult for us to meet our payment and other obligations under the 2019 Notes, the Deerfield Notes, our loan and security agreement with Silicon Valley Bank or our other indebtedness;
- resulting in an event of default if we fail to comply with the covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;
- increasing our vulnerability to adverse economic and industry conditions;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our loan and security agreement with Silicon Valley Bank;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes, including clinical trials, research and development, capital expenditures, working capital and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- preventing us from raising funds necessary to purchase the 2019 Notes in the event we are required to do so following a “Fundamental Change” as specified in the indenture governing the 2019 Notes, or to settle conversions of the 2019 Notes in cash;
- dilution experienced by our existing stockholders as a result of the conversion of the 2019 Notes or the Deerfield Notes into shares of common stock; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

We cannot assure you that we will continue to maintain sufficient cash reserves or that our business will generate cash flow from operations at levels sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness, or that our cash needs will not increase. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various

requirements of the 2019 Notes, the Deerfield Notes, our loan and security agreement with Silicon Valley Bank, or any indebtedness which we have incurred or may incur in the future, we would be in default, which would permit the holders or the Trustee of the 2019 Notes or other indebtedness to accelerate the maturity of such notes or other indebtedness and could cause defaults under the 2019 Notes, the Deerfield Notes, our loan and security agreement with Silicon Valley Bank or our other indebtedness. Any default under the 2019 Notes, the Deerfield Notes, our loan and security agreement with Silicon Valley Bank, or any indebtedness that we have incurred or may incur in the future could have a material adverse effect on our business, results of operations and financial condition.

If a Fundamental Change, as defined in the indenture governing the 2019 Notes, occurs, holders of the 2019 Notes may require us to purchase for cash all or any portion of their 2019 Notes at a purchase price equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, if any, to, but excluding, the Fundamental Change purchase date. We may not have sufficient funds to purchase the notes upon a Fundamental Change. In addition, the terms of any borrowing agreements that we may enter into from time to time may require early repayment of borrowings under circumstances similar to those constituting a Fundamental Change. Furthermore, any repurchase of 2019 Notes by us may be considered an event of default under such borrowing agreements.

***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 December 31, 2015, 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.

**Risks Related to Cabozantinib and Cobimetinib**

***In the short-term, our prospects are critically dependent upon our ability to obtain regulatory approvals for cabozantinib in advanced RCC and then undertake a successful commercial launch of the product in the United States and European Union.***

The success of our business is dependent upon the successful development and commercialization of cabozantinib. Of greatest short-term importance is the commercialization of cabozantinib for advanced RCC. On

July 20, 2015, we announced that METEOR, a phase 3 pivotal trial comparing cabozantinib to everolimus in patients with advanced RCC who have experienced disease progression following treatment with at least one prior VEGFR TKI, met its primary endpoint of demonstrating a statistically significant increase in PFS for cabozantinib versus everolimus in the first 375 randomized patients as determined by an IRC. The trial also showed a positive trend for the secondary endpoint of OS, although at the time of the July 2015 interim analysis the p-value to achieve statistical significance was not reached. On February 1, 2016, we announced that in a second interim analysis of the entire study population of 658 patients, the results showed a highly statistically significant and clinically meaningful increase in OS for patients randomized to cabozantinib as compared to everolimus. In August 2015 the FDA granted Breakthrough Therapy Designation to cabozantinib as a potential treatment for RCC. Although we completed our regulatory filings in the United States for treatment of advanced RCC and the FDA has granted priority review for our filing and set a PDUFA action date of June 22, 2016, we cannot be certain that the FDA will ultimately approve cabozantinib for the treatment of previously treated patients with advanced RCC. If we are ultimately unsuccessful in obtaining FDA approval for cabozantinib for advanced RCC, we will not have the resources necessary to continue our business in its current form.

In addition, even if such approval is obtained, the commercial potential of cabozantinib for the treatment of advanced RCC remains subject to a variety of factors, including the perceived benefit/risk profile associated with cabozantinib as compared to everolimus, and the availability and benefit/risk profiles of competitive treatments. If cabozantinib is approved for the treatment of 2nd or later-line advanced RCC, its potential principal competition in this indication includes nivolumab, axitinib and everolimus, which are already approved in this indication, as well as other agents currently approved for 1st-line RCC including sunitinib, sorafenib, pazopanib, temsirolimus, and bevacizumab. Other agents being investigated in 2nd line advanced RCC, including Eisai's lenvatinib, may also become competitive treatments if they are approved.

With respect to regulatory and commercialization activities for cabozantinib in the European Union and elsewhere internationally, in January 2016, our MAA for cabozantinib as a treatment for patients with advanced RCC who have received one prior therapy was accepted for review and granted accelerated assessment by the EMA. In February 2016, we entered into a collaboration with Ipsen to enable us to capitalize on the potential opportunity of cabozantinib in advanced RCC and potentially other indications, if approved by the EMA and elsewhere internationally outside of the U.S., Canada, and Japan. As a result, we now rely heavily upon Ipsen's regulatory, commercial, medical affairs, and other expertise and resources. If Ipsen is unable to, or does not invest the resources necessary to, obtain regulatory approvals for cabozantinib in the European Union and elsewhere; and then, if Ipsen is not able to, or does not invest the resources necessary to, successfully commercialize cabozantinib in those international territories where it is approved, this will minimize our potential revenue under the collaboration agreement, thus resulting in harm to our business and operations.

***Our longer-term prospects remain dependent on cabozantinib's further clinical development and commercial success in additional indications beyond advanced RCC.***

We are dedicating substantially all of our proprietary resources to developing cabozantinib into a broad and significant oncology franchise. Even assuming cabozantinib's approval in the United States and European Union for the treatment of advanced RCC, our longer-term success remains contingent upon, among other things, successful clinical development, regulatory approval and market acceptance of cabozantinib in additional indications, such as advanced HCC, first-line RCC, NSCLC, and other forms of cancer. In 2014, the failure of COMET-1 and COMET-2, our two phase 3 pivotal trials of cabozantinib in mCRPC, to meet their respective primary endpoints negatively impacted our ability to achieve our development and commercialization goals for cabozantinib in prostate cancer. These failures demonstrate that cabozantinib will not likely be successful in all future clinical trials. Should we prove unsuccessful in the further development of cabozantinib beyond MTC or advanced RCC, our longer-term prospects, revenues and financial condition would be materially adversely affected. With top-line results from CELESTIAL, our phase 3 pivotal trial comparing cabozantinib to placebo in patients with advanced HCC, expected in 2017, the successful development of cabozantinib in advanced HCC is of increasing importance to our long-term success.

***We are dependent on the successful commercialization and development of cobimetinib, and rely heavily on our partner, Genentech, for achieving that success.***

Under the terms of our collaboration agreement with Genentech for the development and commercialization of cobimetinib, we depend upon Genentech's strategic and tactical planning, decision-making, and execution with regard to the worldwide commercialization of cobimetinib. The collaboration agreement provides that we are entitled to an initial equal share of U.S. profits and losses for cobimetinib, with our share decreasing as sales increase. However, Genentech, and its parent, the Roche group, may not fund or otherwise resource and prioritize the commercialization of cobimetinib for the indication currently approved in the U.S., Switzerland, the European Union and Canada sufficient to achieve the product's full commercial potential. Furthermore, expense allocations for COTELLIC, as determined by Genentech, and its parent, the Roche group, may exceed our estimated accruals. If we are unable to agree upon the level and type of expenses that have been allocated to COTELLIC under the collaboration, we may be forced to initiate a dispute in accordance with the terms of the collaboration. And, regardless of the level of Genentech's investment in cobimetinib, the compound may not be accepted by physicians, patients, health care payers, such as Medicare and Medicaid, and the medical community.

We similarly rely heavily upon Genentech's leadership and expertise to develop cobimetinib further. 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 agreement and result in harm to our business and operations. Genentech has complete financial responsibility for cobimetinib's development program and regulatory strategy, 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. While Genentech is currently conducting a phase 1b clinical trial combining cobimetinib with the Genentech PD-L1 antibody (MPDL3280A), we are dependent on Genentech for all future development of cobimetinib in combination with MPDL3280A or any other immuno-oncology agents. Regardless of Genentech's efforts toward the further development of cobimetinib, such additional clinical investigation may not provide positive results supporting product label expansions or approval in additional indications.

***The commercial success of cabozantinib, as COMETRIQ capsules for MTC or if approved in a tablet formulation for additional indications in the future, will depend upon the degree of market acceptance for cabozantinib among physicians, patients, health care payers, and the medical community.***

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

- the effectiveness, or perceived effectiveness, of cabozantinib in comparison to competing products;
- the existence of any significant side effects of cabozantinib, as well as their severity in comparison to those of any competing products;
- cabozantinib's potential advantages or disadvantages in relation to alternative treatments;
- the timing of market entry relative to competitive treatments;
- indications for which cabozantinib is approved;
- the ability to offer cabozantinib for sale at competitive prices;

- relative convenience and ease of administration;
- the strength of sales, marketing, medical affairs and distribution support; and
- sufficient third-party coverage and reimbursement.

***If we are unable to maintain or scale adequate sales, marketing and distribution capabilities or enter into or maintain agreements with third parties to do so, we may be unable to commercialize cabozantinib successfully.***

We have designed our commercial organization and strategic commercial approach to maintain flexibility in response to market opportunities. We are currently increasing our sales, marketing, medical affairs, and distribution capabilities in anticipation of obtaining FDA approval for cabozantinib for the treatment for patients with RCC who have received one prior therapy. We expect to be able to scale up our commercialization capabilities quickly if additional indications for cabozantinib are approved in the future, or to scale down, if necessary. Our ex-US distribution arrangements with Sobi are also right-sized for the European Union MTC opportunity and retain strategic flexibility. Overall, we believe the design of our commercial organization, and our strategic commercial approach, are efficient, taking advantage of outsourcing options where prudent to maximize the effectiveness of our commercial expenditures.

However, we believe the commercial opportunity for cabozantinib will grow over time, but we may not properly judge the requisite size, and experience of the commercialization team or the scale of distribution necessary to market and sell cabozantinib successfully. Maintaining sales, marketing, medical affairs, and distribution capabilities is expensive and time-consuming. Such expenses may be disproportionate compared to the revenues we may be able to generate on sales of cabozantinib and could have an adverse impact on our results of operations. If we are unable to maintain adequate sales, marketing, medical affairs, and distribution capabilities, independently or with others, we may not be able to generate product revenues and our business may be adversely affected.

We currently rely on a single third party logistics provider to handle shipping and warehousing of our commercial supply of COMETRIQ and a single specialty pharmacy to dispense COMETRIQ to patients in fulfillment of prescriptions in the United States. Should cabozantinib be approved by the FDA for advanced RCC, we intend to expand our U.S. distribution and pharmacy channels appropriately. Outside the U.S., we currently rely on a third party, Sobi, to distribute and commercialize COMETRIQ for the MTC indication primarily in the European Union, but also in other countries through the NPU program.

The terms of our commercialization agreement with Sobi provide us with the ability to terminate the agreement at will upon payment of certain pre-determined termination fees. In connection with the establishment of our collaboration with Ipsen, we intend to provide Sobi with notice of termination and following a transition period, Ipsen will become responsible for the continued distribution and commercialization of COMETRIQ for the approved MTC indication in territories currently supported by Sobi and potentially other countries in the event that COMETRIQ is approved for commercial sale in such territories, as well as access and distribution activities for COMETRIQ under our NPU program.

Our current and anticipated future dependence upon the activities, and legal and regulatory compliance, of these or other third parties may adversely affect our future profit margins and our ability to supply cabozantinib to the marketplace on a timely and competitive basis. For example, if our third party logistics provider's warehouse suffers a fire or damage from another type of disaster, the commercial supply of COMETRIQ could be destroyed, resulting in a disruption in our commercialization efforts. These or other third parties may not be able to provide services in the time we require 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, at a time that is costly or inconvenient for us. If we are unable to contract for logistics services or distribution of cabozantinib on acceptable terms, our commercialization efforts may be delayed or otherwise adversely affected.



***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. The laws that may affect our ability to operate include, without limitation:

- the federal Anti-Kickback Law, which constrains our business activities, including our marketing practices, educational programs, pricing policies, and relationships with healthcare providers or other entities, by prohibiting, 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;
- 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;
- federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- 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;
- state and federal government price reporting laws that require us to calculate and report complex pricing metrics to government programs, where such reported priced 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 potentially limit our ability to offer certain marketplace discounts); and
- state and federal marketing expenditure tracking and reporting laws, which generally require certain types of expenditures in the United States 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, which could potentially have a negative effect on our business and/or increase enforcement scrutiny of our activities).

In addition, certain marketing practices, including off-label promotion, may also violate certain federal and state health regulatory fraud and abuse laws as well as false claims laws. 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, withdrawal of regulatory approval, the curtailment or restructuring of our operations, the exclusion from participation in federal and state healthcare programs and imprisonment, any of which could adversely affect our ability to sell our products or operate our business and also adversely affect our financial results.

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 Europe and between European countries and the United States. 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 cabozantinib, our revenues and prospects for profitability will suffer.***

Our ability to successfully commercialize cabozantinib will be highly dependent on the extent to which coverage and reimbursement for it is, and will be, available from third-party payers, including governmental payers, such as Medicare and Medicaid, and private health insurers. Many patients will not be capable of paying for cabozantinib themselves and will rely on third-party payers to pay for, or subsidize, their medical needs. If third-party payers do not provide coverage or reimbursement for cabozantinib, our revenues and prospects for profitability will suffer. In addition, even if third-party payers provide some coverage or reimbursement for cabozantinib, the availability of such coverage or reimbursement for prescription drugs under private health insurance and managed care plans often varies based on the type of contract or plan purchased. There has been recent negative publicity regarding the use of specialty pharmacies and drug pricing, 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.

In addition, in some foreign countries, particularly the countries in the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, price negotiations with governmental authorities can take six to twelve months or longer after the receipt of regulatory marketing approval 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 may be required to conduct a clinical trial that compares the cost effectiveness of cabozantinib to other available therapies. The conduct of such a clinical trial could be expensive and result in delays in the commercialization of cabozantinib. Third-party payers are challenging the prices charged for medical 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 cabozantinib. Cost-control initiatives could decrease the price we might establish for cabozantinib, which would result in lower product revenues to us.

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

The United States 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 cabozantinib profitably. Among policy makers and payers in the United States 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 United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

We expect that the PPACA, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we may receive for any approved product. An expansion in the government's role in the U.S. healthcare industry may cause general downward pressure on the prices of prescription drug products, lower reimbursements for providers using our products, reduce product utilization and adversely affect our business and results of operations. It is unclear whether and to what extent, if at all, other potential developments resulting from the PPACA may provide us with additional revenue to offset the annual excise tax (on certain drug product sales) enacted under the PPACA, subject to limited exceptions. It is possible that the tax burden, if ours is not excepted, would adversely affect our financial performance. The PPACA, among other things, also established a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D. Moreover, certain politicians, including presidential candidates, have announced plans to regulate the prices of pharmaceutical products. 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 payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our current products and/or those for which we may receive regulatory approval in the future.

As a result of the overall trend towards cost-effectiveness criteria and managed healthcare in the United States, third-party payers are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new drugs. They may use tiered reimbursement and may adversely affect demand for cabozantinib by placing it in an expensive tier. They may also refuse to provide any coverage of uses of approved products for medical indications other than those for which the FDA has granted market approvals. As a result, significant uncertainty exists as to whether and how much third-party payers will reimburse for newly approved drugs, which in turn will put pressure on the pricing of drugs. Further, we do not have experience in ensuring approval by applicable third-party payers outside of the United States for coverage and reimbursement of cabozantinib. We also anticipate pricing pressures in connection with the sale of cabozantinib due to the increasing influence of health maintenance organizations and additional legislative proposals.

***Our competitors may develop products and technologies that impair the value of cabozantinib and cobimetinib.***

The pharmaceutical, biopharmaceutical and biotechnology industries are highly fragmented and are characterized by rapid technological change. In particular, the area of kinase-targeted therapies is a rapidly evolving and competitive field. 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. In addition, delays in the further development of cabozantinib or cobimetinib for the treatment of

additional tumor types, 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. 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 and cobimetinib. In addition, cabozantinib and cobimetinib may compete with existing therapies that have long histories of use, such as chemotherapy and radiation treatments in cancer indications.

#### *Competition for cabozantinib*

We believe that the principal competing anti-cancer therapy to COMETRIQ in progressive, metastatic MTC is AstraZeneca's RET, VEGFR and EGFR inhibitor vandetanib, which has been approved by the FDA and the EMA for the treatment of symptomatic or progressive MTC in patients with unresectable, locally advanced, or metastatic disease. On October 21, 2015, AstraZeneca announced the global completion of the sale of vandetanib to Genzyme, a Sanofi company. We anticipate the potential for increased competition for COMETRIQ in progressive, metastatic MTC as a result of the consolidation of vandetanib into Genzyme's endocrinology portfolio and the company's rare disease expertise. In addition, we believe that COMETRIQ also faces competition as a treatment for progressive, metastatic MTC from off-label use of Bayer's and Onyx Pharmaceuticals' (a wholly-owned subsidiary of Amgen) multikinase inhibitor sorafenib, Pfizer's multikinase inhibitor sunitinib, Ariad Pharmaceutical's multikinase inhibitor ponatinib, Novartis' multikinase inhibitor pazopanib, and Eisai's multikinase inhibitor lenvatinib.

Should cabozantinib be approved for the treatment of advanced RCC as a result of positive results from the METEOR trial, we believe its principal competition may include: Pfizer's axitinib, sunitinib and temsirolimus; Novartis' everolimus and pazopanib; Bristol-Myers Squibb's nivolumab, Bayer's and Onyx Pharmaceuticals' sorafenib; Genentech's bevacizumab; and, Eisai's lenvatinib.

The potential for immediate competition from Bristol-Myers Squibb's nivolumab is particularly significant. Nivolumab was approved for the treatment of advanced RCC on November 23, 2015, following a rapid review by the FDA. That approval was based in large part on the results of Bristol-Myers Squibb's phase 3 trial comparing nivolumab to everolimus in patients who had received previous antiangiogenic therapy for advanced RCC (Checkmate 025), in which nivolumab met its primary endpoint of showing a statistically-significant improvement in OS over everolimus, a current standard of care for the treatment of second line RCC patients. Nivolumab failed to demonstrate a statistically-significant PFS benefit over everolimus. Nivolumab also demonstrated an acceptable safety profile. We anticipate that nivolumab may be rapidly adopted by physicians for the treatment of advanced RCC.

Should cabozantinib be approved for the treatment of HCC, the other indication for which we have an ongoing phase 3 pivotal trial, we believe its principal competition may include Bayer's and Onyx Pharmaceuticals' sorafenib; Bayer's regorafenib; ArQule's tivantinib; and Eisai's lenvatinib.

Examples of potential competition for cabozantinib in other cancer indications include: other VEGF pathway inhibitors, including Genentech's bevacizumab; other RET inhibitors including Eisai's lenvatinib and Ariad's ponatinib; and other MET inhibitors, including Amgen's AMG 208, Pfizer's crizotinib, ArQule's tivantinib, and Mirati's MGCD265; and immunotherapies such as Bristol-Myers Squibb's ipilimumab and nivolumab and Merck's pembrolizumab.

### *Competition for cobimetinib*

We believe that cobimetinib's principal competition amongst targeted agents includes Novartis' trametinib and dabrafenib, and Array's encorafenib and binimetinib; and within the class of immunotherapies, Bristol-Myers Squibb's ipilimumab and nivolumab and Merck's pembrolizumab. The second category, immunotherapies, are of particular competitive importance vis-a-vis cobimetinib in advanced melanoma as they are already FDA approved in melanoma patient populations that overlap with those that may be eligible for cobimetinib, they have been rapidly incorporated into the National Comprehensive Cancer Network treatment guidelines, and they are viewed with a high degree of enthusiasm by physicians and key opinion leaders. Ongoing and future trials incorporating immune-oncology agents, including combination trials, may further impact usage of cobimetinib in melanoma and potentially in additional tumor types in which cobimetinib may ultimately gain approval.

***We lack the manufacturing capabilities and experience necessary to enable 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 have the manufacturing capabilities or expertise necessary to enable us to produce materials for our clinical trials or for commercial sale of cabozantinib in either its capsule formulation or tablet formulation, and rely on third party contractors to do so. These third parties must comply with applicable regulatory requirements, including the FDA's current Good Manufacturing Practices, or cGMP and the European Commission's Guidelines on Good Distribution Practice. Our current and anticipated future dependence upon these third parties may adversely affect our future profit margins and our ability to develop and commercialize cabozantinib on a timely and competitive basis. These third parties may not be able to produce material on a timely basis or manufacture material at the quality or in the quantity required to meet our development and commercial timelines and applicable regulatory requirements. We may not be able to maintain or renew our existing third party manufacturing and supply arrangements, or enter into new arrangements, on acceptable terms, or at all. Our third party manufacturers and suppliers could terminate or decline to renew our manufacturing and supply arrangements based on their own business priorities, at a time that is costly or inconvenient for us. If we are unable to contract for the production of materials in sufficient quantity and of sufficient quality on acceptable terms, our clinical trials and commercialization efforts may be delayed or otherwise adversely affected. This risk is especially acute during the current period as we ramp up production plans in anticipation of a potential commercial launch in advanced RCC.

The manufacturing process for pharmaceutical products is highly regulated and our third party vendors are subject to cGMP. Our third-party manufacturers may not be able to comply with the cGMP regulations, other applicable FDA regulatory requirements or similar regulations applicable outside of the United States. Additionally, if we are required to enter into new manufacturing or supply arrangements, we may not be able to obtain approval from the FDA of any alternate manufacturer or supplier in a timely manner, or at all, which could delay or prevent the clinical development and commercialization of cabozantinib. Failure of our third party manufacturers or suppliers or us to obtain approval from the FDA or to comply with applicable regulations could result in sanctions being imposed on us, including fines, civil penalties, delays in or failure to grant marketing approval of cabozantinib, injunctions, suspension or withdrawal of approvals, license revocation, seizures or recalls of products and compounds, operating restrictions and criminal prosecutions, any of which could have a significant adverse effect on our business. Our third party manufacturers are subject to routine regulatory inspections. Failure of our third party manufacturers to meet these appropriate standards and/or perform manufacturing as required could result in a batch not passing quality inspection or meeting regulatory approval. This could result in product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could have also a significant adverse effect on our business.

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

Cabozantinib is being evaluated in a comprehensive development program for the treatment of advanced HCC and a variety of other indications beyond the approved MTC indication and the pending advanced RCC indication. Clinical trials are inherently risky and may reveal that cabozantinib is ineffective or has unacceptable toxicity or other side effects that may significantly decrease the likelihood of regulatory approval in such indications. For example, COMET-1 and COMET-2, our two phase 3 pivotal trials of cabozantinib in 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 by 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 cabozantinib 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 cabozantinib for the treatment of advanced HCC, and other indications, including:

- cabozantinib may not prove to be efficacious or may cause, or potentially cause, 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 cabozantinib;
- patient registration or enrollment in our clinical testing may be lower than we anticipate, resulting in the delay or cancellation of clinical testing; and
- regulators or institutional review boards may withhold authorization of cabozantinib, 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 cabozantinib 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 have limited experience in conducting clinical trials and may not be able to rapidly or effectively continue the further development of cabozantinib 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 cabozantinib 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 cabozantinib. 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.

***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 the approved MTC indication.***

We do not have the ability to independently conduct clinical trials for cabozantinib, including our post-marketing commitments in connection with the approvals of COMETRIQ in MTC, and we rely on third parties we do not control such as the federal government (including NCI-CTEP, 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 need to be replaced or if the quality or accuracy of the data they obtain 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 approved MTC indication in the United States and European Union.

***Cabozantinib is subject to a lengthy and uncertain regulatory process that may not result in the necessary regulatory approvals, which could adversely affect our ability to commercialize cabozantinib.***

The activities associated with cabozantinib's research, development and commercialization, are subject to extensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Failure to obtain regulatory approval for cabozantinib would prevent us from promoting its use. We have only limited experience in preparing and filing the applications necessary to gain regulatory approvals. The process of obtaining regulatory approvals in the United States 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 NDA supplement can be submitted to the FDA, or MAA to the EMA 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. Changes in regulatory approval policy, regulations or statutes governing the process for regulatory review during the development or review periods for cabozantinib may cause delays in the approval or rejection of an application.

Even if the FDA or a comparable authority in another jurisdiction approves cabozantinib, the approval may impose significant restrictions on the indicated uses, conditions for use, labeling, distribution, advertising, promotion, marketing and/or production of cabozantinib and may 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 the various post-marketing requirements, including a 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 and to conduct other clinical pharmacology and preclinical studies. 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 civil or criminal sanctions for failure to comply with regulatory requirements, including withdrawal of product approval.

### **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, Genentech, Bristol-Myers Squibb, Sanofi, Merck (known as MSD outside of the United States and Canada) and Daiichi Sankyo, 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 reasonable costs we are obligated to share, in part, under our collaboration agreement with Genentech;
- collaborators may delay clinical trials, 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.

***We may be unable to establish collaborations for selected preclinical and clinical compounds.***

We may pursue new collaborations with leading pharmaceutical and biotechnology companies for the development and ultimate commercialization of selected preclinical and clinical programs and compounds, particularly those drug candidates for which we believe that the capabilities and resources of a partner can accelerate development and help to fully realize their therapeutic and commercial potential. However, we may not be able to close any such additional collaborations on acceptable terms, or at all. We are unable to predict when, if ever, we will enter into any additional collaborations because of the numerous risks and uncertainties associated with establishing additional collaborations. If we are unable to close additional collaborations on mutually-advantageous terms with partners qualified to achieve the collaboration's objectives, we may not be able to realize value from a particular drug candidate.

**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. Over the past year, cyber-attacks have 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 patent 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 United States 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 United States, 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 genes and gene fragments, techniques and methodologies relating to model systems and products and technologies that we have developed or intend to develop. If patents covering technologies required by our operations are issued to others, we may have to 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**

***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 and commercial 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 and commercial personnel will be critical to support activities related to advancing the development program for cabozantinib and our other compounds, and successfully executing upon our commercialization plan for cabozantinib. Competition is intense for experienced clinical personnel, and we may be unable to retain or recruit clinical and commercial 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 South San Francisco, 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.

***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 and the 2019 Notes**

***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 pace and progress of our current increase in sales, marketing, medical affairs and distribution capabilities in anticipation of obtaining FDA approval for cabozantinib for the potential treatment of advanced RCC patients;
- the commercial success of COMETRIQ and the revenues we generate;
- the successful establishment of the distribution and commercialization network for COMETRIQ in the approved MTC indication and cabozantinib for the potential treatment of advanced RCC patients, as well as the achievement of stated development and commercial milestones, under our collaboration with Ipsen;
- 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;
- 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 success rate of our efforts leading to milestone payments and royalties;
- 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;
- the impact of our restructuring activities;
- 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;
- 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 COMETRIQ and the revenues we generate;
- 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;
- 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;
- financing transactions;
- 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. 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 conversion of our convertible notes, or the perception that such sales or conversions may occur, may depress our stock price.***

A substantial number of shares of our common stock is reserved for issuance upon conversion of the 2019 Notes, upon the exercise of stock options, upon vesting of restricted stock unit awards, upon sales under our employee stock purchase program, upon exercise of certain outstanding warrants and upon conversion of the Deerfield Notes. The issuance and sale of substantial amounts of our common stock, including upon conversion of the 2019 Notes or the Deerfield Notes, 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. Trading of the 2019 Notes is likely to influence and be influenced by the market for our common stock. For example, the price of our common stock could be affected by possible sales of common stock by investors who view the 2019 Notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that we expect to occur involving our common stock.

***The accounting method for convertible debt securities that may be settled in cash, such as the 2019 Notes, could have a material effect on our reported financial results.***

Under Accounting Standards Codification, or ASC, Subtopic 470-20, issuers of certain convertible debt instruments that have a net settlement feature and may be settled in cash upon conversion, including partial cash settlement, are required to separately account for the liability (debt) and equity (conversion option) components of the instrument. As a result of the application of ASC 470-20, we recognized \$143.2 million as the initial debt discount with a corresponding increase to paid-in capital, the equity component, for the 2019 Notes. We will be required to record the amortization of this debt discount over the terms of the 2019 Notes, which may adversely

affect our reported or future financial results and the market price of our common stock. In addition, if the 2019 Notes become convertible, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the 2019 Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital. Finally, we use the if-converted method to compute earnings per share, which could be more dilutive than using the treasury stock method.

***Certain provisions applicable to the 2019 Notes and the Deerfield Notes could delay or prevent an otherwise beneficial takeover or takeover attempt.***

Certain provisions applicable to the 2019 Notes and the indenture pursuant to which the 2019 Notes were issued, and the Deerfield Notes and the note purchase agreement governing the Deerfield Notes, could make it more difficult or more expensive for a third party to acquire us. For example, if an acquisition event constitutes a Fundamental Change under the indenture for the 2019 Notes or a Major Transaction under the note purchase agreement governing the Deerfield Notes, holders of the 2019 Notes or the Deerfield Notes, as applicable, will have the right to require us to purchase their notes in cash. In addition, if an acquisition event constitutes a Make-Whole Fundamental Change under the indenture for the 2019 Notes, we may be required to increase the conversion rate for holders who convert their 2019 Notes in connection with such Make-Whole Fundamental Change. In any of these cases, and in other cases, our obligations under the 2019 Notes and the indenture pursuant to which such notes were issued and the Deerfield Notes and the note purchase agreement governing the Deerfield Notes, could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management.

