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

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**FORM 10-K**

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

For the fiscal year ended: December 28, 2007

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

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**EXELIXIS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**04-3257395**  
(I.R.S. Employer  
Identification Number)

**170 Harbor Way**  
**P.O. Box 511**  
**South San Francisco, CA 94083**  
(Address of principal executive offices, including zip code)  
**(650) 837-7000**  
(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u> <b>Common Stock \$.001 Par Value per Share</b>	<u>Name of Each Exchange on Which Registered</u> <b>The Nasdaq Stock Market LLC</b>
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**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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" 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: \$975,445,421 (Based on the closing sales price of the registrant's common stock on that date. Excludes an aggregate of 16,658,250 shares of the registrant's common stock held by officers, directors and affiliated stockholders. For purposes of determining whether a stockholder was an affiliate of the registrant at June 29, 2007, the registrant assumed that a stockholder was an affiliate of the registrant at June 29, 2007 if such stockholder (i) beneficially owned 10% or more of the registrant's common stock, as determined based on public filings, and/or (ii) was an executive officer or director or was affiliated with an executive officer or director of the registrant at June 29, 2007. 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 20, 2008, there were 105,073,846 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 27, 2008, in connection with the registrant's 2008 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Annual Report on Form 10-K.

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EXELIXIS, INC.

FORM 10-K

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## 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,” “will,” “may” “should,” “would,” “could,” “estimate,” “predict,” “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.*

*In 2006, Exelixis adopted a 52- or 53-week fiscal year that ends on the Friday closest to December 31<sup>st</sup>. Fiscal year 2006, a 52-week year, ended on December 29, 2006, fiscal year 2007, a 52-week year, ended on December 28, 2007 and fiscal year 2008, a 53-week year, will end on January 2, 2009. For convenience, references in this report as of and for the fiscal years ended December 29, 2006 and December 28, 2007 are indicated on a calendar year basis, ending December 31, 2006 and 2007, respectively.*

### ITEM 1. BUSINESS

#### Overview

We are committed to developing innovative therapies for cancer and other serious diseases. Through our integrated drug discovery and development activities, we are building a portfolio of novel compounds that we believe have the potential to be high-quality, differentiated pharmaceutical products. Our most advanced pharmaceutical programs focus on discovery and development of small molecule drugs for cancer.

Utilizing our library of more than 4.5 million compounds, we have integrated high-throughput processes, medicinal chemistry, bioinformatics, structural biology and early *in vivo* testing into a process that allows us to efficiently and rapidly identify highly qualified drug candidates that meet our extensive development criteria.

To date, we have filed 14 investigational new drug applications, or INDs. We believe that our deep pool of drug candidates will enable us to continue to file multiple new INDs each year for the foreseeable future. As our compounds advance into clinical development, we expect to generate a critical mass of data that will help us to understand the full clinical and commercial potential of our product candidates. In addition to guiding the potential commercialization of our innovative therapies, these data may contribute to the understanding of disease and help improve treatment outcomes.

Based on the strength of our expertise in biology, drug discovery, and development, we have established collaborations with major pharmaceutical and biotechnology companies that allow us to retain economic participation in compounds and support additional development of our proprietary products. Through these collaborations, we obtain license fees, research funding, a share of the profits and the opportunity to receive milestone payments and royalties (as applicable) from research results and subsequent product development activities. We also have collaborations in which we retain the right to co-promote products in the United States. We have ongoing commercial collaborations with several leading pharmaceutical and biotechnology companies, including SmithKline Beecham Corporation (which does business as GlaxoSmithKline), Bristol-Myers Squibb

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Company and Genentech, Inc. We expect to continue to use corporate partnering as a strategic tool to cultivate our assets, fund our operations and expand the therapeutic and commercial potential of our pipeline.

Our current development portfolio includes the following compounds, for which we are leading development:

<b>Compound</b>	<b>Principal Targets</b>	<b>Indication</b>	<b>Stage of Development</b>
XL647*	EGFR, HER2, VEGFR2	Cancer	Phase 2
XL880	MET, VEGFR2	Cancer	Phase 2
XL820	KIT, VEGFR2, PDGFR	Cancer	Phase 2
XL184	MET, VEGFR2, RET	Cancer	Phase 1/2
XL518**	MEK	Cancer	Phase 1
XL281	RAF	Cancer	Phase 1
XL019	JAK2	Cancer	Phase 1
XL844	CHK1, CHK2	Cancer	Phase 1
XL228	IGF1R , ABL, SRC	Cancer	Phase 1
XL147	PI3K	Cancer	Phase 1
XL765	PI3K, mTOR	Cancer	Phase 1

\*Out-licensed to Symphony Evolution, Inc. and subject to a repurchase option as described elsewhere in this report.

\*\* In co-development collaboration with Genentech, Inc.

In December 2007, GlaxoSmithKline exercised its option pursuant to our product development and commercialization agreement to further develop and commercialize XL880. We expect to transfer the XL880 development program to GlaxoSmithKline in the first quarter of 2008. Pursuant to the product development and commercialization agreement, GlaxoSmithKline has the option to elect to develop up to two additional compounds in our product pipeline, which may include XL820, XL184, XL281, XL844 and XL228.

In addition to the compounds identified in the table above, we have compounds in various stages of development that are being developed by our partners, such as Bristol-Myers Squibb, Daiichi Sankyo Company Limited and Wyeth Pharmaceuticals, a division of Wyeth. We also have compounds in preclinical development that we are developing internally.

## **Areas of Expertise**

### ***Integrated Drug Research, Discovery and Development Capabilities***

We have built a multidisciplinary, integrated research and development platform that supports the complex, iterative nature of drug research, discovery and clinical development. Our platform has been designed to include all of the critical functions and expertise required to advance from gene to drug in a consistent and streamlined fashion. Our integrated approach supports advancement of candidate compounds from development candidate status to IND in less than 12 months.

Our organizational structure is designed to create a seamless and flexible research and development process. It is structured to provide one consistent set of goals and objectives to all departments within the research and development organization and to give us the flexibility to allocate and focus our diverse resources to address our most pressing needs. This organizational structure ensures that our earliest discovery activities generate data and information that inform our clinical development strategies, and enables us to apply what we learn about our drug candidates in the clinic to how we discover, assess and select new compounds for future development. We believe that this approach will allow us to align the target inhibition spectrum of a specific compound with the molecular profiles of specific cancer types and patient populations. We also believe that this strengthens our ability to select appropriate patients for clinical trials, which may allow significant efficacy to be demonstrated

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using smaller, shorter trials. Similarly, we use biological approaches to identify disease indications that give us a clear and potentially shorter path to the market, which may allow us to decrease our development times and bring drugs to market sooner.

Additionally, we are leveraging what we learn through preclinical pharmacodynamic studies to identify clinical biomarkers that can be utilized to determine early in the development process if the compound is having the expected effect on the target(s) and pathway(s) of interest and if patients are responding to it. This approach may result in an increased probability that patients receive effective therapies.

### ***Drug Discovery***

In addition to establishing an integrated research and development organizational structure, we have built an optimized drug discovery platform. We utilize a variety of high-throughput technologies to enable the rapid discovery, optimization and extensive characterization of lead compounds such that we are able to select development candidates with the best potential for further evaluation and advancement into the clinic. We have combined our ability to identify and validate novel targets with state-of-the-art drug discovery to effectively exploit both the chemical and biological sciences. In addition, we have built critical mass in all key operational areas. We believe that these human and technological resources enable us to: (1) effectively and rapidly qualify novel targets for high-throughput screening; (2) identify and optimize proprietary lead compounds; (3) develop extensive preclinical data to guide selection of patient populations, thereby maximizing the opportunity for obtaining significant clinical benefit; and (4) perform the broad range of preclinical testing required to fuel our pipeline and advance promising compounds through all stages of development. Key capabilities within drug discovery include: high-throughput screening, medicinal and combinatorial chemistry, cell biology, protein biochemistry, structural biology, pharmacology, biotherapeutics and informatics.

### ***Translational Research***

Our translational research group is focused on using the knowledge we generate in the discovery process about biological targets and the impact of our compounds on those targets to identify patient populations in which to test our compounds and methods for assessing compound activity. This includes understanding the role of specific targets in disease therapy, identifying gene mutations or gene variants that impact response to therapy and identifying biomarkers that can be used to assess drug responses early on in treatment. Key capabilities within translational research include: nonclinical development (encompassing toxicology, drug metabolism, pharmacokinetics and bioanalytics) and translational medicine.

### ***Development***

With the growth of our pipeline, we continue to invest in building our development expertise and resources. Our development group leads the development and implementation of our clinical and regulatory strategies. Working closely with the discovery and translational research groups, the development group prioritizes disease indications in which our compounds may be studied in clinical trials. The development group designs, directs, implements and oversees all areas of clinical operations, including identifying and selecting clinical investigators, recruiting study subjects to participate in our clinical trials, biostatistics, data management, drug safety evaluation, and adverse event reporting. The development group also is responsible for assuring that our development programs are conducted in compliance with all regulatory requirements. The group works closely with the cross functional project and clinical teams to facilitate the appropriate and efficient development of our diverse product pipeline. Key capabilities within development include clinical development, clinical operations, safety monitoring, biostatistics, programming and data management, regulatory strategy and program management.

## **Our Strategy**

Our business strategy is to leverage our biological expertise and integrated drug discovery capabilities to generate a pipeline of diverse development compounds with first-in-class or best-in-class potential that fulfill unmet medical needs in the treatment of cancer and potentially other serious diseases.

Because our continued success and growth as a company depend in part on our ability to advance current and future compounds successfully in clinical development, we have committed substantial resources to build a premier clinical development organization to accommodate our expanding pipeline of compounds. We continue to build critical mass of key internal expertise and capabilities to facilitate conducting multiple clinical trial programs with speed and rigor. Specifically, our business strategy includes the following key elements:

### ***Selectively Develop Therapeutic Products with First-In-Class or Best-In-Class Potential***

We have invested and plan to continue to make significant investments in discovering and developing proprietary product candidates, particularly in the area of cancer. We have committed substantial resources to building a first-rate drug discovery effort that is integrated with our unique understanding of the biological basis of a disease. Part of our strategy is to generate a large pipeline of diverse product candidates that provides us with the flexibility to select only those compounds that have both clinical and commercial potential. In developing compounds, our strategy is to pursue a variety of clinically validated, novel and proprietary targets. These decisions are data-driven, based on stringent criteria that incorporate intrinsic potency, selectivity, preclinical efficacy and tolerability and commercial viability. Our strategy is to commit resources only to those compounds that are commercially attractive and have the potential to be first-in-class or best-in-class therapeutics.

### ***Target Multiple Pathways***

We have extensive expertise and experience in modifying gene function *in vitro* and *in vivo* as a result of our work on model organisms for the discovery of novel targets and pathways relevant to the development, progression and treatment of cancer and other diseases. We believe that the most effective therapies for cancer will target multiple pathways, simultaneously turn off growth signals, increase rates of programmed cell death and reduce the growth of blood vessels necessary to support tumor growth. Many of our first-generation anticancer product candidates in our clinical pipeline are Spectrum Selective Kinase Inhibitors, or SSKIs, that have been optimized for balanced potency, specificity, tolerability and pharmacologic parameters. These SSKIs are designed to target multiple members of a family of proteins known as receptor tyrosine kinases, or RTKs, in a concerted manner. RTKs are validated targets for drug development, as evidenced by several recent approved cancer therapies. Because interactions among multiple RTKs contribute to the development and progression of disease, SSKIs may provide more effective disease control than compounds that target only one RTK or target multiple non-related RTKs. Additionally, because SSKIs are optimized for key *in vitro* and *in vivo* parameters, these compounds may also provide improved efficacy and enhanced safety profiles compared with combinations of single-target drugs that have not been optimized for use together.

Our second-generation compounds are designed to inhibit kinases that are points of convergence in critical signaling pathways employed by growth factor receptors to transmit their aberrant signals in tumor cells. The targets of several approved therapies transmit their signals through a number of common downstream pathways, such as the RAS/RAF/MEK/ERK, PI3 kinase/AKT/mTOR, and JAK/STAT pathways. These pathways also are often mutationally activated in a wide range of tumors. Thus, inhibition of key kinase targets in these pathways may provide superior efficacy, safety and tolerability compared to conventional chemotherapy and may enable entirely new approaches to cancer therapy.

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The majority of our compounds target one or more molecular pathways that control critical aspects of cancer cell growth, migration or survival. These include:

*Cell Growth.* In most normal adult tissues, cell growth is tightly controlled. However, cancer cells escape normal growth control and are driven to divide very rapidly. In many cases, this growth is driven by excessive activity of cellular growth factors and/or their receptors. This change in activity may result from mutations that allow the receptor to be active even when no growth factor is present or from expression of abnormally high levels of a growth factor or its receptor. This abnormal activity may also allow cancer cells to survive under conditions that would usually lead to cell death, which contributes to resistance to chemotherapy or radiation. Inhibition of growth factors or growth factor receptors is a validated approach to treating cancer, and several approved cancer therapies are designed to inhibit the activity of these proteins. Growth factor receptors that play a role in tumor cell growth include the stem cell factor receptor, or KIT, the platelet-derived growth factor receptor, or PDGFR, the epidermal growth factor receptor, or EGFR, the human epidermal growth factor receptor 2, or HER2, the hepatocyte growth factor receptor, or MET, the neuropathic growth factor rearranged during the transvection, or RET, and the insulin-like growth factor type 1 receptor, or IGF1R. Key kinases in signal transduction pathways downstream of growth factor receptors that promote cell growth include RAF, the MAP-ERK kinase, or MEK, the cytoplasmic tyrosine janus kinase 2, or JAK2, the phosphoinositide-3 kinase, or PI3K, and the mammalian target of rapamycin, or mTOR.

*Cell Survival.* Normal cells often activate a “self-destruct program” known as programmed cell death or apoptosis under abnormal conditions that include the stresses that arise as a result of nutrient, oxygen or energy deprivation, for example. One of the hallmarks of tumor cells is the ability to survive under such conditions, an attribute that results from the inappropriate activation of survival signaling pathways. These pathways often become activated in tumor cells as a result of genetic alterations that result in either loss of the suppressor genes that negatively regulate such pathways or the activation of positive effectors of the pathway. Many growth factor receptors, including EGFR, HER2, MET, KIT, and IGF1R activate survival signaling pathways. Other key kinases in survival pathways include PI3K and mTOR.

*Angiogenesis.* Angiogenesis, the process by which new blood vessels form, is essential for the growth of tumors beyond a minimum size. In small tumors, cancer cells use existing blood vessels to get oxygen and nutrients needed for growth and to remove waste products. As tumors grow, the existing blood vessels are no longer sufficient to support the rapid pace of cancer cell growth, and continued growth and cancer cell survival requires the formation of new blood vessels. Tumor cells send out chemical signals that stimulate nearby blood vessels to grow into the tumor. In addition to providing essential oxygen and nutrients to the tumor, these new blood vessels also facilitate the migration of tumor cells into the blood system where they can travel to other parts of the body and give rise to metastatic disease. Inhibition of angiogenesis is a validated approach to treating cancer, and angiogenesis inhibitors have been approved by the U.S. Food and Drug Administration, or FDA, for the treatment of several types of cancer. RTKs that play a role in angiogenesis include the vascular endothelial growth factor receptor 2, or VEGFR2 (also known as KDR), PDGFR and MET.

*Migration.* Cell migration allows tumor cells to invade healthy tissue and spread to disparate parts of the body. A key target that has been shown to play a role in cell migration is MET.

*Cell Cycle Regulation.* In normal cells, the processes of DNA replication and cell division are tightly controlled. These processes work together to enforce cell cycle checkpoints that prevent cells with damaged DNA from progressing through the cell cycle, allowing time for the damage to be repaired. This system reduces the efficacy of a variety of cancer therapies that exert their effects through DNA damage. Inhibition of cell cycle check point proteins may increase the activity of a variety of DNA damaging agents, including radiation and some chemotherapies, and may increase the activity of these agents without increasing systemic toxicity. Cell cycle check point targets include the serine/threonine protein kinases CHK1 and CHK2.

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### ***Leverage Strategic Collaborations***

We are committed to retaining a significant interest in the value of our pipeline and product candidates. Our strategy is to leverage the strength of our extensive data and the broad potential of our development compounds to establish strategic alliances that create near-term revenue, while reducing our risk of product failure and retaining long-term rights to those compounds that succeed. We have established and intend to continue pursuing commercial relationships and key partnerships with major pharmaceutical and biotechnology companies based on the strength of our biological expertise and drug discovery and development capabilities. Our collaborations to date have provided us with substantial committed funding for our research and development efforts, the potential to earn significant milestones as well as opportunities to receive significant future payments, if our collaborators successfully develop and market products that result from our collaborative work. In addition, many of our strategic relationships provide us with or permit us to obtain co-development, co-promotion or other rights to products identified or developed in such collaborative relationships as a result of our efforts.

### ***Management of Our Financial Resources***

Fiscal discipline and pragmatic allocation of our resources are key components of our corporate strategy. We believe that making significant investments in preclinical development enhances our ability to generate multiple new, high-quality INDs and to rapidly advance these new drug candidates through clinical development. We believe the return on this investment will come in the form of higher clinical success rates, funding and partnership terms that allow us to retain increasing equity in the long-term value of our pipeline. We believe that this approach will enhance the quality and growth of our pipeline while maintaining our ability to fulfill obligations to corporate partners. We seek to finance our activities through a blend of funding opportunities, including: executing under our existing partnerships, which potentially triggers substantial milestones; exploring opportunities for new partnerships for our unpartnered assets, which have the potential to bring in near-term cash and defray late-stage development costs; evaluating the suitability of third-party financing vehicles with the aim to off-load a significant portion of our near-term clinical development expense and clinical risks; and opportunistically accessing the capital markets.

### ***Our Pipeline***

We have an extensive pipeline of compounds in various stages of development that will potentially treat cancer and various metabolic and cardiovascular disorders. All of our development compounds were generated through our internal drug discovery efforts.

### ***Cancer Program***

Our cancer program currently includes the following 11 compounds in clinical development.

- **XL647** is a potent and balanced inhibitor of EGFR, HER2 and VEGFR2, RTKs that are implicated in driving tumor growth and vascularization (blood vessel formation). The compound has been optimized for high potency and oral bioavailability, demonstrates excellent activity in target-specific cellular functional assays and has shown sustained inhibition of target RTKs *in vivo* following a single oral dose in preclinical studies. We have completed an initial phase 1 clinical trial of XL647, and the phase 2 clinical program in patients with non-small cell lung cancer is ongoing. Preliminary data from a phase 1 trial evaluating intermittent dosing of XL647 were presented in November 2005 at the 17<sup>th</sup> EORTC-NCI-AACR International Conference on Molecular Targets and Cancer Therapeutics, or the EORTC Symposium, and at the American Society of Clinical Oncology, or ASCO, annual meeting in June 2006. Updated data were presented in November 2006 at the 18th EORTC Symposium. Data from a second phase 1 trial evaluating daily dosing of XL647 were presented in October 2007 at the 19th EORTC Symposium. A phase 2 trial of XL647 in patients with advanced non-small cell lung cancer

who have not previously been treated with chemotherapy was initiated in August 2006. Preliminary data from this trial were reported at the conference of the International Association for the Study of Lung Cancer in September 2007 and at the 19th EORTC Symposium in October 2007. A second phase 2 trial of XL647 in patients with advanced non-small cell lung cancer who have previously benefited from and then progressed on prior treatment with an EGFR inhibitor (erlotinib or gefitinib) was initiated in July 2007.