***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, 2015, 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 NOLs. Furthermore, our ability to utilize our NOLs is conditioned upon our attaining profitability and generating United States federal taxable income. As described above, we have incurred significant net losses since our inception and anticipate that we will continue to incur significant losses for the foreseeable future; thus, we do not know whether or when we will generate the United States federal taxable income necessary to utilize our NOLs. A full valuation allowance has been provided for the entire amount of our NOLs.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease a total of 226,027 square feet of office and laboratory facilities in South San Francisco, California. The leased premises comprise four buildings and are covered by three lease agreements, as follows:

- The first two leases cover two buildings for a total of 130,964 square feet and expire in 2017, with two five-year options to extend their respective terms prior to expiration. We have subleased a total of 107,594 square feet of portions of these buildings to five different subtenants. The terms of the subleases expire at the end of our lease terms.
- The third lease covers two buildings for a total of 116,063 square feet and expires in 2018.

We believe that our leased facilities have sufficient space to accommodate our current needs.

**ITEM 3. LEGAL PROCEEDINGS**

We are not a party to any material legal proceedings. We may from time to time become a party to various legal proceedings arising in the ordinary course of business.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has traded on the NASDAQ Global Select Market (formerly the NASDAQ National Market) under the symbol "EXEL" since April 11, 2000. The following table sets forth, for the periods indicated, the high and low intraday sales prices for our common stock as reported by the NASDAQ Global Select Market:

	Common Stock Price	
	High	Low
<b>Year ended January 1, 2016:</b>		
Quarter ended April 3, 2015 .....	\$3.16	\$1.54
Quarter ended July 3, 2015 .....	\$4.18	\$2.51
Quarter ended October 2, 2015 .....	\$6.81	\$3.31
Quarter ended January 1, 2016 .....	\$6.42	\$4.70
<b>Year ended January 2, 2015:</b>		
Quarter ended March 28, 2014 .....	\$8.41	\$3.37
Quarter ended June 27, 2014 .....	\$3.84	\$3.02
Quarter ended September 26, 2014 .....	\$4.55	\$1.51
Quarter ended January 2, 2015 .....	\$1.88	\$1.26

On February 19, 2016, the last reported sale price on the NASDAQ Global Select Market for our common stock was \$4.09 per share.

#### Holders

On February 19, 2016, there were approximately 465 holders of record of our common stock.

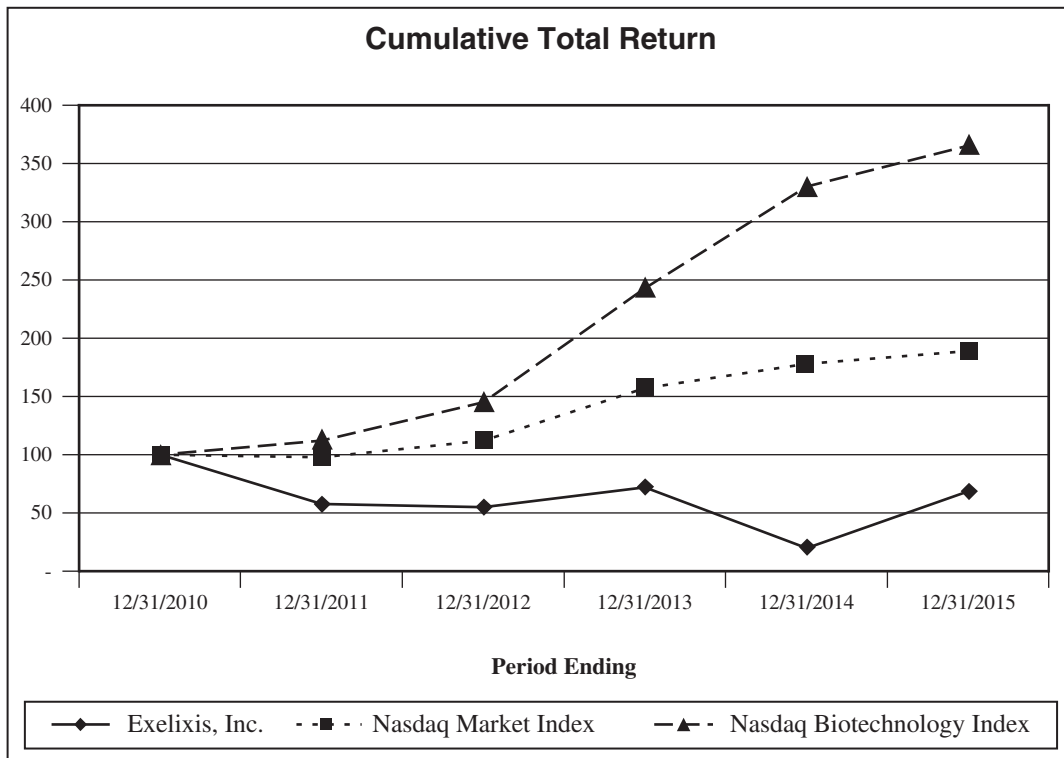
#### Dividends

Since inception, we have not paid dividends on our common stock. We currently intend to retain all future earnings, if any, for use in our business and currently do not plan to pay any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors. Our loan and security agreement with Silicon Valley Bank restricts our ability to pay dividends and make distributions. In addition, our note purchase agreement with Deerfield restricts our ability to make distributions.

## Performance Graph

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of ours under the Securities Act of 1933, as amended.

The following graph compares, for the five year period ended December 31, 2015, the cumulative total stockholder return for our common stock, the NASDAQ Stock Market (U.S. companies) Index, or the NASDAQ Market Index, and the NASDAQ Biotechnology Index. The graph assumes that \$100 was invested on December 31, 2010 in each of our common stock, the NASDAQ Market Index and the NASDAQ Biotechnology Index and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



	December 31,					
	2010	2011	2012	2013	2014	2015
Exelixis, Inc. ....	100	58	55	72	20	69
NASDAQ Market Index .....	100	98	112	157	178	189
NASDAQ Biotechnology Index .....	100	112	145	243	330	365

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our audited consolidated financial statements. The financial information as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, are derived from audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The financial information as of December 31, 2013, 2012 and 2011, and for each of the two years in the period ended December 31, 2012, are derived from audited consolidated financial statements not included in this Annual Report on Form 10-K. The following Selected Financial Data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data” included elsewhere in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results of operations to be expected in the future.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Revenues	\$ 37,172	\$ 25,111	\$ 31,338	\$ 47,450	\$289,636
Operating expenses:					
Cost of goods sold	3,895	2,043	1,118	—	—
Research and development	96,351	189,101	178,763	128,878	156,836
Selling, general and administrative	57,305	50,829	50,958	31,837	33,129
Restructuring charge	1,042	7,596	1,231	9,171	10,136
Total operating expenses	158,593	249,569	232,070	169,886	200,101
(Loss) income from operations	(121,421)	(224,458)	(200,732)	(122,436)	89,535
Other income (expense), net	(48,261)	(44,266)	(44,124)	(25,102)	(12,543)
(Loss) income before taxes	(169,682)	(268,724)	(244,856)	(147,538)	76,992
Income tax provision (benefit)	55	(182)	(96)	107	1,295
Net (loss) income	\$(169,737)	\$(268,542)	\$(244,760)	\$(147,645)	\$ 75,697
Net loss per share, basic	\$ (0.81)	\$ (1.38)	\$ (1.33)	\$ (0.92)	\$ 0.60
Net loss per share, diluted	\$ (0.81)	\$ (1.38)	\$ (1.33)	\$ (0.92)	\$ 0.58
Shares used in computing basic loss per share amounts	209,227	194,299	184,062	160,138	126,018
Shares used in computing diluted loss per share amounts	209,227	194,299	184,062	160,138	130,479

	December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and investments	\$ 253,310	\$ 242,760	\$ 415,862	\$ 633,961	\$ 283,720
Working (deficit) capital (1)	\$ 126,414	\$ (3,188)	\$ 178,756	\$ 350,837	\$ 136,500
Total assets (1)	\$ 332,342	\$ 323,269	\$ 497,951	\$ 714,142	\$ 391,862
Long-term obligations (1)	\$ 384,395	\$ 267,669	\$ 343,860	\$ 336,004	\$ 192,583
Accumulated deficit	\$(1,937,041)	\$(1,767,304)	\$(1,498,762)	\$(1,254,002)	\$(1,106,357)
Total stockholders’ (deficit) equity	\$ (104,304)	\$ (114,829)	\$ 66,238	\$ 296,434	\$ 90,632

- (1) Prior periods have been adjusted to reflect the early adoption of Accounting Standards Update No. 2015-03 “Simplifying the Presentation of Debt Issuance Costs,” or ASU 2015-03. See “Note 1. Organization and Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements for a further description of the early adoption of ASU 2015-03.

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

*Some of the statements under in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry and involve known and unknown risks, uncertainties and other factors that may cause our company's or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as "believe," "anticipate," "expect," "intend," "plan," "focus," "assume," "goal," "objective," "will," "may" "would," "could," "estimate," "predict," "target," "potential," "continue," "encouraging" 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 "Item 1A. Risk Factors" as well as those discussed elsewhere in this Annual Report on Form 10-K. These and many other factors could affect our future financial and operating results. We undertake no obligation to update any forward-looking statement to reflect events after the date of this report.*

### Overview

Exelixis, Inc. ("Exelixis," "we," "our" or "us") is a biopharmaceutical company that discovers, develops and commercializes small molecule therapies for the treatment of cancer. Our business focuses predominantly on the development and commercialization of cabozantinib, an internally-discovered inhibitor of multiple receptor tyrosine kinases, in various tumor indications. Cabozantinib is currently approved in the United States and European Union for the treatment of progressive, metastatic medullary thyroid cancer, or MTC, and is marketed under the brand name COMETRIQ®.

In the past year, we obtained positive clinical results from our phase 3 pivotal trial METEOR (Metastatic RCC Phase 3 Study Evaluating Cabozantinib vs. Everolimus), suggesting that cabozantinib also has the potential to make a meaningful difference in the lives of patients suffering from advanced renal cell carcinoma, or RCC, a serious form of cancer with a significantly larger patient population than MTC. Following the positive results from METEOR, the U.S. Food and Drug Administration, or FDA, granted Breakthrough Therapy and Fast Track designations for cabozantinib in RCC. These data from METEOR ultimately formed the basis of a New Drug Application, or NDA, submission to the FDA, which was completed in December 2015. On January 27, 2016, the FDA granted priority review to the NDA, with a Prescription Drug User Fee Act action date of June 22, 2016. We are actively preparing for a potential commercial launch of cabozantinib in advanced RCC, and will soon be launch-ready for this indication should a positive regulatory decision come in the United States.

In January 2016, our Marketing Authorization Application, or MAA, for cabozantinib as a treatment for patients with advanced RCC who have received one prior therapy was accepted for review and granted accelerated assessment by the European Medicines Agency, or EMA. On February 29, 2016, we entered into a collaboration and license agreement with Ipsen Pharma SAS, or Ipsen, pursuant to which Ipsen has exclusive commercialization rights for current and potential future cabozantinib indications outside of the United States, Canada and Japan. The companies have agreed to collaborate on the development of cabozantinib for current and potential future indications. With respect to remaining markets, we are evaluating opportunities to partner cabozantinib in Japan and intend to seek regulatory approval for cabozantinib in Canada and commercialize the drug there ourselves.

Beyond MTC and RCC, we are engaged in a broad development program to explore the clinical potential of cabozantinib in additional tumor types. This program includes late stage trials that we conduct ourselves, such as CELESTIAL (Cabozantinib Phase 3 Controlled Study In Hepatocellular Carcinoma), our phase 3 trial of

cabozantinib in advanced hepatocellular carcinoma, or HCC, and earlier stage trials conducted through our Cooperative Research and Development Agreement with the National Cancer Institute's Cancer Therapy Evaluation Program or our investigator sponsored trial program. We intend to use these earlier stage trials to prioritize our later stage development program.

During 2015, there was also significant progress with respect to the clinical development, regulatory status and commercial potential of certain of our partnered compounds. For example, cobimetinib, a compound we out-licensed in 2006 to Genentech, Inc. (a member of the Roche Group), or Genentech, was approved by the FDA on November 10, 2015, under the brand name COTELLIC™, in combination with vemurafenib, as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma. COTELLIC in combination with vemurafenib has also been approved in Switzerland, the European Union and Canada for use in the same indication. Genentech has launched COTELLIC in these markets, and in the United States, we contribute 25% of the sales force to the commercialization effort. Pursuant to the terms of our collaboration agreement with Roche/Genentech for cobimetinib, we are entitled to an initial equal share of U.S. profits and losses for cobimetinib, with our share decreasing as sales increase. We are entitled to low double-digit royalties on ex-U.S. net sales. Cobimetinib is also being evaluated in a broad development program comprising several clinical trials investigating cobimetinib in combination with a variety of agents in multiple tumor types.

## **Collaborations**

We have established a collaboration with Ipsen for cabozantinib, Genentech for cobimetinib, and other collaborations with leading pharmaceutical companies including Bristol-Myers Squibb Company, or Bristol-Myers Squibb, Sanofi, Merck (known as MSD outside of the United States and Canada) and Daiichi Sankyo Company Limited, or Daiichi Sankyo, for compounds and programs in our portfolio. Excluding our collaboration agreement with Ipsen for cabozantinib, we have fully out-licensed compounds or programs to a partner for further development and commercialization under these collaborations and have no further development cost obligations under our collaborations. Under each of our collaborations, we are entitled to receive milestones and royalties, or in the case of cobimetinib, a share of profits (or losses) from commercialization.

### *Cabozantinib Collaboration*

On February 29, 2016, we entered into a collaboration and license agreement with Ipsen Pharma SAS, or Ipsen, pursuant to which Ipsen has exclusive commercialization rights for current and potential future cabozantinib indications outside of the United States, Canada, and Japan. The companies have agreed to collaborate on the development of cabozantinib for current and potential future indications.

In consideration for the exclusive license and other rights contained in the agreement, Ipsen will pay us an upfront payment of \$200.0 million. We will be eligible to receive regulatory milestones, including a \$60.0 million milestone payment upon approval of cabozantinib by the EMA in second-line RCC and milestone payments of \$10.0 million upon the filing and \$40.0 million upon the approval of cabozantinib in second-line HCC, as well as additional regulatory milestone payments for potential further indications. The agreement also provides that we will be eligible to receive payments of up to \$545.0 million associated with potential commercial milestone payments, including two \$10.0 million milestone payments upon the launch of the product in the first two of the following countries: Germany, France, Italy, Spain and the United Kingdom. Exelixis will also receive royalties on net sales of cabozantinib outside of the United States, Canada and Japan. We will receive a 2% royalty on the initial \$50 million of net sales, and 12% royalty on the next \$100 million of net sales. After this initial period, Exelixis will receive a tiered royalty of 22% to 26% on annual net sales. These tiers will reset each calendar year. Pursuant to the terms of the 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, we entered into a supply agreement which provides that through the end of the second quarter of 2018, we will supply finished, labeled product to Ipsen for distribution in the territories outside of the United States, Canada and Japan, and from the end of the second quarter of 2018 forward, we will supply primary packaged bulk tablets to Ipsen.

### *Cobimetinib Collaboration*

Cobimetinib in combination with vemurafenib has been approved in the United States, Switzerland, the European Union and Canada as a treatment for patients with advanced melanoma, and is marketed as COTELLIC. Results from coBRIM, the phase 3 pivotal trial conducted by Genentech evaluating cobimetinib in combination with vemurafenib, in previously untreated patients with unresectable locally advanced or metastatic melanoma harboring a BRAF V600E or V600K mutation served as the basis for such regulatory approvals.

In addition to the coBRIM trial, additional Phase 1 and Phase 2 clinical trials are ongoing studying the combination of cobimetinib with a variety of agents in multiple tumor types. These include:

- The combination of cobimetinib and vemurafenib in additional melanoma patient populations and settings;
- A phase 2 trial of cobimetinib in combination with paclitaxel in triple negative breast cancer; and
- Phase 1 studies of cobimetinib in combination with atezolizumab in melanoma, non-small cell lung cancer, or NSCLC, and colorectal cancer, in combination with MEHD7945A in KRAS mutant solid tumors including NSCLC and colorectal cancer and in combination with GDC-0994 in advanced metastatic solid tumors.

A complete listing of all ongoing trials can be found at [www.clinicaltrials.gov](http://www.clinicaltrials.gov).

Under the terms of our collaboration agreement with Genentech for cobimetinib, we are entitled to a share of U.S. profits and losses for cobimetinib. The profit and loss share has multiple tiers: we are entitled to 50% of profit and losses from the first \$200 million of U.S. actual sales, decreasing to 30% of profit and losses from U.S. actual sales in excess of \$400 million. We are entitled to low double-digit royalties on ex-U.S. net sales. In November 2013, we exercised an option under the collaboration agreement to co-promote in the United States, if commercialized. Following the approval of COTELLIC in the United States in November 2015, we began fielding 25% of the sales force promoting COTELLIC in combination with vemurafenib as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma.

We believe that cobimetinib has the potential to provide us with a second meaningful source of revenue. Our objective, therefore, is to continue to work with Genentech on the execution of the U.S. COTELLIC commercial plan and maximize the revenue potential of cobimetinib under our collaboration with Genentech. We have accrued for our COTELLIC expense obligations under the collaboration agreement, but are in discussions with Genentech over the level and type of expenses that have been allocated to COTELLIC under the collaboration.

### *Other Collaborations*

With respect to our partnered compounds, other than cabozantinib and cobimetinib, we are eligible to receive potential contingent payments totaling approximately \$2.3 billion in the aggregate on a non-risk adjusted basis, of which 10% are related to clinical development milestones, 42% are related to regulatory milestones and 48% are related to commercial milestones, all to be achieved by the various licensees, which may not be paid, if at all, until certain conditions are met.

### **Certain Factors Important to Understanding Our Financial Condition and Results of Operations**

Successful development of drugs is inherently difficult and uncertain. Our business requires significant investments in research and development over many years, and products often fail during the research and development process. Our long-term prospects depend upon our ability, and the ability of our partners, to successfully commercialize new therapeutics in highly competitive areas such as cancer treatment. Our financial performance is driven by many factors, including those described below, and is subject to the risks set forth in “Item 1A—Risk Factors”.

### ***Limited Sources of Revenues and the Need to Raise Additional Capital***

We have incurred net losses since inception through December 31, 2015, with the exception of the 2011 fiscal year. We anticipate net losses and negative operating cash flow for the foreseeable future. For the year ended December 31, 2015, we incurred a net loss of \$169.7 million and as of December 31, 2015, we had an accumulated deficit of \$1.9 billion. These losses have had, and will continue to have, an adverse effect on our stockholders' deficit and working capital. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses or whether or when we will become profitable, if at all. Excluding fiscal 2011, our research and development expenditures and selling, general and administrative expenses have exceeded our revenues for each fiscal year, and we expect to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. As a result, we expect to continue to incur substantial operating expenses and, consequently, we will need to generate significant additional revenues to achieve future profitability.

We commercially launched COMETRIQ for the treatment of progressive, metastatic MTC in the United States in late January 2013, and from the commercial launch through December 31, 2015, we have generated \$74.3 million in net revenues from the sale of COMETRIQ. Other than revenues from COMETRIQ, we have derived substantially all of our revenues since inception from collaborative research and development agreements, which depend on research funding, the achievement of milestones, and royalties we earn from any future products developed from the collaborative research.

The amount of our net losses will depend, in part, on: the rate of growth, if any, in our sales of COMETRIQ; the level of sales of cabozantinib in the United States for the treatment of advanced RCC, if approved by the FDA for such indication; receipt of the upfront payment, achievement of clinical, regulatory and commercial milestones and the amount of royalties from sales of cabozantinib for the treatment of advanced RCC in the European Union and elsewhere, if approved for such indication under our collaboration with Ipsen; our share of the net profits and losses for the commercialization of COTELLIC in the U.S.; the amount of royalties from COTELLIC sales outside the U.S.; other license and contract revenues; and, the level of expenses primarily with respect to expanded commercialization activities for cabozantinib.

As of December 31, 2015, we had \$253.3 million in cash and investments, which included \$169.0 million available for operations, \$81.6 million of compensating balance investments that we are required to maintain on deposit with Silicon Valley Bank, and \$2.7 million of long-term restricted investments. We anticipate that our current cash and cash equivalents, and short-term investments available for operations, and product revenues, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. However, our future capital requirements will be substantial, and we may need to raise additional capital in the future. Our capital requirements will depend on many factors, and we may need to use available capital resources and raise additional capital significantly earlier than we currently anticipate.

For a description of the factors upon which our capital requirements depend, please see “—Liquidity and Capital Resources—*Capital Requirements.*”

### ***Clinical Development and Commercialization of Cabozantinib***

Our primary development and commercialization program is focused on cabozantinib, an inhibitor of multiple receptor tyrosine kinases, currently approved under the brand name COMETRIQ in the United States and the European Union for the treatment of metastatic MTC. However, cabozantinib may fail to show adequate safety or efficacy as an anti-cancer drug in clinical testing in other types of cancer. For example, our two phase 3 clinical trials (COMET-1 and COMET-2) of cabozantinib in metastatic castration-resistant prostate cancer, or mCRPC, failed to meet their primary endpoints. Based on the outcomes of the COMET trials, we terminated the clinical development of cabozantinib in mCRPC, and other studies in mCRPC sponsored by us, including a randomized phase 2 study of cabozantinib in combination with abiraterone, have been halted.



Furthermore, predicting the timing of the initiation or completion of clinical trials is difficult, and our trials may be delayed due to many factors, including factors outside of our control. The future development path of cabozantinib depends upon the results of each stage of clinical development. We continue to incur significant expenses for the development of cabozantinib as it advances in clinical development.

The commercial success of cabozantinib depends upon the degree of market acceptance of COMETRIQ among physicians, patients, health care payers, and the MTC-treating medical community. It also depends upon how COMETRIQ fares in competition with another product for the treatment of MTC, vandetanib. Looking ahead, as a result of the positive results obtained in the METEOR trial, we are currently increasing our sales, marketing, and distribution capabilities in anticipation of the FDA's potential approval for cabozantinib for the treatment of patients with advanced RCC who have received one prior therapy. Establishing and maintaining sales, marketing and distribution capabilities are expensive and time-consuming. Such expenses may be disproportional compared to the revenues we may be able to generate and may have an adverse impact on our results of operations.

For a description of the competition cabozantinib faces in the market for products treating MTC, and may face in the future should it be approved for other indications, please see "Item 1A. Risk Factors—Risks Related to Cabozantinib and Cobimetinib—Our competitors may develop products and technologies that impair the value of cabozantinib and cobimetinib—Competition for cabozantinib."

### ***Convertible Senior Subordinated Notes***

In August 2012, we issued and sold \$287.5 million aggregate principal amount of the 4.25% Convertible Senior Subordinated Notes due 2019, or the 2019 Notes, for net proceeds of \$277.7 million. The 2019 Notes mature on August 15, 2019, unless earlier converted, redeemed or repurchased, and bear interest at a rate of 4.25% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning February 15, 2013. Subject to certain terms and conditions, at any time on or after August 15, 2016, we may redeem for cash all or a portion of the 2019 Notes. The redemption price will equal 100% of the principal amount of the 2019 Notes to be redeemed plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Upon the occurrence of certain circumstances, holders may convert their 2019 Notes prior to the close of business on the business day immediately preceding May 15, 2019. On or after May 15, 2019, until the close of business on the second trading day immediately preceding August 15, 2019, holders may surrender their 2019 Notes for conversion at any time. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. The initial conversion rate of 188.2353 shares of common stock per \$1,000 principal amount of the 2019 Notes is equivalent to a conversion price of approximately \$5.31 per share of common stock and is subject to adjustment in connection with certain events. If a Fundamental Change, as defined in the indenture governing the 2019 Notes, occurs, holders of the 2019 Notes may require us to purchase for cash all or any portion of their 2019 Notes at a purchase price equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, if any, to, but excluding, the Fundamental Change purchase date. In addition, if certain specified bankruptcy and insolvency-related events of default occur, the principal of, and accrued and unpaid interest on, all of the then outstanding notes will automatically become due and payable. If an event of default other than certain specified bankruptcy and insolvency-related events of default occurs and is continuing, the Trustee by notice to us or the holders of at least 25% in principal amount of the outstanding 2019 Notes by notice to us and the Trustee, may declare the principal of, and accrued and unpaid interest on, all of the then outstanding 2019 Notes to be due and payable.

In connection with the offering of the 2019 Notes, \$36.5 million of the proceeds were deposited into an escrow account which contained an amount of permitted securities sufficient to fund, when due, the total aggregate amount of the first six scheduled semi-annual interest payments on the 2019 Notes. As of December 31, 2015, we have used all of the remaining amount held in the escrow account to pay the required semi-annual interest payments and therefore future semi-annual interest payments will be made from unrestricted cash and investments.

## Deerfield Facility

In June 2010, we entered into a note purchase agreement with Deerfield Private Design Fund, L.P. and Deerfield Private Design International, L.P., or the Original Deerfield Purchasers, pursuant to which, on July 1, 2010, we sold to the Original Deerfield Purchasers an aggregate of \$124.0 million principal amount of our Secured Convertible Notes due July 1, 2015, which we refer to as the Original Deerfield Notes, for an aggregate purchase price of \$80.0 million, less closing fees and expenses of approximately \$2.0 million. On January 22, 2014, the note purchase agreement was amended to provide us with an option to extend the maturity date of our indebtedness under the note purchase agreement to July 1, 2018. On July 1, 2015, we made a \$4.0 million principal payment and then extended the maturity date of the Original Deerfield Notes from July 1, 2015 to July 1, 2018. In connection with the extension, affiliates of the Original Deerfield Purchasers, which we refer to as the New Deerfield Purchasers acquired the \$100.0 million principal amount of the Original Deerfield Notes and we entered into the restated notes, which we refer to as the Restated Deerfield Notes with each of the New Deerfield Purchasers, representing the \$100.0 million principal amount. We refer to the Original Deerfield Purchasers and the New Deerfield Purchasers collectively as Deerfield, and to the Original Deerfield Notes and Restated Deerfield Notes, collectively as the Deerfield Notes.

As of December 31, 2015 and December 31, 2014, the outstanding principal balance on the Deerfield Notes was \$103.8 million and \$104.0 million, respectively, which, subject to certain limitations, is payable in cash or in stock at our discretion. Beginning on July 2, 2015, the outstanding principal amount of the Deerfield Notes bears 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. Through July 1, 2015, the outstanding principal amount of the Deerfield Notes bore interest in the annual amount of \$6.0 million, payable quarterly in arrears.

On August 6, 2012, the parties amended the note purchase agreement to permit the issuance of the 2019 Notes and modify certain optional prepayment rights. The amendment became effective upon the issuance of the 2019 Notes and the payment to the Original Deerfield Purchasers of a \$1.5 million consent fee. On August 1, 2013, the parties further amended the note purchase agreement to clarify certain of our other rights under the note purchase agreement. On January 22, 2014, the note purchase agreement was amended to provide us with an option to extend the maturity date of our indebtedness under the note purchase agreement to July 1, 2018, which extension was completed on July 1, 2015. On July 10, 2014, the parties further amended the note purchase agreement to clarify certain provisions of the note purchase agreement.

The following is a summary of interest expense for the Deerfield Notes (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Stated coupon interest . . . . .	\$ 6,792	\$ 6,000	\$ 6,000
Amortization of debt discount and debt issuance costs . . . . .	9,278	11,731	10,089
Total interest expense . . . . .	<u>\$16,070</u>	<u>\$17,731</u>	<u>\$16,089</u>

The balance of unamortized debt issuance costs was \$0.7 million and \$1.4 million as of December 31, 2015 and December 31, 2014, respectively, which, pursuant to the early adoption of ASU 2015-03, is recorded as a reduction of the carrying amount of the 2019 Notes on the accompanying Consolidated Balance Sheets. See “Note 1—Organization and Summary of Significant Accounting Policies” for more information regarding the early adoption ASU 2015-03. Prior to our exercise of the option to extend the maturity date to July 1, 2018, the unamortized discount, fees and costs were amortized into interest expense as a yield adjustment through July 1, 2015. Effective March 4, 2015, upon notification of our election to require the New Deerfield Purchasers to acquire the Deerfield Notes and extend the maturity date to July 1, 2018, we began to amortize the remaining unamortized discount, fees and costs through July 1, 2018 using the effective interest method and an effective interest rate of 15.26%.

In each of January 2014 and 2013, we made mandatory prepayments of \$10.0 million on the Deerfield Notes. We were required to make an additional mandatory prepayment on the Deerfield Notes in January 2015 equal to 15% of certain revenues from collaborative arrangements, which we refer to as Development/Commercialization Revenue, received during the prior fiscal year, subject to a maximum prepayment amount of \$27.5 million. We received no such revenues during the fiscal year ended December 31, 2014 and therefore made no minimum prepayment in January 2015. As a result of the extension of the maturity date of the Deerfield Notes to July 1, 2018, our obligation to make annual mandatory prepayments equal to 15% of Development/Commercialization Revenue received by us during the prior fiscal year will continue to apply in each of 2016, 2017 and 2018. However, we will only be obligated to make any such annual mandatory prepayment if the New Deerfield Purchasers provide notice to us of their election to receive the prepayment. Pursuant to this requirement, we notified Deerfield that they were entitled to a mandatory prepayment of \$450,000 as a result of to the \$3.0 million milestone payment received from Merck during 2015; the New Deerfield Purchasers elected not to receive a mandatory prepayment in January 2016. Mandatory prepayments relating to Development/Commercialization Revenue will continue to be subject to a maximum annual prepayment amount of \$27.5 million. The definition of “Development/Commercialization Revenue” expressly excludes any sale or distribution of drug or pharmaceutical products in the ordinary course of our business, and any proceeds from any Intellectual Property Sales (as further described below), but would include our share of the net profits from the commercialization of cobimetinib in the U.S. and the receipt of royalties from cobimetinib sales outside the U.S., if any.

Under the note purchase agreement, we may at our sole discretion, prepay all of the principal amount of the Deerfield Notes at a prepayment price equal to 105% of the outstanding principal amount of the Deerfield Notes, plus all accrued and unpaid interest through the date of such prepayment, plus, if prior to July 1, 2017, all interest that would have accrued on the principal amount of the Deerfield Notes between the date of such prepayment and July 1, 2017, if the outstanding principal amount of the Deerfield Notes as of such prepayment date had remained outstanding through July 1, 2017, plus all other accrued and unpaid obligations, collectively referred to as the Prepayment Price.

In lieu of making any portion of the Prepayment Price or mandatory prepayment in cash, subject to certain limitations (including a cap on the number of shares issuable under the note purchase agreement), we have the right to convert all or a portion of the principal amount of the Deerfield Notes into, or satisfy all or any portion of the Prepayment Price amounts or mandatory prepayment amounts with shares of our common stock. Additionally, in lieu of making any payment of accrued and unpaid interest in respect of the Deerfield Notes in cash, subject to certain limitations, we may elect to satisfy any such payment with shares of our common stock. The number of shares of our common stock issuable upon conversion or in settlement of principal and interest obligations will be based upon the discounted trading price of our common stock over a specified trading period. Upon certain changes of control of Exelixis, a sale or transfer of assets in one transaction or a series of related transactions for a purchase price of more than (i) \$400 million or (ii) 50% of our market capitalization, Deerfield may require us to prepay the Deerfield Notes at the Prepayment Price. Upon an event of default, as defined in the Deerfield Notes, Deerfield may declare all or a portion of the Prepayment Price to be immediately due and payable.

We are required to notify the applicable Deerfield entities of certain sales, assignments, grants of exclusive licenses or other transfers of our intellectual property pursuant to which we transfer all or substantially all of our legal or economic interests, defined as an Intellectual Property Sale, and the Deerfield entities may elect to require us to prepay the principal amount of the Deerfield Notes in an amount equal to (i) 100% of the cash proceeds of any Intellectual Property Sale relating to cabozantinib and (ii) 50% of the cash proceeds of any other Intellectual Property Sale.

In connection with the January 2014 amendment to the note purchase agreement, on January 22, 2014, we issued to the New Deerfield Purchasers two-year warrants, which we refer to as the 2014 Warrants, to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of \$9.70 per share. Subsequent to our

election to extend the maturity date of the Deerfield Notes, the exercise price of the 2014 Warrants was reset to \$3.445 per share and the term was extended by two years to January 22, 2018. In August 2015 the New Deerfield Purchasers assigned the 2014 Warrants to OTA LLC. The 2014 Warrants contain certain limitations that prevent the holder from acquiring shares upon exercise that would result in the number of shares beneficially owned by the holder to exceed 9.98% of the total number of shares of our common stock then issued and outstanding. In addition, upon certain changes in control of Exelixis, to the extent the 2014 Warrants are not assumed by the acquiring entity, or upon certain defaults under the 2014 Warrants, the holder has the right to net exercise the 2014 Warrants for shares of common stock, or be paid an amount in cash in certain circumstances where the current holders of our common stock would also receive cash, equal to the Black-Scholes Merton value of the 2014 Warrants.

In connection with the issuance of the 2014 Warrants, we entered into a registration rights agreement with Deerfield, pursuant to which we filed a registration statement with the Securities and Exchange Commission, or SEC, covering the resale of the shares of common stock issuable upon exercise of the 2014 Warrants.

In connection with the note purchase agreement, we also entered into a security agreement in favor of Deerfield which provides that our obligations under the Deerfield Notes will be secured by substantially all of our assets except intellectual property. On August 1, 2013, the security agreement was amended to limit the extent to which voting equity interests in any of our foreign subsidiaries shall be secured assets.

The note purchase agreement as amended and the security agreement include customary representations and warranties and covenants made by us, including restrictions on the incurrence of additional indebtedness.

#### ***Loan Agreement with Silicon Valley Bank***

On May 22, 2002, we entered into a loan and security agreement with Silicon Valley Bank for an equipment line of credit. On December 21, 2004, December 21, 2006 and December 21, 2007, we amended the loan and security agreement to provide for additional equipment lines of credit and on June 2, 2010, we further amended the loan and security agreement to provide for a new seven-year term loan in the amount of \$80.0 million. As of both December 31, 2015 and 2014, the outstanding principal balance due under the term loan was \$80.0 million. As of December 31, 2015 and 2014, the outstanding principal balance under the lines of credit was \$0 and \$0.4 million, respectively. The principal amount outstanding under the term loan accrues interest at 1.0% per annum, which interest is due and payable monthly. We are required to repay the term loan in one balloon principal payment, representing 100% of the principal balance and accrued and unpaid interest, on May 31, 2017. We have the option to prepay all, but not less than all, of the amounts advanced under the term loan, provided that we pay all unpaid accrued interest thereon that is due through the date of such prepayment and the interest on the entire principal balance of the term loan that would otherwise have been paid after such prepayment date until the maturity date of the term loan. In accordance with the terms of the loan and security agreement, we are required to maintain an amount equal to at least 100%, but not to exceed 107%, of the outstanding principal balance of the term loan and all equipment lines of credit under the loan and security agreement 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 (although we are entitled to retain income earned or the amounts maintained in such accounts). Any amounts outstanding under the term loan during the continuance of an event of default under the loan and security agreement will, at the election of Silicon Valley Bank, bear interest at a per annum rate equal to 6.0%. If one or more events of default under the loan and security agreement occurs and continues beyond any applicable cure period, Silicon Valley Bank may declare all or part of the obligations under the loan and security agreement to be immediately due and payable and stop advancing money or extending credit to us under the loan and security agreement.

## ***2014 Restructuring***

On September 2, 2014, as a consequence of the failure of COMET-1, one of our two phase 3 pivotal trials of cabozantinib in mCRPC, we initiated the 2014 Restructuring to reduce our workforce. The aggregate reduction in headcount from the 2014 Restructuring was 143 employees. The principal objective of the 2014 Restructuring was to enable us to focus our financial resources on the phase 3 pivotal trials of cabozantinib in advanced RCC and advanced HCC.

For the years ended December 31, 2015 and 2014, we recorded restructuring charges of \$0.3 million and \$6.1 million, respectively, for the 2014 Restructuring. The restructuring charge for the year ended December 31, 2015 included \$1.6 million in additional charges due to the partial termination of one of our building leases and additional facility-related charges related to the decommissioning and exit of certain buildings. The restructuring charge for the year ended December 31, 2015 was partially offset by \$1.0 million in recoveries recorded in connection with the sale of excess equipment and other assets that had previously been fully depreciated. The restructuring charge for the year ended December 31, 2014 includes \$5.8 million of employee severance and other benefits that are recognized ratably during the period from the implementation date of the 2014 Restructuring through the employees' termination dates. In addition, we recorded charges of \$0.3 million for property and equipment write-downs and other charges, which were partially offset by recoveries recorded in connection with the sale of excess equipment and other assets that were previously fully impaired and the reversal of severance charges recorded in 2014 for employees that were recalled in 2015.

## **Critical Accounting Estimates**

The preparation of our consolidated financial statements is in conformity with accounting principles generally accepted in the United States which requires management to make judgments. The preparation of our consolidated financial statements is in conformity with accounting principles generally accepted in the United States 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 for deductions from revenues (such as rebates, chargebacks, sales returns and sales allowances), recoverability of inventory, certain accrued liabilities including clinical trial accruals and restructuring liabilities, share-based compensation and valuation of warrants. 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 may differ from these estimates under different assumptions or conditions.

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 consolidated financial statements. We believe our critical accounting policies relating to revenue recognition, clinical trial accruals, inventory, stock option valuation, convertible debt valuation and restructuring liability reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements.

## ***Revenue Recognition***

### ***Product Sales***

We recognize revenue when it is both realized or realizable and earned, meaning persuasive evidence of an arrangement exists, delivery has occurred, title has transferred, the price is fixed or determinable, there are no remaining customer acceptance requirements, and collectability of the resulting receivable is reasonably assured.

For product sales in the United States, this generally occurs upon delivery of the product to the specialty pharmacy. For product sales in Europe, this generally occurs when our European distribution partner has accepted the product, at which time they are no longer able to return the product.

We sell our product, COMETRIQ, in the United States to a specialty pharmacy that benefits from customer incentives and has a right of return. Prior to 2015, COMETRIQ had limited sales history and we could not reliably estimate expected future returns, discounts and rebates of the product at the time the product was sold to the specialty pharmacy, therefore we recognized revenue when the specialty pharmacy provided the product to a patient based on the fulfillment of a prescription, frequently referred to as the “sell-through” revenue recognition model. Recently we have established sufficient historical experience and data to reasonably estimate expected future returns of the product and the discounts and rebates due to payors at the time of shipment to the specialty pharmacy. Accordingly, beginning in January 2015 we began to recognize revenue upon delivery to our U.S. specialty pharmacy. This approach is frequently referred to as the “sell-in” revenue recognition model. In connection with the change in the timing of recognition of U.S. COMETRIQ sales, we recorded a one-time adjustment to recognize revenue and related costs that had previously been deferred at December 31, 2014, resulting in additional gross product revenues of \$2.6 million and a nominal amount of cost of goods sold for the year ended December 31, 2015; there were no such adjustments recorded for the three months ended December 31, 2015.

We also utilize the “sell-in” revenue recognition model for sales to our European distribution partner. Once the European distributor has accepted the product, the product is no longer subject to return; therefore, we record revenue at the time our European distribution partner has accepted the product.

#### *Product Sales Discounts and Allowances*

We calculate gross product revenues based on the price that we charge our United States specialty pharmacy and our European distribution partner. We estimate our domestic net product revenues by deducting from our gross product revenues (a) trade allowances, such as discounts for prompt payment, (b) estimated government rebates and chargebacks, (c) estimated costs of patient assistance programs, and (d) certain other fees paid to the U.S. specialty pharmacy. Discounts and allowances for foreign sales for the years ended December 31, 2015 and 2014 included portions of a one-time \$2.4 million project management fee payable to our European distribution partner upon its achievement of a cumulative revenue goal. During 2014, we determined that the achievement of the revenue goal was probable and therefore we recorded \$2.3 million of the \$2.4 million project management fee, of which \$0.7 million would have been recorded in 2013 had the cumulative revenue goal been determined to be probable in that period. During 2015 we recorded an additional \$0.1 million of the project management fee.

We initially record estimates for these deductions at the time we recognize the gross revenue. We update our estimates on a recurring basis as new information becomes available. See “Note 1—Organization and Summary of Significant Accounting Policies” to our Consolidated Financial Statements for a further description of our discounts and allowances.

#### *Licenses and Contracts*

Revenues from license fees and milestone payments primarily consist of upfront license fees and milestone payments received under various collaboration agreements. We initially recognize upfront fees received from third party collaborators as unearned revenues and then recognize these amounts on a ratable basis over the expected term of the research collaboration. Therefore, any changes in the expected term of the research collaboration will impact revenue recognition for the given period. Often, the total research term is not contractually defined and an estimate of the term of our total obligation must be made.

Although milestone payments are generally non-refundable once the milestone is achieved, we recognize milestone revenues on a straight-line basis over the expected research term of the arrangement. This typically

results in a portion of a milestone being recognized on the date the milestone is achieved, with the balance being recognized over the remaining research term of the agreement. In certain situations, we may receive milestone payments after the end of our period of continued involvement. In such circumstances, we would recognize 100% of the milestone revenues when the milestone is achieved. Milestones are classified as contract revenues in our Consolidated Statements of Operations.

Collaborative agreement reimbursement revenues consist of research and development support received from collaborators and are recorded as earned based on the performance requirements by both parties under the respective contracts.

Some of our research and licensing arrangements have multiple deliverables in order to meet our customer's needs. For example, the arrangements may include a combination of intellectual property rights and research and development services. We evaluate whether the delivered elements under these arrangements have value to our collaboration partner on a stand-alone basis and whether objective and reliable evidence of fair value of the undelivered item exists. If we determine that multiple deliverables exist, the consideration is allocated to one or more units of accounting based upon the best estimate of the selling price of each deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. A delivered item or items that do not qualify as a separate unit of accounting within the arrangement shall be combined with the other applicable undelivered items within the arrangement. The allocation of arrangement consideration and the recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting. A delivered item or items that do not have stand-alone value to our collaboration partner shall be combined with the other applicable undelivered items within the arrangement. The allocation of arrangement consideration and the recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting. For a combined unit of accounting, non-refundable upfront fees and milestones are recognized in a manner consistent with the final deliverable, which has generally been ratably over the period of the research and development obligation. For certain arrangements, the period of time over which certain deliverables will be provided is not contractually defined. Accordingly, management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

### ***Inventory***

We consider regulatory approval of product candidates to be uncertain and product manufactured prior to regulatory approval may not be sold unless regulatory approval is obtained. As such, the manufacturing costs for product candidates incurred prior to regulatory approval are not capitalized as inventory, but rather are expensed as research and development costs. When regulatory approval is obtained, capitalization of inventory may begin. On November 29, 2012, the FDA approved our first product, COMETRIQ, for the treatment of progressive, metastatic MTC in the United States, where it became commercially available in late January 2013.

Inventory is valued at the lower of cost or net realizable value. We determine the cost of inventory using the standard-cost method, which approximates actual cost based on a first-in, first-out method. We analyze our inventory levels quarterly and write down inventory subject to expiry in excess of expected requirements, or that has a cost basis in excess of its expected net realizable value. The related costs are recognized as cost of goods sold in the Consolidated Statements of Operations.

We analyze our estimated production levels for the following twelve month period, which is our normal operating cycle, quarterly and reclassify inventory we do not expect to use within the next twelve months into Other long-term assets in the Consolidated Balance Sheets.

### ***Clinical Trial Accruals***

All of our clinical trials have been executed with support from contract research organizations, or CROs, and other vendors. We accrue costs for clinical trial activities performed by CROs based upon the estimated amount of work completed on each trial. For clinical trial expenses, the significant factors used in estimating accruals include the number of patients enrolled, the activities to be performed for each patient, the number of active clinical sites, and the duration for which the patients will be enrolled in the trial. We monitor patient enrollment levels and related activities to the extent possible through internal reviews, correspondence with CROs and review of contractual terms. We base our estimates on the best information available at the time. However, additional information may become available to us, which may allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain. Such increases or decreases in cost are generally considered to be changes in estimates and will be reflected in research and development expenses in the period first known. During the year ended December 31, 2013, we recorded a reduction related to the accrual for prior periods of approximately \$0.8 million; there were no such significant reductions during the year ended December 31, 2015 or 2014.

### ***Restructuring Liability***

In connection with our restructuring activities, we estimate facility-related restructuring charges which represent the present value of the estimated facility costs for which we would obtain no future economic benefit offset by estimated future sublease income, including any credit or debit relating to existing deferred rent balances associated with the vacated building.

We derive our estimates based primarily on discussions with our brokers and our own view of market conditions based in part on discussions with potential subtenants. These estimates require significant assumptions regarding the time required to contract with subtenants, the amount of idle space we would be able to sublease and potential future sublease rates. The present value factor, which also affects the level of accreted interest expense that we will recognize as additional restructuring charges over the term of the lease, is based on our estimate of our credit-risk adjusted borrowing rate at the time the initial lease-related restructuring liability is calculated.

Changes in the assumptions underlying our estimates could have a material impact on our restructuring charge and restructuring liability. We are required to continue to update our estimate of our restructuring liability in future periods as conditions warrant, and we expect to further revise our estimate in future periods as we continue our discussions with potential subtenants.

In addition, in connection with our sublease efforts for our buildings in South San Francisco, if we vacate and sublease these facilities for rates that are not significantly in excess of our costs, we would not likely recover the carrying value of certain assets associated with these facilities. As such, we could potentially recognize additional asset impairment charges, in future periods, if we were to sublease parts of either of these buildings.

If the actual amounts differ from our estimates, the amount of restructuring charges could be materially impacted. See “Note 3—Restructurings” of the Notes to Consolidated Financial Statements for a further discussion on our Restructurings.

### ***Stock Option Valuation***

Our estimate of compensation expense requires us to determine the appropriate fair value model and a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns, future forfeitures and related tax effects. The most significant assumptions are our estimates of the expected



volatility and the expected term of the award. In addition, we are required to estimate the expected forfeiture rate, including assessing the likelihood of achieving our goals for performance-based stock options, and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. The value of a stock option is derived from its potential for appreciation. The more volatile the stock, the more valuable the option becomes because of the greater possibility of significant changes in stock price. Because there is a market for options on our common stock, we have considered implied volatilities as well as our historical realized volatilities when developing an estimate of expected volatility. The expected option term also has a significant effect on the value of the option. The longer the term, the more time the option holder has to allow the stock price to increase without a cash investment and thus, the more valuable the option. Further, lengthier option terms provide more opportunity to exploit market highs. However, empirical data show that employees, for a variety of reasons, typically do not wait until the end of the contractual term of a nontransferable option to exercise. Accordingly, companies are required to estimate the expected term of the option for input to an option-pricing model. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, from time to time we will likely change the valuation assumptions we use to value stock based awards granted in future periods. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. As of December 31, 2015, \$19.5 million of total unrecognized compensation expense related to stock options was expected to be recognized over a weighted-average period of 2.56 years and \$3.4 million of total unrecognized compensation expense relating to restricted stock units was expected to be recognized over 2.50 years. See "Note 10—Employee Benefit Plans" of the Notes to Consolidated Financial Statements for a further discussion on stock-based compensation.

#### **Exelixis International (Bermuda) Ltd.**

Effective July 2013, Exelixis engaged in intercompany transactions with its wholly-owned subsidiary Exelixis International (Bermuda) Ltd., or Exelixis Bermuda, pursuant to which Exelixis Bermuda acquired the existing and future intellectual property rights to exploit cabozantinib in jurisdictions outside of the United States.

#### **Fiscal Year Convention**

Exelixis has adopted a 52- or 53-week fiscal year that generally ends on the Friday closest to December 31st. Fiscal year 2013, a 52-week year, ended on December 27, 2013, fiscal year 2014, a 53-week year, ended on January 2, 2015, fiscal year 2015, a 52-week year, ended on January 1, 2016, and fiscal year 2016 will end on December 30, 2016. For convenience, references in this report as of and for the fiscal years ended December 27, 2013, January 2, 2015 and January 1, 2016, are indicated on a calendar year basis, ended December 31, 2013, 2014 and 2015, respectively. The quarter ended January 2, 2015 is a 14-week fiscal quarter; all other interim periods presented are 13-week fiscal quarters.

## Results of Operations—Comparison of Years Ended December 31, 2015, 2014 and 2013

### Revenues

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

	Year Ended December 31,		
	2015	2014	2013
Gross product revenues	\$36,650	\$28,963	\$15,702
Discounts and allowances	(2,492)	(3,852)	(685)
Net product revenues	34,158	25,111	15,017
License revenues (1)	14	—	8,380
Contract revenues (2)	3,000	—	7,941
Total revenues	<u>\$37,172</u>	<u>\$25,111</u>	<u>\$31,338</u>
Dollar change	\$12,061	\$(6,227)	
Percentage change	48%	(20)%	

(1) Includes royalties and amortization of upfront payments.

(2) Includes contingent and milestone payments.

Product revenues relate to the sale of COMETRIQ. The increase in gross product revenues for the year ended December 31, 2015, reflects an overall increase in shipments of COMETRIQ and the impact of a change to the “sell-in” method which resulted in the one-time recognition of \$2.6 million of deferred revenue attributable to sales to the specialty pharmacy that sells COMETRIQ in the United States in the first quarter of 2015; there was no such adjustment recorded during the comparable periods in 2014 or 2013.

For domestic sales, we have transitioned from the “sell-through” method to the “sell-in” method of recognizing product revenue as we have established sufficient history to reasonably estimate expected returns of the product and the discounts and rebates due to payers. For foreign sales, we continue to utilize the “sell-in” method to recognize product revenue for all periods presented.

We calculate gross product revenues based on the price that we charge our United States specialty pharmacy and our European distribution partner. We estimate our domestic net product revenues by deducting from our gross product revenues (a) trade allowances, such as discounts for prompt payment, (b) estimated government rebates and chargebacks, (c) estimated costs of patient assistance programs, and (d) certain other fees paid to the U.S specialty pharmacy. Discounts and allowances for foreign sales for the years ended December 31, 2015 and 2014 included portions of a one-time \$2.4 million project management fee payable to our European distribution partner upon its achievement of a cumulative revenue goal. During 2014, we determined that the achievement of the revenue goal was probable and therefore we recorded \$2.3 million of the \$2.4 million project management fee, of which \$0.7 million would have been recorded in 2013 had the cumulative revenue goal been determined to be probable in that period. During 2015 we recorded an additional \$0.1 million of the project management fee. We also deduct from gross product revenues an estimated credit for product originally delivered with expiry of 18 months or less that is potentially payable to our European distribution partner; such deductions were nominal during the year ended December 31, 2015, and zero for 2014 and 2013.

We initially record estimates for these deductions at the time we recognize the gross revenue. We update our estimates on a recurring basis as new information becomes available.

Contract revenues for the year ended December 31, 2015 reflect a \$3.0 million milestone payment received from Merck related to its worldwide license of our phosphoinositide-3 kinase-delta program. The \$16.3 million in license and contract revenue for the year ended December 31, 2013 reflects the completion of the recognition of revenues resulting from certain collaboration agreements with Bristol-Myers Squibb.

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

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Diplomat Specialty Pharmacy .....	\$30,856	\$24,832	\$14,004
Swedish Orphan Biovitrum (1) .....	3,303	279	1,013
Merck .....	3,000	—	—
Bristol-Myers Squibb .....	—	—	16,321
Other .....	13	—	—
Total revenues .....	<u>\$37,172</u>	<u>\$25,111</u>	<u>\$31,338</u>
Dollar change .....	\$12,061	\$ (6,227)	
Percentage change .....	48%	(20)%	

- (1) Revenues from Swedish Orphan Biovitrum for the years ended December 31, 2015 and 2014 included a \$0.1 million and \$2.3 million reduction, respectively, to revenue for a project management fee payable to our European distributor upon their achievement of a cumulative revenue goal. \$0.7 million of the \$2.3 million we recorded during 2014 represented amounts that would have been recorded in 2013 had the cumulative revenue goal been determined to be probable in that period.

### ***Cost of Goods Sold***

Cost of goods sold is related to our product revenues and consists primarily of a 3% royalty on net sales of any product incorporating cabozantinib we are required to pay GlaxoSmithKline pursuant to the terms of our product development and commercialization agreement that terminated during 2014, indirect labor costs, the cost of manufacturing, write-downs related to expiring and excess inventory, and other third party logistics costs for our product. A portion of the manufacturing costs for product sales were incurred prior to regulatory approval of COMETRIQ for the treatment of progressive, metastatic MTC and, therefore, were expensed as research and development costs when those costs were incurred, rather than capitalized as inventory.

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

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cost of goods sold .....	\$3,895	\$2,043	\$1,118
Gross margin .....	89%	92%	93%

The increase in the cost of goods sold for the year ended December 31, 2015, as compared to 2014, was a result of write-downs related to expiring and excess inventory of \$1.2 million for the year ended December 31, 2015, as compared to \$0.2 million for 2014, increased sales of COMETRIQ, as well as decreases in the amount of product sold that had been expensed as research and development expense prior to regulatory approval.

The increase in the cost of goods sold for the year ended December 31, 2014, as compared to 2013, was a result of increased sales of COMETRIQ as well as decreases in the amount of material expensed as research and development expense prior to regulatory approval and an increase in indirect labor related to commercialization in the EU.

The cost of goods sold and gross margin we have experienced in this early stage of our product launch may not be representative of what we may experience going forward.

## Research and Development Expenses

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

	Year Ended December 31,		
	2015	2014	2013
Research and development expenses	\$ 96,351	\$189,101	\$178,763
Dollar change	\$(92,750)	\$ 10,338	
Percentage change	(49)%	6%	

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

The decrease in research and development expenses for the year ended December 31, 2015, as compared to 2014, was primarily related to a decrease in clinical trial costs, which includes services performed by third-party CROs and other vendors that support our clinical trials. The decrease in clinical trial costs was \$70.3 million, or 61%, for the year ended December 31, 2015, as compared to 2014. The decrease in clinical trial costs was predominantly due to decreases in costs related to COMET-1 and COMET-2, our phase 3 pivotal trials in metastatic CRPC which we terminated in September 2014, METEOR, our phase 3 pivotal trial in advanced RCC, and a reduction of general program level costs; the decrease in costs related to METEOR included the impact of a \$9.8 million decrease in comparator drug purchases.

Decreases in research and development expenses for the year ended December 31, 2015, also related to personnel expenses, consulting and outside services and temporary personnel. Personnel expenses decreased by \$16.6 million for the year ended December 31, 2015, as compared to 2014 primarily due to workforce reductions undertaken as a consequence of the failure of COMET-1. Consulting and outside services decreased by \$3.6 million primarily as a result of decreases in clinical development consulting activities and the use of outside medical safety liaisons. Temporary personnel decreased by \$2.9 million due to a decrease in clinical trial activities performed by those personnel. Those decreases were partially offset by increases in stock-based compensation and regulatory filing fees. Stock-based compensation increased by \$8.4 million primarily due to expense recognized for performance-based stock-options tied to the positive top-line data received from the METEOR trial and the anticipated acceptance of our NDA filing with the FDA. Regulatory filing fees of \$2.4 million were paid to the FDA in 2015 in connection with the filing of our NDA.

The increase in 2014 as compared to 2013 was predominantly driven by an increase in clinical trial costs. The increase in clinical trial costs was \$14.6 million, or 15%, for 2014 as compared to 2013. The increase in clinical trial costs related predominantly to clinical trial activities for METEOR and CELESTIAL. The increases in costs for those trials was partially offset by lower clinical trial expenses for COMET-1 and the continued wind down of various other studies for cabozantinib, most notably our randomized discontinuation trial and EXAM, our phase 3 pivotal trial in MTC.

There were additional increases in research and development expenses for 2014 related to temporary personnel expenses, consulting and outside services, which were partially offset by decreases in personnel expenses and stock-based compensation. Temporary personnel expenses increased by \$2.9 million primarily due to increased clinical trial activities. Consulting and outside services increased by \$1.1 million primarily as a result of the engagement of additional medical science liaisons required to support our increased clinical trial activities. Personnel expenses decreased by \$2.8 million due primarily to the restructuring activities in the third quarter of 2014 and the elimination of employee bonus accruals as a consequence of the failure of the COMET-1 trial; the decrease was partially offset by higher wages in 2014. Stock-based compensation decreased by \$2.8 million primarily due to the reversal of compensation recognized in prior periods on stock options granted subject to performance objectives and forfeitures triggered by terminations resulting from the negative COMET-1 and COMET-2 results.

As noted under “Overview”, 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 nearly all of our future research and development expenses to 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 over 45 ongoing or planned clinical trials across multiple indications, including two ongoing phase 3 pivotal trials focusing on advanced RCC and advanced HCC. In addition, postmarketing commitments in connection with the approvals of COMETRIQ in MTC dictate that we conduct additional studies in that indication.

We anticipate that research and development expenses will stay flat during 2016 with a decrease in clinical trial costs offset by an increase in costs associated with Medical Affairs to support the anticipated launch of cabozantinib for the treatment of advanced RCC.

We do not have reliable estimates regarding the timing of our clinical trials. We estimate that typical phase 1 clinical trials last approximately one year, phase 2 clinical trials last approximately one to two years and phase 3 clinical trials last approximately two to four years. However, the length of time may vary substantially according to factors relating to the particular clinical trial, such as the type and intended use of the drug candidate, the clinical trial design and the ability to enroll suitable patients.

We do not have reliable estimates of total costs for a particular drug candidate, or for cabozantinib for a particular indication, to reach the market. Our potential therapeutic products are subject to a lengthy and uncertain regulatory process that may involve unanticipated additional clinical trials and 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. In addition, clinical trials of our potential product candidates may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval.

### ***Selling, General and Administrative Expenses***

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

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Selling, general and administrative expenses . . . . .	\$57,305	\$50,829	\$50,958
Dollar change . . . . .	\$ 6,476	\$ (129)	
Percentage change . . . . .	13%	— %	

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

The increase in selling, general and administrative expenses for the year ended December 31, 2015, as compared to the comparable period in 2014, was primarily related to increases in marketing costs and stock-based compensation. Marketing expenses increased by \$10.2 million, which includes \$16.6 million that represents our share of losses under our collaboration agreement with Genentech. Stock-based compensation, increased by \$3.5 million primarily due to expense recognized for performance-based stock-options tied to the positive top-line data received from the METEOR trial and the anticipated acceptance of our NDA filing with the FDA. Those increases were partially offset by decreases in personnel costs, consulting and outside services, facilities costs and patent and other legal and accounting fees. Personnel expenses decreased by \$5.7 million primarily due to workforce reductions undertaken as a consequence of the failure of COMET-1. Consulting and outside services decreased by \$3.3 million as a result of decreases in marketing research activities and reductions in outside services for buildings we are no longer occupying. Facilities costs decreased by \$2.8 million primarily

as a result of facilities we have vacated in connection with the 2014 Restructuring. Patent and other legal and accounting fees decreased by \$2.0 million primarily due to decreases in activities related to patent filings and defense.