- **XL880** is a potent inhibitor of MET and VEGFR2, which play synergistic roles in promoting tumor growth and angiogenesis. Activation or overexpression of MET has been documented as a negative prognostic indicator in patients with various carcinomas and in patients with multiple myeloma, glioma and other solid tumors. Interim data from an ongoing phase 1 trial of XL880 were presented at the 2005 EORTC Symposium and at the 2006 ASCO Annual Meeting. Updated data were reported at the 2006 EORTC Symposium. Data from two phase 1 trials were reported at the 2007 ASCO Annual Meeting. A phase 2 clinical trial of XL880 was initiated in patients with hereditary or sporadic papillary renal cell carcinoma in June 2006, and data from this trial were reported at the 2007 EORTC Symposium. Another phase 2 trial was initiated in patients with metastatic, poorly differentiated diffuse gastric cancer in December 2006. Additionally, a phase 2 trial was initiated in head and neck cancer patients in August 2007. As described under “ – Corporate Collaborations – GlaxoSmithKline,” in December 2007, GlaxoSmithKline exercised its option to further develop and commercialize XL880. We expect to transfer the XL880 development program to GlaxoSmithKline in the first quarter of 2008.
- **XL820** inhibits KIT as well as VEGFR2 and PDGFR, clinically validated targets implicated in a variety of human cancers. In preclinical tumor models of breast carcinoma, glioma and leukemia, the compound exhibited dose-dependent growth inhibition and has been shown to cause tumor regression. XL820 demonstrated potent activity in target-specific cellular functional assays. In biochemical and cellular assays, XL820 inhibits mutant forms of KIT that confer resistance to approved KIT inhibitors. XL820 has good oral bioavailability and has shown sustained inhibition of target RTKs *in vivo* following a single oral dose in preclinical studies. A phase 1 clinical trial of XL820 was initiated in July 2005 in patients with solid tumors for whom there are no other available therapies known to prolong survival. Preliminary data from this trial were reported by investigators at the 2006 and 2007 EORTC Symposia. A phase 2 trial was initiated in December 2007 in patients with gastrointestinal stromal tumors.
- **XL184** inhibits MET, RET and VEGFR2, key drivers of tumor growth and vascularization. The compelling preclinical efficacy of XL880, our first MET/VEGFR2 inhibitor, increased our interest in inhibitors of these RTKs and resulted in the discovery and development of XL184 as a distinct compound with potent activity. This SSKI has demonstrated dose-dependent tumor growth inhibition and tumor regression in a variety of tumor models, including thyroid, breast, colon, non-small cell lung cancer and glioblastoma. A phase 1 clinical trial in patients with solid tumors for whom there are no other available therapies was initiated in September 2005. Preliminary data from this study were reported by investigators at the 2006 and 2007 EORTC Symposia. A phase 1/2 trial was initiated in January 2008 in patients with non-small cell lung cancer who have failed prior therapy with erlotinib, and a phase 2 trial is planned in patients with advanced glioblastoma.
- **XL518** is a novel small molecule drug designed to inhibit the activity of MEK, a key component of the RAS/RAF/MEK/ERK signaling pathway. This pathway is frequently activated in human tumors and is required for transmission of growth-promoting signals from numerous receptor tyrosine kinases. Preclinical studies have demonstrated that XL518 is a potent and specific inhibitor of MEK with highly optimized pharmacokinetic and pharmacodynamic properties. XL518 exhibits oral bioavailability in multiple species and causes substantial and durable inhibition of ERK phosphorylation in xenograft tumor models. Administration of XL518 causes tumor regression in multiple xenograft models with mutationally-activated B-RAF or RAS. We filed an IND for XL518 in December 2006 and initiated a phase 1 clinical trial in May 2007. In December 2006, we entered into a worldwide co-development agreement with Genentech for the development and commercialization of XL518, as described under “ – Corporate Collaborations – Genentech.”

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- **XL281** specifically targets RAF, which is a cytoplasmic serine/threonine kinase that lies immediately downstream of RAS, and is a key component of the RAS/RAF/MEK/ERK pathway that is frequently activated in human tumors. Activating mutations in B-RAF occur in approximately 60% of melanoma patients, indicating a potentially pivotal role for deregulation of this kinase in the progression of melanoma. XL281 is a potent and highly selective inhibitor of RAF kinases, is orally bioavailable and exhibits substantial efficacy in tumor xenograft models. A phase 1 trial was initiated in April 2007.
- **XL019** is a selective inhibitor of the cytoplasmic tyrosine kinase JAK2. JAK2 is activated by cytokine and growth factor receptors and phosphorylates members of the STAT family of inducible transcription factors. Activation of the JAK/STAT pathway promotes cell growth and survival, and is a common feature of human tumors. JAK2 is activated by mutation in the majority of patients with polycythemia vera and essential thrombocythemia and appears to drive the inappropriate growth of blood cells in these conditions. XL019 is a potent and selective inhibitor of JAK2, with excellent pharmacodynamic properties and an encouraging safety profile in preclinical models. A phase 1 trial was initiated in patients with myelofibrosis in August 2007, and data from this study were reported at the annual meeting of the American Society of Hematology in December 2007.
- **XL844** potentially inhibits the checkpoint kinases CHK1 and CHK2, which induce cell cycle arrest in response to a variety of DNA damaging agents. Activation of these checkpoints following DNA damage allows for DNA repair and protects tumor cells from the cytotoxic effects of chemo- and radio-therapy. XL844 abrogates these cell cycle blocks and enhances tumor cell killing by a wide variety of chemotherapeutic agents and radiation *in vitro*. XL844 displays good pharmacokinetic properties and oral bioavailability, and increases the efficacy of chemotherapeutic agents without increasing systemic toxicity in preclinical tumor models. A phase 1 trial of XL844 in patients with chronic lymphocytic leukemia was initiated in September 2005, and was closed in 2007. A phase 1 trial evaluating XL844 in combination with gemcitabine was initiated in May 2007.
- **XL228** potentially inhibits the T315I mutant form of ABL, which is resistant to inhibition by other targeted therapies approved for chronic myelogenous leukemia. In addition, XL228 targets IGF1R, an RTK that is highly expressed and activated in a broad range of human tumors and is thought to promote tumor growth, survival and resistance to chemotherapeutic agents. XL228 exhibited efficacy in a variety of solid tumor xenograft models. We filed an IND for XL228 in August 2006. We subsequently observed formulation stability data resulting in the need for minor changes in formulation. We then initiated a phase 1 clinical trial in May of 2007 in patients with chronic myelogenous leukemia who have failed or have been intolerant to imatinib and dasatinib therapy, and a phase 1 trial in patients with solid tumors in October 2007. Preliminary data from the trial in patients with chronic myelogenous leukemia were reported at the annual meeting of the American Society of Hematology in 2007.
- **XL147** selectively targets PI3K. Upregulation of PI3K activity is one of the most common characteristics of human tumor cells and can result from activation of growth factor receptors, amplification of the PI3K gene, activating mutations in the PI3K gene, downregulation of the phosphatase and tensin homolog, or PTEN, lipid phosphatase or activating mutations in RAS. Activation of PI3K results in stimulation of AKT and mTOR kinases resulting in promotion of tumor cell growth and survival. This survival signal plays a significant role in conferring resistance to chemo- and radio-therapy by inhibiting apoptotic cell death. XL147 is a potent and selective inhibitor of PI3K with excellent pharmacokinetic and pharmacodynamic properties and compelling efficacy in several preclinical xenograft models both as a single agent and in combination with chemotherapy. We filed an IND for XL147 in March 2007 and initiated a phase 1 trial in June 2007. Preliminary data from this trial were reported at the 19th EORTC Symposium in October 2007.
- **XL765** targets both PI3K and mTOR, key kinases in the PI3K signaling pathway. mTOR is a serine/threonine kinase that controls the protein translation machinery and hence cell growth. mTOR is activated by growth factors via PI3K and AKT, but is also activated in a PI3K independent fashion in

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response to nutrient and energy levels. Thus, in some tumors targeting both PI3K and mTOR may provide additional benefit compared to selectively targeting PI3K. XL765 is a potent inhibitor of PI3K and mTOR with excellent pharmacokinetic and pharmacodynamic properties, and compelling efficacy in several preclinical xenograft models both as a single agent and in combination with chemotherapy. We filed an IND for XL765 in April 2007 and initiated a phase 1 trial in June 2007. Preliminary data from this trial were reported at the 19th EORTC Symposium in October 2007.

We currently have various compounds in preclinical development, including the following two compounds in late-stage preclinical development:

- **XL139** inhibits activation of Hedgehog, or HH, signaling by binding to smoothened, a key component of the signaling pathway. Genetic lesions that activate the HH pathway are key drivers of basal cell carcinoma and medulloblastoma formation in humans. In addition, activation of the HH signaling pathway via the action of the ligands SHh, IHH or DHH promotes cellular growth, and elevated ligand production and HH pathway activation is observed in a variety of human tumors including pancreatic carcinomas, small-cell lung cancer and glioblastomas. Signaling via the HH pathway is also thought to promote survival of cancer stem cells, which constitute a particularly chemo- and radio-resistant component of tumors. In preclinical models, XL139 potently inhibits HH signaling in tumors and significantly slows tumor growth. XL139 was advanced to development compound status in July 2007. As described under “ – Corporate Collaborations – Bristol-Myers Squibb – 2007 Cancer Collaboration,” in January 2008, Bristol-Myers Squibb exercised its option to develop and commercialize XL139, and we exercised our option to co-develop and co-commercialize XL139.
- **XL888** is a novel, synthetic inhibitor of HSP90, a chaperone protein that promotes the activity and stability of a range of key regulatory proteins including kinases. The activity of HSP90 is particularly prominent in tumor cells, where it promotes the activity of proteins controlling growth and survival. Natural product based inhibitors of HSP90 are currently in clinical trials and have shown encouraging signs of efficacy, but their utility is limited by poor pharmacokinetic properties and by their side effect profile. XL888 inhibits HSP90 with comparable potency to natural product-based inhibitors, but has good oral bioavailability and an improved tolerability profile in preclinical models. In multiple preclinical xenograft tumor models, XL888 exhibits substantial anti-tumor activity at well tolerated doses. XL888 was advanced to development compound status in October 2007, and we anticipate filing an IND in the second half of 2008.

We are committed to having preclinical and clinical data from our compounds presented at periodic peer review meetings.

### ***Metabolic Program***

We currently have various compounds in development that target metabolic and cardiovascular diseases. Our programs in metabolic and cardiovascular diseases originated from our acquisition of X-Ception Therapeutics, Inc. in October 2004. Our clinical stage compounds include:

- **XL652** targets the liver X receptors, or LXR, which modulate genes involved in regulation of lipid and cholesterol homeostasis. Activation of LXRA or LXR $\beta$  in foam cells in atherosclerotic plaques promotes reverse cholesterol transport and results in marked anti-atherogenic activity in multiple preclinical models of atherosclerosis. However, prototype LXR agonists also activate LXRA in the liver resulting in increased fatty acid synthesis and consequent elevations in hepatic and circulating triglyceride levels, an unacceptable side effect. XL652 is a novel LXR agonist that effectively reduces atherosclerotic plaques in preclinical models at doses that do not result in triglyceride elevations. XL652 was developed under a collaboration with Bristol-Myers Squibb, which filed the foreign equivalent of an IND for XL652 in November 2007. For more information on our LXR collaboration, see “ – Corporate Collaborations – Bristol-Myers Squibb – LXR Collaboration.”

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- **XL335** targets the Farnesoid X Receptor, or FXR, which has been shown to function as a bile acid receptor regulating genes involved in lipid, cholesterol and bile acid homeostasis. We have identified proprietary, potent and selective FXR ligands (compounds that bind to a receptor) that have good oral bioavailability and drug metabolism and pharmacokinetic properties. In rodent models of dyslipidemia, these compounds lowered triglycerides by decreasing triglyceride synthesis and secretion. In addition, they improved the high-density lipoprotein (HDL)/low-density lipoprotein (LDL) ratio and are anti-atherogenic (prevent the formation of lipid deposits in the arteries) in animal models of atherosclerosis. XL335 is also effective in models of cholestasis (a condition in which bile excretion from the liver is blocked), cholesterol gallstones and liver fibrosis. These data suggest that small molecule ligands targeting FXR should function as novel therapeutic agents for treating symptoms and disease states associated with metabolic syndrome as well as certain liver disorders. In December 2005, we licensed the FXR program to Wyeth Pharmaceuticals. Wyeth Pharmaceuticals is responsible for all further preclinical and clinical development, regulatory, manufacturing and commercialization activities for the compounds. For information regarding our collaboration with Wyeth Pharmaceuticals, see “ – Corporate Collaborations – Other Collaborations – Wyeth Pharmaceuticals.”
- **XL550** is a potent, selective, non-steroidal mineralocorticoid receptor, or MR, antagonist that is effective in animal models of hypertension and congestive heart failure. XL550 has shown excellent oral bioavailability and drug metabolism and pharmacokinetic properties in multiple preclinical models and has exhibited a significantly better pharmacokinetic and pharmacodynamic profile than existing steroid drugs. In multiple studies in various non-clinical species, XL550 shows potent anti-hypertensive action and anti-hypertrophic action on the heart, lung and kidney. In addition, XL550 shows 50-100 times greater potency vs. eplerenone in various in vivo studies related to hypertension and congestive heart failure in preclinical models. As a novel proprietary non-steroidal MR antagonist, XL550 has the potential to offer highly effective and safe therapeutic approaches for the treatment of hypertension and congestive heart failure. XL550 was licensed to Daiichi-Sankyo for development and commercialization in March 2006. See “ – Corporate Collaborations – Other Collaborations – Daiichi-Sankyo.”

## **Corporate Collaborations**

We have established collaborations with major pharmaceutical and biotechnology companies based on the strength of our technologies and biological expertise to support additional development of our proprietary products. Through these collaborations, we obtain license fees, research funding, and the opportunity to receive milestone payments and royalties from research results and subsequent product development activities. Many of our collaborations have been structured strategically to provide us with access to technology that may help to advance our internal programs while at the same time enabling us to retain rights to use these technologies in different industries.

### ***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. The collaboration involved three agreements: (1) a Product Development and Commercialization Agreement, or PDA; (2) a Stock Purchase and Stock Issuance Agreement, or SPA; and (3) a Loan and Security Agreement, or LSA. Under the original PDA, GlaxoSmithKline paid us \$30.0 million in an upfront fee and agreed to pay up to an additional \$90.0 million in research and development funding over the first six years of the collaboration.

In January 2005, we amended the terms of the PDA, SPA and LSA. Under the amended PDA, GlaxoSmithKline selected a modified program election through which the focus of the collaboration was shifted to 12 internal programs at various stages of development (XL784, XL647, XL999, XL880, XL184, XL820, XL844, XL281, XL418, XL228 and two earlier stage oncology programs). Each program centers on compounds

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that are directed against one or more targets identified in the collaboration. GlaxoSmithKline has the option to elect to develop up to three of our compounds from the programs specified in the product development and commercialization agreement. In December 2007, GlaxoSmithKline exercised its development option for XL880. GlaxoSmithKline declined to exercise its development option for XL647 in July 2007 and its development option for XL784 in January 2008. In addition, in December 2007, we discontinued the development programs for XL999 and XL418. As a result of GlaxoSmithKline's exercise of its development option for XL880, GlaxoSmithKline has the right to select from the programs up to one additional compound, or two additional compounds if it extends the specified development term. The amount of acceptance milestones that we receive from GlaxoSmithKline will depend on the number of compounds selected, the timing of the selection of the compounds and, for those acceptances made after the end of the original development term, whether GlaxoSmithKline extended the development term. Delays in obtaining clinical proof-of-concept for compounds subject to GlaxoSmithKline's election rights may decrease the size of any GlaxoSmithKline milestones and negatively impact our financial position. GlaxoSmithKline retains exclusivity rights to the 32 specified targets that are encompassed by the 12 programs through the end of the specified development term, or any extension thereof by GlaxoSmithKline. After the end of the development term or any extension, GlaxoSmithKline retains exclusivity rights to a subset of these targets based on the compounds that they have selected for development. We have retained rights to all compounds not encompassed by the 12 programs that are part of the collaboration with GlaxoSmithKline and may work on any targets with the exception of the 32 targets or, if applicable, a subset, subject to GlaxoSmithKline's exclusivity rights.

In May 2005, we filed the third of three INDs required by the amended PDA to achieve a \$30.0 million milestone, which we received from GlaxoSmithKline in May 2005. In May 2005, we also submitted two new development candidates to GlaxoSmithKline, thereby triggering an additional \$5.0 million milestone, which we received in May 2005. We may also receive additional development related milestones and royalties on product sales and may have certain co-promotion rights to products in North America. In addition, under the amended PDA, GlaxoSmithKline agreed to provide research funding of \$47.5 million over the remaining three-year term of the collaboration, all of which we received by the end of 2007. In connection with GlaxoSmithKline's exercise of its development option for XL880, we earned a selection milestone of \$35.0 million, all of which was retained by GlaxoSmithKline to offset the \$30.0 million milestone that GlaxoSmithKline paid to us in 2005 under the amended PDA. To date, we have received \$65.0 million in upfront and milestone payments, \$85.0 million in research and development funding and loans in the principal amount of \$85.0 million.

The terms of the amended PDA and LSA allow us to use third-party financing vehicles to fund the further clinical development of our compounds XL647, XL784 and XL999, but any such compounds developed through clinical financing vehicles continued to be subject to GlaxoSmithKline's compound selection rights. In June 2005, we entered into a transaction to fund the clinical development of XL647, XL784 and XL999 through Symphony Evolution, Inc., which is described under " – Corporate Collaborations – Symphony Evolution." GlaxoSmithKline has declined to exercise its compound selection right with respect to XL647 and XL784, and we have discontinued development of XL999.

Pursuant to the terms of the original SPA, the amended SPA and as a result of its modified program election, GlaxoSmithKline purchased a total of three million shares of our common stock. We have no further option to sell, and GlaxoSmithKline has no further obligation to purchase, additional shares of our common stock.

### **Bristol-Myers Squibb**

*2001 Cancer Collaboration.* In July 2001, we entered into a cancer collaboration agreement with Bristol-Myers Squibb. Under the terms of the collaboration, Bristol-Myers Squibb paid us a \$5.0 million upfront license fee and agreed to provide us with \$3.0 million per year in research funding for a minimum of three years. In December 2003, the cancer collaboration was extended until January 2007, at which time Bristol-Myers Squibb elected to continue the collaboration until July 2009. The goal of the extension was to increase the total number

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and degree of validation of cancer targets that we will deliver to Bristol-Myers Squibb. Each company will maintain the option to obtain exclusive worldwide rights to equal numbers of validated targets arising from the collaboration. Under the terms of the extended collaboration, Bristol-Myers Squibb provided us with an upfront payment and agreed to provide increased annual research funding and milestones on certain cancer targets arising from the collaboration that progress through specified stages of validation. We will also be entitled to receive milestones on compounds in the event of successful clinical and regulatory events and royalties on commercialized products.

*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. During the research term, we expect to jointly identify drug candidates with Bristol-Myers Squibb that are ready for IND-enabling studies. After the selection of a drug candidate for further clinical development by Bristol-Myers Squibb, Bristol-Myers Squibb has 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. After Bristol-Myers Squibb's selection, except in certain termination scenarios described below, we would not have rights to reacquire the selected drug candidate.

Under the collaboration agreement, Bristol-Myers Squibb paid us a nonrefundable upfront 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. On September 20, 2007, the collaboration was extended at Bristol-Myers Squibb's request through January 12, 2009. Bristol-Myers Squibb also has retained the option to further extend the collaboration by an additional year.

Under the collaboration agreement, Bristol-Myers Squibb is required to pay us development and regulatory milestones of up to \$140.0 million per product for up to two products from the collaboration. In addition, we are also entitled to receive sales milestones and royalties on sales of any products commercialized under the collaboration. In connection with the extension of the collaboration through January 2009, Bristol-Myers Squibb is obligated to pay to us additional research funding of \$7.5 million. Bristol-Myers Squibb has the option to terminate the collaboration agreement at any time after January 2008, in which case Bristol-Myers Squibb's payment obligations would cease, its license relating to compounds that modulate LXR would terminate and revert to us, and we would receive, subject to certain terms and conditions, licenses from Bristol-Myers Squibb to research, develop and commercialize certain collaboration compounds that were discovered under the collaboration agreement. In December 2007, we received \$5.0 million for achieving a development milestone.

*2007 Cancer Collaboration.* In December 2006, we entered into a worldwide collaboration with Bristol-Myers Squibb, which became effective in January 2007, to discover, develop and commercialize novel targeted therapies for the treatment of cancer. We are responsible for discovery and preclinical development of small molecule drug candidates directed against mutually selected targets. In January 2007, Bristol-Myers Squibb made an upfront payment of \$60.0 million to us for which we granted Bristol-Myers Squibb the right to select up to three IND candidates from six future Exelixis compounds.

For each IND candidate selected, we are entitled to receive a \$20.0 million selection milestone from Bristol-Myers Squibb. Once selected, Bristol-Myers Squibb will lead the further development and commercialization of the selected IND candidates. In addition, we have the right to opt in to co-promote the selected IND candidates, in which case we will equally share all development costs and profits in the United States. If we opt-in, we will be responsible for 35% of all development costs related to clinical trials intended to support regulatory approval in both the United States and the rest of the world, with the remaining 65% to be paid by Bristol-Meyers Squibb. This percentage ratio was intended to approximate a 50/50 split of development and commercialization costs in the United States. If we do not opt in to co-promote the selected IND candidates, we would be entitled to receive

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milestones and royalties in lieu of profits from sales in the United States. Outside of the United States, Bristol-Myers Squibb will have primary responsibility for development activities and we will be entitled to receive royalties on product sales. After exercising its co-development option, Bristol-Myers Squibb may, upon notice to us, terminate the agreement as to any product containing or comprising the selected candidate. In the event of such termination election, Bristol-Myers Squibb's license relating to such product would terminate and revert to us, and we would receive, subject to certain terms and conditions, licenses from Bristol-Myers Squibb to research, develop and commercialize certain collaboration compounds that were discovered.

In January 2008, Bristol-Myers Squibb exercised its option under the collaboration to develop and commercialize XL139. Under the terms of the collaboration agreement, the selection of XL139 by Bristol-Myers Squibb entitles us to a milestone payment of \$20.0 million, which we received in February 2008. In addition, we exercised our option under the collaboration agreement to co-develop and co-commercialize XL139 in the United States. Following the transfer of the XL139 development program, which is expected to occur in the first quarter of 2008, Bristol-Myers Squibb will lead all global activities. The parties will co-develop and co-commercialize XL139 and equally share all development costs and profits in the United States. We will be entitled to receive double-digit royalties on product sales outside of the United States.

### **Genentech**

*Cancer Collaboration.* In May 2005, we established a collaboration agreement with Genentech to discover and develop therapeutics for the treatment of cancer, inflammatory diseases, and tissue growth and repair. Under the terms of the collaboration agreement, we granted to Genentech a license to certain intellectual property. Genentech paid us a nonrefundable upfront license payment and is obligated to provide research and development funding over the three-year research term, totaling \$16.0 million.

Under the collaboration agreement, Genentech has primary responsibility in the field of cancer for research and development activities as well as rights for commercialization of any products. In the fields of inflammatory disease and in the fields of tissue growth and repair, we initially have primary responsibility for research activities. After the expiration of the research term, we will have the option to elect to share a portion of the costs and profits associated with the development, manufacturing and commercialization of products in one of the fields. The research term under the collaboration agreement is three years and may be extended for one-year terms upon mutual consent. For all products under the collaboration agreement that are not elected as cost or profit sharing products, we may receive milestone and royalty payments.

*MEK Collaboration.* In December 2006, we entered into a worldwide co-development agreement with Genentech for the development and commercialization of XL518, a small-molecule inhibitor of MEK. Genentech paid upfront and milestone payments of \$25.0 million in December 2006 and \$15.0 million in January 2007 upon signing of the co-development agreement and with the submission of an IND for XL518. We initiated a phase 1 clinical trial of XL518 in the first quarter of 2007, and enrollment in this trial is ongoing.

Under the terms of the co-development agreement, we are responsible for developing XL518 through the end of a phase 1 clinical trial, and Genentech has the option to co-develop XL518, which Genentech may exercise after receipt of certain phase 1 data from us. If Genentech exercises its option to co-develop XL518, we will be entitled to receive an opt-in payment and we will be required to grant to Genentech an exclusive worldwide revenue-bearing license to XL518. Genentech will be responsible for all further development costs of XL518 and we will share equally in the U.S. commercialization costs. On an annual basis, we are entitled to an initial equal share of U.S. profits and losses, which will decrease as sales increase, and we are also entitled to royalties on non-U.S. sales. Genentech has the right to terminate the agreement without cause at any time. If Genentech terminates the co-development agreement without cause, all licenses that were granted to Genentech under the agreement terminate and revert to us. Additionally, we would receive, subject to certain conditions, licenses from Genentech to research, develop and commercialize reverted product candidates.

### ***Symphony Evolution***

On June 9, 2005, we entered into a series of related agreements, including a purchase option agreement, providing for the financing of the clinical development of XL647 and two of our other product candidates, XL784 and XL999. In December 2006, we amended the purchase option agreement. Pursuant to the agreements, Symphony Evolution, Inc., or SEI, and its investors have invested \$80.0 million to fund the clinical development of XL647, XL784 and XL999, and we have licensed to SEI our intellectual property rights related to these product candidates. SEI is a wholly owned subsidiary of Symphony Evolution Holdings LLC, or Holdings, which provided \$40.0 million in funding to SEI on June 9, 2005 and an additional \$40.0 million on June 9, 2006. We continue to be primarily responsible for the development of XL647, XL784 and XL999 in accordance with specified development plans and related development budgets.

Pursuant to the agreements, we received an exclusive purchase option that gives us the right to acquire all of the equity of SEI, thereby allowing us to reacquire XL647, XL784 and XL999. Under our amended purchase option agreement with SEI, we cannot repurchase a single product candidate without also repurchasing the other two product candidates. The Phase 2 clinical development program for XL647 is ongoing, and GlaxoSmithKline has declined to exercise its development option for XL647. In order to retain rights to XL647 after the expiration of the purchase option period, we would be required to reacquire XL647, XL784 and XL999 from SEI's investors through the exercise of our purchase option. In December 2007, we discontinued the development of XL999, and, in January 2008, GlaxoSmithKline declined to exercise its option to further develop and commercialize XL784. We do not intend to invest further in the development of XL784, but will seek a partner with which to take the compound forward, which would also require us to repurchase all three compounds from SEI's investors.

The amended purchase option allows us, at our sole election, to pay up to 100% of the purchase option exercise price in shares of our common stock. The purchase option is exercisable at any time until the earlier of June 9, 2009 or the 90th day after the date on which SEI provides us with financial statements showing cash and cash equivalents of less than \$5.0 million at an exercise price equal to the sum of: (1) the total amount of capital invested in SEI by Holdings; and (2) an amount equal to 25% per year on such funded capital (with respect to the initial funded capital, compounded from June 9, 2005 and, with respect to the second draw amount, compounded from June 9, 2006).

Pursuant to the agreements, we issued to Holdings two five-year warrants to purchase 1.5 million shares of our common stock at \$8.90 per share. In addition, should the purchase option expire unexercised until the earlier of June 9, 2009, or the 90<sup>th</sup> day after SEI provides us with financial statements showing cash and cash equivalents of less than \$5.0 million, we are obligated to issue to Holdings an additional five-year warrant to purchase 500,000 shares of our common stock at a price per share equal to 125% of the market price of our common stock at the time of expiration of the purchase option.

### ***Other Collaborations***

*Wyeth Pharmaceuticals.* In December 2005, we entered into a license agreement with Wyeth Pharmaceuticals related to compounds targeting FXR, a nuclear hormone receptor implicated in a variety of metabolic and liver disorders. Under the terms of the agreement, we granted to Wyeth Pharmaceuticals an exclusive, worldwide license with respect to certain intellectual property primarily relating to compounds that modulate FXR. Wyeth Pharmaceuticals paid us a nonrefundable upfront payment in the amount of \$10.0 million and we received \$4.5 million in November 2006 for achieving a development milestone. In November 2007, Wyeth Pharmaceuticals paid us \$2.5 million for achieving a second development milestone. Wyeth Pharmaceuticals is obligated to pay additional development and commercialization milestones of up to \$140.5 million as well as royalties on sales of any products commercialized by Wyeth Pharmaceuticals under the agreement. Wyeth Pharmaceuticals will be responsible for all further preclinical and clinical development,

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regulatory, manufacturing and commercialization activities for the compounds. Subject to certain terms and conditions, Wyeth Pharmaceuticals has the option to terminate the license agreement.

*Daiichi-Sankyo.* In March 2006, we entered into a collaboration agreement with Daiichi Sankyo Company Limited for the discovery, development and commercialization of novel therapies targeted against 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. After completion of the research term, Daiichi-Sankyo will be 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 is obligated to provide research and development funding of \$3.8 million over a 15-month research term. In June 2007, the parties agreed to extend the research term for an additional six months. 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 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 Raw Materials**

We currently do not have manufacturing capabilities necessary to enable us to produce materials for our clinical trials. Raw materials and supplies required for the production of our product candidates are generally available from multiple suppliers. However, in some instances materials are available only from one supplier. In those cases where raw materials are only available through one supplier, we manage supplies, to the extent feasible, by ordering raw materials well in advance of scheduled needs. However, clinical trial schedules may be delayed due to interruptions of raw material supplies.

### **Government Regulation**

*The following section contains some general background information regarding the regulatory environment and processes affecting our industry and is designed to illustrate in general terms the nature of our business and the potential impact of government regulations on our business. It is not intended to be comprehensive or complete. Depending on specific circumstances, the information below may or may not apply to us or any of our product candidates. In addition, the information is not necessarily a description of activities that we have undertaken in the past or will undertake in the future. The regulatory context in which we operate is complex and constantly changing.*

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 research and development activities and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, 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;

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- 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; and
- FDA approval of a new drug application (NDA), or NDA supplement, for an 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. Our 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, and the FDA must grant permission for each clinical trial to start and continue. 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 before it 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 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. 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 voluntary 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 FDA may deny approval of an NDA or NDA supplement 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. 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 which 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.

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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. 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 good manufacturing practices, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. We cannot be certain that we or our present or future suppliers will be able to comply with the good manufacturing practices regulations and other FDA regulatory requirements. If our present or future suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, require us to recall a drug from distribution, or withdraw approval of the NDA for that drug.

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 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 manufacturer's communications on the subject of off-label use.

The FDA's policies may change and additional government regulations may be enacted which could prevent or delay regulatory approval of our product candidates or approval of new diseases for our product candidates. We cannot predict the likelihood, nature or extent of adverse governmental regulation that might arise from future legislative or administrative action, either in the United States or abroad.

## **Competition**

There are many companies focused on the development of small molecules and antibodies for diseases including cancer and metabolic and cardiovascular disorders. Our potential competitors include major pharmaceutical and biotechnology companies. Many of our potential competitors have significantly more financial, technical and other resources than we do, which may allow them to have a competitive advantage. Any products that we may develop or discover are likely to be in highly competitive markets. Many of our competitors may succeed in developing products that may render our products and those of our collaborators obsolete or noncompetitive.

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

- efficacy, safety and reliability of our product candidates;
- timing and scope of regulatory approval;

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- the speed at which we develop product candidates;
- our ability to complete preclinical testing and clinical development and obtaining regulatory approvals for product candidates;
- our ability to manufacture and sell commercial quantities of a product to the market;
- obtaining reimbursement for product use in approved indications;
- product acceptance by physicians and other health care providers;
- quality and breadth of our technology;
- skills of our employees and our ability to recruit and retain skilled employees;
- protection of our intellectual property; and
- availability of substantial capital resources to fund development and commercialization activities.

### **Research and Development Expenses**

Research and development expenses consist primarily of personnel expenses, laboratory supplies, consulting and facilities costs. Research and development expenses were \$225.4 million for the year ended December 31, 2007, compared to \$185.5 million for 2006 and \$141.1 million for 2005.

### **Revenues from Significant Collaborators**

In 2007, we derived 35%, 24%, 16% and 10% of our revenues from Bristol-Myers Squibb, GlaxoSmithKline, Genentech and Daiichi-Sankyo, respectively.

### **Proprietary Rights**

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.

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.

While trade secret protection is an essential element of our business and we have taken security measures to protect our proprietary information and trade secrets, we cannot give assurance that our unpatented proprietary technology will afford us significant commercial protection. We seek to protect our trade secrets by entering into confidentiality agreements with third parties, employees and consultants. Our employees and consultants are also required to sign agreements obligating them to assign to us their interests in intellectual property arising from their work for us. All employees sign an agreement not to engage in any conflicting employment or activity during their employment with us and not to disclose or misuse our confidential information. However, it is possible that these agreements may be breached or invalidated, and if so, there may not be an adequate corrective remedy available. Accordingly, we cannot ensure that employees, consultants or third parties will not breach the confidentiality provisions in our contracts, infringe or misappropriate our trade secrets and other proprietary rights or that measures we are taking to protect our proprietary rights will be adequate.

In the future, third parties may file claims asserting that our technologies or products infringe on their intellectual property. We cannot predict whether third parties will assert such claims against us or against the

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licensors of technology licensed to us, or whether those claims will harm our business. If we are forced to defend ourselves against such claims, whether they are with or without merit and whether they are resolved in favor of, or against, our licensors or us, we may face costly litigation and the diversion of management's attention and resources. As a result of such disputes, we may have to develop costly non-infringing technology or enter into licensing agreements. These agreements, if necessary, may be unavailable on terms acceptable to us, or at all.

### **Employees**

As of December 31, 2007, we had 735 full-time employees worldwide, 241 of whom hold Ph.D. and/or M.D. degrees, most of whom were engaged in full-time research and development activities. We plan to hire additional staff and to expand our internal development efforts. Our success will depend upon our ability to attract and retain qualified employees. We face competition in this regard from other companies in the biotechnology, pharmaceutical and high technology industries, as well as research and academic institutions. None of our employees are represented by a labor union, and we consider our employee relations to be good.

### **Available Information**

We were incorporated in Delaware in November 1994 as Exelixis Pharmaceuticals, Inc., and we changed our name to Exelixis, Inc. in February 2000.

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 SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. 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**

*In addition to the factors discussed elsewhere in this report and our other reports filed with the Securities and Exchange Commission, 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 facing the company. Additional risks and uncertainties not presently known to us or that we currently 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 would be forced to delay, reduce or eliminate our product development programs or commercialization efforts and we may breach our financial covenants.***

We will need to raise additional capital to:

- fund our operations and clinical trials;
- continue our research and development efforts; and
- commercialize our product candidates, if any such candidates receive regulatory approval for commercial sale.

As of December 31, 2007, we had \$299.5 million in cash and cash equivalents and short-term and long-term marketable securities, which included investments held by SEI of \$30.9 million and restricted cash and investments of \$7.2 million. We anticipate that our current cash and cash equivalents, short-term and long-term marketable securities, investments held by SEI and other funding that we expect to receive from collaborators, which assumes a moderate level of business development activity, 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 will depend on many factors that may require us to use available capital resources significantly earlier than we currently anticipate. These factors include:

- the timing and progress of the clinical development of our product candidate XL647, which is out-licensed to SEI – The phase 2 clinical development program for XL647 is ongoing, and GlaxoSmithKline has declined to exercise its development option for XL647. In order to retain rights to XL647 after the expiration of the purchase option period, we would be required to reacquire XL647, XL784 and XL999 from SEI's investors through the exercise of our exclusive purchase option, which is described elsewhere in this report. We cannot repurchase a single product candidate without also repurchasing the other two product candidates. In December 2007, we discontinued the development program for XL999, and, in January 2008, GlaxoSmithKline declined to exercise its option to further develop and commercialize XL784. We do not intend to invest further in the development of XL784, but will seek a partner with which to take the compound forward, which would also require us to repurchase all three compounds from SEI's investors. The purchase price, which may be paid in cash and/or shares of our common stock, at our sole discretion, would be equal to the sum of (1) the total amount of capital invested in SEI by its investors (\$80.0 million) and (2) an amount equal to 25% per year on such funded capital, compounded from the time of funding. As a result, the purchase price for the compounds licensed to SEI increases over time;
- whether and when GlaxoSmithKline selects at clinical proof-of-concept for further development and commercialization any additional product candidates – Under the amended PDA, any milestone payments relating to product candidates remaining under the PDA must be used to pay down our loan with GlaxoSmithKline as long as the loan is outstanding. The amount of milestone payments that we receive from GlaxoSmithKline will depend on the number of compounds selected, the timing of the selection of the compounds and, for those acceptances made after the end of the original development

term, whether GlaxoSmithKline extended the development term. As of December 31, 2007, the aggregate principal and interest outstanding under our GlaxoSmithKline loan was \$98.6 million. In December 2007, GlaxoSmithKline exercised its option to further develop and commercialize XL880. As XL880 was the first compound selected by GlaxoSmithKline under the PDA, the entire \$35.0 million selection milestone for XL880 was retained by GlaxoSmithKline to offset a milestone payment that GlaxoSmithKline paid to us in 2005 in connection with the amendment of the PDA and was not used to pay down the loan. An additional \$1.0 million from the first commercialization milestone for any product candidate selected by GlaxoSmithKline will also be offset against the 2005 milestone;

- the level of payments received under existing collaboration agreements, licensing agreements and other arrangements as well as our ability to enter into new collaboration agreements, licensing agreements and other arrangements that provide additional payments;
- our ability to remain in compliance with, or amend or cause to be waived, financial covenants contained in agreements with third parties;
- the progress and scope of our collaborative and independent clinical trials and other research and development projects;
- future clinical trial results;
- our need to expand our product and clinical development efforts;
- our ability to share the costs of our clinical development efforts with third parties;
- the cost and timing of regulatory approvals;
- the cost of clinical and research supplies of our product candidates;
- the effect of competing technological and market developments;
- the filing, maintenance, prosecution, defense and enforcement of patent claims and other intellectual property rights;
- the cost of any acquisitions of or investments in businesses, products and technologies; and
- the cost and timing of establishing or contracting for sales, marketing and distribution capabilities.