The relatively flat selling, general and administrative expenses for the 2014, as compared to 2013, was the result of decreases in consulting and outside services, patent and other legal and accounting fees, which were offset by increases in personnel expenses, marketing expenses and stock-based compensation. Consulting and outside services decreased by \$3.2 million, in-part due to the internalizing of our outside sales function in late 2013. Patent and other legal and accounting fees decreased by \$2.6 million primarily due to decreases in activities related to patent filings and defense. Personnel expenses increased by \$1.7 million, the majority of which is connected with the expansion of our U.S. sales force; that increase was partially offset by the elimination of employee bonus accruals as consequence of the failure of COMET-1. Marketing expenses increased by \$1.6 million, which related primarily to an increase in pre-commercial preparation expenses for cobimetinib under our collaboration agreement with Genentech. If cobimetinib is launched commercially, we will account for our share of the net profits(losses) on a net basis, such that our share of net losses under the collaboration agreement will be reported as a part of selling, general and administrative expenses; in the period that the collaboration agreement becomes profitable to us, we will record our share of profits, net of related expenses, as revenue. Stock-based compensation increased by \$0.8 million primarily due to equity award grants to members of our Board of Directors and two separation agreements; those increases were partially offset by the reversal of compensation recognized in prior periods on stock options granted subject to performance objectives and forfeitures triggered by terminations resulting from the negative COMET-1 and COMET-2 results and the 2014 Restructuring.

We anticipate selling, general and administrative expenses will increase during 2016 due to investments in our commercial infrastructure to support the anticipated launch of cabozantinib for the treatment of advanced RCC, as well as our share of net losses under our collaboration agreement with Genentech for COTELLIC.

### ***Restructuring Charge***

On September 2, 2014, as a consequence of the failure of COMET-1, one of our two phase 3 pivotal trials of cabozantinib in mCRPC, we initiated a restructuring, which we refer to as the 2014 Restructuring, to reduce our workforce. The aggregate reduction in headcount from the 2014 Restructuring was 143 employees. The principal objective of the 2014 Restructuring was to enable us to focus our financial resources on the phase 3 pivotal trials of cabozantinib in advanced RCC and advanced HCC.

Between March 2010 and May 2013, we implemented five restructurings (referred to collectively as the “2010 Restructurings”) to manage costs and as a consequence of our decision in 2010 to focus our proprietary resources and development efforts on the development and commercialization of cabozantinib. The aggregate reduction in headcount from the 2010 Restructurings was 429 employees. Charges and credits related to the 2010 Restructurings were recorded in periods other than those in which the 2010 Restructurings were implemented as a result of sublease activities for certain of our buildings in South San Francisco, California, changes in assumptions regarding anticipated sublease activities, the effect of the passage of time on our discounted cash flow computations, previously planned employee terminations, and sales of excess equipment and other assets.

Total restructuring charge was as follows (dollars in thousands):

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Restructuring charge . . . . .	\$ 1,042	\$7,596	\$1,231
Dollar change . . . . .	\$(6,554)	\$6,365	
Percentage change . . . . .	(86)%	517%	

For the years ended December 31, 2015 and 2014, we recorded restructuring charges of \$0.3 million and \$6.1 million, respectively, for the 2014 Restructuring. The restructuring charge for the year ended December 31, 2015 included \$1.6 million in additional charges due to the partial termination of one of our building leases and additional facility-related charges related to the decommissioning and exit of certain buildings. The restructuring charge for the year ended December 31, 2015 was partially offset by \$1.0 million in recoveries recorded in connection with the sale of excess equipment and other assets that had previously been fully depreciated. The restructuring charge for the year ended December 31, 2014 includes \$5.8 million of employee severance and other benefits that are recognized ratably during the period from the implementation date of the 2014 Restructuring through the employees' termination dates. In addition, we recorded charges of \$0.3 million for property and equipment write-downs and other charges, which were partially offset by recoveries recorded in connection with the sale of excess equipment and other assets that were previously fully impaired and the reversal of severance charges recorded in 2014 for employees that were recalled in 2015.

For the years ended December 31, 2015, 2014 and 2013, we recorded restructuring charges of \$0.8 million, \$1.5 million and \$1.2 million, respectively, for the 2010 Restructurings. The charges for the periods presented were related to the effect of the passage of time on our discounted cash flow computations for the exit, in prior periods, of certain of our South San Francisco buildings and changes in estimates regarding future subleases. During the year ended December 31, 2014, those charges were partially offset by \$0.1 million in recoveries recorded in connection with the sale of excess equipment and other assets.

***Total Other Income (Expense), net***

Total other income (expense), net, were as follows (dollars in thousands):

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Interest income and other, net .....	\$ 412	\$ 4,341	\$ 1,223
Interest expense .....	(48,673)	(48,607)	(45,347)
Total other income (expense), net .....	<u>\$(48,261)</u>	<u>\$(44,266)</u>	<u>\$(44,124)</u>
Dollar change .....	\$ (3,995)	\$ (142)	
Percentage change .....	9%	— %	

Total other income (expense), net consists primarily of interest expense incurred on our debt, partially offset by interest income earned on our cash and investments and gains and losses on derivatives and foreign exchange fluctuations.

Interest expense on the 2019 Notes and the Deerfield Notes includes aggregate non-cash interest expense of \$28.9 million, \$29.5 million and \$26.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Interest income and other, net for the years ended December 31, 2015 and 2014 includes \$0.5 million in unrealized losses and \$1.8 million in unrealized gains, respectively, on the revaluation of the 2014 Warrants.

Interest income and other, net for 2014 also includes an \$0.8 million gain for a purchase price adjustment resulting from the resolution of contingencies related to the September 2011 sale of our remaining interest in another business.

## Liquidity and Capital Resources

### Sources and Uses of Cash

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

	Year Ended December 31,		
	2015	2014	2013
Net loss	\$(169,737)	\$(268,542)	\$(244,760)
Adjustments to reconcile net loss to net cash used in operating activities	53,997	43,414	48,255
Changes in operating assets and liabilities	(25,845)	(10,277)	(2,268)
Net cash used in operating activities	(141,585)	(235,405)	(198,773)
Net cash provided by investing activities	50,077	146,330	144,351
Net cash provided by (used in) financing activities	152,747	65,492	(11,669)
Net increase (decrease) in cash and cash equivalents	61,239	(23,583)	(66,091)
Cash and cash equivalents at beginning of year	80,395	103,978	170,069
Cash and cash equivalents at end of year	<u>\$ 141,634</u>	<u>\$ 80,395</u>	<u>\$ 103,978</u>

We commercially launched COMETRIQ for the treatment of progressive, metastatic MTC in the United States in late January 2013 and from the commercial launch through December 31, 2015, we have generated \$74.3 million in net revenues from the sale of COMETRIQ. Other than revenues from COMETRIQ, we have derived substantially all of our revenues since inception from collaborative research and development agreements which depend on research funding, the achievement of milestones and royalties we earn from any future products developed from the collaborative research. For a discussion of potential future capital requirements, please see “—Liquidity and Capital Resources—*Capital Requirements.*”

### Operating Activities

Our operating activities used cash of \$141.6 million for the year ended December 31, 2015, compared to \$235.4 million for 2014 and \$198.8 million for 2013.

Cash used in operating activities for the year ended December 31, 2015 related primarily to our \$158.6 million operating expenses for the period, less \$37.2 million in revenues for the period and non-cash expenses for accretion of debt discount and interest paid in kind totaling \$28.9 million on the Deerfield Notes and the 2019 Notes and stock-based compensation totaling \$22.0 million. In addition to current period operating expenses, we made cash payments that resulted in a \$23.5 million reduction in accrued clinical trial liabilities and a \$8.8 million reduction in restructuring liabilities, which was partially offset by a \$10.2 million increase in our accrued collaboration liability.

Cash used in operating activities for the year ended December 31, 2014 related primarily to our \$249.6 million in operating expenses for the period, less non-cash expenses for accretion of debt discount totaling \$29.5 million on the Deerfield Notes and the 2019 Notes, stock-based compensation totaling \$10.0 million and depreciation and amortization totaling \$2.4 million. Our operating expenses were largely attributable to the development of cabozantinib. In addition, we made cash payments that resulted in a \$13.2 million reduction in accounts payable and other accrued expenses during the period and paid \$10.2 million for restructuring activities, which was partially offset by a \$6.6 million increase in accrued clinical trial liabilities.

Cash used in operating activities for the year ended December 31, 2013 related primarily to our \$232.1 million in operating expenses, less non-cash expenses for accretion of debt discount totaling \$26.3 million, stock-based compensation totaling \$12.0 million, amortization of discounts and premiums on investments totaling \$6.8



million, and depreciation and amortization totaling \$3.1 million. Our operating expenses were primarily attributable to the development of cabozantinib. In addition, we paid \$6.8 million for restructuring activities during the period. All of our license and contract revenues during 2013 were non-cash, which was reflected in the \$14.9 million reduction in deferred revenue during the period.

Operating cash flows can differ from our consolidated net loss as a result of differences in the timing of cash receipts and earnings recognition and non-cash charges.

#### *Investing Activities*

Our investing activities provided cash of \$50.1 million for the year ended December 31, 2015, as compared to \$146.3 million for 2014 and \$144.4 million for 2013.

Cash provided by investing activities for the year ended December 31, 2015 was primarily due to the maturity of unrestricted and restricted investments of \$198.7 million, less investment purchases of \$149.6 million.

Cash provided by investing activities for the year ended December 31, 2014 was primarily due to the maturity of unrestricted and restricted investments of \$273.2 million, less investment purchases of \$127.7 million.

Cash provided by investing activities for the year ended December 31, 2013 was primarily due to the maturity of unrestricted and restricted investments of \$342.4 million, partially offset by investment purchases of \$196.1 million.

#### *Financing Activities*

Our financing activities provided cash of \$152.7 million for the year ended December 31, 2015, compared to cash provided of \$65.5 million for 2014, and cash used of \$11.7 million for 2013.

Cash provided by our financing activities for the year ended December 31, 2015 was primarily due to the issuance of 28,750,000 shares of common stock in July 2015 for net proceeds of \$145.6 million and \$10.9 million in proceeds from the exercise of stock options, which was partially offset by principal payments on debt of \$4.4 million.

Cash provided by our financing activities for the year ended December 31, 2014 was primarily due to the issuance of 10.0 million shares of common stock in January 2014 for net proceeds of \$75.6 million. The cash provided by the issuance of common stock was partially offset by principal payments on debt of \$11.7 million.

Cash used for financing activities for the year ended December 31, 2013 was primarily due to principal payments on debt of \$13.2 million.

Proceeds from these financing activities are used for general working capital purposes, such as research and development activities and other general corporate purposes. Over the next several years, we are required to make certain payments on notes and bank obligations. On May 31, 2017 we will be required to pay the principal balance of \$80.0 million plus accrued and unpaid interest on our term loan with Silicon Valley Bank. On July 1, 2018 we will be required to pay the principal balance of \$125.0 million including interest paid in kind, plus accrued and unpaid coupon interest on the Deerfield Notes. On August 15, 2019 we will be required to pay the principal balance of \$287.5 million plus accrued and unpaid interest on the 2019 Notes. See “—Certain Factors Important to Understanding Our Financial Condition and Results of Operations” above and “Note 7—Debt” of the Notes to the Consolidated Financial Statements for additional details on these agreements.

## *Capital Requirements*

We have incurred net losses since inception through December 31, 2015, with the exception of the 2011 fiscal year. We anticipate net losses and negative operating cash flow for the foreseeable future. For the year ended December 31, 2015, we incurred a net loss of \$169.7 million and as of December 31, 2015, we had an accumulated deficit of \$1.9 billion. These losses have had, and will continue to have, an adverse effect on our stockholders' deficit and working capital. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses or whether or when we will become profitable, if at all. Excluding fiscal 2011, our research and development expenditures and selling, general and administrative expenses have exceeded our revenues for each fiscal year, and we expect to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. As a result, we expect to continue to incur substantial operating expenses and, consequently, we will need to generate significant additional revenues to achieve future profitability.

We commercially launched COMETRIQ for the treatment of progressive, metastatic MTC in the United States in late January 2013 and from the commercial launch through December 31, 2015, we have generated \$74.3 million in net revenues from the sale of COMETRIQ. Other than revenues from COMETRIQ, we have derived substantially all of our revenues since inception from collaborative research and development agreements which depend on research funding, the achievement of milestones, and royalties we earn from any future products developed from the collaborative research.

The amount of our net losses will depend, in part, on: the rate of growth, if any, in our sales of COMETRIQ; the level of sales of cabozantinib in the United States for the treatment of advanced RCC, if approved by the FDA for such indication; receipt of the upfront payment, achievement of clinical, regulatory and commercial milestones and the amount of royalties from sales of cabozantinib for the treatment of advanced RCC in the European Union and elsewhere, if approved for such indication under our collaboration with Ipsen; our share of the net profits and losses for the commercialization of COTELLIC in the U.S.; the amount of royalties from COTELLIC sales outside the U.S.; other license and contract revenues; and, the level of expenses primarily with respect to expanded commercialization activities for cabozantinib.

As of December 31, 2015, we had \$253.3 million in cash and investments, which included \$169.0 million available for operations, \$81.6 million of compensating balance investments that we are required to maintain on deposit with Silicon Valley Bank, and \$2.7 million of long-term restricted investments. We anticipate that our current cash and cash equivalents, and short-term investments available for operations, and product revenues, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. However, our future capital requirements will be substantial, and we may need to raise additional capital in the future. Our capital requirements will depend on many factors, and we may need to use available capital resources and raise additional capital significantly earlier than we currently anticipate. Our capital requirements will depend on many factors including but not limited to:

- the commercial success of COMETRIQ and the revenues we generate from that approved product;
- the pace and progress of our current increase in sales, marketing, medical affairs and distribution capabilities in anticipation of obtaining FDA approval for cabozantinib for the potential treatment of advanced RCC patients;
- the successful establishment of the distribution and commercialization network for COMETRIQ in the approved MTC indication and cabozantinib for the potential treatment of advanced RCC patients, as well as the achievement of stated regulatory and commercial milestones, under our collaboration with Ipsen;
- the commercial success of COTELLIC and the calculation of 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 speed of a potential regulatory approval for cabozantinib for the treatment of advanced RCC and other indications;
- future clinical trial results, notably the results from CELESTIAL, our phase 3 pivotal trial in patients with advanced HCC;
- repayment of the Deerfield Notes which mature on July 1, 2018, subject to a requirement to make a mandatory prepayment in each of 2017 and 2018 equal to 15% of certain revenues from collaborative arrangements (other than intercompany arrangements) received during the prior fiscal year, subject to a maximum annual prepayment amount of \$27.5 million;
- our ability to repay the Deerfield Notes with our common stock, which we are only able to do under specified conditions;
- repayment of our \$287.5 million aggregate principal amount of the 2019 Notes, which mature on August 15, 2019, unless earlier converted, redeemed or repurchased;
- repayment of our term loan from Silicon Valley Bank, which had an outstanding balance at December 31, 2015, of \$80.0 million;
- our ability to control costs;
- our ability to remain in compliance with, or amend or cause to be waived, financial covenants contained in agreements with third parties;
- the cost of clinical drug supply for our clinical trials;
- trends and developments in the pricing of oncologic therapeutics in the United States and abroad, especially in the EU;
- 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.

### ***Contractual Obligations***

We have contractual obligations in the form of debt, loans payable, operating leases, purchase obligations and other long-term liabilities. The following chart details our contractual obligations, including any potential accrued or accreted interest, as of December 31, 2015 (in thousands):

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>			
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 Years</u>	<u>More than 3 years</u>
Convertible notes (1) . . . . .	\$412,472	\$ —	\$412,472	\$—
Loans payable (2) . . . . .	80,000	—	80,000	—
Operating leases (3) . . . . .	25,717	14,236	11,481	—
Purchase obligations (4) . . . . .	907	907	—	—
Other long-term liabilities . . . . .	106	—	106	—
Total contractual cash obligations . . . . .	<u>\$519,202</u>	<u>\$15,143</u>	<u>\$504,059</u>	<u>\$—</u>

(1) Includes our obligations under the Deerfield Notes and the 2019 Notes. See “—Certain Factors Important to Understanding Our Financial Condition and Results of Operations” and “Note 7—Debt” of the Notes to Consolidated Financial Statements regarding the terms of the Deerfield Notes and the 2019 Notes.

- (2) Includes our obligations under our loan from Silicon Valley Bank. See “—Certain Factors Important to Understanding Our Financial Condition and Results of Operations” and “Note 7—Debt” of the Notes to Consolidated Financial Statements regarding the terms of our loan from Silicon Valley Bank.
- (3) The operating lease payments do not include \$6.1 million to be received through 2017 in connection with the subleases for three of our South San Francisco buildings.
- (4) At December 31, 2015, we had firm purchase commitments related to manufacturing and maintenance of inventory. These commitments include a portion of our 2015 contractual minimum purchase obligation. Our actual purchases are expected to significantly exceed these amounts.

In connection with the sale of our plant trait business, we agreed to indemnify the purchaser and its affiliates up to a specified amount if they incur damages due to any infringement or alleged infringement of certain patents. We have certain collaboration licensing agreements, which contain standard indemnification clauses. Such clauses typically indemnify the customer or vendor for an adverse judgment in a lawsuit in the event of our misuse or negligence. We consider the likelihood of an adverse judgment related to an indemnification agreement to be remote. Furthermore, in the event of an adverse judgment, any losses under such an adverse judgment may be substantially offset by applicable corporate insurance.

### Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2015-17 *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, or ASU 2015-17. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We have early adopted this standard in the fourth quarter of 2015 on a prospective basis. Prior periods have not been adjusted.

In April 2015, the FASB issued Accounting Standards Update 2015-03 *Simplifying the Presentation of Debt Issuance Costs which Changes the Presentation of Debt Issuance Costs in Financial Statements*, or ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company early adopted ASU 2015-03 as of December 31, 2015, as permitted. There is no impact of early adoption of ASU 2015-03 on the consolidated statements of operations and comprehensive loss. The impact of early adoption on the consolidated balance sheets as of the dates presented is noted in the table below (in thousands):

	December 31, 2015			December 31, 2014		
	Prior to Adoption of ASU 2015-03	ASU 2015-03 Adjustment	As Adopted	Prior to Adoption of ASU 2015-03 (as previously reported)	ASU 2015-03 Adjustment	As Adopted
Other long-term assets	5,579	(3,270)	2,309	8,340	(4,691)	3,649
Total assets	335,612	(3,270)	332,342	327,960	(4,691)	323,269
Current portion of convertible notes	—	—	—	98,880	(1,431)	97,449
Current liabilities	52,251	—	52,251	171,860	(1,431)	170,429
Long-term portion of convertible notes	304,705	(3,270)	301,435	182,395	(3,260)	179,135
Total liabilities	439,916	(3,270)	436,646	442,789	(4,691)	438,098

## Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09. ASU 2014-09 supersedes the revenue recognition requirements of FASB Accounting Standards Codification, or ASC, Topic 605, *Revenue Recognition* and most industry-specific guidance throughout the ASC, resulting in the creation of FASB ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB deferred the effective date by one year for public entities for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted for periods after December 15, 2016. We are currently evaluating the impact of adopting ASU 2014-09, inclusive of available transitional methods on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, or ASU 2014-15. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and earlier application is permitted. The adoption of this guidance will not have any impact on the Company's financial position and results of operations and, at this time, we do not expect any impact on its disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases*, or ASU 2016-02. ASU 2016-02 is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

## Off-Balance Sheet Arrangements

As of December 31, 2015, we did not have any material off-balance-sheet arrangements, as defined by applicable SEC regulations.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. As of December 31, 2015 and 2014, we had cash and investments of \$253.3 million and \$242.8 million, respectively. Our investments are subject to interest rate risk, and our interest income may fluctuate due to changes in U.S. interest rates. We manage market risk through diversification requirements mandated by our investment policy, which limits the amount of our portfolio that can be invested in a single issuer. We limit our credit risk by limiting purchases to high-quality issuers. At December 31, 2015 and 2014, we had debt outstanding of \$381.4 million and \$357.0 million, respectively. Our payment commitments associated with these debt instruments are primarily fixed and consist of interest payments, principal payments, or a combination of both. The fair value of our investments and our debt will fluctuate with movements of interest rates. We have estimated the effects on our interest rate sensitive assets and liabilities based on a one percentage point hypothetical adverse change in interest rates as of December 31, 2015 and 2014. For our investments, the estimated effects of hypothetical interest rate changes are obtained from the same third-party pricing sources we use to value our investments. For debt instruments, we determine the estimated effects of hypothetical interest rate changes using the same present value model we use to determine the fair of value of those instruments. As of December 31, 2015 and 2014, a decrease 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 \$8.7 million and \$7.8 million, respectively. The decrease as of December 31, 2015 includes all of our debt outstanding. The decrease as of December 31, 2014 excludes the Deerfield Notes as we believed it was not practicable to determine the fair value of the Deerfield Notes as of December 31, 2014, and therefore were unable to determine the impact on fair value of decrease in the interest rates of one percentage point for those notes.

In addition, we have exposure to fluctuations in certain foreign currencies in countries in which we conduct clinical trials. Most of our foreign expenses incurred were associated with establishing and conducting clinical trials for cabozantinib at sites outside of the United States. 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. As of December 31, 2015 and 2014, approximately \$3.2 million and \$5.5 million, respectively, of our clinical accrual balance 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 for any periods presented.

We recorded a \$0.1 million and \$0.5 million gain relating to foreign exchange fluctuations for the years ended December 31, 2015 and 2014, respectively. Such gains and losses were nominal in 2013.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**EXELIXIS, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page</u>
Report of Independent Registered Public Accounting Firm .....	80
Consolidated Balance Sheets .....	81
Consolidated Statements of Operations .....	82
Consolidated Statements of Comprehensive Loss .....	83
Consolidated Statements of Stockholders' Equity (Deficit) .....	84
Consolidated Statements of Cash Flows .....	85
Notes to Consolidated Financial Statements .....	86

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Exelixis, Inc.

We have audited the accompanying consolidated balance sheets of Exelixis, Inc. as of January 1, 2016 and January 2, 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit) and cash flows for each of the three fiscal years in the period ended January 1, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Exelixis, Inc. at January 1, 2016 and January 2, 2015, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended January 1, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Exelixis, Inc.'s internal control over financial reporting as of January 1, 2016, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Redwood City, California  
February 29, 2016



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

	December 31,	
	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 141,634	\$ 80,395
Short-term investments .....	25,426	63,890
Short-term restricted cash and investments .....	—	12,212
Trade and other receivables .....	5,183	4,882
Inventory .....	2,616	2,381
Prepaid expenses and other current assets .....	3,806	3,481
Total current assets .....	178,665	167,241
Long-term investments .....	83,600	81,579
Long-term restricted cash and investments .....	2,650	4,684
Property and equipment, net .....	1,434	2,432
Goodwill .....	63,684	63,684
Other long-term assets .....	2,309	3,649
Total assets .....	\$ 332,342	\$ 323,269
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable .....	\$ 6,401	\$ 6,413
Accrued clinical trial liabilities .....	18,071	41,545
Accrued collaboration liability .....	10,938	732
Accrued compensation and benefits .....	3,629	3,350
Other accrued liabilities .....	10,007	11,550
Current portion of restructuring .....	3,205	6,426
Current portion of convertible notes .....	—	97,449
Current portion of loans payable .....	—	381
Deferred revenue .....	—	2,583
Total current liabilities .....	52,251	170,429
Long-term portion of convertible notes .....	301,435	179,135
Long-term portion of loans payable .....	80,000	80,000
Long-term portion of restructuring .....	1,385	4,365
Other long-term liabilities .....	1,575	4,169
Total liabilities .....	436,646	438,098
Commitments (Note 13)		
Stockholders' deficit:		
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: 227,960,943 and 195,895,769 shares at December 31, 2015 and 2014, respectively .....	228	196
Additional paid-in capital .....	1,832,741	1,652,400
Accumulated other comprehensive loss .....	(232)	(121)
Accumulated deficit .....	(1,937,041)	(1,767,304)
Total stockholders' deficit .....	(104,304)	(114,829)
Total liabilities and stockholders' deficit .....	\$ 332,342	\$ 323,269

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

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

	Year Ended December 31,		
	2015	2014	2013
Revenues:			
Net product revenues	\$ 34,158	\$ 25,111	\$ 15,017
License and contract revenues	3,014	—	16,321
Total revenues	<u>37,172</u>	<u>25,111</u>	<u>31,338</u>
Operating expenses:			
Cost of goods sold	3,895	2,043	1,118
Research and development	96,351	189,101	178,763
Selling, general and administrative	57,305	50,829	50,958
Restructuring charges	1,042	7,596	1,231
Total operating expenses	<u>158,593</u>	<u>249,569</u>	<u>232,070</u>
Loss from operations	(121,421)	(224,458)	(200,732)
Other income (expense), net:			
Interest income and other, net	412	4,341	1,223
Interest expense	(48,673)	(48,607)	(45,347)
Total other income (expense), net	<u>(48,261)</u>	<u>(44,266)</u>	<u>(44,124)</u>
Loss before income taxes	(169,682)	(268,724)	(244,856)
Income tax provision (benefit)	55	(182)	(96)
Net loss	<u>\$(169,737)</u>	<u>\$(268,542)</u>	<u>\$(244,760)</u>
Net loss per share, basic and diluted	\$ (0.81)	\$ (1.38)	\$ (1.33)
Shares used in computing basic and diluted net loss per share amounts	209,227	194,299	184,062

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

**EXELIXIS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(in thousands)**

	Year Ended December 31,		
	2015	2014	2013
Net loss .....	\$(169,737)	\$(268,542)	\$(244,760)
Other comprehensive (loss) income, net of tax of \$0, \$0 and \$106 (1) .....	(111)	(267)	238
Comprehensive loss .....	\$(169,848)	\$(268,809)	\$(244,522)

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

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

**EXELIXIS, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
(in thousands, except share data)

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
Balance at December 31, 2012 . . . . .	183,697,213	\$183	\$1,550,345	\$ (92)	\$(1,254,002)	\$ 296,434
Net loss . . . . .	—	—	—	—	(244,760)	(244,760)
Other comprehensive income . . . . .	—	—	—	238	—	238
Issuance of common stock under stock plans . . . . .	836,438	1	2,294	—	—	2,295
Stock-based compensation expense . . .	—	—	12,031	—	—	12,031
Balance at December 31, 2013 . . . . .	184,533,651	184	1,564,670	146	(1,498,762)	66,238
Net loss . . . . .	—	—	—	—	(268,542)	(268,542)
Other comprehensive loss . . . . .	—	—	—	(267)	—	(267)
Sale of shares of common stock, net . . .	10,000,000	10	75,633	—	—	75,643
Issuance of common stock under stock plans . . . . .	1,362,118	2	2,091	—	—	2,093
Stock-based compensation expense . . .	—	—	10,006	—	—	10,006
Balance at December 31, 2014 . . . . .	195,895,769	196	1,652,400	(121)	(1,767,304)	(114,829)
Net loss . . . . .	—	—	—	—	(169,737)	(169,737)
Other comprehensive loss . . . . .	—	—	—	(111)	—	(111)
Sale of shares of common stock, net . . .	28,750,000	29	145,620	—	—	145,649
Warrants transferred from other long- term liabilities . . . . .	—	—	1,470	—	—	1,470
Issuance of common stock under stock plans . . . . .	3,315,174	3	11,274	—	—	11,277
Stock-based compensation expense . . .	—	—	21,977	—	—	21,977
Balance at December 31, 2015 . . . . .	<u>227,960,943</u>	<u>\$228</u>	<u>\$1,832,741</u>	<u>\$(232)</u>	<u>\$(1,937,041)</u>	<u>\$(104,304)</u>

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

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

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net loss	\$(169,737)	\$(268,542)	\$(244,760)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,406	2,391	3,147
Stock-based compensation expense	21,977	10,006	12,031
Accretion of debt discount	25,034	29,534	26,290
Accrual of interest paid in kind	3,817	—	—
Gain on sale of business and other equity investment	(112)	(838)	—
Changes in the fair value of warrants	548	(1,840)	—
Other	1,327	4,161	6,787
Changes in assets and liabilities:			
Trade and other receivables	(646)	(941)	(1,190)
Inventory	(235)	509	(2,890)
Prepaid expenses and other current assets	(325)	1,526	1,034
Other long-term assets	1,340	(2,149)	—
Accounts payable, accrued compensation, and other accrued liabilities	(1,276)	(13,945)	8,691
Clinical trial liability	(23,474)	6,587	14,398
Accrued collaboration liability	10,206	732	—
Restructuring liability	(7,180)	(2,302)	(5,750)
Deferred revenue	(2,582)	1,133	(14,871)
Other long-term liabilities	(1,673)	(1,427)	(1,690)
Net cash used in operating activities	<u>\$(141,585)</u>	<u>\$(235,405)</u>	<u>\$(198,773)</u>
Cash flows from investing activities:			
Purchases of property and equipment	(447)	(474)	(2,171)
Proceeds from sale of property and equipment	1,346	392	143
Proceeds from sale of business and other equity investment	95	838	—
Proceeds from maturities of restricted cash and investments	19,789	20,354	17,268
Purchase of restricted cash and investments	(5,650)	(8,143)	(6,085)
Proceeds from maturities of investments	178,936	252,891	325,171
Purchases of investments	(143,992)	(119,528)	(189,975)
Net cash provided by investing activities	<u>50,077</u>	<u>146,330</u>	<u>144,351</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	145,649	75,643	—
Proceeds from exercise of stock options and warrants	10,911	120	72
Proceeds from employee stock purchase plan	568	1,438	1,429
Principal payments on debt	(4,381)	(11,709)	(13,170)
Net cash provided by (used in) financing activities	<u>152,747</u>	<u>65,492</u>	<u>(11,669)</u>
Net increase (decrease) in cash and cash equivalents	61,239	(23,583)	(66,091)
Cash and cash equivalents at beginning of year	80,395	103,978	170,069
Cash and cash equivalents at end of year	<u>\$ 141,634</u>	<u>\$ 80,395</u>	<u>\$ 103,978</u>
Supplemental cash flow disclosure:			
Cash paid for interest	\$ 19,822	\$ 19,109	\$ 19,160
Cash paid for taxes	\$ 192	\$ 60	\$ —
Non-cash financing activity:			
Issuance of warrants in connection with amendment to convertible notes	\$ —	\$ 2,762	\$ —

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

## EXELIXIS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization

Exelixis, Inc. (“Exelixis,” “we,” “our” or “us”) is a biopharmaceutical company that discovers, develops and commercializes small molecule therapies for the treatment of cancer. Our business focuses predominantly on the development and commercialization of cabozantinib, an internally-discovered inhibitor of multiple receptor tyrosine kinases, in various tumor indications. Cabozantinib is currently approved in the United States and European Union for the treatment of progressive, metastatic medullary thyroid cancer (“MTC”), and is marketed under the brand name COMETRIQ®.

##### Basis of Consolidation

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

##### Basis of Presentation

Exelixis has adopted a 52- or 53-week fiscal year that generally ends on the Friday closest to December 31st. Fiscal year 2013, a 52-week year, ended on December 27, 2013, fiscal year 2014, a 53-week year, ended on January 2, 2015, fiscal year 2015, a 52-week year, ended on January 1, 2016, and fiscal year 2016 will end on December 30, 2016. For convenience, references in this report as of and for the fiscal years ended December 27, 2013, January 2, 2015 and January 1, 2016, are indicated on a calendar year basis, ended December 31, 2013, 2014 and 2015, respectively. The quarter ended January 2, 2015 is a 14-week fiscal quarter; all other interim periods presented are 13-week fiscal quarters.

##### Segment Information

We operate as a single reportable segment.

##### Use of Estimates

The preparation of our consolidated financial statements is in conformity with accounting principles generally accepted in the United States which requires management to make judgments. The preparation of our consolidated financial statements is in conformity with accounting principles generally accepted in the United States 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 for deductions from revenues (such as rebates, chargebacks, sales returns and sales allowances), recoverability of inventory, certain accrued liabilities including clinical trial accruals and restructuring liabilities, share-based compensation and valuation of warrants. 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.

## **Reclassifications**

Certain prior period amounts in the consolidated balance sheet have been reclassified to conform to current period presentation. We reclassified \$0.7 million of Other accrued liabilities as of December 31, 2014 to Accrued collaboration liability in the accompanying consolidated balance sheets.

## **Limited Sources of Revenues and the Need to Raise Additional Capital**

We have incurred net losses since inception through December 31, 2015, with the exception of the 2011 fiscal year. We anticipate net losses and negative operating cash flow for the foreseeable future. For the year ended December 31, 2015, we incurred a net loss of \$169.7 million and as of December 31, 2015, we had an accumulated deficit of \$1.9 billion. We expect to continue to incur substantial operating expenses and, consequently, we will need to generate significant additional revenues to achieve future profitability.

We commercially launched COMETRIQ for the treatment of progressive, metastatic MTC in the United States in late January 2013, and from the commercial launch through December 31, 2015, we have generated \$74.3 million in net revenues from the sale of COMETRIQ. Other than revenues from COMETRIQ, we have derived substantially all of our revenues since inception from collaborative research and development agreements, which depend on research funding, the achievement of milestones, and royalties we earn from any future products developed from the collaborative research.

The amount of our net losses will depend, in part, on: the rate of growth, if any, in our sales of COMETRIQ; the level of sales of cabozantinib in the United States for the treatment of advanced RCC, if approved by the FDA for such indication; receipt of the upfront payment, achievement of clinical, regulatory and commercial milestones and the amount of royalties from sales of cabozantinib for the treatment of advanced RCC in the European Union and elsewhere, if approved for such indication under our collaboration with Ipsen; our share of the net profits and losses for the commercialization of COTELLIC in the U.S.; the amount of royalties from COTELLIC sales outside the U.S.; other license and contract revenues; and, the level of expenses primarily with respect to expanded commercialization activities for cabozantinib.

As of December 31, 2015, we had \$253.3 million in cash and investments, which included \$169.0 million available for operations, \$81.6 million of compensating balance investments that we are required to maintain on deposit with Silicon Valley Bank, and \$2.7 million of long-term restricted investments. We anticipate that our current cash and cash equivalents, and short-term investments available for operations, and product revenues, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. Our capital requirements will depend on many factors, and we may need to use available capital resources and raise additional capital significantly earlier than we currently anticipate.

## **Cash and Investments**

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include investments in high-grade, short-term money market funds, commercial paper and municipal securities, which are subject to minimal credit and market risk.

We have designated all investments as available-for-sale and therefore, such investments are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss. For securities sold prior to maturity, the cost of securities sold is based on the specific identification method. Realized gains and losses on the sale of investments are recorded in interest and other income, net.

We classify those investments we do not require for use in current operations that mature in more than 12 months as Long-term investments on our Consolidated Balance Sheets. Additionally, those investments that

collateralize loan balances with terms that extend 12 months or longer were classified as long-term investments even if the investment's remaining term to maturity was one year or less; they are not restricted to withdrawal.

All of our investments are subject to a quarterly impairment review. We recognize an impairment charge when a decline in the fair value of an investment below its cost basis is judged to be other-than-temporary. Factors considered in determining whether a loss is temporary included the length of time and extent to which the investments fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, extent of the loss related to credit of the issuer, the expected cash flows from the security, our intent to sell the security and whether or not we will be required to sell the security before the recovery of its amortized cost. During the years ended December 31, 2015, 2014, and 2013, we did not record any other-than-temporary impairment charges on our available-for-sale securities.

### **Fair Value Measurements**

Fair value reflects the amounts that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We disclose the fair value of financial instruments for assets and liabilities for which the value is practicable to estimate. For those financial instruments measured and recorded at fair value on a recurring basis, we also provide fair value hierarchy information in these Notes to Consolidated Financial Statements. The fair value hierarchy has the following three levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity can access at the measurement date.

Level 2 – observable inputs, other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly. These inputs include using prices from independent pricing services based on quoted prices in active markets for similar instruments or on industry models using data inputs, such as interest rates and prices that can be directly observed or corroborated in active markets.

Level 3 – unobservable inputs.

A review of the fair value hierarchy classification is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain investments within the fair value hierarchy. During the years ended December 31, 2015, 2014, and 2013, there were no such reclassifications.

### **Inventory**

Inventory is valued at the lower of cost or net realizable value. We determine the cost of inventory using the standard-cost method, which approximates actual cost based on a first-in, first-out method. We analyze our inventory levels quarterly and write down inventory subject to expiry in excess of expected requirements, or that has a cost basis in excess of its expected net realizable value. The related costs are recognized as cost of goods sold in the Consolidated Statements of Operations.

We analyze our estimated production levels for the following twelve month period, which is our normal operating cycle, quarterly and reclassify inventory we do not expect to use within the next twelve months into Other long-term assets in the Consolidated Balance Sheets.

We consider regulatory approval of product candidates to be uncertain and product manufactured prior to regulatory approval may not be sold unless regulatory approval is obtained. As such, the manufacturing costs for product candidates incurred prior to regulatory approval were not capitalized as inventory but were expensed as research and development costs. When regulatory approval is obtained, we begin capitalization of inventory related costs.



## Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the following estimated useful lives:

Equipment and furniture . . . . .	5 years
Computer equipment and software . . . . .	3 years
Leasehold improvements . . . . .	Shorter of lease life or 7 years

Capitalized software includes certain internal use computer software costs.

Repairs and maintenance costs are charged to expense as incurred.

## Goodwill

Goodwill amounts have been recorded as the excess purchase price over tangible assets, liabilities and intangible assets acquired based on their estimated fair value. Goodwill is not subject to amortization. We evaluate goodwill for impairment on an annual basis and on an interim basis if events or changes in circumstances between annual impairment tests indicate that the asset might be impaired. We continue to operate in one segment, which is also considered to be our sole reporting unit and therefore, goodwill was tested for impairment at the enterprise level as of December 31, 2015 and 2014.

## Long-Lived Assets

Long-lived assets include property and equipment. The carrying value of our long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

## Revenue Recognition

We recognize revenue from product sales and from license fees, milestones, contingent payments and royalties earned on research and collaboration arrangements.

### *Net Product Revenues*

We recognize revenue when it is both realized or realizable and earned, meaning persuasive evidence of an arrangement exists, delivery has occurred, title has transferred, the price is fixed or determinable, there are no remaining customer acceptance requirements, and collectability of the resulting receivable is reasonably assured. For product sales in the United States, this generally occurs upon delivery of the product to the specialty pharmacy. For product sales in Europe, this generally occurs when our European distribution partner has accepted the product, at which time they are no longer able to return the product.

We sell our product, COMETRIQ, in the United States to a specialty pharmacy that benefits from customer incentives and has a right of return. Prior to 2015, COMETRIQ had limited sales history and we could not reliably estimate expected future returns, discounts and rebates of the product at the time the product was sold to the specialty pharmacy, therefore we recognized revenue when the specialty pharmacy provided the product to a patient based on the fulfillment of a prescription, frequently referred to as the “sell-through” revenue recognition model. Recently we have established sufficient historical experience and data to reasonably estimate expected future returns of the product and the discounts and rebates due to payors at the time of shipment to the specialty

pharmacy. Accordingly, beginning in January 2015 we began to recognize revenue upon delivery to our U.S. specialty pharmacy. This approach is frequently referred to as the “sell-in” revenue recognition model. In connection with the change in the timing of recognition of U.S. COMETRIQ sales, we recorded a one-time adjustment to recognize revenue and related costs that had previously been deferred at December 31, 2014, resulting in additional gross product revenues of \$2.6 million and a nominal amount of cost of goods sold for the year ended December 31, 2015; there were no such adjustments recorded during 2014 and 2013.

We also utilize the “sell-in” revenue recognition model for sales to our European distribution partner for all periods presented. Once the European distributor has accepted the product, the product is no longer subject to return; therefore, we record revenue at the time our European distribution partner has accepted the product.

### *Product Sales Discounts and Allowances*

We calculate gross product revenues based on the price that we charge our United States specialty pharmacy and our European distribution partner. We estimate our domestic net product revenues by deducting from our gross product revenues (a) trade allowances, such as discounts for prompt payment, (b) estimated government rebates and chargebacks, (c) estimated costs of patient assistance programs, and (d) certain other fees paid to the U.S specialty pharmacy. Discounts and allowances for foreign sales for the years ended December 31, 2015 and 2014 included portions of a one-time \$2.4 million project management fee payable to our European distribution partner upon its achievement of a cumulative revenue goal. During 2014, we determined that the achievement of the revenue goal was probable and therefore we recorded \$2.3 million of the \$2.4 million project management fee, of which \$0.7 million would have been recorded in 2013 had the cumulative revenue goal been determined to be probable in that period. During 2015 we recorded an additional \$0.1 million of the project management fee.

We initially record estimates for these deductions at the time we recognize the gross revenue. We update our estimates on a recurring basis as new information becomes available.

*Customer Credits:* The United States specialty pharmacy receives a discount of 2% for prompt payment. We expect this specialty pharmacy will earn 100% of its prompt payment discounts and, therefore, we deduct the full amount of these discounts from total product sales when revenues are recognized.

*Mandated Rebates:* Allowances for rebates include mandated discounts under the Medicaid Drug Rebate Program and other government programs. Rebate amounts owed after the final dispensing of the product to a benefit plan participant are based upon contractual agreements or legal requirements with public sector benefit providers, such as Medicaid. The allowance for rebates is based on statutory discount rates and expected utilization. Our estimates for the expected utilization of rebates are based on customer and payer data received from the United States specialty pharmacy and historical utilization rates. Rebates are generally invoiced by the payer and paid in arrears, such that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter’s shipments to patients, plus an accrual balance for known prior quarter’s unpaid rebates. If actual future rebates vary from estimates, we may need to adjust our accruals, which would affect net revenue in the period of adjustment.

*Chargebacks:* Chargebacks are discounts that occur when contracted customers purchase directly from a specialty pharmacy. Contracted customers, which currently consist primarily of Public Health Service institutions, non-profit clinics, and Federal government entities purchasing via the Federal Supply Schedule, generally purchase the product at a discounted price. The United States specialty pharmacy, in turn, charges back to us the difference between the price initially paid by the specialty pharmacy and the discounted price paid to the specialty pharmacy by the customer. The allowance for chargebacks is based on an estimate of sales to contracted customers.

*Medicare Part D Coverage Gap:* In the United States, the Medicare Part D prescription drug benefit mandates manufacturers to fund 50% of the Medicare Part D insurance coverage gap for prescription drugs sold

to eligible patients. Our estimates for expected Medicare Part D coverage gap are based in part on third party market research data and on customer and payer data received from the United States specialty pharmacy. Funding of the coverage gap is invoiced and paid in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter's shipments to patients, plus an accrual balance for prior sales. If actual future funding varies from estimates, we may need to adjust our accruals, which would affect net revenue in the period of adjustment.

*Co-payment Assistance:* Patients who have commercial insurance and meet certain eligibility requirements may receive co-payment assistance. We accrue a liability for co-payment assistance based on actual program participation and estimates of program redemption using customer data provided by our United States specialty pharmacy.

Our European distribution partner is entitled to receive a project management fee based upon the achievement of a pre-specified revenue goal which, when deemed probable, is ratably accrued as a reduction to gross revenue.

### ***License and Contract Revenues***

Under the terms of our collaboration agreement with Genentech, Inc. (a member of the Roche Group) ("Genentech") for cobimetinib, we are entitled to a share of U.S. profits and losses for cobimetinib. We are entitled to low double-digit royalties on ex-U.S. net sales. See "Note 2—Research and Collaboration Agreements" for additional information about our collaboration agreement with Genentech. We record our share of profits and royalties under the collaboration agreement when reported to us by our collaboration partner; losses under the collaboration agreement are recorded in the period incurred based on our estimate of those losses. Profits and royalties are classified as license revenues in our Consolidated Statements of Operations. As of December 31, 2015, we have not recognized any profits from the commercialization of cobimetinib in the U.S. Until we have recognized such a profit under the agreement, losses are recognized as Selling, General and Administrative expenses in our Consolidated Statements of Operations. We have determined that we are an agent under the agreement and therefore revenues are recorded net of costs incurred.

License, research commitment and other non-refundable payments received in connection with research collaboration agreements are deferred and recognized on a straight-line basis over the period of continuing involvement, generally the research term specified in the agreement. Contract research revenues are recognized as services are performed pursuant to the terms of the agreements. Any amounts received in advance of performance are recorded as deferred revenue. Payments are not refundable if research is not successful. License fees are classified as license revenues in our Consolidated Statements of Operations.

We enter into corporate collaborations under which we may obtain upfront license fees, research funding, contingent, milestone and royalty payments. Our deliverables under these arrangements typically consist of intellectual property rights and research and development services. We evaluate whether the delivered elements under these arrangements have value to our collaboration partner on a stand-alone basis and whether objective and reliable evidence of fair value of the undelivered item exists. If we determine that multiple deliverables exist, the consideration is allocated to one or more units of accounting based upon the best estimate of the selling price of each deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. A delivered item or items that do not qualify as a separate unit of accounting within the arrangement shall be combined with the other applicable undelivered items within the arrangement. The allocation of arrangement consideration and the recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting. A delivered item or items that do not have stand-alone value to our collaboration partner shall be combined with the other applicable undelivered items within the arrangement. The allocation of arrangement consideration and the

recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting. For a combined unit of accounting, non-refundable upfront fees and milestones are recognized in a manner consistent with the final deliverable, which has generally been ratably over the period of the research and development obligation.

Contingency payments (received upon the achievement of certain events by our collaborators) and milestone payments (received upon the achievement of certain events by us) are non-refundable and recognized as revenues over the period of the research arrangement. This typically results in a portion of the payments being recognized at the date the contingency or milestone is achieved, which portion is equal to the applicable percentage of the research term that has elapsed at the date of achievement, and the balance being recognized over the remaining research term of the agreement. In certain situations, we may receive contingent payments after the end of our period of continued involvement. In such circumstances, we would recognize 100% of the contingent revenues when the contingency is achieved. Contingency and milestones payments, when recognized as revenue, are classified as contract revenues in our Consolidated Statements of Operations.

### ***Patient Assistance Program***

We provide COMETRIQ at no cost to eligible patients who have no insurance and meet certain financial and clinical criteria through our Patient Assistance Program (“PAP”). We record the cost of the product as a selling, general and administrative expense at the time the product is shipped to the specialty pharmacy for PAP use.

### **Cost of Goods Sold**

Cost of goods sold is related to our product revenues and consists primarily of a 3% royalty on net sales of any product incorporating cabozantinib payable to GlaxoSmithKline, indirect labor costs, the cost of manufacturing, write-downs related to expiring and excess inventory, and other third party logistics costs of our product. A portion of the manufacturing costs for product sales were incurred prior to regulatory approval of COMETRIQ for the treatment of progressive, metastatic MTC and, therefore, were expensed as research and development costs when those costs were incurred, rather than capitalized as inventory.

In accordance with our product development and commercialization agreement with GlaxoSmithKline, we are required to pay GlaxoSmithKline a 3% royalty on the Net Sales of any product incorporating cabozantinib, including COMETRIQ. Net Sales is defined in the product development and commercialization agreement as the gross invoiced sales price less customer credits, rebates, chargebacks, shipping costs, customs duties, and sales tax and other similar tax payments we are required to make.

### **Research and Development Expenses**

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

Substantial portions of our preclinical studies and all of our clinical trials have been executed with support from third-party contract research organizations (“CROs”) and other vendors. We accrue expenses for preclinical studies performed by our vendors based on certain estimates over the term of the service period and adjust our estimates as required. We accrue expenses for clinical trial activities performed by CROs based upon the estimated amount of work completed on each trial. For clinical trial expenses, the significant factors used in estimating accruals include the number of patients enrolled, the number of active clinical sites, and the duration

for which the patients will be enrolled in the trial. We monitor patient enrollment levels and related activities to the extent possible through internal reviews, correspondence with CROs and review of contractual terms. We base our estimates on the best information available at the time. However, additional information may become available to us which may allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain. Such increases or decreases in cost are generally considered to be changes in estimates and will be reflected in research and development expenses in the period first known.

### **Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share gives effect to potential incremental common shares issuable upon the exercise of stock options and warrants, and shares issuable pursuant to restricted stock units (“RSUs”) (calculated based on the treasury stock method), and upon conversion of our convertible debt (calculated using an as-if-converted method) as long as such shares are not anti-dilutive. The calculation of diluted loss per share requires that, to the extent the average market price of the underlying shares for the reporting period exceeds the exercise price of the warrants and the presumed exercise of such securities are dilutive to loss per share for the period, adjustments to net loss used in the calculation are required to remove the change in fair value of the warrants for the period. Likewise, adjustments to the denominator are required to reflect the related dilutive shares.

### **Foreign Currency Translation and Remeasurement**

Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured using exchange rates in effect at the end of the period and related gains or losses are recorded in interest income and other, net. Gains and losses on the remeasurement of monetary assets and liabilities were not material for any of the years presented. We do not have any nonmonetary assets or liabilities denominated in currencies other than the U.S. dollar.

### **Stock-Based Compensation**

Stock-based compensation expense for all stock-based compensation awards is based on the grant date fair value estimated using the Black-Scholes Merton option pricing model. Because there is a market for options on our common stock, we have considered implied volatilities as well as our historical realized volatilities when developing an estimate of expected volatility. We estimate the term using historical data. We recognize compensation expense on a straight-line basis over the requisite service period. Compensation expense relating to awards subject to performance conditions is recognized if it is probable that the performance goals will be achieved. The probability of achievement is assessed on a quarterly basis. The total number of awards expected to vest is adjusted for estimated forfeitures. We have elected to use the simplified method to calculate the beginning pool of excess tax benefits.

### **Recently Adopted Accounting Pronouncements**

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-17 *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, or ASU 2015-17. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We have early adopted this standard in the fourth quarter of 2015 on a prospective basis. Prior periods have not been adjusted.

In April 2015, the FASB issued Accounting Standards Update 2015-03 *Simplifying the Presentation of Debt Issuance Costs which Changes the Presentation of Debt Issuance Costs in Financial Statements* (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company early adopted ASU 2015-03 as of December 31, 2015, as permitted. There is no impact of early adoption of ASU 2015-03 on the consolidated statements of operations and comprehensive loss. The impact of early adoption on the consolidated balance sheets as of the dates presented is noted in the table below (in thousands):

	December 31, 2015			December 31, 2014		
	Prior to Adoption of ASU 2015-03	ASU 2015-03 Adjustment	As Adopted	Prior to Adoption of ASU 2015-03 (as previously reported)	ASU 2015-03 Adjustment	As Adopted
Other long-term assets . . . . .	5,579	(3,270)	2,309	8,340	(4,691)	3,649
Total assets . . . . .	335,612	(3,270)	332,342	327,960	(4,691)	323,269
Current portion of convertible notes . . . . .	—	—	—	98,880	(1,431)	97,449
Current liabilities . . . . .	52,251	—	52,251	171,860	(1,431)	170,429
Long-term portion of convertible notes . . . . .	304,705	(3,270)	301,435	182,395	(3,260)	179,135
Total liabilities . . . . .	439,916	(3,270)	436,646	442,789	(4,691)	438,098

### Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements of FASB Accounting Standards Codification (“ASC”) Topic 605, *Revenue Recognition* and most industry-specific guidance throughout the ASC, resulting in the creation of FASB ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB deferred the effective date by one year for public entities for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted for periods after December 15, 2016. We are currently evaluating the impact of adopting ASU 2014-09, inclusive of available transitional methods on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, (“ASU 2014-15”). ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and earlier application is permitted. The adoption of this guidance will not have any impact on the Company’s financial position and results of operations and, at this time, we do not expect any impact on its disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases*, (“ASU 2016-02”). ASU 2016-02 is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

## **NOTE 2. RESEARCH AND COLLABORATION AGREEMENTS**

### **Ipsen Collaboration**

On February 29, 2016, we entered into a collaboration and license agreement with Ipsen Pharma SAS, (“Ipsen”) pursuant to which Ipsen has exclusive commercialization rights for current and potential future cabozantinib indications outside of the United States, Canada and Japan. The companies have agreed to collaborate on the development of cabozantinib for current and potential future indications. See “Note 15—Subsequent Events” for more information regarding our Ipsen collaboration.

### **Genentech Collaboration**

In December 2006, we out-licensed the development and commercialization of cobimetinib to Genentech pursuant to a worldwide collaboration agreement. Exelixis discovered cobimetinib internally and advanced the compound to investigational new drug (“IND”), status.

Genentech paid upfront and milestone payments of \$25.0 million in December 2006 and \$15.0 million in January 2007 upon signing of the collaboration agreement and with the submission of the IND application for cobimetinib. Under the terms of the agreement, we were responsible for developing cobimetinib through the determination of the maximum-tolerated dose in a phase 1 clinical trial, and Genentech had the option to co-develop cobimetinib, which Genentech could exercise after receipt of certain phase 1 data from us. In March 2008, Genentech exercised its option to co-develop cobimetinib. In March 2009, we granted to Genentech an exclusive worldwide revenue-bearing license to cobimetinib, at which point Genentech became responsible for completing the phase 1 clinical trial and subsequent clinical development.

The U.S. Food and Drug Administration approved cobimetinib in the United States under the brand name COTELLIC™ on November 10, 2015. It is indicated in combination with vemurafenib as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma. COTELLIC in combination with vemurafenib has also been approved in Switzerland, the European Union and Canada for use in the same indication.

Under the terms of our collaboration agreement with Genentech for cobimetinib, we are entitled to a share of U.S. profits and losses for cobimetinib. The profit and loss share has multiple tiers: we are entitled to 50% of profits and losses from the first \$200 million of U.S. actual sales, decreasing to 30% of profits and losses from U.S. actual sales in excess of \$400 million. We are entitled to low double-digit royalties on ex-U.S. net sales. In November 2013, we exercised an option under the collaboration agreement to co-promote in the United States, if commercialized. Following the approval of COTELLIC in the United States in November 2015, we began fielding 25% of the sales force promoting COTELLIC in combination with vemurafenib as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma.

We recorded net losses of \$16.6 million, \$2.9 million and \$0.7 million under the collaboration agreement during the years ended December 31, 2015, 2014 and 2013, respectively; those costs are included in Selling, General and Administrative expenses on the accompanying Consolidated Statement of Operations. A portion of the liability for those costs, identified as Accrued collaboration liability on the accompanying Consolidated Balance Sheets, includes commercialization expenses that Genentech has allocated to the collaboration but remain under discussion between us and Genentech. We also recognized license revenues of \$14 thousand for royalties on ex-U.S. net sales of COTELLIC during the year ended December 31, 2015. We recognized no such royalties during the years ended December 31, 2014 and 2013.

### **Other Collaborations**

We have established collaborations with other leading pharmaceutical and biotechnology companies, including GlaxoSmithKline, Bristol-Myers Squibb Company (“Bristol-Myers Squibb”), Sanofi, Merck (known as MSD outside of the United States and Canada) and Daiichi Sankyo Company Limited (“Daiichi Sankyo”), for

various compounds and programs in our portfolio. With the exception of collaboration with Ipsen, we have fully out-licensed compounds or programs to a partner for further development and commercialization under these collaborations and have no further development cost obligations under our collaborations. Under each of our collaborations, we are entitled to receive milestones and royalties, or in the case of cobimetinib, a share of profits (or losses) from commercialization.

With respect to our partnered compounds, other than cabozantinib and cobimetinib, we are eligible to receive potential contingent payments totaling approximately \$2.3 billion in the aggregate on a non-risk adjusted basis, of which 10% are related to clinical development milestones, 42% are related to regulatory milestones and 48% are related to commercial milestones, all to be achieved by the various licensees, which may not be paid, if at all, until certain conditions are met.

### ***Bristol-Myers Squibb***

#### *ROR Collaboration Agreement*

In October 2010, we entered into a worldwide collaboration with Bristol-Myers Squibb pursuant to which each party granted to the other certain intellectual property licenses to enable the parties to discover, optimize and characterize ROR antagonists that may subsequently be developed and commercialized by Bristol-Myers Squibb. Since the collaborative research period ended in July 2013, Bristol-Myers Squibb has and will continue to have sole responsibility for any further research, development, manufacture and commercialization of products developed under the collaboration and will bear all costs and expenses associated with those activities.

For each product developed by Bristol-Myers Squibb under the collaboration, we will be eligible to receive payments upon the achievement by Bristol-Myers Squibb of development and regulatory milestones of up to \$252.5 million in the aggregate and commercialization milestones of up to \$150.0 million in the aggregate, as well as royalties on commercial sales of any such products.

We recognized contract revenues of \$1.5 million during the year ended December 31, 2013 under our ROR collaboration agreement with Bristol-Myers Squibb. We recognized no such revenue during the years ended December 31, 2015 and 2014.

#### *LXR Collaboration Agreement*

In December 2005, we entered into a collaboration agreement with Bristol-Myers Squibb for the discovery, development and commercialization of novel therapies targeted against LXR, a nuclear hormone receptor implicated in a variety of cardiovascular and metabolic disorders. This agreement became effective in January 2006, at which time we granted Bristol-Myers Squibb an exclusive worldwide license with respect to certain intellectual property primarily relating to compounds that modulate LXR. The research term expired in January 2010 and we transferred the technology to Bristol-Myers Squibb in 2011 to enable it to continue the LXR program. We have been advised that BMS is continuing additional preclinical research on the program.

Under the collaboration agreement, Bristol-Myers Squibb is required to pay us contingent amounts associated with development and regulatory milestones of up to \$138.0 million per product for up to two products from the collaboration. In addition, we are also entitled to receive payments associated with sales milestones of up to \$225.0 million and royalties on sales of any products commercialized under the collaboration.

We did not any recognize any revenue under our LXR collaboration agreement with Bristol-Myers Squibb during the three years ended December 31, 2015.



### *Terminated Agreements*

During 2013, additional license and collaboration agreements with Bristol-Myers Squibb were terminated or concluded. We recognized license and contract revenues of \$14.8 million during the year ended December 31, 2013 under these terminated agreements with Bristol-Myers Squibb.

### *Sanofi*

In May 2009, we entered into a global license agreement with Sanofi for SAR245408 (XL147) and SAR245409 (XL765), leading inhibitors of phosphoinositide-3 kinase (“PI3K”), and a broad collaboration for the discovery of inhibitors of PI3K for the treatment of cancer. The license agreement and collaboration agreement became effective on July 7, 2009.

We will be eligible to receive contingent payments associated with development, regulatory and commercial milestones under the license agreement of \$745.0 million in the aggregate, as well as royalties on sales of any products commercialized under the license.

We did not recognize any revenue under our collaboration agreement with Sanofi during the three years ended December 31, 2015.

### *Merck*

In December 2011, we entered into an agreement with Merck pursuant to which we granted Merck an exclusive worldwide license to our PI3K-delta (“PI3K-d”) program, including XL499 and other related compounds. Pursuant to the terms of the agreement, Merck has sole responsibility to research, develop, and commercialize compounds from our PI3K-d program. The agreement became effective in December 2011.

We will be eligible to receive payments associated with the successful achievement of potential development and regulatory milestones for multiple indications of up to \$236.0 million. We will also be eligible to receive payments for combined sales performance milestones of up to \$375.0 million and royalties on net-sales of products emerging from the agreement. Contingent payments associated with milestones achieved by Merck and royalties are payable on compounds emerging from our PI3K-d program or from certain compounds that arise from Merck’s internal discovery efforts targeting PI3K-d during a certain period.