One or more of these factors or changes to our current operating plan may require us to use available capital resources significantly earlier than we anticipate. If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. We may be unable to raise sufficient additional capital when we need it, on favorable terms or at all. The sale of equity or convertible debt securities in the future may be dilutive to our existing stockholders, and debt-financing arrangements may require us to pledge certain assets and enter into covenants that would restrict certain business activities or our ability to incur further indebtedness and may contain other terms that are unfavorable to our stockholders or us. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or obtain funds by entering into financing, supply or collaboration agreements on unattractive terms. If we raise additional funds through collaboration arrangements with third parties, it will be necessary to relinquish some rights to our technologies or product candidates, or we may be required to grant licenses on terms that are unfavorable to us.

In addition, we will have to obtain additional funding in order to stay in compliance with financial covenants contained in agreements with third parties. For example, as part of our collaboration with GlaxoSmithKline, we entered into the LSA, which, as amended, contains financial covenants pursuant to which our “working capital” (the amount by which our current assets exceed our current liabilities as defined by the agreement) must not be less than \$25.0 million and our “cash and investments” (total cash, cash equivalents and investments as defined by the agreement, which excludes restricted cash) must not be less than \$50.0 million. As of December 31, 2007, our “working capital” was \$150.9 million and our “cash and investments” were \$292.3 million. If we were to default on the financial covenants under the LSA, GlaxoSmithKline may, among other

remedies, declare immediately due and payable all obligations under the LSA. Outstanding borrowings and accrued interest under the loan and security agreement totaled \$98.6 million at December 31, 2007.

If we cannot raise additional capital in order to remain in compliance with our financial covenants or if we are unable to renegotiate such covenants and the lender exercises its remedies under the agreement, we would not be able to operate under our current operating plan.

***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, including a net loss of \$86.4 million for the year ended December 31, 2007. As of that date, we had an accumulated deficit of \$791.7 million. Our losses for the year ended December 31, 2007 were partially offset by nonrecurring gains on the sale of our plant trait business and the sale of 80.1 % of our ownership interest in our German subsidiary, Artemis Pharmaceuticals, GmbH, or Artemis. We also expect the losses attributed to our noncontrolling interest will decline in 2008, which will increase our net losses as compared to 2007. We expect our losses in 2008 to increase as compared to 2007 and anticipate negative operating cash flow for the foreseeable future. We have not yet completed the development, including obtaining regulatory approval, of any of our pharmaceutical product candidates and, consequently, have not generated revenues from the sale of pharmaceutical products. Except for revenues associated with the transgenic mouse business of Artemis, our only revenues to date are license revenues and revenues under contracts with our partners. In December 2007, we sold 80.1% of our ownership interest in Artemis, and will not recognize revenue associated with Artemis in future periods. The amount of our net losses will depend, in part, on the rate of growth, if any, in our license and contract revenues and on the level of our expenses. These losses have had and will continue to have an adverse effect on our stockholders' equity and working capital. Our research and development expenditures and general and administrative expenses have exceeded our revenues to date, and we expect to spend significant additional amounts to fund research and development in order to enhance our technologies and undertake product development. We currently have numerous product candidates in various stages of clinical development and we anticipate filing additional IND applications for additional product candidates within the next 12 months. As a result, we expect that our operations will continue to increase, and, consequently, we will need to generate significant additional revenues to achieve profitability. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses or when we will become profitable, if at all. Even if we do increase our revenues and achieve profitability, we may not be able to maintain or increase profitability.

***We have licensed the intellectual property, including commercialization rights, to our product candidates XL647, XL784 and XL999 to SEI and will not receive any future royalties or revenues with respect to these product candidates unless we exercise our option to acquire these product candidates in the future. We may not have the financial resources to exercise this option or sufficient clinical data in order to determine whether we should exercise this option.***

We have licensed to SEI our intellectual property rights, including commercialization rights, to our product candidates XL647, XL784 and XL999 in exchange for SEI's investment of \$80.0 million to advance the clinical development of XL647, XL784 and XL999. In exchange for this investment and for five-year warrants to purchase shares of our common stock, we received an exclusive purchase option to acquire all of the equity of SEI, thereby allowing us to reacquire the product candidates, including any associated intellectual property rights and commercialization rights. Under our amended purchase option agreement with SEI, we cannot repurchase a single product candidate without also repurchasing the other two product candidates. We may, at our sole discretion, exercise our purchase option at any time until the earlier of June 9, 2009 or the 90th day after the date on which SEI provides us with financial statements showing cash and cash equivalents of less than \$5.0 million. The purchase option exercise price, which may be paid in cash and/or shares of our common stock, at our sole discretion, is equal to the sum of: (1) the total amount of capital invested in SEI by its investors and (2) an amount equal to 25% per year on such funded capital, compounded from the time of funding. The option exercise price may be paid in cash and/or shares of our common stock, at our sole discretion.

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If we elect to exercise the purchase option, we will be required to make a substantial cash payment and/or to issue a substantial number of shares of our common stock, or enter into a financing arrangement or license arrangement with one or more third parties, or some combination of the foregoing. A payment in cash would reduce our capital resources. We do not anticipate receipt of milestone payments from GlaxoSmithKline to apply towards the purchase price. A payment in shares of our common stock could result in dilution to our stockholders at that time. Other financing or licensing alternatives may be expensive or impossible to obtain. If we do not exercise the purchase option prior to its expiration, our rights to purchase all of the equity in SEI and to reacquire XL647, XL784 and XL999 will terminate. We may not have the financial resources to exercise the option, which may result in our loss of these rights. Additionally, we may not have sufficient clinical data in order to determine whether we should exercise the option.

### **Risks Related to Development of Product Candidates**

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

Clinical trials are inherently risky and may reveal that our product candidates are ineffective or have unacceptable toxicity or other side effects that may significantly decrease the likelihood of regulatory approval. 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 based on existing knowledge of our compounds in development and industry metrics, we may not be able to meet those timelines.

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

- our product candidates may not prove to be efficacious or may 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;
- 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 not authorize, 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 any of these events were to occur and, as a result, we were to have significant delays in or termination of our clinical testing, our expenses could increase or our ability to generate revenue from the affected product candidates could be impaired, either of which could adversely impact our financial results. For example, in December 2007 we discontinued our development program for XL999 following observation of cardiac adverse events in the clinical program.

We have limited experience in conducting clinical trials and may not be able to rapidly or effectively continue the further development of our compounds or meet current or future requirements identified based on our discussions with the FDA. We do not know whether our planned clinical trials will begin on time, will be completed on schedule, or at all, will be sufficient for registration of these compounds or will result in approvable products.

Completion of clinical trials may take several years or more, but the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product candidate. 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 that ultimately participate in the clinical trial;

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

Our research and clinical testing may be delayed or abandoned if we or our competitors subsequently discover other compounds that we believe show significantly improved safety or efficacy compared to our product candidates, which 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.

### **Risks Related to Our Relationships with Third Parties**

***Disagreements between SEI and us regarding the development of our product candidates XL647 and XL784 may cause significant delays and other impediments in the development of these product candidates, which could negatively affect the value of these product candidates.***

We have licensed to SEI our intellectual property rights, including commercialization rights, to our product candidates XL647, XL784 and XL999, in exchange for SEI's investment of \$80.0 million to advance the clinical development of these three compounds. We are responsible for development in accordance with a specified development plan and related development budget. Our development activities are supervised by SEI's development committee, which is comprised of an equal number of representatives from Exelixis and SEI. If the development committee cannot resolve a particular development issue, the issue will be referred to the chief executive officers of Exelixis and SEI. Any disagreements between SEI and us regarding a development decision may cause significant delays in the development and commercialization of XL647 as well as lead to development decisions that do not reflect our interests. In addition, disagreements may impair our attempts to find a partner to develop XL784. Any such delays or development decisions not in our interest could negatively affect the value of XL647 and XL784. In December 2007, we discontinued our development program for XL999 following observation of cardiac adverse events in the clinical program.

***We are dependent upon our collaborations with major companies. If we are unable to achieve milestones, develop products or renew or enter into new collaborations, our revenues may decrease and our activities may fail to lead to commercialized products.***

We have derived substantially all of our revenues to date from collaborative research and development agreements. Revenues from research and development collaborations depend upon continuation of the collaborations, the achievement of milestones and royalties we earn from any future products developed from the collaborative research. If we are unable to successfully achieve milestones or our collaborators fail to develop successful products, we will not earn the revenues contemplated under such collaborative agreements. In addition, some of our collaborations are exclusive and preclude us from entering into additional collaboration arrangements with other parties in the area or field of exclusivity. Future collaborations may require us to relinquish some important rights, such as marketing and distribution rights.

If any of these agreements is not renewed or is terminated early, whether unilaterally or by mutual agreement, or if we are unable to enter into new collaboration agreements on commercially acceptable terms, our revenues and product development efforts could suffer. Our collaboration with GlaxoSmithKline is scheduled to expire in October 2008 but became subject to earlier termination at the discretion of GlaxoSmithKline starting in 2005. Our agreements with Bristol-Myers Squibb, Genentech, Daiichi-Sanko and Wyeth Pharmaceuticals also contain early termination provisions. In addition, from time to time we review and assess certain aspects of our collaborations, partnerships and agreements and may amend or terminate, either by mutual agreement or pursuant to any applicable early termination provisions, such collaborations, partnerships or agreements if we deem them to be no longer in our economic or strategic interests.

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We may not be able to enter into new collaboration agreements on similar or superior financial terms to offset the loss of revenue from the termination or expiration of any of our existing arrangements, and the timing of new collaboration agreements may have a material adverse effect on our ability to continue to successfully meet our objectives.

### ***Conflicts with our collaborators could jeopardize the outcome of our collaboration agreements and our ability to commercialize products.***

We are conducting proprietary research programs in specific disease, therapeutic modality and agricultural product areas that are not covered by our collaboration agreements. Our pursuit of opportunities in pharmaceutical and agricultural markets could result in conflicts with our collaborators in the event that any of our collaborators takes the position that our internal activities overlap with those areas that are exclusive to our collaboration agreements, and we should be precluded from such internal activities. Moreover, disagreements with our collaborators could develop over rights to our intellectual property. In addition, our collaboration agreements may have provisions that give rise to disputes regarding the respective rights and obligations of the parties, including the rights of collaborators with respect to our internal programs and disease area research. Any conflict with or among our collaborators could lead to the termination of our collaborative agreements, delay collaborative activities, impair our ability to renew agreements or obtain future collaboration agreements or result in litigation or arbitration and would negatively impact our relationship with existing collaborators. If our collaborators fail to develop or commercialize any of our compounds or product candidates, we would not receive any future royalties or milestone payments for such compounds or product candidates. We have limited or no control over the resources that our collaborators may choose to devote to our joint efforts. Our collaborators may breach or terminate their agreements with us or fail to perform their contractual obligations. Also, our collaboration agreements may be subject to early termination by mutual agreement. Further, our collaborators may elect not to develop products arising out of our collaboration arrangements, may experience financial difficulties, may undertake business combinations or significant changes in business strategy that adversely affect their willingness or ability to complete their obligations under any arrangement with us or may fail to devote sufficient resources to the development, manufacture, marketing or sale of such products. Certain of our collaborators could also become competitors in the future. If our collaborators develop competing products, preclude us from entering into collaborations with their competitors, fail to obtain necessary regulatory approvals, terminate their agreements with us prematurely or fail to devote sufficient resources to the development and commercialization of our products, our product development efforts could be delayed or otherwise adversely effected and may fail to lead to commercialized products.

### ***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 our product candidates.***

We do not have the ability to independently conduct clinical trials for our product candidates, and we must rely on third parties we do not control such as 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 the 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 successfully commercialize our product candidates.

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

We currently do not have the manufacturing capabilities or experience necessary to enable us to produce materials for our clinical trials. We rely on collaborators and third-party contractors to produce our compounds

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for preclinical and clinical testing. These suppliers must comply with applicable regulatory requirements, including the FDA's current Good Manufacturing Practices, or GMP. Our current and anticipated future dependence upon these third-party manufacturers may adversely affect our future profit margins and our ability to develop and commercialize product candidates on a timely and competitive basis. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet our development timelines and applicable regulatory requirements. We may not be able to maintain or renew our existing third-party manufacturing arrangements, or enter into new arrangements, on acceptable terms, or at all. Our third-party manufacturers could terminate or decline to renew our manufacturing 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 may be delayed. Delays in preclinical or clinical testing could delay the filing of our INDs and the initiation of clinical trials.

Our third-party manufacturers may not be able to comply with the GMP regulations, other applicable FDA regulatory requirements or similar regulations applicable outside of the United States. Additionally, if we are required to enter into new supply arrangements, we may not be able to obtain approval from the FDA of any alternate supplier in a timely manner, or at all, which could delay or prevent the clinical development and commercialization of any related product candidates. Failure of our third-party manufacturers 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 our product candidates, injunctions, delays, 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 affect on our business.

***Materials necessary to manufacture some of our compounds currently under development may not be available on commercially reasonable terms, or at all, which may delay our development and commercialization of these compounds.***

Some of the materials necessary for the manufacture of our compounds under development may, from time to time, be available either in limited quantities, or from a limited number of manufacturers, or both. Our contract manufacturers need to obtain these materials for our clinical trials and, potentially, for commercial distribution when and if we obtain marketing approval for these compounds. Suppliers may not sell us these materials at the time we need them or on commercially reasonable terms. If we are unable to obtain the materials needed to conduct our clinical trials, product testing and potential regulatory approval could be delayed, adversely affecting our ability to develop the product candidates. Similarly, if we are unable to obtain critical manufacturing materials after regulatory approval has been obtained for a product candidate, the commercial launch of that product candidate could be delayed or there could be a shortage in supply, which could materially affect our ability to generate revenues from that product candidate. If suppliers increase the price of manufacturing materials, the price for one or more of our products may increase, which may make our products less competitive in the marketplace. If it becomes necessary to change suppliers for any of these materials or if any of our suppliers experience a shutdown or disruption at the facilities used to produce these materials, due to technical, regulatory or other reasons, it could harm our ability to manufacture our products.

### **Risks Related to Regulatory Approval of Our Product Candidates**

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

Our product candidates, as well as the activities associated with their 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 a product candidate would prevent us from commercializing that product candidate. We have not received regulatory

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approval to market any of our product candidates in any jurisdiction and have only limited experience in preparing and filing the applications necessary to gain regulatory approvals. The process of obtaining regulatory approvals 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. Before a new drug application can be filed with the FDA, the product candidate must undergo extensive clinical trials, which can take many years and may require substantial expenditures. Any clinical trial may fail to produce results satisfactory to the FDA. 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, which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in regulatory policy for product approval during the period of product development and regulatory agency review. Changes in regulatory approval policy, regulations or statutes or the process for regulatory review during the development or approval periods of our product candidates may cause delays in the approval or rejection of an application. Even if the FDA or a comparable authority in another country approves a product candidate, the approval may impose significant restrictions on the indicated uses, conditions for use, labeling, advertising, promotion, marketing and/or production of such product and may impose ongoing requirements for post-approval studies, including additional research and development and clinical trials. These agencies also may impose various civil or criminal sanctions for failure to comply with regulatory requirements, including withdrawal of product approval.

### **Risks Related to Commercialization of Products**

***The commercial success of any products that we may develop will depend upon the degree of market acceptance of our products among physicians, patients, health care payors, private health insurers and the medical community.***

Our ability to commercialize any products that we may develop will be highly dependent upon the extent to which these products gain market acceptance among physicians, patients, health care payors, such as Medicare and Medicaid, private health insurers, including managed care organizations and group purchasing organizations, and the medical community. If these products do not achieve an adequate level of acceptance, we may not generate adequate product revenues, if at all, and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend upon a number of factors, including:

- the effectiveness, or perceived effectiveness, of our products in comparison to competing products;
- the existence of any significant side effects, as well as their severity in comparison to any competing products;
- potential advantages over alternative treatments;
- the ability to offer our products for sale at competitive prices;
- relative convenience and ease of administration;
- the strength of marketing and distribution support; and
- sufficient third-party coverage or reimbursement.

***If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unable to generate product revenues.***

We have no experience as a company in the sales, marketing and distribution of pharmaceutical products and do not currently have a sales and marketing organization. Developing a sales and marketing force would be expensive and time-consuming, could delay any product launch, and we may never be able to develop this capacity. To the extent that we enter into arrangements with third parties to provide sales, marketing and

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distribution services, our product revenues are likely to be lower than if we market and sell any products that we develop ourselves. If we are unable to establish adequate sales, marketing and distribution capabilities, independently or with others, we may not be able to generate product revenues.

***If we are unable to obtain adequate coverage and reimbursement from third-party payors for any products that we may develop, our revenues and prospects for profitability will suffer.***

Our ability to commercialize any products that we may develop will be highly dependent on the extent to which coverage and reimbursement for our products will be available from third-party payors, including governmental payors, such as Medicare and Medicaid, and private health insurers, including managed care organizations and group purchasing organizations. Many patients will not be capable of paying themselves for some or all of the products that we may develop and will rely on third-party payors to pay for, or subsidize, their medical needs. If third-party payors do not provide coverage or reimbursement for any products that we may develop, our revenues and prospects for profitability will suffer. In addition, even if third-party payors provide some coverage or reimbursement for our products, 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.

A primary trend in the United States health care industry is toward cost containment. In December 2003, President Bush signed into law legislation creating a prescription drug benefit program for Medicare recipients. The new prescription drug program may have the effect of reducing the prices that we are able to charge for products we develop and sell through plans under the program. The new prescription drug program may also cause third-party payors other than the federal government, including the states under the Medicaid program, to discontinue coverage for products we develop or to lower the price that they will pay.

Proponents of drug reimportation may attempt to pass legislation, which would allow direct reimportation under certain circumstances. If legislation or regulations were passed allowing the reimportation of drugs, it could decrease the price we receive for any products that we may develop, thereby negatively affecting our revenues and prospects for profitability.

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. 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 our product candidates or products to other available therapies. The conduct of such a clinical trial could be expensive and result in delays in the commercialization of our product candidates. Third-party payors are challenging the prices charged for medical products and services, and many third-party payors limit reimbursement for newly approved health care products. In particular, third-party payors may limit the indications for which they will reimburse patients who use any products that we may develop. Cost-control initiatives could decrease the price we might establish for products that we may develop, which would result in lower product revenues to us.