We recognized contract revenues of \$3.0 million from a milestone payment during the year ended December 31, 2015 under our collaboration agreement with Merck. We did not recognize any such revenue during the years ended December 31, 2014 and 2013.

### *Daiichi Sankyo*

In March 2006, we entered into a collaboration agreement with Daiichi Sankyo for the discovery, development and commercialization of novel therapies targeted against the mineralocorticoid receptor (“MR”), a nuclear hormone receptor implicated in a variety of cardiovascular and metabolic diseases. Under the terms of the agreement, we granted to Daiichi Sankyo an exclusive, worldwide license to certain intellectual property primarily relating to compounds that modulate MR, including CS-3150 (an isomer of XL550). Daiichi Sankyo is responsible for all further preclinical and clinical development, regulatory, manufacturing and commercialization activities for the compounds and we do not have rights to reacquire such compounds, except as described below.

We are eligible to receive additional development, regulatory and commercialization milestone payments of up to \$145.0 million. In addition, we are also entitled to receive royalties on any sales of certain products commercialized under the collaboration.

We did not recognize any revenue under our collaboration agreement with Daiichi Sankyo during the three years ended December 31, 2015.

### ***GlaxoSmithKline***

In October 2002, we established a collaboration with GlaxoSmithKline 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, GlaxoSmithKline 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/or license cabozantinib, subject to payment to GlaxoSmithKline of a 3% royalty on net sales of any product incorporating cabozantinib. The product development and commercialization agreement has terminated during 2014, although GlaxoSmithKline will continue to be entitled to a 3% royalty on net sales of any product incorporating cabozantinib, including COMETRIQ.

In connection with the sales of COMETRIQ, during the years ended December 31, 2015, 2014 and 2013 we recorded \$1.0 million, \$0.7 million and \$0.4 million, respectively in royalty expense to GlaxoSmithKline; the royalty expense is included in Cost of goods sold in the accompanying Consolidated Statements of Operations.

## **NOTE 3. RESTRUCTURINGS**

### ***2014 Restructuring***

On September 2, 2014, as a consequence of the failure of COMET-1, one of our two phase 3 pivotal trials of cabozantinib in metastatic castration-resistant prostate cancer, we initiated a restructuring, which we refer to as the 2014 Restructuring, to reduce our workforce. The aggregate reduction in headcount from the 2014 Restructuring was 143 employees. The principal objective of the 2014 Restructuring was to enable us to focus our financial resources on the phase 3 pivotal trials of cabozantinib in advanced renal cell carcinoma and advanced hepatocellular carcinoma.

For the years ended December 31, 2015 and 2014, we recorded restructuring charges of \$0.3 million and \$6.1 million, respectively, for the 2014 Restructuring. The restructuring charge for the year ended December 31, 2015 included \$1.6 million in additional charges due to the partial termination of one of our building leases and additional facility-related charges related to the decommissioning and exit of certain buildings. The restructuring charge for the year ended December 31, 2015 was partially offset by \$1.0 million in recoveries recorded in connection with the sale of excess equipment and other assets that had previously been fully depreciated. The restructuring charge for the year ended December 31, 2014 includes \$5.8 million of employee severance and other benefits that are recognized ratably during the period from the implementation date of the 2014 Restructuring through the employees' termination dates. In addition, we recorded charges of \$0.3 million for property and equipment write-downs and other charges, which were partially offset by recoveries recorded in connection with the sale of excess equipment and other assets that were previously fully impaired and the reversal of severance charges recorded in 2014 for employees that were recalled in 2015.

The restructuring liability related to the 2014 Restructuring is included in the current and long-term portion of restructuring liability on the accompanying Consolidated Balance Sheets. The components of and changes to these liabilities during the year ended December 31, 2015 are summarized in the following table (in thousands):

	<u>Employee Severance and Other Benefits</u>	<u>Facility Charges</u>	<u>Asset Impairment and Sales</u>	<u>Legal and Other Fees</u>	<u>Total</u>
Restructuring charge . . . . .	\$ 5,775	\$ 65	\$ 188	\$ 59	\$ 6,087
Proceeds from sale of assets . . . . .	—	—	100	—	100
Cash payments, net . . . . .	(4,507)	(65)	—	(12)	(4,584)
Other items . . . . .	22	—	(288)	—	(266)
Restructuring liability as of December 31, 2014 . . . .	1,290	—	—	47	1,337
Restructuring charge (recovery) . . . . .	(269)	1,582	(981)	(47)	285
Proceeds from sale of assets . . . . .	—	—	1,325	—	1,325
Cash payments, net . . . . .	(1,021)	(1,357)	—	—	(2,378)
Other items . . . . .	—	278	(344)	—	(66)
Restructuring liability as of December 31, 2015 . . . .	<u>\$ —</u>	<u>\$ 503</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 503</u>

### **2010 Restructurings**

Between March 2010 and May 2013, we implemented five restructurings (referred to collectively as the “2010 Restructurings”) to manage costs and as a consequence of our decision in 2010 to focus our proprietary resources and development efforts on the development and commercialization of cabozantinib. The aggregate reduction in headcount from the 2010 Restructurings was 429 employees. Charges and credits related to the 2010 Restructurings were recorded in periods other than those in which the 2010 Restructurings were implemented as a result of sublease activities for certain of our buildings in South San Francisco, California, changes in assumptions regarding anticipated sublease activities, the effect of the passage of time on our discounted cash flow computations, previously planned employee terminations, and sales of excess equipment and other assets.

For the years ended December 31, 2015, 2014 and 2013, we recorded restructuring charges of \$0.8 million, \$1.5 million and \$1.2 million, respectively, for the 2010 Restructurings. The charges for the periods presented were related to the effect of the passage of time on our discounted cash flow computations for the exit, in prior periods, of certain of our South San Francisco buildings and changes in estimates regarding future subleases. During the year ended December 31, 2014, those charges were partially offset by \$0.1 million in recoveries recorded in connection with the sale of excess equipment and other assets.

The total outstanding restructuring liability related to the 2010 Restructurings is included in the current and long-term portion of restructuring liability on the accompanying Consolidated Balance Sheets. The changes of these liabilities, all of which related to facility charges during the year ended December 31, 2015, are summarized in the following table (in thousands):

	<u>Facility Charges</u>	<u>Other</u>	<u>Total</u>
Restructuring liability as of December 31, 2012 .....	\$19,202	\$ 20	\$19,222
Restructuring charge .....	662	569	1,231
Proceeds from sale of assets .....	—	95	95
Cash payments, net .....	(6,331)	(434)	(6,765)
Other items .....	(73)	(238)	(311)
Restructuring liability as of December 31, 2013 .....	13,460	12	13,472
Restructuring charge (recovery) .....	1,626	(117)	1,509
Proceeds from sale of assets .....	—	199	199
Cash payments, net .....	(5,644)	(8)	(5,652)
Other items .....	12	(86)	(74)
Restructuring liability as of December 31, 2014 .....	9,454	—	9,454
Restructuring charge .....	757	—	757
Cash payments, net .....	(6,449)	—	(6,449)
Other items .....	325	—	325
Restructuring liability as of December 31, 2015 .....	<u>\$ 4,087</u>	<u>\$ —</u>	<u>\$ 4,087</u>

We expect to pay the combined accrued facility charges for both the 2014 Restructuring and the 2010 Restructurings of \$4.6 million, net of \$6.1 million to be received from our subtenants, through the end of our lease terms of the buildings, the last of which ends in 2017. We expect to incur additional restructuring charges for both restructuring plans of approximately \$0.3 million relating to the effect of the passage of time on our discounted cash flow computations used to determine the accrued facilities charges through the end of the building lease terms.

#### NOTE 4. CASH AND INVESTMENTS

The following table summarizes cash and cash equivalents, investments, and restricted cash and investments by balance sheet line item as of December 31, 2015 and 2014 (in thousands):

	<u>December 31, 2015</u>			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Cash and cash equivalents .....	\$141,634	\$—	\$ —	\$141,634
Short-term investments .....	25,484	5	(63)	25,426
Long-term investments .....	83,665	2	(67)	83,600
Long-term restricted cash and investments .....	2,650	—	—	2,650
Total cash and investments .....	<u>\$253,433</u>	<u>\$ 7</u>	<u>\$(130)</u>	<u>\$253,310</u>

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents . . . . .	\$ 80,395	\$—	\$ —	\$ 80,395
Short-term investments . . . . .	63,988	37	(135)	63,890
Short-term restricted cash and investments . . . . .	12,105	107	—	12,212
Long-term investments . . . . .	81,600	1	(22)	81,579
Long-term restricted cash and investments . . . . .	4,684	—	—	4,684
Total cash and investments . . . . .	<u>\$242,772</u>	<u>\$145</u>	<u>\$(157)</u>	<u>\$242,760</u>

Under our loan and security agreement with Silicon Valley Bank, we are 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 balances as of December 31, 2015 and 2014 were \$81.6 million and \$82.0 million, respectively and are reflected in our Consolidated Balance Sheets in Long-term investments. See “Note 7—Debt” for more information regarding the collateral balance requirements under our Silicon Valley Bank loan and security agreement.

All of our cash equivalents and investments are classified as available-for-sale. The following table summarizes our cash equivalents and investments by security type as of December 31, 2015 and 2014. The amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds . . . . .	\$ 72,000	\$—	\$ —	\$ 72,000
Commercial paper . . . . .	78,155	—	—	78,155
Corporate bonds . . . . .	72,205	4	(118)	72,091
U.S. Treasury and government sponsored enterprises . . . . .	28,434	1	(12)	28,423
Marketable equity securities . . . . .	16	2	—	18
Total investments . . . . .	<u>\$250,810</u>	<u>\$ 7</u>	<u>\$(130)</u>	<u>\$250,687</u>

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds . . . . .	\$ 23,376	\$—	\$ —	\$ 23,376
Commercial paper . . . . .	56,714	—	—	56,714
Corporate bonds . . . . .	143,444	35	(157)	143,322
U.S. Treasury and government sponsored enterprises . . . . .	12,105	107	—	12,212
Municipal bonds . . . . .	2,659	3	—	2,662
Total investments . . . . .	<u>\$238,298</u>	<u>\$145</u>	<u>\$(157)</u>	<u>\$238,286</u>

There were no gains or losses on the sales of investments during the years ended December 31, 2015, 2014 and 2013.

All of our investments are subject to a quarterly impairment review. During the years ended December 31, 2015, 2014, and 2013 we did not record any other-than-temporary impairment charges on our available-for-sale securities. As of December 31, 2015, there were 62 investments in an unrealized loss position with gross unrealized losses of \$130 thousand and an aggregate fair value \$109.5 million. We had a single investment with a

gross unrealized loss of \$3 thousand and an aggregate fair value of \$1.4 million that has been in an unrealized loss position for more than one year. Investments in an unrealized loss position are primarily comprised of corporate bonds. 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 summarizes the fair value of securities classified as available-for-sale by contractual maturity as of December 31, 2015 (in thousands):

	<u>Mature within One Year</u>	<u>After One Year through Two Years</u>	<u>Fair Value</u>
Money market funds .....	\$ 72,000	\$ —	\$ 72,000
Commercial paper .....	78,155	—	78,155
Corporate bonds .....	49,483	22,608	72,091
U.S. Treasury and government sponsored enterprises ...	22,427	5,996	28,423
Total .....	<u>\$222,065</u>	<u>\$28,604</u>	<u>\$250,669</u>

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

#### NOTE 5. INVENTORY

Inventory consists of the following (in thousands):

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Raw materials .....	\$ 1,037	\$ 1,118
Work in process .....	2,251	2,845
Finished goods .....	583	559
Total .....	3,871	4,522
Less: non-current portion included in Other long-term assets .....	(1,255)	(2,141)
Inventory .....	<u>\$ 2,616</u>	<u>\$ 2,381</u>

We generally relieve inventory on a first-expiry, first-out basis. Write-downs related to expiring and excess inventory are charged to cost of goods sold. Such write-downs were \$1.2 million and \$0.2 million for the years ended December 31, 2015 and 2014, respectively. The non-current portion of inventory is recorded within Other long-term assets on the accompanying Consolidated Balance Sheets and is comprised of a portion of the active pharmaceutical ingredient that is included in raw materials and work in process inventories. There were no other write-downs for obsolete inventory.

## NOTE 6. PROPERTY AND EQUIPMENT

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

	December 31,	
	2015	2014
Laboratory equipment . . . . .	\$ 4,749	\$ 13,677
Computer equipment and software . . . . .	11,890	14,840
Furniture and fixtures . . . . .	2,253	3,701
Leasehold improvements . . . . .	6,395	16,364
Construction-in-progress . . . . .	456	120
	<u>25,743</u>	<u>48,702</u>
Less: accumulated depreciation and amortization . . . . .	(24,309)	(46,270)
Property and equipment, net . . . . .	<u>\$ 1,434</u>	<u>\$ 2,432</u>

For the years ended December 31, 2015, 2014 and 2013, we recorded depreciation expense of \$1.4 million, \$2.4 million and \$3.1 million, respectively.

In 2014 and 2013, we recorded gross asset impairment charges in the amounts of \$0.7 million and \$0.1 million, respectively, in connection with the Restructurings. There were no such charges in 2015. The amount recorded as a restructuring charge for asset impairment, as presented in “Note 3—Restructurings,” was net of the gain on the sale of such assets. In 2015 and 2014, the gain on the sale of excess equipment was \$1.0 million and \$0.6 million, respectively. There were no such gains in 2013. Cash proceeds on those sales were \$1.3 million, \$0.3 million and \$0.1 million during 2015, 2014 and 2013, respectively.

## NOTE 7. DEBT

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

	December 31,	
	2015	2014
Convertible Senior Subordinated Notes due 2019 . . . . .	\$198,708	\$179,135
Secured Convertible Notes due 2018 . . . . .	102,727	97,449
Silicon Valley Bank term loan . . . . .	80,000	80,000
Silicon Valley Bank line of credit . . . . .	—	381
Total debt . . . . .	<u>381,435</u>	<u>356,965</u>
Less: current portion . . . . .	—	(97,830)
Long-term debt . . . . .	<u>\$381,435</u>	<u>\$259,135</u>

### *Convertible Senior Subordinated Notes due 2019*

In August 2012, we issued and sold \$287.5 million aggregate principal amount of the 4.25% Convertible Senior Subordinated Notes due 2019, (the “2019 Notes”), for net proceeds of \$277.7 million. The 2019 Notes mature on August 15, 2019, unless earlier converted, redeemed or repurchased, and bear interest at a rate of 4.25% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning February 15, 2013. Subject to certain terms and conditions, at any time on or after August 15, 2016, we may redeem for cash all or a portion of the 2019 Notes. The redemption price will equal 100% of the principal amount of the 2019 Notes to be redeemed plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Upon the occurrence of certain circumstances, holders may convert their 2019 Notes prior to the close of

business on the business day immediately preceding May 15, 2019. On or after May 15, 2019, until the close of business on the second trading day immediately preceding August 15, 2019, holders may surrender their 2019 Notes for conversion at any time. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. The initial conversion rate of 188.2353 shares of common stock per \$1,000 principal amount of the 2019 Notes is equivalent to a conversion price of approximately \$5.31 per share of common stock and is subject to adjustment in connection with certain events. If a Fundamental Change, as defined in the indenture governing the 2019 Notes, occurs, holders of the 2019 Notes may require us to purchase for cash all or any portion of their 2019 Notes at a purchase price equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, if any, to, but excluding, the Fundamental Change purchase date. In addition, if certain specified bankruptcy and insolvency-related events of default occur, the principal of, and accrued and unpaid interest on, all of the then outstanding notes will automatically become due and payable. If an event of default other than certain specified bankruptcy and insolvency-related events of default occurs and is continuing, the Trustee of the 2019 Notes by notice to us or the holders of at least 25% in principal amount of the outstanding 2019 Notes by notice to us and the Trustee, may declare the principal of, and accrued and unpaid interest on, all of the then outstanding 2019 Notes to be due and payable.

In connection with the offering of the 2019 Notes, \$36.5 million of the proceeds were deposited into an escrow account which contained an amount of permitted securities sufficient to fund, when due, the total aggregate amount of the first six scheduled semi-annual interest payments on the 2019 Notes. As of December 31, 2015, we have used all of the remaining amount held in the escrow account to pay the required semi-annual interest payments and therefore future semi-annual interest payments will be made from unrestricted cash and investments.

The debt discount and debt issuance costs will be amortized as interest expense through August 2019. The following is a summary of interest expense for the 2019 Notes (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Stated coupon interest . . . . .	\$12,218	\$12,253	\$12,219
Amortization of debt discount and debt issuance costs . . . . .	19,573	17,804	16,201
Total interest expense . . . . .	<u>\$31,791</u>	<u>\$30,057</u>	<u>\$28,420</u>

The balance of unamortized debt costs was \$2.6 million and \$3.3 million as of December 31, 2015 and December 31, 2014, respectively, which, pursuant to the early adoption of ASU 2015-03, is recorded as a reduction of the carrying amount of the 2019 Notes on the accompanying Consolidated Balance Sheets. See “Note 1—Organization and Summary of Significant Accounting Policies” for more information regarding the early adoption ASU 2015-03.

***Secured Convertible Notes due June 2018***

In June 2010, we entered into a note purchase agreement with Deerfield Private Design Fund, L.P. and Deerfield Private Design International, L.P., (the “Original Deerfield Purchasers”), pursuant to which, on July 1, 2010, we sold to the Original Deerfield Purchasers an aggregate of \$124.0 million principal amount of our Secured Convertible Notes due July 1, 2015, which we refer to as the Original Deerfield Notes, for an aggregate purchase price of \$80.0 million, less closing fees and expenses of approximately \$2.0 million. On January 22, 2014, the note purchase agreement was amended to provide us with an option to extend the maturity date of our indebtedness under the note purchase agreement to July 1, 2018. On July 1, 2015, we made a \$4.0 million principal payment and then extended the maturity date of the Original Deerfield Notes from July 1, 2015 to July 1, 2018. In connection with the extension, Deerfield Partners, L.P. and Deerfield International Master Fund, L.P. (the “New Deerfield Purchasers”) acquired the \$100.0 million principal amount of the Original Deerfield



Notes and we entered into the Restated Deerfield Notes with each of the New Deerfield Purchasers, representing the \$100.0 million principal amount. We refer to the Original Deerfield Purchasers and the New Deerfield Purchasers collectively as Deerfield, and to the Original Deerfield Notes and Restated Deerfield Notes, collectively as the Deerfield Notes.

As of December 31, 2015 and 2014, the outstanding principal balance on the Deerfield Notes was \$103.8 million and \$104.0 million, respectively, which, subject to certain limitations, is payable in cash or in stock at our discretion. Beginning on July 2, 2015, the outstanding principal amount of the Deerfield Notes bears 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. Through July 1, 2015, the outstanding principal amount of the Deerfield Notes bore interest in the annual amount of \$6.0 million, payable quarterly in arrears.

On August 6, 2012, the parties amended the note purchase agreement to permit the issuance of the 2019 Notes and modify certain optional prepayment rights. The amendment became effective upon the issuance of the 2019 Notes and the payment to the Original Deerfield Purchasers of a \$1.5 million consent fee. On August 1, 2013, the parties further amended the note purchase agreement to clarify certain of our other rights under the note purchase agreement. On January 22, 2014, the note purchase agreement was amended to provide us with an option to extend the maturity date of our indebtedness under the note purchase agreement to July 1, 2018, which extension was completed on July 1, 2015. On July 10, 2014, the parties further amended the note purchase agreement to clarify certain provisions of the note purchase agreement.

The following is a summary of interest expense for the Deerfield Notes (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Stated coupon interest .....	\$ 6,792	\$ 6,000	\$ 6,000
Amortization of debt discount, debt issuance costs and interest paid in kind .....	9,278	11,731	10,089
Total interest expense .....	<u>\$16,070</u>	<u>\$17,731</u>	<u>\$16,089</u>

The balance of unamortized debt issuance costs was \$0.7 million and \$1.4 million as of December 31, 2015 and December 31, 2014, respectively, which, pursuant to the early adoption of ASU 2015-03, is recorded as a reduction of the carrying amount of the 2019 Notes on the accompanying Consolidated Balance Sheets. See “Note 1—Organization and Summary of Significant Accounting Policies” for more information regarding the early adoption ASU 2015-03. Prior to our exercise of the option to extend the maturity date to July 1, 2018, the unamortized discount, fees and costs were amortized into interest expense as a yield adjustment through July 1, 2015. Effective March 4, 2015, upon notification of our election to require the New Deerfield Purchasers to acquire the Deerfield Notes and extend the maturity date to July 1, 2018, we began to amortize the remaining unamortized discount, fees and costs through July 1, 2018 using the effective interest method and an effective interest rate of 15.26%.

In each of January 2014 and 2013, we made mandatory prepayments of \$10.0 million on the Deerfield Notes. We were required to make an additional mandatory prepayment on the Deerfield Notes in January 2015 equal to 15% of certain revenues from collaborative arrangements, which we refer to as Development/Commercialization Revenue, received during the prior fiscal year, subject to a maximum prepayment amount of \$27.5 million. We received no such revenues during the fiscal year ended December 31, 2014 and therefore made no minimum prepayment in January 2015. As a result of the extension of the maturity date of the Deerfield Notes to July 1, 2018, our obligation to make annual mandatory prepayments equal to 15% of Development/Commercialization Revenue received by us during the prior fiscal year will continue to apply in each of 2016, 2017 and 2018. However, we will only be obligated to make any such annual mandatory prepayment if the New Deerfield Purchasers provide notice to us of their election to receive the prepayment. Pursuant to this

requirement, we notified Deerfield that they were entitled to a mandatory prepayment of \$450,000 as a result of to the \$3.0 million milestone payment received from Merck during 2015; the New Deerfield Purchasers elected not to receive a mandatory prepayment in January 2016. Mandatory prepayments relating to Development/Commercialization Revenue will continue to be subject to a maximum annual prepayment amount of \$27.5 million. The definition of “Development/Commercialization Revenue” expressly excludes any sale or distribution of drug or pharmaceutical products in the ordinary course of our business, and any proceeds from any Intellectual Property Sales (as further described below), but would include our share of the net profits from the commercialization of cobimetinib in the U.S. and the receipt of royalties from cobimetinib sales outside the U.S., if any.

Under the note purchase agreement, we may at our sole discretion, prepay all of the principal amount of the Deerfield Notes at a prepayment price equal to 105% of the outstanding principal amount of the Deerfield Notes, plus all accrued and unpaid interest through the date of such prepayment, plus, if prior to July 1, 2017, all interest that would have accrued on the principal amount of the Deerfield Notes between the date of such prepayment and July 1, 2017, if the outstanding principal amount of the Deerfield Notes as of such prepayment date had remained outstanding through July 1, 2017, plus all other accrued and unpaid obligations, collectively referred to as the Prepayment Price.

In lieu of making any portion of the Prepayment Price or mandatory prepayment in cash, subject to certain limitations (including a cap on the number of shares issuable under the note purchase agreement), we have the right to convert all or a portion of the principal amount of the Deerfield Notes into, or satisfy all or any portion of the Prepayment Price amounts or mandatory prepayment amounts with shares of our common stock. Additionally, in lieu of making any payment of accrued and unpaid interest in respect of the Deerfield Notes in cash, subject to certain limitations, we may elect to satisfy any such payment with shares of our common stock. The number of shares of our common stock issuable upon conversion or in settlement of principal and interest obligations will be based upon the discounted trading price of our common stock over a specified trading period. Upon certain changes of control of Exelixis, a sale or transfer of assets in one transaction or a series of related transactions for a purchase price of more than (i) \$400 million or (ii) 50% of our market capitalization, Deerfield may require us to prepay the Deerfield Notes at the Prepayment Price. Upon an event of default, as defined in the Deerfield Notes, Deerfield may declare all or a portion of the Prepayment Price to be immediately due and payable.

We are required to notify the applicable Deerfield entities of certain sales, assignments, grants of exclusive licenses or other transfers of our intellectual property pursuant to which we transfer all or substantially all of our legal or economic interests, defined as an Intellectual Property Sale, and the Deerfield entities may elect to require us to prepay the principal amount of the Deerfield Notes in an amount equal to (i) 100% of the cash proceeds of any Intellectual Property Sale relating to cabozantinib and (ii) 50% of the cash proceeds of any other Intellectual Property Sale.

In connection with the January 2014 amendment to the note purchase agreement, on January 22, 2014, we issued to the New Deerfield Purchasers two-year warrants, which we refer to as the 2014 Warrants, to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of \$9.70 per share. Subsequent to our election to extend the maturity date of the Deerfield Notes, the exercise price of the 2014 Warrants was reset to \$3.445 per share and the term was extended by two years to January 22, 2018. See “Note 8—Common Stock and Warrants” for more information on the valuation of the 2014 Warrants.

In connection with the note purchase agreement, we also entered into a security agreement in favor of Deerfield which provides that our obligations under the Deerfield Notes will be secured by substantially all of our assets except intellectual property. On August 1, 2013, the security agreement was amended to limit the extent to which voting equity interests in any of our foreign subsidiaries shall be secured assets.

The note purchase agreement as amended and the security agreement include customary representations and warranties and covenants made by us, including restrictions on the incurrence of additional indebtedness.

### ***Silicon Valley Bank Loan and Security Agreement***

On May 22, 2002, we entered into a loan and security agreement with Silicon Valley Bank for an equipment line of credit. On December 21, 2004, December 21, 2006 and December 21, 2007, we amended the loan and security agreement to provide for additional equipment lines of credit and on June 2, 2010, we further amended the loan and security agreement to provide for a new seven-year term loan in the amount of \$80.0 million. As of both December 31, 2015 and 2014, the outstanding principal balance due under the term loan was \$80.0 million. As of December 31, 2015 and 2014, the outstanding principal balance under the lines of credit was \$0 and \$0.4 million, respectively. The principal amount outstanding under the term loan accrues interest at 1.0% per annum, which interest is due and payable monthly. We are required to repay the term loan in one balloon principal payment, representing 100% of the principal balance and accrued and unpaid interest, on May 31, 2017. We have the option to prepay all, but not less than all, of the amounts advanced under the term loan, provided that we pay all unpaid accrued interest thereon that is due through the date of such prepayment and the interest on the entire principal balance of the term loan that would otherwise have been paid after such prepayment date until the maturity date of the term loan. In accordance with the terms of the loan and security agreement, we are required to maintain an amount equal to at least 100%, but not to exceed 107%, of the outstanding principal balance of the term loan and all equipment lines of credit under the loan and security agreement 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 (although we are entitled to retain income earned or the amounts maintained in such accounts). Any amounts outstanding under the term loan during the continuance of an event of default under the loan and security agreement will, at the election of Silicon Valley Bank, bear interest at a per annum rate equal to 6.0%. If one or more events of default under the loan and security agreement occurs and continues beyond any applicable cure period, Silicon Valley Bank may declare all or part of the obligations under the loan and security agreement to be immediately due and payable and stop advancing money or extending credit to us under the loan and security agreement.

The total collateral balance as of December 31, 2015 and 2014 was \$81.6 million and \$82.0 million, respectively, and is reflected in our Consolidated Balance Sheet in Long-term Investments as the amounts are not restricted as to withdrawal. However, withdrawal of some or all of this amount such that the collateral balance falls below the required level could result in Silicon Valley Bank declaring the obligation immediately due and payable.

### ***Future Principal Payments***

Aggregate contractual future principal payments of our debt were as follows as of December 31, 2015 (in thousands):

<u>Year Ending December 31, (1)</u>	
2016 .....	\$ —
2017 .....	80,000
2018 .....	124,972
2019 .....	287,500
Thereafter .....	—

(1) The actual timing of payments made may differ materially.

## **NOTE 8. COMMON STOCK AND WARRANTS**

### **Sale of Shares of Common Stock**

In July 2015, we completed a registered underwritten public offering of 28,750,000 shares of our common stock, including 3,750,000 shares issued under the underwriters' 30-day option to buy shares, at a price of \$5.40 per share pursuant to a shelf registration statement previously filed with the Securities and Exchange Commission ("SEC"), which was filed and automatically became effective on July 1, 2015. We received \$145.6 million in net proceeds from the offering after deducting the underwriting discount and other estimated expenses. The shares of common stock were listed on The NASDAQ Global Select Market. All of the shares in the offering were sold by the Company.

The Underwriting Agreement contains customary representations, warranties and agreements by the Company, indemnification obligations of the Company and the Underwriter, including for liabilities under the Securities Act of 1933, as amended, other obligations of the parties and termination provisions. The representations, warranties and covenants contained in the Underwriting Agreement were made only for purposes of such agreement and as of specific dates, were solely for the benefit of the parties to such agreement and may be subject to limitations agreed upon by the contracting parties.

In January 2014, we completed a registered underwritten public offering of 10,000,000 shares of our common stock at a price of \$8.00 per share pursuant to a shelf registration statement previously filed with the SEC, which the SEC declared effective on June 8, 2012. We received \$75.6 million in net proceeds from the offering after deducting the underwriting discount and related offering expenses.

### **Conversion of Debt into Common Stock**

The 2019 Notes and the Deerfield Notes are, under certain circumstances, convertible into shares of our common stock. See "Note 7—Debt" for more information regarding the conversion features of these instruments.

### **2014 Warrants**

In connection with an amendment to the note purchase agreement for the Original Deerfield Notes, in January 2014 we issued to the New Deerfield Purchasers two-year warrants to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of \$9.70 per share. Subsequent to our March 2015 notification of our election to extend the maturity date of the Deerfield Notes, the exercise price of the 2014 Warrants was reset to \$3.445 per share and the term was extended by two years to January 22, 2018.