***Our competitors may develop products and technologies that make our products and technologies obsolete.***

The biotechnology industry is highly fragmented and is characterized by rapid technological change. In particular, the area of kinase-targeted therapies is a rapidly evolving and competitive field. We face, and will continue to face, intense competition from biotechnology and pharmaceutical companies, as well as academic research institutions, clinical reference laboratories and government agencies that are pursuing research activities similar to ours. Some of our competitors have entered into collaborations with leading companies within our target markets, including some of our existing collaborators. In addition, significant delays in the development of our product candidates could allow our competitors to bring products to market before us, which would impair our ability to commercialize our product candidates. Our future success will depend upon our ability to maintain a competitive position with respect to technological advances. Any products that are developed through our

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technologies will compete in highly competitive markets. Further, our competitors may be more effective at using their technologies to develop commercial products. Many of the organizations competing with us have greater capital resources, larger research and development staff and facilities, more experience in obtaining regulatory approvals and more extensive product manufacturing and marketing capabilities. As a result, our competitors may be able to more easily develop technologies and products that would render our technologies and products, and those of our collaborators, obsolete and noncompetitive. In addition, there may be product candidates of which we are not aware at an earlier stage of development that may compete with our product candidates.

***We may not be able to manufacture our product candidates in commercial quantities, which would prevent us from commercializing our product candidates.***

To date, our product candidates have been manufactured in small quantities for preclinical and clinical trials. If any of these product candidates are approved by the FDA or other regulatory agencies for commercial sale, we will need to manufacture them in larger quantities. We may not be able to successfully increase the manufacturing capacity, whether in collaboration with third-party manufacturers or on our own, for any of our product candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA must review and approve. If we are unable to successfully increase the manufacturing capacity for a product candidate, the regulatory approval or commercial launch of that product candidate may be delayed or there may be a shortage in supply. Our product candidates require precise, high-quality manufacturing. The failure to achieve and maintain these high manufacturing standards, including the incidence of manufacturing errors, could result in patient injury or death, product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could seriously hurt our business.

### **Risks Related to Our Intellectual Property**

***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 biotechnology companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We will continue to apply for patents covering our technologies and products as and when we deem appropriate. However, these applications may be challenged or may fail to result in issued patents. In addition, because patent applications can take many years to issue, there may be currently 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 these 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 some of our product candidates, which could limit our potential revenue opportunities. Moreover, the

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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 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. 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, other biotechnology 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. 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, Growth and Location**

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

We are highly dependent upon the principal members of our management and scientific staff, the loss of whose services might adversely impact the achievement of our objectives and the continuation of existing collaborations. Also, we do not currently have sufficient clinical development personnel to fully execute our business plan. Recruiting and retaining qualified clinical and scientific personnel will be critical to support

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activities related to advancing our clinical and preclinical development programs, and supporting our collaborative arrangements and our internal proprietary research and development efforts. Competition is intense for experienced clinical personnel, and we may be unable to retain or recruit clinical personnel with the expertise or experience necessary to allow us to pursue collaborations, develop our products and core technologies or expand our operations to the extent otherwise possible. 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 maybe 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.

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

We have experienced a period of rapid and substantial growth that has placed, and our anticipated growth in the future will continue to place, a strain on our research, development, administrative and operational infrastructure. As our operations expand, we will need to continue to manage multiple locations and additional relationships with various collaborative partners, suppliers and other third parties. Our ability to manage our operations and growth effectively requires us to continue to improve our reporting systems and procedures as well as our operational, financial and management controls. In addition, rules and regulations implemented by the Securities and Exchange Commission have increased the internal control and regulatory requirements under which we operate. We may not be able to successfully implement improvements to our management information and control systems in an efficient or timely manner to meet future requirements.

### ***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 currently 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.

### ***Security breaches may disrupt our operations and harm our operating results.***

Our network security and data recovery measures may not be adequate to protect against computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. The misappropriation, theft, sabotage or any other type of security breach with respect to any of our proprietary and confidential information that is electronically stored, including research or clinical data, could have a material adverse impact on our business, operating results and financial condition. Additionally, any break-in or trespass of our facilities that results in the misappropriation, theft, sabotage or any other type of security breach with

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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 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 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 product candidates, injury to our reputation, withdrawal of patients from our clinical trials, substantial monetary awards to trial participants 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 in the amount of \$10.0 million per occurrence and \$10.0 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. If we obtain marketing approval for any of our product candidates, we intend to expand our insurance coverage to include the sale of commercial products, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. 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 and biotechnology industries, in general, have been subject to significant medical malpractice litigation. A successful product liability claim or series of claims brought against us could harm our reputation and business and would decrease our cash reserves.

### **Risks Related to Our Common Stock**

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

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

- recognition of upfront licensing or other fees;

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

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

Due to the possibility of fluctuations in our revenues and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. As a result, in some future quarters, our operating results may not meet the expectations of 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:

- adverse results or delays in clinical trials;
- announcement of FDA approval or non-approval, or delays in the FDA review process, of our 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 announcement of new products by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- 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 or pharmaceutical industry;

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- 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;
- developments concerning current or future collaborations;
- FDA or international regulatory actions;
- third-party reimbursement policies;
- acquisitions of other companies or technologies;
- disposition of any of our subsidiaries, technologies or compounds; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

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

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

### ***We are exposed to risks associated with acquisitions.***

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

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

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

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

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

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

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

***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.***

Provisions in our corporate charter and bylaws may discourage, delay or prevent an acquisition of our company, 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.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **ITEM 2. PROPERTIES**

We currently lease an aggregate of 347,212 square feet of office and laboratory facilities. In California, we currently lease 329,352 square feet in our South San Francisco and San Diego locations. The South San Francisco location, which currently is comprised of five buildings totaling 296,027 square feet, is covered by three lease agreements. The first two leases covering three buildings for a total of 179,964 square feet expire in 2017, with two five-year options to extend their respective terms prior to expiration. The third lease covering two buildings for a total of 116,063 square feet expires in 2018. In addition, we entered into a fourth lease agreement

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related to our South San Francisco location to lease an additional 66,000 square feet that is estimated to commence in May 2008 and expires in 2015. Under the terms of this lease, we have the right to rent all of the remaining 62,393 rentable square feet of the building. This expansion right expires on December 31, 2008. If we exercise our right to lease the entire building, we will have the option to extend the lease for an additional ten years. In our San Diego location, we lease 33,325 square feet under a month-to-month lease, with a nine-month termination notice.

In Portland, Oregon, we lease 17,860 square feet of office and laboratory space. The lease expires in February 2009 but we may terminate it earlier effective March 2008. In addition, we lease a 15-acre farm in Woodburn, Oregon. Greenhouse capacity at the farm currently totals 50,000 square feet. We previously owned the farm but sold it to Agrigentic, Inc., a wholly-owned subsidiary of The Dow Chemical Company, in September 2007. We are leasing the farm in connection with a contract research agreement between us and Agrigentic, and the lease expires upon termination or expiration of the contract research agreement.

In Guilford, Connecticut, we lease 3,000 square feet of office space. The lease commenced in January 2008 and it expires in April 2009.

We believe that our leased facilities have sufficient space to accommodate our current needs and also provide for the expansion of our operations for the near term.

### **ITEM 3. LEGAL PROCEEDINGS**

We are not currently 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**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
Quarter ended December 31, 2007	\$ 12.29	\$ 7.82
Quarter ended September 30, 2007	\$ 12.37	\$ 9.40
Quarter ended June 30, 2007	\$ 12.77	\$ 9.92
Quarter ended March 31, 2007	\$ 11.74	\$ 8.67
Quarter ended December 31, 2006	\$ 10.65	\$ 7.81
Quarter ended September 30, 2006	\$ 10.24	\$ 7.53
Quarter ended June 30, 2006	\$ 12.49	\$ 9.00
Quarter ended March 31, 2006	\$ 12.21	\$ 9.22

On February 20, 2008, the last reported sale price on the Nasdaq Global Select Market for our common stock was \$6.26 per share.

**Holders**

As of February 20, 2008, there were approximately 638 stockholders of record of our common stock.

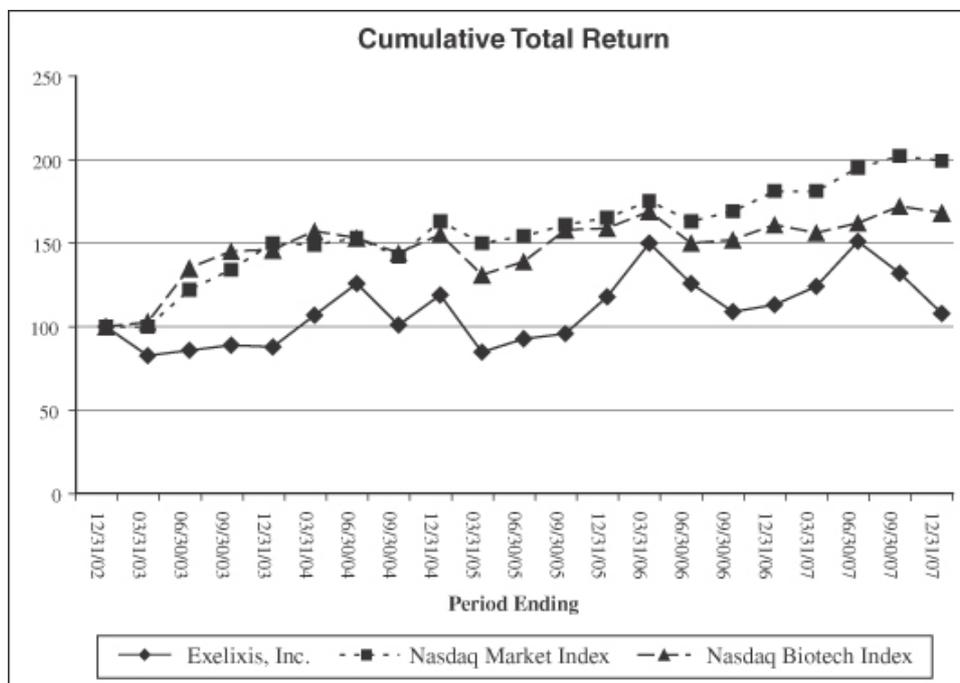
**Dividends**

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.

**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 the company under the Securities Act of 1933, as amended.

The following graph compares, for the five year period ended December 31, 2007, 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 Biotech Index. The graph assumes that \$100 was invested on December 31, 2002 in each of the common stock of the company, the Nasdaq Market Index and the Nasdaq Biotech Index and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



	<u>12/31/02</u>	<u>03/31/03</u>	<u>06/30/03</u>	<u>09/30/03</u>	<u>12/31/03</u>	<u>03/31/04</u>	<u>06/30/04</u>
Exelixis, Inc.	100	83	86	89	88	107	126
Nasdaq Market Index	100	100	122	134	150	149	153
Nasdaq Biotech Index	100	103	135	145	146	157	153
	<u>09/30/04</u>	<u>12/31/04</u>	<u>03/31/05</u>	<u>06/30/05</u>	<u>09/30/05</u>	<u>12/31/05</u>	<u>03/31/06</u>
Exelixis, Inc.	101	119	85	93	96	118	150
Nasdaq Market Index	142	163	150	154	161	165	175
Nasdaq Biotech Index	144	155	131	139	158	159	169
	<u>06/30/06</u>	<u>09/30/06</u>	<u>12/31/06</u>	<u>03/31/07</u>	<u>06/30/07</u>	<u>09/30/07</u>	<u>12/31/07</u>
Exelixis, Inc.	126	109	113	124	151	132	108
Nasdaq Market Index	163	169	181	181	195	202	199
Nasdaq Biotech Index	150	152	161	156	162	172	168

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**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, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 are derived from audited consolidated financial statements included elsewhere 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,				
	2007	2006	2005	2004	2003
(In thousands, except per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Total revenues	\$ 113,470	\$ 98,670	\$ 75,961	\$ 52,857	\$ 51,540
Operating expenses:					
Research and development(1)	225,375	185,481	141,135	137,724	127,622
General and administrative(2)	44,940	39,123	27,731	20,905	18,586
Amortization of intangible assets	202	820	1,086	779	666
Restructuring charge	—	—	—	2,275	925
Acquired in-process research and development	—	—	—	26,376	—
Total operating expenses	270,517	225,424	169,952	188,059	147,799
Loss from operations	(157,047)	(126,754)	(93,991)	(135,202)	(96,259)
Total other income (expense)(3)	46,025	3,565	(819)	(2,043)	1,140
Loss from continuing operations before income taxes and noncontrolling interest in Symphony Evolution, Inc.	(111,022)	(123,189)	(94,810)	(137,245)	(95,119)
Benefit from income taxes	—	—	—	—	345
Loss from continuing operations before noncontrolling interest in Symphony Evolution, Inc.	(111,022)	(123,189)	(94,810)	(137,245)	(94,774)
Loss attributed to noncontrolling interest in Symphony Evolution, Inc.	24,641	21,697	10,406	—	—
Net loss	\$ (86,381)	\$ (101,492)	\$ (84,404)	\$ (137,245)	\$ (94,774)
Net loss per share, basic and diluted	\$ (0.87)	\$ (1.17)	\$ (1.07)	\$ (1.89)	\$ (1.45)
Shares used in computing basic and diluted net loss per share	99,147	86,602	78,810	72,504	65,387

- (1) Amounts for 2007 and 2006 include \$11.6 million and \$11.2 million in employee stock-based compensation, respectively, under Statement of Financial Accounting Standards No. 123 (revised 2004), “Shared-Based Payment” (SFAS 123R).
- (2) Amounts for 2007 and 2006 include \$7.3 million and \$6.3 million in employee stock-based compensation, respectively, under SFAS 123R.
- (3) In September 2007, we sold our plant trait business and, as a result, we recognized a gain of \$18.8 million in other income. In November 2007, we sold 80.1% of our German subsidiary, Artemis Pharmaceuticals GmbH, and, as a result, we recognized a gain of \$18.1 million in other income.

	December 31,				
	2007	2006	2005	2004	2003
(In thousands)					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents, marketable securities, investments held by Symphony Evolution, Inc. and restricted cash and investments	\$ 299,530	\$ 263,180	\$ 210,499	\$ 171,223	\$ 241,930
Working capital	150,898	150,814	86,463	89,597	179,595
Total assets	412,120	395,417	332,712	291,340	357,794
Long-term obligations, less current portion	130,671	128,565	121,333	144,491	102,411
Accumulated deficit	(791,650)	(705,269)	(603,777)	(519,373)	(382,128)
Total stockholders’ equity	72,081	52,540	33,543	50,671	161,482

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

We are committed to developing innovative therapies for cancer and other serious diseases. Through our integrated drug discovery and development activities, we are building a portfolio of novel compounds that we believe have the potential to be high-quality, differentiated pharmaceutical products. Our most advanced pharmaceutical programs focus on discovery and development of small molecule drugs for cancer.

Utilizing our library of more than 4.5 million compounds, we have integrated high-throughput processes, medicinal chemistry, bioinformatics, structural biology and early *in vivo* testing into a process that allows us to efficiently and rapidly identify highly qualified drug candidates that meet our extensive development criteria.

To date, we have filed 14 investigational new drug applications, or INDs. We believe that our deep pool of drug candidates will enable us to continue to file multiple new INDs each year for the foreseeable future. As our compounds advance into clinical development, we expect to generate a critical mass of data that will help us to understand the full clinical and commercial potential of our product candidates. In addition to guiding the potential commercialization of our innovative therapies, these data may contribute to the understanding of disease and help improve treatment outcomes.

Based on the strength of our expertise in biology, drug discovery, and development, we have established collaborations with major pharmaceutical and biotechnology companies that allow us to retain economic participation in compounds and support additional development of our proprietary products. Through these collaborations, we obtain license fees, research funding, a share of the profits and the opportunity to receive milestone payments and royalties (as applicable) from research results and subsequent product development activities. We also have collaborations in which we retain the right to co-promote products in the United States. We have ongoing commercial collaborations with several leading pharmaceutical and biotechnology companies, including SmithKline Beecham Corporation (which does business as GlaxoSmithKline), Bristol-Myers Squibb Company and Genentech, Inc. We expect to continue to use corporate partnering as a strategic tool to cultivate our assets, fund our operations and expand the therapeutic and commercial potential of our pipeline.

Our current development portfolio includes the following compounds, for which we are leading development:

<b>Compound</b>	<b>Principal Targets</b>	<b>Indication</b>	<b>Stage of Development</b>
XL647*	EGFR, HER2, VEGFR2	Cancer	Phase 2
XL880	MET, VEGFR2	Cancer	Phase 2
XL820	KIT, VEGFR2, PDGFR	Cancer	Phase 2
XL184	MET, VEGFR2, RET	Cancer	Phase 1/2
XL518**	MEK	Cancer	Phase 1
XL281	RAF	Cancer	Phase 1
XL019	JAK2	Cancer	Phase 1
XL844	CHK1, CHK2	Cancer	Phase 1
XL228	IGF1R, ABL, SRC	Cancer	Phase 1
XL147	PI3K	Cancer	Phase 1
XL765	PI3K, mTOR	Cancer	Phase 1

\* Out-licensed to Symphony Evolution, Inc. and subject to a repurchase option as described elsewhere in this report.  
\*\* In co-development collaboration with Genentech, Inc.

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In December 2007, GlaxoSmithKline exercised its option pursuant to our product development and commercialization agreement to further develop and commercialize XL880. We expect to transfer the XL880 development program to GlaxoSmithKline in the first quarter of 2008. Pursuant to the product development and commercialization agreement, GlaxoSmithKline has the option to elect to develop up to two additional compounds in our product pipeline, which may include XL820, XL184, XL281, XL844 and XL228.

In addition to the compounds identified in the table above, we have compounds in various stages of development that are being developed by our partners, such as Bristol-Myers Squibb, Daiichi Sankyo Company Limited and Wyeth Pharmaceuticals, a division of Wyeth. We also have compounds in preclinical development that we are developing internally.

### **2007 Dispositions**

In 2007, we completed the disposition of certain of our non-core assets, as described more fully below.

#### ***Sale of Plant Trait Business***

On September 4, 2007, we entered into an asset purchase and license agreement, or APA, with Agrigenetics, Inc., a wholly-owned subsidiary of The Dow Chemical Company, or Agrigenetics. Under the terms of the APA, we sold to Agrigenetics a major portion of our assets used for crop trait discovery, including a facility, and granted to Agrigenetics licenses to certain other related assets and intellectual property. As consideration for these assets and licenses, Agrigenetics paid us \$18.0 million and is obligated to pay an additional \$4.5 million upon the first anniversary of the closing date for the transaction. Under the APA, we have agreed to indemnify Agrigenetics and its affiliates up to a specified amount if they incur damages due to any infringement or alleged infringement of certain patents.

Concurrently with the execution of the APA, we also entered into a contract research agreement, or the CRA, with Agrigenetics. Agrigenetics has agreed to pay us up to \$24.7 million in research and development funding over the term of the CRA. The research funding will cover employee costs, facilities expenses and capital expenditures. After September 4, 2007, the closing date for the transaction, the research and development funding to be received over the term of the CRA will be recognized as a reduction to expenses incurred by us in connection with our performance under the CRA. In order for us to perform our obligations under the CRA, we are leasing at no cost the facility that Agrigenetics acquired under the APA. We are also entitled to receive additional payments of up to \$13.5 million from Agrigenetics if we achieve the development of up to three designated assets during the term of the CRA. If development of any of the three designated assets is completed, the related payment will be treated as additional proceeds from the sale of our plant trait business.

The term of the CRA is five years, unless earlier terminated. Agrigenetics may terminate the CRA if we fail to complete the development of any of the three designated assets within our respective specified research periods or if we fail to cure a material breach within specified time periods. Following our development and transfer to Agrigenetics of the second designated asset, either party may terminate the CRA upon expiration of a specified notice period. In the event that the CRA is terminated prior to the end of the term, we will receive less than the maximum amount of research and development funding described above.

The transaction was accounted for as a sale of our plant trait business. We recognized a gain of \$18.8 million, net of \$0.2 million in transaction costs. The gain primarily consists of a purchase price of \$22.5 million, less a net book value of \$0.3 million of property and equipment, \$2.1 million of intangible assets (acquired patents) and the derecognition of \$1.4 million of goodwill. We allocated goodwill to the disposed business based on the relative fair value of our plant trait business to Exelixis (excluding the value of the Artemis Pharmaceuticals reporting unit) on September 4, 2007, the closing date for the transaction.

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### **Sale of Interest in Artemis Pharmaceuticals GmbH**

On November 20, 2007, we entered into a share sale and transfer agreement with Taconic Farms, Inc., or Taconic, pursuant to which Taconic acquired from us, for \$19.8 million in cash, 80.1% of the outstanding share capital in our wholly-owned subsidiary, Artemis Pharmaceuticals GmbH, or Artemis, located in Cologne, Germany. Artemis' activities are directed toward providing transgenic mouse generation services, tools and related licenses to the industrial and academic community.

We also entered into a shareholders' agreement and approved amended articles of association of Artemis that govern the relationship between us and Taconic as shareholders of Artemis, particularly with respect to matters of corporate governance and the transfer of our respective ownership interests. The shareholders' agreement provides that we may require Taconic to purchase our remaining 19.9% interest in Artemis between 2010 and 2015 or in the event of a change in control of Taconic, and that Taconic may require us to sell our 19.9% interest to Taconic between 2013 and 2015 or in the event of a change in control of Exelixis, in each case subject to certain conditions set forth in the shareholders' agreement. The amended articles of association provide for the establishment of a shareholders' committee, in which we participate based on our 19.9% ownership, to assist in the management of Artemis.

The sale of 80.1% of Artemis was accounted for as a sale of a business. We recognized a gain of \$18.1 million, net of \$1.6 million in transaction costs. The gain primarily consists of cash received of \$19.8 million, plus \$2.5 million relating to the elimination of the cumulative foreign currency translation adjustment and the elimination of net liabilities, less \$0.3 million of intangible assets (acquired patents) and derecognition of \$2.3 million of goodwill. As we believe we have significant influence over the operations of Artemis through our rights under the shareholders' agreement and the amended articles, we will account for our remaining 19.9% equity interest in Artemis under the equity method of accounting. We will subsequently adjust our investment balance to recognize our share of future Artemis earnings or losses after the November 20, 2007 closing date. As of December 31, 2007, the carrying value of our investment in Artemis was approximately \$30,000.

Artemis' revenues and net income (loss) after the effect of all intercompany eliminations are as follows (in thousands):

	For the Year Ended		
	December 31		
	2007(1)	2006	2005
Revenues	\$11,234	\$ 7,920	\$5,773
Net income (loss)	\$ 1,210	\$(1,036)	\$ (619)

(1) The revenues and net income for the year ended December 31, 2007 only include revenues through November 20, 2007, the closing date for the transaction.

### **Certain Factors That May Affect Our Business**

#### **Industry-wide Factors**

Successful development of drugs is inherently difficult and uncertain. Our business requires significant investments in research and development over many years, often for products that 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.

#### **Company-specific Factors**

Our financial performance is driven by many factors, including:

- *Clinical Trials.* We currently have multiple compounds in clinical development and expect to continue to advance more compounds into clinical trials. Our compounds may fail to show adequate safety or

efficacy in clinical testing. Furthermore, predicting the timing of the initiation or completion of clinical trials is exceedingly difficult and our trials may be delayed due to many factors, including factors outside of our control. The future development path of each of our compounds depends upon the results of each stage of clinical development. In general, we will incur increased operating expenses for compounds that advance to the next stage of clinical development, whereas expenses will end for compounds that do not warrant further clinical development.

- *Liquidity.* As of December 31, 2007, we had \$299.5 million in cash and cash equivalents and short-term and long-term marketable securities, which included investments held by SEI of \$30.9 million and restricted cash and investments of \$7.2 million. We anticipate that our current cash and cash equivalents, short-term and long-term marketable securities, investments held by SEI and other funding that we expect to receive from collaborators, which assumes a moderate level of business development activity, 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 depend on many factors, including the timing of key events in our agreements with GlaxoSmithKline and SEI that may require us to use available capital significantly earlier than we currently anticipate. We will have to obtain additional funding in order to support our plans for the aggressive development of our broad clinical and preclinical pipelines. Our minimum liquidity needs are also determined by certain financial covenants contained in our loan and security agreement with GlaxoSmithKline, which require us to maintain working capital of at least \$25.0 million and cash and investments of at least \$50.0 million. Our ability to raise additional funds may be severely impaired if any of our product candidates fails to show adequate safety or efficacy in clinical testing.
- *Reliance on Partners.* We currently have no pharmaceutical products that have received marketing approval, and we have generated no revenues from the sale of such products. We do not expect to generate product revenues from the sale of pharmaceutical products in the near term and expect that all of our near term revenues, such as research and development funding and milestone and royalty revenues, will be generated from collaboration agreements with our partners. Milestones under these agreements may be tied to factors that are outside of our control, such as significant clinical or regulatory events with respect to compounds that have been licensed to our partners.
- *GlaxoSmithKline Compound Selection.* Pursuant to our product development and commercialization agreement with GlaxoSmithKline, GlaxoSmithKline has the option to elect to develop up to three of our compounds from the programs specified in the product development and commercialization agreement. In December 2007, GlaxoSmithKline exercised its development option for XL880. As a result of GlaxoSmithKline's exercise of this option, GlaxoSmithKline has the right to select from the identified programs up to one additional compound, which may include XL820, XL184, XL281, XL844 or XL228, or up to two additional compounds if it extends the specified development term. The amount of acceptance milestones that we receive from GlaxoSmithKline will depend on the number of compounds selected, the timing of the selection of the compounds and, for those acceptances made after the end of the original development term, whether GlaxoSmithKline extended the development term. Any future delays in obtaining clinical proof-of-concept for compounds subject to GlaxoSmithKline's election rights may decrease the size of any GlaxoSmithKline milestone payments and negatively affect our financial position. If GlaxoSmithKline selects a second compound prior to the end of the development term under the product development and commercialization agreement in October 2008, the amount of the selection milestone for the second compound would be at least \$55.0 million. Under our product development and commercialization agreement, any milestone payments relating to product candidates remaining under the agreement must be used to pay down our loan with GlaxoSmithKline as long as the loan is outstanding. See " – Liquidity and Capital Resources – Cash Requirements. "
- *Symphony Evolution, Inc.* In 2005, we licensed three of our compounds, XL647, XL784 and XL999, to SEI in return for an \$80.0 million investment for the clinical development of these compounds. We have an exclusive purchase option to acquire all of the equity of SEI, thereby allowing us to reacquire

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XL647, XL784 and XL999 at our sole discretion. We cannot repurchase a single product candidate without also repurchasing the other two product candidates. The purchase price, which may be paid in cash and/or shares of our common stock, at our sole discretion, would be equal to the sum of (1) the total amount of capital invested in SEI by its investors (\$80.0 million) and (2) an amount equal to 25% per year on such funded capital, compounded from the time of funding. As a result, the purchase price for the compounds licensed to SEI increases over time. The phase 2 clinical development program for XL647 is ongoing, and GlaxoSmithKline has declined to exercise its development option for XL647. In order to retain rights to XL647 after the expiration of the purchase option period, we would be required to reacquire XL647, XL784 and XL999 from SEI's investors through the exercise of our exclusive purchase option. In December 2007, we discontinued the development of XL999, and in January 2008, GlaxoSmithKline declined to exercise its option to further develop and commercialize XL784. We do not intend to invest further in the development of XL784, but will seek a partner with which to take the compound forward, which would also require us to repurchase all three compounds from SEI's investors. In order to repurchase the compounds, we would need to raise additional funds to cover the purchase price or issue to SEI's investors a substantial number of shares of our common stock.

### **Critical Accounting Estimates**

Our consolidated financial statements and related notes are prepared in accordance with U.S. generally accepted accounting principles, or GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other 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 the financial statements. We believe the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements:

### ***Revenue Recognition***

Most of our revenues are generated from the terms of our research and licensing arrangements. These research and licensing arrangements may include up-front non-refundable payments. Although these up-front payments are generally non-refundable, under GAAP we defer the revenues under these arrangements and recognize the revenues on a straight-line basis over our expected period of continuing involvement, generally the research term specified in the agreements. Our research and license arrangements may also include milestone payments. Although these milestone payments are generally non-refundable once the milestone is achieved, we recognize the milestone revenues on a straight-line basis over the research term of the arrangement. This typically results in a portion of the milestone being recognized on the date the milestone is achieved, with the balance being recognized over the remaining research term of the agreement. It is our understanding that there is diversity in practice on the recognition of milestone revenue. Other companies have adopted an alternative acceptable milestone revenue recognition policy whereby the full milestone fee is recognized upon completion of the milestone. If we had adopted such a policy, our revenues recorded to date would have increased and our deferred revenues would have decreased by a material amount compared to total revenue recognized. In certain

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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 revenue when the milestone is achieved.

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 up-front fees, license payments, research and development services, milestone payments and future royalties. Multiple element revenue agreements are evaluated under Emerging Issues Task Force No. 00-21, "Revenue Arrangements with Multiple Deliverables," or EITF 00-21, to determine whether the delivered item has value to the customer on a stand-alone basis and whether objective and reliable evidence of the fair value of the undelivered item exists. Deliverables in an arrangement that do not meet the separation criteria in EITF 00-21 are treated as one unit of accounting for purposes of revenue recognition. Generally, the revenue recognition guidance applicable to the final deliverable is followed for the combined unit of accounting. 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 financial statements and accompanying notes. For example, we recognized revenue of approximately \$27.9 million in 2007 related to arrangements for which the period of time over which the research and development will be performed was not contractually defined. For this arrangement, if the research and development were delayed, the amount of revenue recognized in future periods could be reduced. To date, there has not been a change in an estimate or assumption that had a material impact on our revenue recognition.

### ***Goodwill and Intangible Impairment***

As of December 31, 2007, our consolidated balance sheet included \$63.7 million of goodwill and other intangible assets. Under GAAP, 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 will also evaluate other intangible assets for impairment when impairment indicators are identified.

The impairment tests for goodwill are performed at the reporting unit level and require us to perform a two-step impairment test. Our reporting units have been determined to be consistent with our operating segments. In the first step, we compare the fair value of our reporting units to their respective carrying values. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, we perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its fair value, then we record an impairment loss equal to the difference.

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

Substantial portions of our preclinical studies and all of our clinical trials have been performed by third-party contract research organizations, or 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 costs for clinical trial activities performed by CROs based upon the estimated amount of work completed on each study. 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 study. 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 will 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. For example, during the quarter

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ended December 31, 2007, we recorded a reduction of \$2.6 million to our accrued clinical trial liabilities and research and development expenses related to our phase 2 clinical trial for XL784.

### **Stock Option Valuation**

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Shared-Based Payment" (SFAS 123R). Under this standard, 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. We have limited historical information available to support the underlying estimates of certain assumptions required to value stock options. 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 shows 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. In addition, we are required to estimate the expected forfeiture rate 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. As of December 31, 2007, \$45.9 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 2.7 years. See Note 10 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

### **Fiscal Year Convention**

In 2006, Exelixis adopted a 52- or 53-week fiscal year that ends on the Friday closest to December 31<sup>st</sup>. Fiscal year 2006, a 52-week year, ended on December 29, 2006, fiscal year 2007, a 52-week year, ended on December 28, 2007 and fiscal year 2008, a 53-week year, will end on January 2, 2009. For convenience, references in this report as of and for the fiscal years ended December 29, 2006 and December 28, 2007 are indicated on a calendar year basis, ending December 31, 2006 and 2007, respectively.

**Results of Operations – Comparison of Years Ended December 31, 2007, 2006 and 2005****Revenues**

Total revenues by category, as compared to the prior year, were as follows (dollar amounts are presented in millions):

	Year Ended December 31,		
	2007	2006	2005
<b>Contract revenues:</b>			
Research and development services	\$ 50.4	\$46.3	\$46.7
Milestones	18.0	15.6	9.0
Delivery of compounds under chemistry collaborations	0.7	0.5	—
<b>License revenues:</b>			
Ratable recognition of upfront payments, including premiums paid on equity purchases	44.4	36.3	20.3
<b>Total revenues</b>	<u>\$113.5</u>	<u>\$98.7</u>	<u>\$76.0</u>
Dollar increase	\$ 14.8	\$22.7	
Percentage increase	15%	30%	

The increase in revenues from research and development services from 2006 to 2007 was primarily the result of increases in research and development services of \$3.4 million attributable to Artemis, \$1.5 million from our agreement with Agrigenetics and \$1.2 million from our agreement with Daiichi-Sankyo. These increases were partially offset by decreases in research and development services of \$1.0 million from one of our Bristol-Myers Squibb collaborations and \$0.9 million from our collaboration with Renessen LLC.

The decrease in research and development services from 2005 to 2006 was primarily a result of the conclusion of our Genoptera collaboration in June 2005, which included a one-time termination fee related to research and development services totaling \$13.4 million. This decrease was partially offset by increases in research and development services of \$9.2 million from Bristol-Myers Squibb, \$2.1 million attributable to customers of Artemis and \$1.2 million from Genentech.

The increase in milestone revenues from 2006 to 2007 was primarily due to \$4.9 million in revenues associated with a milestone achieved under our co-development collaboration with Genentech relating to XL518 and \$3.3 million in revenues associated with a milestone achieved under one of our collaborations with Bristol-Myers Squibb. These increases were partially offset by \$4.0 million in revenues in 2006 associated with a milestone achieved under our collaboration with Helsinn Healthcare S.A, or Helsinn, and \$2.0 million in revenues associated with a milestone achieved under our collaboration with Wyeth Pharmaceuticals in 2006.

The increase in milestone revenues from 2005 to 2006 was driven primarily by achieving and recognizing as revenue milestones of \$4.5 million under our collaboration with Wyeth Pharmaceuticals and a \$4.0 million milestone under our collaboration with Helsinn and \$1.2 million in revenues associated with achieving two milestones under one of our collaborations with Bristol-Myers Squibb. This increase was partially offset by a decrease of \$2.7 million in milestone revenues related to the conclusion of our Genoptera collaboration in June 2005.

The revenues from the delivery of compounds in 2007 approximates that of 2006. The increase in revenues from 2005 to 2006 from the delivery of compounds of \$0.5 million was related to the delivery of compounds under our chemistry collaboration agreement with Bayer CropScience.

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The increase from 2006 to 2007 in the amortization of upfront payments, including premiums paid on equity purchases, was driven primarily by upfront payments from the oncology collaboration we entered into with Bristol-Myers Squibb in December 2006, resulting in increased revenues of \$14.6 million, and our co-development collaboration with Genentech relating to XL518, resulting in increased revenues of \$8.1 million. These increases were partially offset by the completion of amortizing upfront payments from Wyeth Pharmaceuticals, resulting in decreased revenues of \$9.7 million, and from Daiichi-Sankyo, resulting in decreased revenues of \$4.6 million.

The increase from 2005 to 2006 in the amortization of upfront payments, including premiums paid on equity purchases, was driven primarily by upfront payments from Daiichi-Sankyo, resulting in increased revenues of \$12.3 million, Wyeth Pharmaceuticals, resulting in increased revenues of \$9.4 million, and Bristol-Myers Squibb, resulting in increased revenues of \$5.6 million. These increases were partially offset by a decrease of \$7.8 million related to the conclusion of our Genoptera collaboration in June 2005, which included acceleration of upfront payments, and by a decrease of \$4.0 million related to the conclusion of our collaboration with Helsinn.

Prior to the closing of the sale of 80.1% of the share capital of Artemis on November 20, 2007, we had included \$11.2 million, \$7.9 million and \$5.8 million of revenues attributable to Artemis for 2007, 2006 and 2005, respectively, within our consolidated total revenues. As a result of the sale, Artemis' financial results will no longer be consolidated into our consolidated financial statements.

The following table sets forth the revenue recognized as a percentage of total revenue from customers that exceeded 10% or more of total revenues during the years ended December 31, 2007, 2006 and 2005:

<u>Collaborator</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bristol-Myers Squibb	35%	22%	7%
GlaxoSmithKline	24%	28%	37%
Genentech	16%	6%	4%
Daiichi-Sankyo	10%	15%	1%
Wyeth Pharmaceuticals	2%	14%	0%
Genoptera	0%	0%	32%

## Research and Development Expenses

Total research and development expenses were as follows (dollar amounts are presented in millions):

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Research and development expenses(1)	\$ 225.4	\$ 185.5	\$ 141.1
Dollar increase	\$ 39.9	\$ 44.3	
Percentage increase	22%	31%	

(1) Amounts for 2007 and 2006 include \$11.6 million and \$11.2 million, respectively, in employee stock-based compensation under SFAS 123R.

Research and development expenses consist primarily of personnel expenses, clinical trials and consulting, laboratory supplies and facility costs. The change in 2007 compared to 2006 resulted primarily from the following:

- Clinical Trials and Consulting – Clinical trials and consulting expense, which includes services performed by third-party contract research organizations and other vendors, increased by \$16.0 million, or 34%, primarily due to an increase in activities associated with advancing our clinical and preclinical development programs. During 2007, these activities included phase 2 clinical trial activities for XL784, XL880,

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XL647 and XL820 and phase 1 clinical trial activity for XL999, XL844, XL228, XL281, XL518, XL184, XL418, XL147, XL765 and XL019, as well as preclinical activity for XL443 and XL139, which were partially offset by a decrease in phase 2 clinical trial activity for XL999 during 2007.

- Personnel – Personnel expense, which includes salaries, bonuses, related fringe benefits, recruiting and relocation costs, increased by \$13.9 million, or 24%, primarily due to the expanded workforce supporting drug development operations to advance our clinical and preclinical development programs.
- Lab Supplies – Lab supplies expense increased by \$5.2 million, or 30%, primarily due to an increase in our drug discovery activities and drug development activities.