The 2014 Warrants contain certain limitations that prevent the holder from acquiring shares upon exercise that would result in the number of shares beneficially owned by the holder to exceed 9.98% of the total number of shares of our common stock then issued and outstanding. In addition, upon certain changes in control of Exelixis, to the extent the 2014 Warrants are not assumed by the acquiring entity, or upon certain defaults under the 2014 Warrants, the holder has the right to net exercise the 2014 Warrants for shares of common stock, or be paid an amount in cash in certain circumstances where the current holders of our common stock would also receive cash, equal to the Black-Scholes Merton value of the 2014 Warrants.

In connection with the issuance of the 2014 Warrants, we entered into a registration rights agreement with Deerfield, pursuant to which we filed a registration statement with the SEC covering the resale of the shares of common stock issuable upon exercise of the 2014 Warrants.

Due to the potential increase in term and decrease of the exercise price, the 2014 Warrants were included in Other long-term liabilities at their current estimated fair value, which was \$1.5 million and \$0.9 million as of March 18, 2015 and December 31, 2014, respectively. We recorded an unrealized loss of \$0.5 million and an unrealized gain of \$1.8 million on the 2014 Warrants during the years ended December 31, 2015 and 2014, respectively, which is included in Interest income and other, net. Subsequent to our March 2015 notification of

our election to extend the maturity date of the Deerfield Notes, the terms of the 2014 Warrants became fixed as of March 18, 2015 and the 2014 Warrants were transferred to Additional paid-in capital as of that date at their then estimated fair value of \$1.5 million. See “Note 9—Fair Value Measurements” for more information on the valuation of the 2014 Warrants.

The warrants are participating securities. The warrant holders do not have a contractual obligation to share in our losses.

## NOTE 9. FAIR VALUE MEASUREMENTS

The following table sets forth the fair value of our financial assets and liabilities that were measured and recorded on a recurring basis as of December 31, 2015 and 2014. We did not have any financial liabilities that were measured and recorded on a recurring basis or Level 3 investments as of December 31, 2015. The amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	December 31, 2015		
	Level 1	Level 2	Total
Money market funds . . . . .	\$72,000	\$ —	\$ 72,000
Commercial paper . . . . .	—	78,155	78,155
Corporate bonds . . . . .	—	72,091	72,091
U.S. Treasury and government sponsored enterprises . . . . .	—	28,423	28,423
Marketable equity securities . . . . .	18	—	18
Total financial assets . . . . .	<u>\$72,018</u>	<u>\$178,669</u>	<u>\$250,687</u>

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Money market funds . . . . .	\$23,376	\$ —	\$—	\$ 23,376
Commercial paper . . . . .	—	56,714	—	56,714
Corporate bonds . . . . .	—	143,322	—	143,322
U.S. Treasury and government sponsored enterprises . . . . .	—	12,212	—	12,212
Municipal bonds . . . . .	—	2,662	—	2,662
Total financial assets . . . . .	<u>\$23,376</u>	<u>\$214,910</u>	<u>\$—</u>	<u>\$238,286</u>
Financial liabilities:				
Warrants . . . . .	\$ —	\$ —	\$921	\$ 921

The following is a reconciliation of changes in the fair value of warrants which are classified as Level 3 in the fair value hierarchy (in thousands):

Balance at December 31, 2014 . . . . .	\$ 921
Unrealized loss at final re-measurement of warrants on March 18, 2015, included in Interest income and other, net . . . . .	549
Transfer of warrants from Other long-term liabilities to Additional paid-in capital at their estimated fair value upon warrant repricing on March 18, 2015 . . . . .	(1,470)
Balance at December 31, 2015 . . . . .	<u>\$ —</u>

The estimated fair value of our financial instruments that are carried at amortized cost for which it is practicable to determine a fair value was as follows (in thousands):

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2019 Notes . . . . .	\$198,708	\$336,260	\$179,135	\$156,889
Silicon Valley Bank Term Loan . . . . .	\$ 80,000	\$ 79,815	\$ 80,000	\$ 79,943
Silicon Valley Bank Line of Credit . . . . .	\$ —	\$ —	\$ 381	\$ 381

As of December 31, 2015, the carrying value and estimated fair value of our Deerfield Notes was \$102.7 million and \$101.1 million, respectively. As of December 31, 2014, we had determined that it was not practicable to determine the fair value of the Deerfield Notes due to the unique structure of the instrument, including the Extension Option, which was exercised in March 2015, and was financed by entities affiliated with Deerfield.

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

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value:

- 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 is a Level 2 input.
- The 2019 Notes are valued using a third-party pricing model that is based in part on average trading prices, which is a Level 2 input. The 2019 Notes are not marked-to-market and are shown at their initial fair value less the unamortized discount; the portion of the value allocated to the conversion option is included in Stockholders' deficit on the accompanying Consolidated Balance Sheets.
- We estimate the fair value of our other debt instruments, where possible, using the net present value of the payments. For the Silicon Valley Bank term loan and line of credit, we use an interest rate that is consistent with money-market rates that would have been earned on our non-interest-bearing compensating balances as our discount rate, which is a Level 2 input. For the Deerfield Notes, we used a discount rate of 17%, which we estimate as our current borrowing rate for similar debt as of December 31, 2015, which is a Level 3 input.
- The 2014 Warrants were valued using a Monte Carlo simulation model until December 31, 2014 and the Black-Scholes Merton option pricing model on March 18, 2015. The expected life was based on the contractual terms of the 2014 Warrants, and in certain simulations, assumed the two year extension that would result from our exercise of the Extension Option; as of and subsequent to September 30, 2014, we estimated that it was probable that we would exercise this two-year extension. We considered implied volatility as well as our historical volatility in developing our estimate of expected volatility. The fair value of the 2014 Warrants was estimated using the following assumptions, which, except for risk-free interest rate, are Level 3 inputs (dollars in thousands):

	March 18, 2015	December 31, 2014
Risk-free interest rate . . . . .	0.87%	1.07%
Dividend yield . . . . .	— %	— %
Volatility . . . . .	95%	96%
Average expected life . . . . .	2.8 years	3.1 years

## NOTE 10. EMPLOYEE BENEFIT PLANS

### Equity Incentive Plans

We have several equity incentive plans under which we have granted incentive stock options, non-qualified stock options and RSUs to employees, directors and consultants. The Board of Directors or a designated Committee of the Board is responsible for administration of our employee equity incentive plans and determines the term, exercise price and vesting terms of each option. Prior to May 2011, options issued to our employees had a four-year vesting term, an exercise price equal to the fair market value on the date of grant, and a ten year life from the date of grant (6.2 years for options issued in exchange for options cancelled under our 2009 option exchange program). Stock options issued after May 2011 have a four-year vesting term, an exercise price equal to the fair market value on the date of grant, and a seven year life from the date of grant. RSUs granted to our employees vest over a four year term; RSUs issued after September 29, 2011 vest annually; the remaining unvested portion of RSUs issued prior to September 29, 2011 vested quarterly.

In December 2005, our Board of Directors adopted a Change in Control and Severance Benefit Plan for executives and certain non-executives. Eligible Change in Control and Severance Benefit Plan participants include our employees with the title of vice president and above. If a participant's employment is terminated without cause during a period commencing one month before and ending thirteen months following a change in control, as defined in the plan document, then the Change in Control and Severance Benefit Plan participant is entitled to have the vesting of all of such participant's stock options accelerated with the exercise period being extended to no more than one year.

### Employee Stock Purchase Plan

In January 2000, we adopted the 2000 Employee Stock Purchase Plan (the "ESPP"). The ESPP allows for qualified employees (as defined in the ESPP) to purchase shares of our common stock at a price equal to the lower of 85% of the closing price at the beginning of the offering period or 85% of the closing price at the end of each six month purchase period. Compensation expense related to our ESPP was \$0.4 million, \$0.8 million, and \$0.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, we had 1,046,959 shares available for issuance under our ESPP. We issued 324,315 shares, 669,565 shares, and 345,828 shares of common stock during the years ended December 31, 2015, 2014 and 2013, respectively, pursuant to the ESPP at an average price per share of \$1.75, \$2.14 and \$4.13, respectively.

### Stock-Based Compensation

We recorded and allocated employee stock-based compensation expense for our equity incentive plans and our ESPP as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Research and development expense . . . . .	\$11,691	\$ 3,245	\$ 6,021
Selling, general and administrative . . . . .	10,286	6,783	5,948
Restructuring-related stock compensation expense (recovery) . . . . .	—	(22)	49
Total employee stock-based compensation expense . . . . .	<u>\$21,977</u>	<u>\$10,006</u>	<u>\$12,018</u>

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

	2015	2014	2013
Stock options . . . . .	\$2.55	\$1.46	\$2.97
ESPP . . . . .	\$1.20	\$1.28	\$1.64

The fair value of employee stock option awards and ESPP purchases was estimated using the following assumptions:

	<u>Stock Options</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Risk-free interest rate .....	1.22%	1.80%	1.51%
Dividend yield .....	— %	— %	— %
Volatility .....	93%	85%	61%
Expected life .....	4.5 years	5.5 years	5.6 years
	<u>ESPP</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Risk-free interest rate .....	0.15%	0.06%	0.11%
Dividend yield .....	— %	— %	— %
Volatility .....	98%	69%	66%
Expected life .....	6 months	6 months	6 months

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

A summary of all option activity was as follows for the periods presented (dollars in thousands, except per share amounts):

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at December 31, 2014 ..	27,811,992	\$5.00		
Granted .....	8,894,800	\$3.78		
Exercised .....	(2,340,963)	\$4.66		
Forfeited .....	(924,890)	\$3.67		
Expired .....	(6,015,085)	\$7.12		
Options outstanding at December 31, 2015 ..	<u>27,425,854</u>	\$4.22	5.09 years	\$51,501
Exercisable at December 31, 2015 .....	15,666,177	\$4.68	4.38 years	\$25,532

At December 31, 2015, a total of 8,041,842 shares were available for grant under our stock option plans.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between our closing stock price on the last trading day of fiscal 2015 and the exercise prices, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2015. The total intrinsic value of options exercised was \$2.9 million during the year ended December 31, 2015 and nominal in 2014 and 2013. The total estimated fair value of employee options vested and recorded as expense in 2015, 2014 and 2013 was \$18.9 million, \$8.6 million and \$7.4 million, respectively.

On July 20, 2015, as a result of positive top-line results from the primary analysis of METEOR, the Compensation Committee of the Board of Directors of Exelixis convened to determine we had met certain performance objectives for performance-based stock options granted to employees in 2013, 2014 and 2015. As a result of this determination, 6,982,613 performance-based stock options vested on July 20, 2015. Previously, we had not considered achievement of those performance objectives to be probable and therefore, we recorded \$9.9 million in employee stock-based compensation expense during 2015 related to those options.



We have an additional 5,934,052 outstanding unvested stock options as of December 31, 2015 which were granted to employees in 2014 and 2015 and are subject to performance objectives tied to the achievement of regulatory goals set by the Compensation Committee of our Board of Directors and will vest in part based on achievement of such goals. As of December 31, 2015, we expect that achievement of the performance objectives tied to 2,967,026 performance-based stock options with a fair value of \$3.7 million is probable and have, therefore, recorded \$3.3 million of stock-based compensation expense in connection with such awards; the remainder of the expense for these awards will be recognized on a straight-line basis through the anticipated achievement date of the performance objectives. We have not included any stock-based compensation expense for the remaining 2,967,026 stock options with performance objectives for which the achievement of the performance goals is not considered probable; the grant date fair value of such awards outstanding was \$3.7 million.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2015:

Exercise Price Range	Options Outstanding			Options Outstanding and Exercisable	
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.46 - \$1.87	7,997,474	5.78 years	\$1.70	3,857,469	\$1.70
\$1.90	3,738,000	6.07 years	\$1.90	1,826,502	\$1.90
\$2.57 - \$4.88	2,772,796	5.27 years	\$3.80	1,681,199	\$3.98
\$5.01 - \$5.51	4,043,479	4.02 years	\$5.44	3,186,063	\$5.44
\$5.55 - \$6.02	2,600,943	4.70 years	\$5.73	1,890,661	\$5.70
\$6.21	2,822,900	6.69 years	\$6.21	—	
\$6.25 - \$11.66	3,450,262	2.53 years	\$8.71	3,224,283	\$8.82
	<u>27,425,854</u>	5.09 years	\$4.22	<u>15,666,177</u>	\$4.68

As of December 31, 2015, \$19.5 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 2.56 years.

Cash received from option exercises and purchases under the ESPP in 2015, 2014 and 2013 was \$11.5 million, \$1.6 million and \$1.5 million, respectively.

A summary of all RSU activity was as follows for all periods presented (dollars in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Awards outstanding at December 31, 2014	961,469	\$3.82		
Awarded	838,535	\$5.01		
Vested and released	(672,951)	\$5.62		
Forfeited	(124,865)	\$5.32		
Awards outstanding at December 31, 2015	<u>1,002,188</u>	\$5.16	2.50 years	\$5,652

As of December 31, 2015, \$3.4 million of total unrecognized compensation expense related to employee RSUs was expected to be recognized over a weighted-average period of 2.50 years.

## 401(k) Retirement Plan

We sponsor a 401(k) Retirement Plan (the “401(k) Plan”) whereby eligible employees may elect to contribute up to the lesser of 50% of their annual compensation or the statutorily prescribed annual limit allowable under Internal Revenue Service regulations. The 401(k) Plan permits us to make matching contributions on behalf of all participants. We matched 100% of the first 3% of participant contributions into the 401(k) Plan in the form of our common stock. We recorded expense of \$0.4 million, \$1.1 million, and \$0.8 million related to the stock match for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, we had 450,042 shares available for issuance under our 401(k) Plan.

## NOTE 11. INCOME TAXES

The income tax (benefit) provision is based on the following loss before income taxes (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Domestic .....	\$(158,839)	\$(237,780)	\$(236,076)
Foreign .....	(10,843)	(30,944)	(8,780)
Total .....	<u>\$(169,682)</u>	<u>\$(268,724)</u>	<u>\$(244,856)</u>

Income tax expense (benefit) consists of the following for the periods shown below (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal .....	\$—	\$ —	\$ —
State .....	55	(182)	12
Total current tax expense .....	<u>55</u>	<u>(182)</u>	<u>12</u>
Deferred:			
Federal .....	—	—	(106)
State .....	—	—	(2)
Total deferred tax expense .....	<u>—</u>	<u>—</u>	<u>(108)</u>
Income tax provision (benefit) .....	<u>\$ 55</u>	<u>\$(182)</u>	<u>\$ (96)</u>

The 2015 income tax provision of \$0.1 million relates to state minimum and franchise tax expenses as well as true ups related to prior year tax entries. The 2014 income tax benefit of \$0.2 million resulted from the lapse of the applicable statute of limitations in California for the 2009 tax year, offset by current year state income tax expense. The 2013 income tax benefit of \$0.1 million resulted from the exception to the general intra-period allocation rules required by ASC 740-20-45-7, and is related to the income tax effect of unrealized gains on available-for-sale investments included in other comprehensive income.

During 2013, Exelixis International (Bermuda) Ltd. (“Exelixis Bermuda”) acquired the existing and future intellectual property rights to exploit cabozantinib in jurisdictions outside of the United States. The transfer of the existing rights created a taxable gain in the U.S. and state jurisdictions. For tax purposes, that gain is primarily offset by current fiscal year losses and the remainder through the utilization of an insignificant amount of net operating loss carry-forwards for which there is a corresponding reduction to our valuation allowance. Because this was an intercompany transaction, ASC 740-10-25-3(e) applies, however, there was no impact to tax expense due to the full valuation allowance and therefore no deferred prepaid charge was recorded to the balance sheet.

A reconciliation of income taxes at the statutory federal income tax rate to our income tax (benefit) provision included in the Consolidated Statements of Operations is as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
U.S. federal income tax benefit at statutory rate .....	\$(57,692)	\$(91,366)	\$(83,251)
Unutilized net operating losses .....	54,139	87,448	(3,438)
Non-deductible interest .....	3,308	3,598	3,380
Stock-based compensation .....	195	255	393
State tax expense .....	55	(182)	10
Available-for-sale investments .....	—	—	(106)
Impact of intellectual property rights transfer .....	—	—	82,858
Other .....	50	65	58
Income tax (benefit) provision .....	<u>\$ 55</u>	<u>\$ (182)</u>	<u>\$ (96)</u>

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

Our deferred tax assets and liabilities consist of the following (in thousands):

	December 31,	
	2015	2014
Deferred tax assets:		
Net operating loss carry-forwards .....	\$ 464,504	\$ 446,343
Tax credit and charitable contribution carry-forwards .....	64,350	64,368
Amortization of deferred stock compensation – non-qualified .....	14,615	27,500
Accruals and reserves not currently deductible .....	7,775	6,521
Book over tax depreciation and amortization .....	1,752	5,118
Deferred revenue .....	—	988
Total deferred tax assets .....	552,996	550,838
Valuation allowance .....	(523,574)	(511,171)
Net deferred tax assets .....	<u>29,422</u>	<u>39,667</u>
Deferred tax liabilities:		
Unrealized gain on derivatives .....	(497)	(704)
Convertible debt .....	(28,925)	(38,963)
Total deferred tax liabilities .....	<u>(29,422)</u>	<u>(39,667)</u>
Net deferred taxes .....	<u>\$ —</u>	<u>\$ —</u>

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by \$12.4 million, increased by \$89.7 million and decreased by \$16.8 million during 2015, 2014 and 2013, respectively.

At December 31, 2015, we had federal net operating loss carry-forwards of approximately \$1,323 million which expire in the years 2019 through 2035, and federal business tax credits of approximately \$75 million which expire in the years 2020 through 2029. We also had state net operating loss carry-forwards of approximately \$692 million, which expire in the years 2016 through 2035, California research and development tax credits of approximately \$25 million which have no expiration. Included in the federal and state carry-

forwards is \$18 million related to deductions from the exercise of stock options and the related tax benefit that will result in an increase in additional paid-in capital if and when realized through a reduction of taxes paid in cash.

Under the Internal Revenue Code and similar state provisions, certain substantial changes in our ownership could result in an annual limitation on the amount of net operating loss and credit 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 completed a Section 382 study through December 31, 2015, and concluded that an ownership change, as defined under Section 382, had not occurred.

ASC Topic 740-10 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Beginning balance . . . . .	\$58,215	\$55,077	\$47,298
Increase (decrease) relating to prior year provision . . . . .	21,696	719	(112)
Increase relating to current year provision . . . . .	8,727	2,706	7,891
Reductions based on the lapse of the applicable statutes of limitations . . . . .	—	(287)	—
Ending balance . . . . .	<u>\$88,638</u>	<u>\$58,215</u>	<u>\$55,077</u>

Included in the balance of unrecognized tax benefits as of December 31, 2013 was \$0.1 million of tax benefits that if recognized would affect the effective tax rate. There were no such unrecognized benefits as of December 31, 2015 or 2014. All of our deferred tax assets are subject to a valuation allowance. As of December 31, 2013 we had an accrued interest balance of \$20 thousand related to tax contingencies. Interest expense related to those tax contingencies was \$4 thousand during the year ended December 31, 2013. There were no such interest accruals or expenses during the years ended December 31, 2015 and 2014. There were no penalties recognized or accrued during any of the periods presented. Any tax-related interest and penalties are included in income tax (benefit) provision in the Consolidated Statements of Operations. We do not anticipate that the amount of unrecognized tax benefits existing as of December 31, 2015, will significantly decrease over the next 12 months.

We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations during which such tax returns may be audited and adjusted by the relevant tax authorities. The 1998 through 2014 years generally remain subject to examination by federal and most state tax authorities to the extent of net operating losses and credits generated during these periods and are being utilized in the open tax periods.

It is our intention to reinvest the earnings of our non-U.S. subsidiaries in those operations. As of December 31, 2015, there were no undistributed foreign earnings of our only non-U.S. subsidiary, Exelixis Bermuda.

## NOTE 12. NET LOSS PER SHARE

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

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Numerator:			
Net loss .....	\$(169,737)	\$(268,542)	\$(244,760)
Denominator:			
Shares used in computing basic and diluted net loss per share .....	209,227	194,299	184,062
Net loss per share, basic and diluted .....	\$ (0.81)	\$ (1.38)	\$ (1.33)

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

	<u>December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Convertible debt .....	88,008	75,734	54,123
Outstanding stock options, unvested RSUs and ESPP contributions .....	28,470	28,930	21,401
Warrants .....	1,000	1,000	1,441
Total potentially dilutive shares .....	<u>117,478</u>	<u>105,664</u>	<u>76,965</u>

## NOTE 13. COMMITMENTS

### *Leases*

We lease office and research space under operating leases that expire at various dates through the year 2018. Certain operating leases contain renewal provisions and require us to pay other expenses. As a result of the Restructurings, we exited certain facilities in South San Francisco. Aggregate future minimum lease payments under our operating leases are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Operating Leases (1)</u>
2016 .....	\$14,236
2017 .....	8,474
2018 .....	3,007
	<u>\$25,717</u>

- (1) Minimum payments have not been reduced by minimum sublease rentals of \$6.1 million due in the future under noncancelable subleases.

The following is a summary of aggregate future minimum lease payments under operating leases at December 31, 2015, by operating lease agreements (in thousands):

	<u>Original Term (Expiration)</u>	<u>Renewal Options</u>	<u>Future Minimum Lease Payments</u>
Building Lease #1 and 2 . . . . .	May 2017	2 additional periods of 5 years	\$12,732
Building Lease #3 . . . . .	July 2018	1 additional period of 5 years	12,985
Total . . . . .			<u>\$25,717</u>

Rent expense under operating leases was \$8.7 million, \$10.3 million, and \$9.1 million for the years ended December 31, 2015, 2014 and 2013, respectively. Rent expense was recorded net of sublease rental incomes of \$5.2 million, \$4.9 million and \$4.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

*Letters of Credit and Restricted Cash*

We entered into a standby letter of credit with a bank in July 2004, which is related to a building lease, with a credit limit of \$0.5 million at both December 31, 2015 and 2014. We entered into two standby letters of credit with a bank in May 2007, which is related to our workers compensation insurance policy, for a combined credit limit of \$0.6 million and \$0.7 million at December 31, 2015 and 2014, respectively. All three letters of credit are fully collateralized by long-term restricted cash and investments. As of December 31, 2015, the full amount of our three letters of credit was still available.

As part of a purchasing card program with a bank we initiated during 2007, we were required to provide collateral in the form of a non-interest bearing certificate of deposit. The collateral at December 31, 2015 and 2014 was \$1.5 million and \$3.5 million, respectively. We recorded these amounts in the Consolidated Balance Sheet as Long-term restricted cash and investments as the certificates of deposit were restricted as to withdrawal.

*Indemnification Agreements*

In connection with the sale of our plant trait business, we agreed to indemnify the purchaser and its affiliates up to a specified amount if they incur damages due to any infringement or alleged infringement of certain patents. We have certain collaboration licensing agreements that contain standard indemnification clauses. Such clauses typically indemnify the customer or vendor for an adverse judgment in a lawsuit in the event of our misuse or negligence. We consider the likelihood of an adverse judgment related to any of our indemnification agreements to be remote. Furthermore, in the event of an adverse judgment, any losses under such an adverse judgment may be substantially offset by applicable corporate insurance.

**NOTE 14. 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, taxable commercial paper, corporate bonds with high credit quality, U.S. Treasury and government sponsored enterprises, and municipal bonds. 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 December 31, 2015, 95% of our trade and other receivables are with the specialty pharmacy that sells COMETRIQ in the United States and 5% are with our European distribution partner. Both of these customers pay promptly and within their respective payment terms. All of our long-lived assets are located in the United States.

We have operations primarily in the United States, while some of our collaboration partners have headquarters outside of the United States and some of our clinical trials for cabozantinib are also conducted outside of the United States. During the second quarter of 2013, we initiated a Named Patient Use program through our distribution partner, Swedish Orphan Biovitrum (“Sobi”), to support the distribution and commercialization of COMETRIQ for metastatic MTC primarily in the European Union and potentially other countries. In March 2014, the European Commission approved cabozantinib for the treatment of adult patients with progressive, unresectable locally advanced or metastatic MTC, also under the brand name COMETRIQ. In June 2014, we began selling COMETRIQ to Sobi in preparation for commercial sales in certain countries in the European Union. The following table shows the percentage of revenues earned in the United States and European Union.

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Percentage of revenues earned in the United States . . . . .	91%	99%	97%
Percentage of revenues earned in the European Union (1) . . . . .	9%	1%	3%

(1) Net product revenues in the European Union for the year ended December 31, 2015 and 2014 included a \$0.1 million and \$2.3 million reduction, respectively, to revenue for a project management fee payable to our European distributor upon their achievement of a cumulative revenue goal.

We recorded a \$0.1 million and \$0.5 million gain relating to foreign exchange fluctuations for the year ended December 31, 2015 and 2014, respectively. Such gains were nominal in 2013.

The following table sets forth the percentage of revenues recognized under our collaboration agreements and product sales to the specialty pharmacy that represent 10% or more of total revenues:

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Product sales:			
Diplomat Specialty Pharmacy . . . . .	83%	99%	45%
Collaboration agreement:			
Bristol-Myers Squibb . . . . .	— %	— %	52%

**NOTE 15. SUBSEQUENT EVENT**

On February 29, 2016, we entered into a collaboration and license agreement with Ipsen for the commercialization and further development of cabozantinib. Pursuant to the terms of this agreement, Ipsen will have exclusive commercialization rights for current and potential future cabozantinib indications outside of the United States, Canada and Japan. The companies have agreed to collaborate on the development of cabozantinib for current and potential future indications.

In consideration for the exclusive license and other rights contained in the agreement, Ipsen will pay us an upfront payment of \$200.0 million. We will be eligible to receive regulatory milestones, including a \$60.0 million milestone payment upon approval of cabozantinib by the EMA in second-line RCC and milestone payments of \$10.0 million upon the filing and \$40.0 million upon the approval of cabozantinib in second-line HCC, as well as additional regulatory milestone payments for potential further indications. The agreement also provides that we will be eligible to receive payments of up to \$545.0 million associated with potential commercial milestone payments, including two \$10.0 million milestone payments upon the launch of the product in the first two of the following countries: Germany, France, Italy, Spain and the United Kingdom. Exelixis will also receive royalties on net sales of cabozantinib outside of the United States, Canada and Japan. We will receive a 2% royalty on the initial \$50 million of net sales, and 12% royalty on the next \$100 million of net sales. After this initial period, Exelixis will receive a tiered royalty of 22% to 26% on annual net sales. These tiers will

reset each calendar year. Exelixis is responsible for funding cabozantinib related development costs for existing trials; development costs for potential future trials will be shared between the parties, with Ipsen to reimburse us for 35% of such costs. Pursuant to the terms of the 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, we entered into a supply agreement which provides that through the end of the second quarter of 2018, we will supply finished, labeled product to Ipsen for distribution in the territories outside of the United States, Canada and Japan, and from the end of the second quarter of 2018 forward, we will supply primary packaged bulk tablets to Ipsen.

In connection with the establishment of our collaboration with Ipsen, we intend to provide Sobi with notice of termination and following a transition period, Ipsen will become responsible for the continued distribution and commercialization of COMETRIQ for the approved MTC indication in territories currently supported by Sobi.

**NOTE 16. QUARTERLY FINANCIAL DATA (UNAUDITED)**

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

	Quarter Ended			
	<u>December 31,</u>	<u>September 30,</u>	<u>June 30,</u>	<u>March 31,</u>
2015:				
Revenues .....	\$ 9,938	\$ 9,854	\$ 7,992	\$ 9,388
Gross profit .....	\$ 8,915	\$ 8,434	\$ 7,306	\$ 8,622
Loss from operations .....	\$(31,600)	\$(35,781)	\$(31,280)	\$(22,760)
Net loss .....	\$(43,641)	\$(47,564)	\$(43,362)	\$(35,170)
Net loss per share, basic and diluted ....	\$ (0.19)	\$ (0.22)	\$ (0.22)	\$ (0.18)
2014:				
Revenues .....	\$ 7,353	\$ 6,291	\$ 6,562	\$ 4,905
Gross profit .....	\$ 6,669	\$ 5,718	\$ 6,085	\$ 4,596
Loss from operations .....	\$(46,208)	\$(51,574)	\$(61,688)	\$(64,988)
Net loss .....	\$(57,953)	\$(62,560)	\$(73,410)	\$(74,619)
Net loss per share, basic and diluted ....	\$ (0.30)	\$ (0.32)	\$ (0.38)	\$ (0.39)

On September 2, 2014, as a consequence of the failure of COMET-1, we initiated the 2014 Restructuring to reduce our workforce. The aggregate reduction in headcount from the 2014 Restructuring was 143 employees. The 2014 Restructuring, along with associated reductions in clinical trial costs related to COMET-1 and COMET-2, resulted in a decrease in operating expenses and a corresponding decrease the loss from operations and net loss. See “Note 2—Restructurings” for more information on the 2014 Restructuring.



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

Not applicable.

### **ITEM 9A. CONTROLS AND PROCEDURES**

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

***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.

***Management's Report on Internal Control Over Financial Reporting.*** Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of our 2015 fiscal year, management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in the original *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on this assessment, management has determined that our internal control over financial reporting as of January 1, 2016 was effective. There were no material weaknesses in internal control over financial reporting identified by management.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

The independent registered public accounting firm Ernst & Young LLP has issued an audit report on our internal control over financial reporting, which is included on the following page.

***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.

## Report of Independent Registered Public Accounting Firm

*The Board of Directors and Stockholders of Exelixis, Inc.*

We have audited Exelixis, Inc.'s internal control over financial reporting as of January 1, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Exelixis, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Exelixis, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 1, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Exelixis, Inc. as of January 1, 2016 and January 2, 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the three fiscal years in the period ended January 1, 2016, of Exelixis, Inc. and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Redwood City, California  
February 29, 2016

## ITEM 9B. OTHER INFORMATION

On February 29, 2016, we entered into a collaboration and license agreement with Ipsen for the commercialization and further development of cabozantinib. Pursuant to the terms of this agreement, Ipsen will have exclusive commercialization rights for current and potential future cabozantinib indications outside of the United States, Canada and Japan. The companies have agreed to collaborate on the development of cabozantinib for current and potential future indications.