The change in 2006 compared to 2005 in research and development expenses resulted primarily from the following:

- Clinical Trials and Consulting – Clinical trials and consulting expense, which includes services performed by third-party contract research organizations and other vendors, increased by \$21.3 million, or 85%, primarily due to an increase in activities associated with advancing our clinical and preclinical development programs. During 2006, these activities included phase 2 clinical trial activity for XL999, XL784, XL880 and XL647 and phase 1 clinical trial activity for XL844, XL820 and XL184 as well as pre-clinical activity for XL228, XL281, XL418, XL518, XL147, XL765 and XL019.
- Employee Stock-Based Compensation – Employee stock-based compensation expense increased by \$11.2 million due to our adoption of SFAS 123R effective January 1, 2006.
- Personnel – Personnel expense, which includes salaries, bonuses, related fringe benefits, recruiting and relocation costs, increased by \$9.2 million, or 19%, primarily due to the expanded workforce supporting drug development operations to advance our clinical and preclinical development programs.
- Lab Supplies – Lab supplies expense increased by \$1.3 million, or 9%, primarily due to an increase in our development activities related to our phase 1 and phase 2 clinical trials.

We currently 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 product candidate, the clinical trial design and the ability to enroll suitable patients. We expect that research and development expenses will continue to increase as we advance our compounds through development.

We currently do not have reliable estimates of total costs for a particular drug candidate 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 products may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval.

### General and Administrative Expenses

Total general and administrative expenses were as follows (dollar amounts are presented in millions):

	Year Ended December 31,		
	2007	2006	2005
General and administrative expenses(1)	\$ 44.9	\$ 39.1	\$ 27.7
Dollar increase	\$ 5.8	\$ 11.4	
Percentage increase	15%	41%	

(1) Amounts for 2007 and 2006 include \$7.3 million and \$6.3 million, respectively, in employee stock-based compensation under SFAS 123R.

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General and administrative expenses consist primarily of personnel expenses to support our general operating activities, facility costs and professional expenses, such as legal and accounting fees. The increase in 2007 from 2006 resulted primarily from an increases in personnel expenses of \$3.9 million and increases in employee and nonemployee stock-based compensation expense of \$2.1 million. The increases in personnel expenses and stock-based compensation expense were primarily to support our expanding operations. The increase in 2006 from 2005 resulted primarily from increases in employee stock-based compensation expense of \$6.3 million due to our adoption of SFAS 123R, personnel expenses of \$3.4 million and consulting expenses of \$2.5 million, which were partially offset by a decrease in legal and accounting expenses of \$1.2 million.

### Amortization of Intangible Assets

Total amortization of intangible assets were as follows (dollar amounts are presented in millions):

	Year Ended December 31,		
	2007	2006	2005
Amortization of intangible assets	\$ 0.2	\$ 0.8	\$ 1.1
Dollar decrease	\$ (0.6)	\$ (0.3)	
Percentage decrease	(75%)	(24%)	

Intangible assets resulted from our acquisitions of X-Ceptor, Genomica, Artemis and Agritope (renamed Exelixis Plant Sciences). These assets are amortized over specified time periods. The decrease in amortization of intangible assets expense in 2007 compared to 2006 was due to the completion of the amortization of the assembled workforce related to our acquisition of X-Ceptor Therapeutics and the developed technology related to our acquisition of Artemis. In addition, amortization of intangible assets expense decreased as a result of our transaction in September 2007 with Agrigenetics in which we sold \$2.1 million of acquired patents and our transaction in November 2007 in which we sold 80.1% of the share capital of Artemis, which included \$0.3 million of acquired patents.

The decrease in amortization of intangibles expense in 2006 as compared to 2005 was due to the developed technology intangible asset related to our acquisition of Artemis in 2001 becoming fully amortized in October 2006.

### Total Other Income (Expense)

Total other income (expense) were as follows (dollar amounts are presented in millions):

	Year Ended December 31,		
	2007	2006	2005
Total other income (expense)	\$ 46.0	\$ 3.6	\$ (0.8)
Dollar increase	\$ 42.5	\$ 4.4	

The increase in total other income for 2007 compared to 2006 was primarily due to the gain on the sale of our plant trait business and the gain on sale of 80.1% of the share capital of Artemis and an increase in interest income as a result of higher cash and investment balances and higher average interest rates.

In September 2007, we sold our plant trait business to Agrigenetics, and, as a result, we recognized a gain of \$18.8 million in total other income. The gain of \$18.8 million primarily consists of a purchase price of \$22.5 million, less \$2.4 million in net book value of tangible and intangible assets and the derecognition of \$1.4 million of goodwill.

As a result of the sale of 80.1% of the share capital of Artemis, we recognized a gain of \$18.1 million in total other income. This gain primarily consists of cash received of \$19.8 million, plus \$2.5 million relating to the

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elimination of cumulative foreign currency translation adjustments and the elimination of net liabilities, less \$0.3 million of intangible assets (acquired patents) and the derecognition of \$2.3 million of goodwill.

The increase in total other income for 2006 compared to 2005 was primarily due to a decrease in interest expense as a result of a decrease in the principal balance of our debt from the repayment of our \$30.0 million convertible note to PDL BioPharma, Inc. in May 2006 as well as higher average interest yields on our investments.

### **Noncontrolling Interest in Symphony Evolution, Inc.**

Pursuant to the agreements that we entered into with SEI and certain other parties in June 2005, we consolidate SEI's financial condition and results of operations in accordance with FIN 46R. Accordingly, we have deducted the losses attributable to the noncontrolling interest (SEI's losses) from our net loss in the consolidated statement of operations and we have also reduced the noncontrolling interest holders' ownership interest in SEI in the consolidated balance sheet by SEI's losses. The noncontrolling interest holders' ownership in the consolidated balance sheet was \$13.4 million as of December 31, 2007. Once SEI's losses are in excess of the noncontrolling interest holders' ownership, SEI's losses will no longer be deducted from our net losses. For the years ended December 31, 2007, 2006 and 2005, the losses attributed to the noncontrolling interest holders were \$24.6 million, \$21.7 million and \$10.4 million, respectively.

The increase in 2007 from 2006 in the losses attributed to the noncontrolling interest holders is related to increased development expenses associated with XL784 and XL647, which were partially offset by a decrease in development expenses associated with XL999. The increase in 2006 from 2005 in the losses attributed to the noncontrolling interest holders is related to increased development expenses associated with XL999, XL784 and XL647.

### **Income Taxes**

We have incurred net losses since inception and, consequently, have not recorded any U.S. federal or state income taxes. As of December 31, 2007, we had federal and California net operating loss carryforwards of \$655.0 million and \$357.0 million, respectively. As of December 31, 2007, we had federal and California research and development credit carryforwards of \$46.4 million and \$15.8 million, respectively. If not utilized, the net operating loss and credit carryforwards expire at various dates, which began in 2008.

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 carryforwards that can be utilized in future years to offset future taxable income. Annual limitations may result in the expiration of net operating loss and credit carryforwards before they are used.

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### Liquidity and Capital Resources

#### Sources and Uses of Cash

The following table summarizes our cash flow activities for the years ended December 31, 2007, 2006 and 2005 (dollar amounts are presented in thousands):

	Year Ended December 31,		
	2007	2006	2005
Net loss	\$ (86,381)	\$ (101,492)	\$ (84,404)
Adjustments to reconcile net loss to net cash used in operating activities	(29,126)	13,598	8,121
Changes in operating assets and liabilities	46,768	42,555	29,922
Net cash used in operating activities	(68,739)	(45,339)	(46,361)
Net cash used in investing activities	(3,019)	(21,701)	(40,648)
Net cash provided by financing activities	84,248	109,344	100,933
Effect of foreign exchange rates on cash and cash equivalents	(402)	(263)	(137)
Net increase in cash and cash equivalents	12,088	42,041	13,787
Cash and cash equivalents, at beginning of year	123,369	81,328	67,541
Cash and cash equivalents, at end of year	<u>\$ 135,457</u>	<u>\$ 123,369</u>	<u>\$ 81,328</u>

To date, we have financed our operations primarily through the sale of equity, payments and loans from collaborators, equipment financing facilities and interest income. We have also financed certain of our research and development activities under our agreements with SEI. In August 2005, we received net proceeds, after underwriting fees and offering expenses, of \$49.6 million from the sale of 6.5 million shares of our common stock under a shelf registration statement. In October 2006, we received net proceeds, after underwriting fees and offering expenses, of \$90.5 million from the sale of 11.5 million shares of our common stock under a shelf registration statement. In September 2007, we received net proceeds, after underwriting fees and offering expenses, of \$71.9 million from the sale of 7.0 million shares of our common stock under a shelf registration statement. As of December 31, 2007, we had \$299.5 million in cash and cash equivalents and marketable securities, which included restricted cash and investments of \$7.2 million and investments held by SEI of \$30.9 million. In addition, as of December 31, 2007, approximately \$34.2 million of cash and cash equivalents and marketable securities serve as collateral for bank lines of credit.

#### Operating Activities

Our operating activities used cash of \$68.7 million for the year ended December 31, 2007, compared to \$45.3 million for 2006 and \$46.4 million for 2005. Cash used in operating activities during 2007 related primarily to our loss from operations of \$157.0 million, partially offset by non-cash charges totaling \$31.3 million relating to stock-based compensation and depreciation and amortization. In addition, cash used in operating activities was reduced by \$49.9 million as the result of decreases in accounts receivable and increases in accounts payable, other accrued expenses, other long term liabilities and deferred revenue. Cash used in operating activities during 2006 related primarily to funding net losses, losses attributed to the noncontrolling interest and receivables. These uses of cash were partially offset by changes in deferred revenues, accrued expenses and non-cash charges related to stock-based compensation expense recognized due to our adoption of SFAS 123R and depreciation and amortization. Cash used in operating activities during 2005 related primarily to funding net losses and losses attributed to the noncontrolling interest, partially offset by changes in deferred revenues from collaborators and non-cash charges related to depreciation and amortization. As of December 31, 2007, we had received cash payments from collaborators relating to \$64.1 million in short-term deferred revenue that we expect to recognize as revenue during 2008.

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The increase of \$23.4 million in cash used in our operating activities from 2006 as compared to 2007 was primarily driven by an increase in our loss from operations. This increase in the loss from operations was primarily driven by an increase in research and development expenses. This increase to cash used was partially offset by increases in accrued expenses, due to increased clinical trial activity, and a decrease in receivables. The decrease of \$1.0 million in cash used in our operating activities from 2005 as compared to 2006 was primarily driven by increases in deferred revenues, accrued expenses, increased clinical trial activity and non-cash charges related to stock-based compensation expense recognized due to our adoption of SFAS 123R. These decreases to cash used were partially offset by increases in our net losses, losses attributed to the noncontrolling interest and receivables due to a milestone achieved under a collaboration agreement. While cash used in operating activities is primarily driven by our net loss, operating cash flows differ from our net loss as a result of differences in the timing of cash receipts and earnings recognition, expenses related to the noncontrolling interest and non-cash charges. We expect to use cash for operating activities for at least the next several years as we continue to incur net losses associated with our research and development activities, including manufacturing and development expenses for compounds in preclinical and clinical studies.

### *Investing Activities*

Our investing activities used cash of \$3.0 million for the year ended December 31, 2007, compared to \$21.7 million for 2006 and \$40.6 million for 2005.

Cash used in investing activities for 2007 was primarily driven by net purchases of marketable securities of \$47.5 million and purchases of property and equipment of \$17.4 million. Most of the cash invested in marketable securities and investments was generated by a common stock offering in 2007 and payments received from collaborators. These uses of cash were partially offset by net proceeds of \$35.3 million from the sale of our plant trait business and Artemis. The proceeds provided by maturities of our marketable securities and the sale of investments by SEI were used to fund our operations. We expect to continue to make significant investments in property and equipment to support our expanding operations.

Cash used in investing activities for 2006 was primarily driven by purchases of marketable securities of \$91.7 million, purchases of investments held by SEI of \$42.3 million and purchases of property and equipment of \$11.6 million. Most of the cash invested in marketable securities and investments was generated by a common stock offering in 2006 and a second capital draw by our consolidated entity SEI in 2006. These uses of cash were partially offset by proceeds of \$99.6 million from the maturities of marketable securities and \$21.3 million from the sales of investments held by SEI. The proceeds provided by maturities of our marketable securities and the sale of investments by SEI were used to fund our operations.

Cash used in investing activities for 2005 was primarily driven by the purchases of marketable securities of \$109.4 million, purchases of investments held by SEI of \$40.7 million and purchases of property and equipment of \$14.4 million. Most of the cash invested in marketable securities and investments was generated by a common stock offering in 2005 and the first capital draw by our consolidated entity SEI in 2005. These uses of cash were partially offset by proceeds of \$113.6 million from the maturities of marketable securities and \$6.6 million from the sales of investments held by SEI. The proceeds provided by maturities of our marketable securities and the sale of investments by SEI were used to fund our operations.

### *Financing Activities*

Our financing activities provided cash of \$84.2 million for the year ended December 31, 2007, compared to \$109.3 million for 2006 and \$100.9 million for 2005. Cash provided by our financing activities for 2007 was primarily due to net proceeds of \$71.9 million received through the sale of our common stock and \$12.6 million of proceeds from note payable and bank obligations. These increases were partially offset by \$12.1 million of principal payments on notes payable and bank obligations.

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Cash provided by our financing activities for 2006 was primarily due to net proceeds of \$90.5 million received through the sale of our common stock, a \$40.0 million capital draw by SEI and the related funding by preferred shareholders of SEI and \$14.8 million of proceeds from note payable and bank obligations. These increases were partially offset by \$41.9 million of principal payments on notes payable and bank obligations, which included the repayment of \$30.0 million convertible promissory note to PDL BioPharma.

Cash provided by our financing activities for 2005 was primarily driven by net proceeds of \$37.0 million associated with the purchase and funding of the noncontrolling interest by preferred shareholders of SEI and net proceeds of \$49.6 million received through the sale of our common stock. In addition, we received \$11.1 million in cash from the purchase of 1.0 million shares of our common stock by GlaxoSmithKline, which included a \$2.2 million premium.

We finance property and equipment purchases through equipment financing facilities, such as notes and bank obligations. Proceeds from collaboration loans and common stock issuances are used for general working capital purposes, such as research and development activities, merger and acquisition expenses and other general corporate purposes. During 2008, we have the ability to draw up to an additional \$30.0 million on an equipment line of credit. Over the next several years, we are required to make certain payments on notes, bank obligations and loans from collaborators.

### **Cash Requirements**

We have incurred net losses since inception, including a net loss of \$86.4 million for the year ended December 31, 2007, and we expect to incur substantial losses for at least the next several years as we continue our research and development activities, including manufacturing and development expenses for compounds in preclinical and clinical studies. We anticipate that our current cash and cash equivalents, short-term and long-term marketable securities, investments held by SEI and other funding that we expect to receive from collaborators, which assumes a moderate level of business development activity, 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 will depend on many factors that may require us to use available capital resources significantly sooner than we currently anticipate. These factors include:

- the timing and progress of the clinical development of our product candidate XL647, which is out-licensed to SEI – The phase 2 clinical development program for XL647 is ongoing, and GlaxoSmithKline has declined to exercise its development option for XL647. In order to retain rights to XL647 after the expiration of the purchase option period, we would be required to reacquire XL647, XL784 and XL999 from SEI's investors through the exercise of our exclusive purchase option, which is described elsewhere in this report. We cannot repurchase a single product candidate without also repurchasing the other two product candidates. In December 2007, we discontinued the development program for XL999, and, in January 2008, GlaxoSmithKline declined to exercise its option to further develop and commercialize XL784. We do not intend to invest further in the development of XL784, but will seek a partner with which to take the compound forward, which would also require us to repurchase all three compounds from SEI's investors. The purchase price, which may be paid in cash and/or shares of our common stock, at our sole discretion, would be equal to the sum of (1) the total amount of capital invested in SEI by its investors (\$80.0 million) and (2) an amount equal to 25% per year on such funded capital, compounded from the time of funding. As a result, the purchase price for the compounds licensed to SEI increases over time;
- whether and when GlaxoSmithKline selects at clinical proof-of-concept for further development and commercialization any additional product candidates – Under the amended PDA, any milestone payments relating to product candidates remaining under the PDA must be used to pay down our loan with GlaxoSmithKline as long as the loan is outstanding. The amount of milestone payments that we receive from GlaxoSmithKline will depend on the number of compounds selected, the timing of the selection of the compounds and, for those acceptances made after the end of the original development

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term, whether GlaxoSmithKline extended the development term. As of December 31, 2007, the aggregate principal and interest outstanding under our GlaxoSmithKline loan was \$98.6 million. In December 2007, GlaxoSmithKline exercised its option to further develop and commercialize XL880. As XL880 was the first compound selected by GlaxoSmithKline under the PDA, the entire \$35.0 million selection milestone for XL880 was retained by GlaxoSmithKline to offset a milestone payment that GlaxoSmithKline paid to us in 2005 in connection with the amendment of the PDA and was not used to pay down the loan. An additional \$1.0 million from the first commercialization milestone for any product candidate selected by GlaxoSmithKline will also be offset against the 2005 milestone;

- the level of payments received under existing collaboration agreements, licensing agreements and other arrangements as well as our ability to enter into new collaboration agreements, licensing agreements and other arrangements that provide additional payments;
- our ability to remain in compliance with, or amend or cause to be waived, financial covenants contained in agreements with third parties;
- the progress and scope of our collaborative and independent clinical trials and other research and development projects;
- future clinical trial results;
- our need to expand our product and clinical development efforts;
- our ability to share the costs of our clinical development efforts with third parties;
- the cost and timing of regulatory approvals;
- the cost of clinical and research supplies of our product candidates;
- the effect of competing technological and market developments;
- the filing, maintenance, prosecution, defense and enforcement of patent claims and other intellectual property rights;
- the cost of any acquisitions of or investments in businesses, products and technologies; and
- the cost and timing of establishing or contracting for sales, marketing and distribution capabilities.

In addition, we will have to obtain additional funding in order to stay in compliance with financial covenants contained in our collaboration with GlaxoSmithKline. Our loan and security agreement with GlaxoSmithKline dated October 28, 2002, as amended, contains financial covenants pursuant to which our working capital must not be less than \$25.0 million and our cash and investments must not be less than \$50.0 million. If we were to default on the financial covenants under the loan and security agreement, GlaxoSmithKline may, among other remedies, declare immediately due and payable all outstanding obligations thereunder.

If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. We may seek to raise funds through the sale of equity or debt securities or through external borrowings. In addition, we may enter into strategic partnerships for the development and commercialization of our compounds. We currently have shelf registration statements on file with the SEC that allow us to offer for sale from time to time common stock, preferred stock, debt securities and warrants, either individually or in units. However, we may be unable to raise sufficient additional capital when we need it, on favorable terms or at all. The sale of equity or convertible debt securities in the future may be dilutive to our stockholders, and debt-financing arrangements may require us to pledge certain assets and enter into covenants that would restrict certain business activities or our ability to incur further indebtedness, and may contain other terms that are not favorable to our stockholders or us. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or obtain funds by entering into financing, supply or collaboration agreements on unattractive terms or we may be required to relinquish rights to technology or product candidates or to grant licenses on terms that are unfavorable to us.

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We have contractual obligations in the form of operating leases, notes payable and licensing agreements. The following chart details our contractual obligations (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>4-5 years</u>	<u>After 5 years</u>
Notes payable and bank obligations	\$ 36,514	\$ 15,767	\$ 17,814	\$ 2,933	\$ —
Licensing agreements	1,543	1,291	247	5	—
Convertible loans(1)	98,583	—	65,065	33,518	—
Operating leases	172,016	16,600	34,857	36,712	83,847
<b>Total contractual cash obligations</b>	<b>\$ 308,656</b>	<b>\$ 33,658</b>	<b>\$ 117,983</b>	<b>\$ 73,168</b>	<b>\$ 83,847</b>

(1) Includes interest payable on the convertible loans of \$13.6 million. The debt and interest payable can be repaid in cash or common stock at our election. This obligation is described in further detail in Note 8 of the notes to our consolidated financial statements.