The parties' efforts will be governed through a joint steering committee and appropriate subcommittees established to guide and oversee the collaboration's operation and strategic direction; provided, however, that we will retain final decision-making authority with respect to cabozantinib's ongoing development. The agreement anticipates the transfer to Ipsen of sponsorship of our MAA for cabozantinib in RCC, currently on file with the EMA. It also anticipates transfer of Marketing Authorization Holder status for COMETRIQ for the MTC indication approved in the European Union to Ipsen and the transition of rights regarding COMETRIQ outside the United States from Sobi, our current international partner for COMETRIQ, to Ipsen, in accordance with the terms of our agreement with Sobi.

In consideration for the exclusive license and other rights contained in the agreement, Ipsen will pay us an upfront payment of \$200.0 million. We will be eligible to receive regulatory milestones, including a \$60.0 million milestone payment upon approval of cabozantinib by the EMA in second-line RCC and milestone payments of \$10.0 million upon the filing and \$40.0 million upon the approval of cabozantinib in second-line HCC, as well as additional regulatory milestones payments for potential further indications. The agreement also provides that we will be eligible to receive payments of up to \$545.0 million associated with potential commercial milestone payments, including two \$10.0 million milestone payments upon the launch of the product in the first two of the following countries: Germany, France, Italy, Spain and the United Kingdom. Exelixis will also receive royalties on net sales of cabozantinib outside of the United States, Canada and Japan. We will receive a 2% royalty on the initial \$50 million of net sales, and 12% royalty on the next \$100 million of net sales. After this initial period, Exelixis will receive a tiered royalty of 22% to 26% on annual net sales. These tiers will reset each calendar year. Exelixis is responsible for funding cabozantinib related development costs for existing trials; development costs for potential future trials will be shared between the parties, with Ipsen to reimburse us for 35% of such costs. Pursuant to the terms of the 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, we entered into a supply agreement which provides that through the end of the second quarter of 2018, we will supply finished, labeled product to Ipsen for distribution in the territories outside of the United States, Canada and Japan, and from the end of the second quarter of 2018 forward, we will supply primary packaged bulk tablets to Ipsen.

Unless terminated earlier, the agreement has a term that continues, on a product-by-product and country-by-country basis, until the latter of (i) the expiration of patent claims related to cabozantinib, (ii) the expiration of regulatory exclusivity covering cabozantinib or (iii) ten years after the first commercial sale of cabozantinib, other than COMETRIQ. The 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. We may terminate the agreement if Ipsen challenges or opposes any patent covered by the agreement. Ipsen may terminate the agreement if the FDA or EMA orders or requires substantially all cabozantinib clinical trials to be terminated or if the EMA refuses to approve our MAA for cabozantinib in advanced RCC in such region. Ipsen also has the right to terminate the agreement on a region-by-region basis after the first commercial sale of cabozantinib in advanced RCC in the given region. Upon termination by either party, all licenses granted by us to Ipsen will automatically terminate, and, except in the event of a termination by Ipsen for our material breach, the licenses granted by Ipsen to us shall survive such termination and shall automatically become worldwide, or, if Ipsen terminated only for a particular region, then for the terminated region. Following termination by us for Ipsen's material breach, or termination by Ipsen without cause or because we undergo a change of control by a party engaged in a competing program, Ipsen is prohibited from competing with us for a period of time.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item relating to our directors and nominees, including information with respect to our audit committee, audit committee financial experts and procedures by which stockholders may recommend nominees to our board of directors, is incorporated by reference to the section entitled “Proposal 1 – Election of Class II Directors” appearing in our Proxy Statement for our 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission, or SEC, within 120 days after January 1, 2016, which we refer to as our 2016 Proxy Statement. The information required by this item regarding our executive officers is incorporated by reference to the section entitled “Executive Officers” appearing in our 2016 Proxy Statement. The information required by this item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference to the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” appearing in our 2016 Proxy Statement.

#### **Code of Ethics**

We have adopted a Corporate Code of Conduct that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Corporate Code of Conduct is posted on our website at [www.exelixis.com](http://www.exelixis.com) under the caption “Investors & Media—Corporate Governance.”

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Corporate Code of Conduct by posting such information on our website, at the address and location specified above and, to the extent required by the listing standards of the NASDAQ Stock Market, by filing a Current Report on Form 8-K with the SEC, disclosing such information.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to the sections entitled “Compensation of Executive Officers,” “Compensation of Directors,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” appearing in our 2016 Proxy Statement.

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

The information required by this item relating to security ownership of certain beneficial owners and management is incorporated by reference to the section entitled “Security Ownership of Certain Beneficial Owners and Management” appearing in our 2016 Proxy Statement.

## Equity Compensation Plan Information

The following table provides certain information about our common stock that may be issued upon the exercise of stock options and other rights under all of our existing equity compensation plans as of December 31, 2015, which consists of our 2000 Equity Incentive Plan, or the 2000 Plan, our 2000 Non-Employee Directors' Stock Option Plan, or the Director Plan, our 2000 Employee Stock Purchase Plan, or the ESPP, our 2010 Inducement Award Plan, or the 2010 Plan, our 2011 Equity Incentive Plan, or the 2011 Plan, our 2014 Equity Incentive Plan, or the 2014 Plan, and our 401(k) Retirement Plan, or the 401(k) Plan:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by stockholders (2) . . . . .	29,428,042	\$4.19	9,088,801
Equity compensation plans not approved by stockholders (3) . . . . .	—	n/a	450,042
Total . . . . .	29,428,042	\$4.19	9,538,843

- 
- (1) The weighted average exercise price does not take into account the shares subject to outstanding restricted stock units, or RSUs, which have no exercise price.
  - (2) Represents shares of our common stock issuable pursuant to the 2000 Plan, the 2011 Plan, the Director Plan and the ESPP.
  - (3) Represents shares of our common stock issuable pursuant to the 401(k) Plan. We sponsor a 401(k) Plan whereby eligible employees may elect to contribute up to the lesser of 50% of their annual compensation or the statutorily prescribed annual limit allowable under Internal Revenue Service regulations. The 401(k) Plan permits us to make matching contributions on behalf of all participants. We match 100% of the first 3% of participant contributions into the 401(k) Plan in the form of our common stock.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the sections entitled “Certain Relationships and Related Party Transactions” and “Proposal 1—Election of Class II Directors” appearing in our 2016 Proxy Statement.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the section entitled “Proposal 2—Ratification of Selection of Independent Registered Public Accounting Firm” appearing in our 2016 Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

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

(1) The following financial statements and the Report of Independent Registered Public Accounting Firm are included in Part II, Item 8:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm .....	80
Consolidated Balance Sheets .....	81
Consolidated Statements of Operations .....	82
Consolidated Statements of Comprehensive Loss .....	83
Consolidated Statements of Stockholders' Equity (Deficit) .....	84
Consolidated Statements of Cash Flows .....	85
Notes to Consolidated Financial Statements .....	86

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

(3) See Index to Exhibits at the end of this Report, which is incorporated herein by reference. The Exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

Date: February 29, 2016.

EXELIXIS, INC.

By:           /s/ MICHAEL M. MORRISSEY            
**Michael M. Morrissey, Ph.D.**  
**President and Chief Executive Officer**

## POWER OF ATTORNEY

**KNOW ALL PERSONS BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints **MICHAEL M. MORRISSEY, CHRISTOPHER SENNER** and **JEFFREY J. HESSEKIEL** and each or any one of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>          /s/ MICHAEL M. MORRISSEY          </u> <b>Michael M. Morrissey, Ph.D.</b>	Director, President and Chief Executive Officer (Principal Executive Officer)	February 29, 2016
<u>          /s/ CHRISTOPHER SENNER          </u> <b>Christopher Senner</b>	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 29, 2016
<u>          /s/ STELIOS PAPADOPOULOS          </u> <b>Stelios Papadopoulos, Ph.D.</b>	Chairman of the Board	February 29, 2016
<u>          /s/ CHARLES COHEN          </u> <b>Charles Cohen, Ph.D.</b>	Director	February 29, 2016
<u>          /s/ CARL B. FELDBAUM          </u> <b>Carl B. Feldbaum, Esq.</b>	Director	February 29, 2016
<u>          /s/ ALAN M. GARBER          </u> <b>Alan M. Garber, M.D., Ph.D.</b>	Director	February 29, 2016

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ VINCENT T. MARCHESI</u> <b>Vincent T. Marchesi, M.D., Ph.D.</b>	Director	February 29, 2016
<u>/s/ GEORGE POSTE</u> <b>George Poste, D.V.M., Ph.D.</b>	Director	February 29, 2016
<u>/s/ GEORGE A. SCANGOS</u> <b>George A. Scangos, Ph.D.</b>	Director	February 29, 2016
<u>/s/ LANCE WILLSEY</u> <b>Lance Willsey, M.D.</b>	Director	February 29, 2016
<u>/s/ JACK L. WYSZOMIERSKI</u> <b>Jack L. Wyszomierski</b>	Director	February 29, 2016



## INDEX TO EXHIBITS

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	000-30255	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	Amended and Restated Secured Convertible Note dated July 1, 2015 in favor of Deerfield Partners, L.P.	10-Q	000-30235	4.2	8/11/2015	
4.3	Amended and Restated Secured Convertible Note dated July 1, 2015 in favor of Deerfield International Master Fund, L.P.	10-Q	000-30235	4.3	8/11/2015	
4.4	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	
4.5	Form of Warrant to Purchase Common Stock of Exelixis, Inc. issued to OTA LLC	10-Q	000-30235	4.5	11/10/2015	
4.6	Indenture dated August 14, 2012 by and between Exelixis, Inc. and Wells Fargo Bank, National Association	8-K	000-30235	4.1	8/14/2012	

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
4.7	First Supplemental Indenture dated August 14, 2012 to Indenture dated August 14, 2012 by and between Exelixis, Inc. and Wells Fargo Bank, National Association	8-K	000-30235	4.2	8/14/2012	
4.8	Form of 4.25% Convertible Senior Subordinated Note due 2019	8-K	000-30235	4.2 (Exhibit A)	8/14/2012	
10.1†	Form of Indemnity Agreement.	S-1, as amended	333-96335	10.1	3/17/2000	
10.2†	2000 Equity Incentive Plan.	10-Q	000-30235	10.1	5/3/2007	
10.3†	Form of Stock Option Agreement under the 2000 Equity Incentive Plan (early exercise permissible).	10-Q	000-30235	10.2	11/8/2004	
10.4†	Form of Stock Option Agreement under the 2000 Equity Incentive Plan (early exercise may be restricted).	8-K	000-30235	10.1	12/15/2004	
10.5†	Form of Restricted Stock Unit Agreement under the 2000 Equity Incentive Plan.	10-K	000-30235	10.6	3/10/2010	
10.6†	2000 Non-Employee Directors' Stock Option Plan.	10-K	000-30235	10.6	2/20/2014	
10.7†	Form of Stock Option Agreement under the 2000 Non-Employee Directors' Stock Option Plan.	10-K	000-30235	10.7	2/22/2011	
10.8†	2000 Employee Stock Purchase Plan.	Schedule 14A	000-30235	A	4/13/2009	
10.9†	2011 Equity Incentive Plan.	8-K	000-30235	10.1	5/24/2011	
10.10†	Form of Stock Option Agreement under the 2011 Equity Incentive Plan	10-Q	000-30235	10.3	8/4/2011	
10.11†	Form of Restricted Stock Unit Agreement under the 2011 Equity Incentive Plan	10-Q	000-30235	10.4	8/4/2011	
10.12†	Form of Stock Option Agreement (International) under the Exelixis, Inc. 2011 Equity Incentive Plan	10-Q	000-30235	10.6	7/31/2014	
10.13†	Exelixis, Inc. 2014 Equity Incentive Plan	8-K	000-30235	10.1	5/29/2014	

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
10.14 <sup>†</sup>	Form of Stock Option Agreement under the Exelixis, Inc. 2014 Equity Incentive Plan	10-Q	000-30235	10.2	7/31/2014	
10.15 <sup>†</sup>	Form of Stock Option Agreement (International) under the Exelixis, Inc. 2014 Equity Incentive Plan	10-Q	000-30235	10.3	7/31/2014	
10.16 <sup>†</sup>	Form of Stock Option Agreement (Non-Employee Director) under the Exelixis, Inc. 2014 Equity Incentive Plan	10-Q	000-30235	10.4	7/31/2014	
10.17 <sup>†</sup>	Form of Restricted Stock Unit Agreement under the Exelixis, Inc. 2014 Equity Incentive Plan	10-Q	000-30235	10.5	7/31/2014	
10.18 <sup>†</sup>	Form of Restricted Stock Unit Agreement (Non-Employee Director) under the 2014 Equity Incentive Plan	8-K	000-30235	10.1	10/16/2014	
10.19 <sup>†</sup>	Non-Employee Director Equity Compensation Policy under the 2014 Equity Incentive Plan					X
10.20 <sup>†</sup>	Offer Letter Agreement, dated February 3, 2000, between Michael Morrissey, Ph.D., and Exelixis, Inc.	10-Q	000-30235	10.43	8/5/2004	
10.21 <sup>†</sup>	Offer Letter Agreement, dated June 30, 2015, between Christopher Senner, and Exelixis, Inc.	10-Q	000-30235	10.5	11/10/2015	
10.22 <sup>†</sup>	Offer Letter Agreement, dated June 20, 2006, between Exelixis, Inc. and Gisela M. Schwab, M.D.	8-K	000-30235	10.1	6/26/2006	
10.23 <sup>†</sup>	Offer Letter Agreement, dated February 10, 2014, between Exelixis, Inc. and Jeffrey J. Hessekiel.	10-Q	000-30235	10.4	5/1/2014	
10.24 <sup>†</sup>	Offer Letter Agreement, dated August 11, 2000, between Exelixis, Inc. and Peter Lamb.					X
10.25 <sup>†</sup>	Transition and Consulting Agreement, dated May 7, 2014, between Exelixis, Inc. and Frank Karbe	10-Q	000-30235	10.7	7/31/2014	

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
10.26 <sup>†</sup>	Offer Letter Agreement, dated May 9, 2005, between Exelixis, Inc. and Deborah Burke	10-Q	000-30235	10.8	7/31/2014	
10.27 <sup>†</sup>	Special One-Time Bonus Memorandum for Deborah Burke dated May 15, 2014	10-Q	000-30235	10.9	7/31/2014	
10.28 <sup>†</sup>	Resignation Agreement dated July 22, 2010, by and between Exelixis, Inc. and George A. Scangos	10-Q	000-30235	10.1	11/4/2010	
10.29 <sup>†</sup>	Compensation Information for Named Executive Officers (2015 cash bonus and 2016 compensation)	8-K	000-30235	Item 5.02 disclosure	2/16/2016	
10.30 <sup>†</sup>	Compensation Information for Non-Employee Directors.	10-Q	000-30235	10.3	5/1/2014	
10.31 <sup>†</sup>	Exelixis, Inc. Change in Control and Severance Benefit Plan, as amended and restated.	10-Q	000-30235	10.2	10/27/2011	
10.32	Lease, dated May 12, 1999, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	S-1, as amended	333-96335	10.11	2/7/2000	
10.33	First Amendment, dated March 29, 2000, to Lease, dated May 12, 1999, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	10-Q	000-30235	10.1	5/15/2000	
10.34	Second Amendment, dated January 31, 2001, to Lease dated May 12, 1999, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	S-1, as amended	333-152166	10.44	7/7/2008	
10.35	Third Amendment, dated May 24, 2001, to Lease dated May 12, 1999, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	10-K	000-30235	10.46	2/22/2011	
10.36	Partial Lease Termination Agreement dated June 30, 2015, by and between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	10-Q	000-30235	10.1	8/11/2015	

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
10.37	Lease Agreement, dated May 24, 2001, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	10-Q	000-30235	10.48	8/5/2004	
10.38	First Amendment, dated February 28, 2003, to Lease, dated May 24, 2001, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	S-1, as amended	333-152166	10.46	7/7/2008	
10.39	Second Amendment, dated July 20, 2004, to Lease, dated May 24, 2001, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.	10-Q	000-30235	10.49	8/5/2004	
10.40	Lease Agreement, dated May 27, 2005, between Exelixis, Inc. and Britannia Pointe Grand Limited Partnership.	8-K	000-30235	10.1	5/27/2005	
10.41	Sublease, dated July 25, 2011, between Exelixis, Inc. and Nodality, Inc.	10-Q	000-30235	10.3	10/27/2011	
10.42	Consent to Sublease, dated August 16, 2011, by and among HCP Life Science REIT, Inc., Exelixis, Inc., and Nodality, Inc.	10-Q	000-30235	10.4	10/27/2011	
10.43	Side Letter dated April 12, 2012 to Sublease between Exelixis, Inc. and Nodality, Inc.	10-Q	000-30235	10.1	8/2/2012	
10.44	First Amendment to Sublease dated effective June 1, 2012 by and between Exelixis, Inc. and Nodality, Inc.	10-Q	000-30235	10.2	8/2/2012	
10.45	Consent of Landlord dated June 1, 2012 to First Amendment to Sublease dated effective June 1, 2012 by and between Exelixis, Inc. and Nodality, Inc.	10-Q	000-30235	10.3	8/2/2012	
10.46	Second Amendment to Sublease dated effective July 1, 2015 by and between Exelixis, Inc. and Nodality, Inc.	10-Q	000-30235	10.2	8/11/2015	

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
10.47	First Amendment to Consent to Sublease Agreement dated effective July 1, 2015 by and among Britannia Pointe Grand Limited Partnership, Exelixis, Inc. and Nodality, Inc.	10-Q	000-30235	10.3	8/11/2015	
10.48	Sublease, dated July 25, 2011, between Exelixis, Inc. and Threshold Pharmaceuticals, Inc.	10-Q	000-30235	10.5	10/27/2011	
10.49	Consent to Sublease, dated August 19, 2011, by and among HCP Life Science REIT, Inc., Exelixis, Inc., and Threshold Pharmaceuticals, Inc.	10-Q	000-30235	10.6	10/27/2011	
10.50	First Amendment to Sublease dated effective October 1, 2013 by and between Exelixis, Inc. and Threshold Pharmaceuticals, Inc.	10-Q	000-30235	10.4	8/11/2015	
10.51	First Amendment to Consent to Sublease Agreement dated effective October 1, 2013 by and among Britannia Pointe Grand Limited Partnership, Exelixis, Inc. and Threshold Pharmaceuticals, Inc.	10-Q	000-30235	10.5	8/11/2015	
10.52	Second Amendment to Sublease dated effective July 1, 2015 by and between Exelixis, Inc. and Threshold Pharmaceuticals, Inc.	10-Q	000-30235	10.6	8/11/2015	
10.53	Second Amendment to Consent to Sublease Agreement dated effective July 1, 2015 by and among Britannia Pointe Grand Limited Partnership, Exelixis, Inc. and Threshold Pharmaceuticals, Inc.	10-Q	000-30235	10.7	8/11/2015	
10.54	Sublease Agreement, dated August 5, 2013, by and between Exelixis, Inc. and Sutro Biopharma, Inc.	10-Q	000-30235	10.2	10/30/2013	
10.55	Consent to Sublease Agreement, dated August 5, 2013, by and among Britannia Pointe Limited Grand Partnership, Exelixis, Inc. and Sutro Biopharma, Inc.	10-Q	000-30235	10.3	10/30/2013	

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
10.56	Loan and Security Agreement, dated May 22, 2002, by and between Silicon Valley Bank and Exelixis, Inc.	10-Q	000-30235	10.34	8/6/2002	
10.57	Loan Modification Agreement, dated December 21, 2004, between Silicon Valley Bank and Exelixis, Inc.	8-K	000-30235	10.1	12/23/2004	
10.58	Amendment No. 7, dated December 21, 2006, to the Loan and Security Agreement, dated May 22, 2002, between Silicon Valley Bank and Exelixis, Inc.	8-K	000-30235	10.1	12/27/2006	
10.59	Amendment No. 8, dated December 21, 2007, to the Loan and Security Agreement, dated May 22, 2002, between Silicon Valley Bank and Exelixis, Inc.	8-K	000-30235	10.1	12/26/2007	
10.60	Amendment No. 9, dated December 22, 2009, to the Loan and Security Agreement, dated May 22, 2002, between Silicon Valley Bank and Exelixis, Inc.	8-K	000-30235	10.1	12/23/2009	
10.61*	Amendment No. 10, dated June 2, 2010, to the Loan and Security Agreement, dated May 22, 2002, by and between Silicon Valley Bank and Exelixis, Inc.	10-Q	000-30235	10.3	8/5/2010	
10.62*	Amendment No. 11, dated August 18, 2011, to the Loan and Security Agreement, dated May 22, 2002, by and between Silicon Valley Bank and Exelixis, Inc.	10-Q	000-30235	10.7	10/27/2011	
10.63	Note Purchase Agreement, dated June 2, 2010, by and between Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P. and Exelixis, Inc.	10-Q	000-30235	10.1	8/5/2010	
10.64	Consent and Amendment dated as of August 6, 2012 to Note Purchase Agreement, dated as of June 2, 2010, between Exelixis, Inc., Deerfield Private Design Fund, L.P. and Deerfield Private Design International, L.P.	8-K	000-30235	10.1	8/6/2012	

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporation by Reference</u>				<u>Filed Herewith</u>
		<u>Form</u>	<u>File Number</u>	<u>Exhibit/ Appendix Reference</u>	<u>Filing Date</u>	
10.65	Amendment No. 2 dated as of August 1, 2013 to Note Purchase Agreement, dated as of June 2, 2010, between Exelixis, Inc., Deerfield Private Design Fund, L.P. and Deerfield Private Design International, L.P.	10-Q	000-30235	10.1	10/30/2013	
10.66	Amendment No. 3 dated as of January 22, 2013 to Note Purchase Agreement, dated as of June 2, 2010, by and among Exelixis, Inc., Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P., Deerfield Partners L.P. and Deerfield International Master Fund, L.P.	8-K	000-30235	10.1	1/22/2014	
10.67	Amendment No. 4 dated as of July 10, 2014 to Note Purchase Agreement, dated as of June 2, 2010, by and among Exelixis, Inc., Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P., Deerfield Partners L.P. and Deerfield International Master Fund, L.P.	10-Q	000-30235	10.1	11/4/2014	
10.68	Security Agreement, dated July 1, 2010, by and between Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P. and Exelixis, Inc.	10-Q	000-30235	10.2	8/5/2010	
10.69*	Collaboration Agreement, dated December 22, 2006, between Exelixis, Inc. and Genentech, Inc.	10-K	000-30235	10.39	2/27/2007	
10.70*	First Amendment, dated March 13, 2008, to the Collaboration Agreement, dated December 22, 2006, between Exelixis, Inc. and Genentech, Inc.	10-Q	000-30235	10.1	5/6/2008	
10.71	Second Amendment, dated April 30, 2010, to the Collaboration Agreement, dated December 22, 2006, between Exelixis, Inc. and Genentech, Inc.	10-Q	000-30235	10.5	8/5/2010	



Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
10.72*	License Agreement, dated May 27, 2009, between Exelixis, Inc. and Sanofi.	10-Q, as amended	000-30235	10.1	7/30/2009	
10.73*	Collaboration Agreement, dated May 27, 2009, between Exelixis, Inc. and Sanofi	10-Q	000-30235	10.1	7/31/2014	
10.74	Letter, dated May 27, 2009, relating to regulatory filings for the Collaboration Agreement, dated May 27, 2009, between Exelixis, Inc. and Sanofi.	10-Q, as amended	000-30235	10.3	7/30/2009	
10.75*	Termination Agreement, dated December 22, 2011, between Exelixis, Inc. and Sanofi.	10-K	000-30235	10.83	2/22/2012	
10.76*	Amended and Restated Collaboration Agreement, dated April 15, 2011, by and between Exelixis, Inc., Exelixis Patent Company, LLC., and Bristol-Myers Squibb Company.	10-Q	000-30235	10.6	8/4/2011	
10.77*	Amended and Restated Collaboration Agreement, dated April 15, 2011, by and between Exelixis, Inc., Exelixis Patent Company, LLC., and Bristol-Myers Squibb Company.	10-Q	000-30235	10.5	8/4/2011	
10.78*	Amended and Restated License Agreement, dated April 15, 2011, by and between Exelixis, Inc., Exelixis Patent Company, LLC, and Bristol-Myers Squibb Company.	10-Q	000-30235	10.7	8/4/2011	
10.79*	Amended and Restated Collaboration Agreement, dated April 15, 2011, by and between Exelixis, Inc., Exelixis Patent Company, LLC, and Bristol-Myers Squibb Company.	10-Q	000-30235	10.8	8/4/2011	
10.80*	Exclusive License Agreement, dated December 20, 2011, between Exelixis, Inc. and Merck.	10-K	000-30235	10.91	2/22/2012	
12.1	Statement Re Computation of Earnings to Fixed Charges					X

Exhibit Number	Exhibit Description	Incorporation by Reference			Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	
21.1	Subsidiaries of Exelixis, Inc.				X
23.1	Consent of Independent Registered Public Accounting Firm.				X
24.1	Power of Attorney (contained on signature page).				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 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).				X
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				X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

† Management contract or compensatory plan.

\* Confidential treatment granted for certain portions of this exhibit.

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

## CORPORATE INFORMATION

### **Exelixis, Inc.**

210 East Grand Avenue  
South San Francisco, CA 94080  
650.837.7000 tel  
650.837.8300 fax  
<http://www.exelixis.com>

## CORPORATE COUNSEL

### **Cooley LLP**

Palo Alto, CA

## TRANSFER AGENT

### **Computershare Trust Company, N.A.**

250 Royall St.  
Canton, MA 02021  
(866) 416-6111  
[www.computershare.com/investor](http://www.computershare.com/investor)

### **Mailing addresses**

*Shareholder correspondence should be mailed to:*

Computershare  
P.O. Box 30170  
College Station, TX 77842-3170

*Overnight correspondence should be sent to:*

Computershare  
211 Quality Circle, Suite 210  
College Station, TX 77845

### **Shareholder website**

[www.computershare.com/investor](http://www.computershare.com/investor)

### *Shareholder online inquiries*

<https://www-us.computershare.com/investor/contact>

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### **Ernst & Young LLP**

Redwood City, CA

## FORM 10-K

A copy of the Exelixis annual report on Form 10-K filed with the Securities and Exchange Commission is available free of charge from the company's Investor Relations Department by calling 650.837.7000.

## STOCK INFORMATION

The common stock of the company has traded on the NASDAQ Global Select Market under the symbol "EXEL" since April 11, 2000. No dividends have been paid on the common stock since the company's inception.

## COMMON STOCK

The following table sets forth, for the periods indicated, the high and low intraday sales prices for the company's common stock as reported by the NASDAQ Global Select Market:

QUARTER ENDED	HIGH	LOW
January 1, 2016	\$6.42	\$4.70
October 2, 2015	\$6.81	\$3.31
July 3, 2015	\$4.18	\$2.51
April 3, 2015	\$3.16	\$1.54

## BOARD OF DIRECTORS

### **Stelios Papadopoulos, Ph.D.**

Chairman of the Board, Exelixis, Inc.

### **Charles Cohen, Ph.D.**

Chairman of the Compensation Committee, Exelixis, Inc.; Chief Executive Officer, On Target Therapeutics, LLC; Chief Executive Officer, Perform Biologics, Inc.

### **Carl B. Feldbaum, Esq.**

President Emeritus, Biotechnology Industry Organization

### **Alan M. Garber, M.D., Ph.D.**

Chairman of the Nominating and Corporate Governance Committee, Exelixis, Inc.; Provost, Harvard University; Mallinckrodt Professor of Healthcare Policy, Harvard Medical School; Professor, Harvard Kennedy School of Government; Professor, Department of Economics, Harvard University

### **Vincent T. Marchesi, M.D., Ph.D.**

Director, Boyer Center for Molecular Medicine and Professor of Pathology and Cell Biology, Yale University

### **Michael M. Morrissey, Ph.D.**

President and Chief Executive Officer, Exelixis, Inc.

### **George Poste, DVM, Ph.D., FRS**

Chairman of the Research & Development Committee, Exelixis, Inc.; Chief Scientist, Complex Adaptive Systems Initiative, Regents' Professor and Del E. Webb Professor of Health Innovation, Arizona State University

### **George A. Scangos, Ph.D.**

Chief Executive Officer, Biogen, Inc.

### **Lance Willsey, M.D.**

Member of the Visiting Committee of the Department of Genitourinary Oncology at the Dana-Farber Cancer Institute at Harvard University School of Medicine and Oncology Consultant

### **Jack L. Wyszomierski**

Chairman of the Audit Committee, Exelixis, Inc.

## MANAGEMENT

### **Michael M. Morrissey, Ph.D.**

President and Chief Executive Officer

### **Dana Aftab, Ph.D.**

Executive Vice President, Business Operations

### **PJ Haley**

Vice President, Head of Commercial

### **Jeffrey J. Hessekiel, J.D.**

Executive Vice President, General Counsel and Secretary

### **Peter Lamb, Ph.D.**

Executive Vice President, Scientific Strategy and Chief Scientific Officer

### **Gisela M. Schwab, M.D.**

President, Product Development and Medical Affairs and Chief Medical Officer

### **Christopher J. Senner**

Executive Vice President and Chief Financial Officer



210 East Grand Avenue  
South San Francisco, CA 94080  
650.837.7000 tel  
650.837.8300 fax  
[www.exelixis.com](http://www.exelixis.com)