In January 2008, Bristol-Myers Squibb exercised its option to develop and commercialize compound XL139. In addition, we exercised our option under the collaboration agreement to co-develop and co-commercialize XL139 in the United States. Due to our election to co-develop and co-commercialize XL139, we will be required to pay 35% of the worldwide development expenses. See Note 3 of the Notes to the Consolidated Financial Statements for further information concerning this collaboration.

### **Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure certain assets and liabilities. It also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by us in the first quarter of fiscal 2008. We do not believe the effect that the adoption of SFAS 157 will be material to our consolidated results of operations and financial condition.

In June 2007, the FASB also ratified EITF 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities” (“EITF 07-3”). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and will be adopted by us in the first quarter of fiscal 2008. We do not expect the adoption of EITF 07-3 to have a material effect on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and will be adopted by us in the first

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quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations and financial condition.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements (as defined by applicable SEC regulations) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources, except warrants and stock options. Our off-balance sheet arrangements are described in further detail in Notes 9 and 10 of the notes to our consolidated financial statements.

**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. At December 31, 2007 and 2006, we had cash and cash equivalents, marketable securities, investments held by SEI and restricted cash and investments of \$299.5 million and \$263.2 million, respectively. Our marketable securities and investments are subject to interest rate risk, and our interest income may fluctuate due to changes in U.S. interest rates. By policy, we limit our investments to money market instruments, debt securities of U.S. government agencies and debt obligations of U.S. corporations. These securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of estimated income taxes. 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 manage credit risk by limiting our purchases to high-quality issuers. Through our money managers, we maintain risk management control systems to monitor interest rate risk. The risk management control systems use analytical techniques, including sensitivity analysis. At December 31, 2007 and 2006, we had debt outstanding of \$121.5 million and \$121.7 million, respectively. Our payment commitments associated with these debt instruments are fixed during the corresponding terms and are comprised of interest payments, principal payments or a combination thereof. The fair value of our debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest, and declining in periods of increasing rates of interest.

We have estimated the effects on our interest rate sensitive assets and liabilities based on a one-percentage point hypothetical adverse change in interest rates as of December 31, 2007 and 2006. As of December 31, 2007 and 2006, 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 \$1.4 million and \$2.4 million, respectively. We have assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risks. Significant variations in market interest rates could produce changes in the timing of repayments due to available prepayment options. The fair value of such instruments could be affected and, therefore, actual results might differ from our estimate.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

EXELIXIS, INC.

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**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 December 28, 2007 and December 29, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended December 28, 2007. These financial statements are the responsibility of Exelixis, Inc.'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 December 28, 2007 and December 29, 2006, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 28, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2006 Exelixis, Inc. changed its method of accounting of stock-based compensation in accordance with guidance provided in Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Exelixis, Inc.'s internal control over financial reporting as of December 28, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California  
February 13, 2008

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

	December 31,	
	2007	2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 135,457	\$ 123,369
Marketable securities	105,153	55,516
Investments held by Symphony Evolution, Inc.	30,935	55,087
Other receivables	6,087	22,197
Prepaid expenses and other current assets	6,151	6,082
Total current assets	283,783	262,251
Restricted cash and investments	7,238	9,635
Long-term marketable securities	20,747	19,573
Property and equipment, net	34,664	32,294
Goodwill	63,684	67,364
Other intangibles, net	—	2,605
Other assets	2,004	1,695
Total assets	<u>\$ 412,120</u>	<u>\$ 395,417</u>
<b>LIABILITIES, NONCONTROLLING INTEREST AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,288	\$ 3,699
Accrued clinical trial liabilities	21,651	12,209
Other accrued liabilities	7,594	7,018
Accrued compensation and benefits	14,480	11,456
Current portion of notes payable and bank obligations	15,767	13,579
Deferred revenue	64,105	63,476
Total current liabilities	132,885	111,437
Notes payable and bank obligations	20,747	23,074
Convertible loans	85,000	85,000
Other long-term liabilities	24,924	20,491
Deferred revenue	63,053	64,804
Total liabilities	<u>326,609</u>	<u>304,806</u>
Noncontrolling interest in Symphony Evolution, Inc.	13,430	38,071
Commitments (Note 12)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized and no shares issued	—	—
Common stock, \$0.001 par value; 200,000,000 shares authorized; issued and outstanding: 104,744,732 and 95,990,148 shares at December 31, 2007 and 2006, respectively	105	96
Additional paid-in-capital	863,127	756,568
Accumulated other comprehensive income	499	1,145
Accumulated deficit	(791,650)	(705,269)
Total stockholders' equity	72,081	52,540
Total liabilities, noncontrolling interest and stockholders' equity	<u>\$ 412,120</u>	<u>\$ 395,417</u>

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,		
	2007	2006	2005
Revenues:			
Contract	\$ 69,023	\$ 62,414	\$ 55,715
License	44,447	36,256	20,246
Total revenues	<u>113,470</u>	<u>98,670</u>	<u>75,961</u>
Operating expenses:			
Research and development	225,375	185,481	141,135
General and administrative	44,940	39,123	27,731
Amortization of intangible assets	202	820	1,086
Total operating expenses	<u>270,517</u>	<u>225,424</u>	<u>169,952</u>
Loss from operations	(157,047)	(126,754)	(93,991)
Other income (expense):			
Interest income and other, net	13,055	8,546	5,371
Interest expense	(3,966)	(4,981)	(6,190)
Gain on sale of businesses	36,936	—	—
Total other income (expense)	<u>46,025</u>	<u>3,565</u>	<u>(819)</u>
Loss before noncontrolling interest in Symphony Evolution, Inc.	(111,022)	(123,189)	(94,810)
Loss attributed to noncontrolling interest in Symphony Evolution, Inc.	24,641	21,697	10,406
Net loss	<u>\$ (86,381)</u>	<u>\$ (101,492)</u>	<u>\$ (84,404)</u>
Net loss per share, basic and diluted	<u>\$ (0.87)</u>	<u>\$ (1.17)</u>	<u>\$ (1.07)</u>
Shares used in computing basic and diluted loss per share amounts	<u>99,147</u>	<u>86,602</u>	<u>78,810</u>

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

**EXELIXIS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2004	74,995,484	\$ 75	\$ 569,345	\$ 624	\$ (519,373)	\$ 50,671
Net loss	—	—	—	—	(84,404)	(84,404)
Decrease in unrealized loss on available-for-sale securities	—	—	—	63	—	63
Change in accumulated translation adjustment	—	—	—	286	—	286
Comprehensive loss	—	—	—	—	—	(84,055)
Issuance of common stock under stock plans	909,238	—	5,505	—	—	5,505
Issuance of common stock, net of offering costs	6,500,000	8	49,608	—	—	49,616
Issuance of common stock under the GlaxoSmithKline collaboration	1,000,000	1	8,853	—	—	8,854
Issuance of warrants to Symphony Evolution Holdings, Inc.	—	—	2,842	—	—	2,842
Stock-based compensation expense	—	—	110	—	—	110
Balance at December 31, 2005	83,404,722	84	636,263	973	(603,777)	33,543
Net loss	—	—	—	—	(101,492)	(101,492)
Decrease in unrealized loss on available-for-sale securities	—	—	—	405	—	405
Change in accumulated translation adjustment, net	—	—	—	(233)	—	(233)
Comprehensive loss	—	—	—	—	—	(101,320)
Issuance of common stock under stock plans	1,013,998	—	8,145	—	—	8,145
Issuance of common stock, net of offering costs	11,500,000	12	90,482	—	—	90,494
Issuance of warrants to Symphony Evolution Holdings, Inc.	—	—	3,984	—	—	3,984
Exercise of Warrant	71,428	—	81	—	—	81
Stock-based compensation expense	—	—	17,613	—	—	17,613
Balance at December 31, 2006	95,990,148	96	756,568	1,145	(705,269)	52,540
Net loss	—	—	—	—	(86,381)	(86,381)
Change in unrealized gains on available-for-sale securities	—	—	—	542	—	542
Change in cumulative translation adjustment	—	—	—	(1,188)	—	(1,188)
Comprehensive loss	—	—	—	—	—	(87,027)
Issuance of common stock under stock plans	1,754,584	2	14,508	—	—	14,510
Issuance of common stock, net of offering costs	7,000,000	7	71,883	—	—	71,890
Stock-based compensation expense	—	—	20,168	—	—	20,168
Balance at December 31, 2007	<u>104,744,732</u>	<u>\$ 105</u>	<u>\$ 863,127</u>	<u>\$ 499</u>	<u>\$ (791,650)</u>	<u>\$ 72,081</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,		
	2007	2006	2005
<b>Cash flows from operating activities:</b>			
Net loss	\$ (86,381)	\$(101,492)	\$ (84,404)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation and amortization	11,130	16,090	16,669
Loss attributed to noncontrolling interest	(24,641)	(21,697)	(10,406)
Stock-based compensation expense	20,168	17,613	110
Amortization of intangibles	202	820	1,086
Gain on sale of plant trait business and Artemis Pharmaceuticals	(36,936)		
Loss on the sale of equipment	165	18	60
Other	786	754	602
<b>Changes in assets and liabilities:</b>			
Other receivables	17,698	(15,090)	(2,801)
Prepaid expenses and other current assets	(2,965)	(645)	(1,103)
Other assets	(175)	644	(1,022)
Accounts payable and other accrued expenses	23,658	12,164	355
Other long-term liabilities	4,433	6,015	6,479
Deferred revenue	4,119	39,467	28,014
Net cash used in operating activities	<u>(68,739)</u>	<u>(45,339)</u>	<u>(46,361)</u>
<b>Cash flows from investing activities:</b>			
Purchases of investments held by Symphony Evolution, Inc.	(2,280)	(42,338)	(40,681)
Proceeds on sale of investments held by Symphony Evolution, Inc.	26,433	21,290	6,642
Purchases of property and equipment	(17,399)	(11,610)	(14,357)
Proceeds from sale of equipment	—	10	186
Proceeds on sale of plant trait business	18,000	—	—
Proceeds on sale of Artemis Pharmaceuticals, net	17,309	—	—
Change in restricted cash and investments	2,396	3,048	3,358
Proceeds from maturities of marketable securities	156,339	99,641	113,598
Purchases of marketable securities	(203,817)	(91,742)	(109,394)
Net cash used in investing activities	<u>(3,019)</u>	<u>(21,701)</u>	<u>(40,648)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from the issuance of common stock, net of offering costs	71,890	90,482	58,468
Proceeds from exercise of stock options and warrants	8,301	3,275	1,773
Proceeds from employee stock purchase plan	3,567	2,783	2,199
Payments on capital lease obligations	—	(98)	(1,931)
Proceeds from notes payable and bank obligations	12,632	14,791	12,725
Principal payments on notes payable and bank obligations	(12,142)	(41,889)	(9,301)
Proceeds from purchase of noncontrolling interest by preferred shareholders in Symphony Evolution, Inc., net of fees	—	40,000	37,000
Net cash provided by financing activities	<u>84,248</u>	<u>109,344</u>	<u>100,933</u>
Effect of foreign exchange rates on cash and cash equivalents	(402)	(263)	(137)
Net increase in cash and cash equivalents	12,088	42,041	13,787
Cash and cash equivalents, at beginning of year	123,369	81,328	67,541
Cash and cash equivalents, at end of year	<u>\$ 135,457</u>	<u>\$ 123,369</u>	<u>\$ 81,328</u>
<b>Supplemental cash flow disclosure:</b>			
Cash paid for interest	\$ 597	\$ 2,634	\$ 2,747
Warrants issued in conjunction with the Symphony Evolution, Inc. financing	—	3,984	2,842

The accompany 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 committed to developing innovative therapies for cancer and other serious diseases. Through our drug discovery and development activities, we are building a portfolio of novel compounds that we believe have the potential to be high-quality, differentiated pharmaceutical products. Our most advanced pharmaceutical programs focus on drug discovery and development of small molecules in cancer. We believe that our proprietary technologies and drug discovery engine are also valuable to other industries whose products can be enhanced by an understanding of DNA or proteins, including the agrochemical and agricultural industries.

**Basis of Consolidation**

The consolidated financial statements include the accounts of Exelixis and our wholly owned subsidiaries as well as one variable interest entity, Symphony Evolution, Inc., for which we are the primary beneficiary as defined by Financial Accounting Standards Board (“FASB”) Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities* (“FIN 46R”). All significant intercompany balances and transactions have been eliminated. We have determined that Artemis Pharmaceuticals GmbH, our German subsidiary, is an operating segment. Selected segment information is provided in Note 2 of the Notes to the Consolidated Financial Statements.

In 2006, Exelixis adopted a 52- or 53-week fiscal year that ends on the Friday closest to December 31<sup>st</sup>. Fiscal year 2006, a 52-week year, ended on December 29, 2006, fiscal year 2007, a 52-week year, ended on December 28, 2007 and fiscal year 2008, a 53-week year, will end on January 2, 2009. For convenience, references in this report as of and for the fiscal years ended December 29, 2006 and December 28, 2007 are indicated on a calendar year basis, ending December 31, 2006 and 2007, respectively.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

**Cash and Investments**

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

Investments held by Symphony Evolution, Inc. consist of investments in money market funds. As of December 31, 2007 and 2006, we had investments held by Symphony Evolution, Inc. of \$30.9 million and \$55.1 million, respectively.

All marketable securities are classified as available-for-sale and are carried at fair value. We view our available-for-sale portfolio as available for use in current operations. Accordingly, we have classified certain

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

investments as short-term marketable securities, even though the stated maturity date may be one year or more beyond the current balance sheet date. Available-for-sale securities are stated at fair value based upon quoted market prices of the securities. We have classified certain investments as cash and cash equivalents or marketable securities that collateralize loan balances, however they are not restricted to withdrawal. Unrealized gains and losses on available-for-sale investments are reported as a separate component of stockholders' equity. Realized gains and losses, net, on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

The following summarizes available-for-sale securities included in cash and cash equivalents, short-term and long-term marketable securities and restricted cash and investments as of December 31, 2007 and 2006 (in thousands):

December 31, 2007

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 79,360	\$ —	\$ —	\$ 79,360
Commercial paper	68,816	21	(12)	68,825
Corporate bonds	68,614	471	(12)	69,073
U.S. Government agency securities	51,977	32	(1)	52,008
Total	<u>\$268,767</u>	<u>\$ 524</u>	<u>\$ (25)</u>	<u>\$269,266</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As reported:				
Cash equivalents	\$ 136,124	\$ 16	\$ (12)	\$ 136,128
Marketable securities	104,658	508	(13)	105,153
Long-term marketable securities	20,747	—	—	20,747
Restricted cash and investments	7,238	—	—	7,238
Total	<u>\$268,767</u>	<u>\$ 524</u>	<u>\$ (25)</u>	<u>\$269,266</u>

December 31, 2006

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 79,745	\$ —	\$ —	\$ 79,745
Commercial paper	102,969	24	(25)	102,968
Corporate bonds	6,115	—	(2)	6,113
U.S. Government agency securities	21,776	—	(41)	21,735
Total	<u>\$210,605</u>	<u>\$ 24</u>	<u>\$ (68)</u>	<u>\$210,561</u>

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
As reported:				
Cash equivalents	\$ 125,826	\$ 24	\$ (13)	\$ 125,837
Marketable securities	55,571	—	(55)	55,516
Long-term marketable securities	19,573	—	—	19,573
Restricted cash and investments	9,635	—	—	9,635
Total	<u>\$ 210,605</u>	<u>\$ 24</u>	<u>\$ (68)</u>	<u>\$ 210,561</u>

The following is a summary of the amortized cost and estimated fair value of marketable securities at December 31, 2007 by contractual maturity (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Mature in less than one year	\$ 213,656	\$ 213,692
Mature in one to three years	55,111	55,574
Total	<u>\$ 268,767</u>	<u>\$ 269,266</u>

The following is a summary of the estimated fair value and aggregate unrealized losses of marketable securities at December 31, 2007 and 2006 by continuous unrealized loss position (in thousands):

December 31, 2007

	<u>Less than 12 months</u>		<u>12 months or longer</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Commercial Paper	\$39,919	\$ (12)	\$ —	\$ —
Corporate bonds	12,195	(5)	4,003	(7)
U.S. Government agency securities	—	—	1,499	(1)
Total	<u>\$52,114</u>	<u>\$ (17)</u>	<u>\$5,502</u>	<u>\$ (8)</u>

December 31, 2006

	<u>Less than 12 months</u>		<u>12 months or longer</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Commercial Paper	\$47,027	\$ (25)	\$ —	\$ —
Corporate bonds	1,571	(2)	4,043	—
U.S. Government agency securities	13,524	(41)	6,274	—
Total	<u>\$62,122</u>	<u>\$ (68)</u>	<u>\$10,317</u>	<u>\$ —</u>

As of December 31, 2007, unrealized losses were primarily due to changes in interest rates. Based on the scheduled maturities of our marketable securities we concluded that some of the unrealized losses in our investment securities are other-than-temporary. Accordingly, we recorded a non-cash impairment charge of \$30,000 and \$0.1 million in interest income and other, net, during the years ended December 31, 2007 and 2006, respectively, in order to write down the carrying value of these securities to estimated fair value.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**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

Repairs and maintenance costs are charged to expense as incurred.

**Intangible Assets**

Goodwill amounts have been recorded as the excess purchase price over tangible assets, liabilities and intangible assets acquired based on their estimated fair value, by applying the purchase method. Under GAAP, 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. When evaluating goodwill for impairment we must determine the reporting units that exist within Exelixis. We determined that our reporting units are consistent with our operating segments. We have allocated goodwill to our reporting units based on the relative fair value of the reporting units. We also evaluate other intangible assets for impairment when impairment indicators are identified.

Other intangible assets have been amortized using the straight-line method over the following estimated useful lives:

Developed technology	5 years
Patents/core technology	15 years
Assembled workforce	2 years

**Long-lived Assets**

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. Long-lived assets include property and equipment and identified intangible assets.

**Fair Value of Financial Instruments**

The carrying amounts of certain of our financial instruments, including cash and cash equivalents and marketable securities, approximate fair value due to their short maturities. We have estimated the fair value of our long-term debt instruments using the net present value of the payments discounted at an interest rate that is consistent with our current borrowing rate for similar long-term debt. We have outstanding balances associated with our \$85.0 million convertible loan with GlaxoSmithKline and our equipment lines of credit of \$10.9 million and \$21.9 million as of December 31, 2007. These items are described in further detail in Note 8 of the Notes to the Consolidated Financial Statements. We estimated the fair value of our convertible loan with GlaxoSmithKline to be \$73.4 million and \$71.4 million as of December 31, 2007 and 2006, respectively. We

**EXELIXIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

estimated the fair value of our first equipment line of credit to be \$10.4 million and \$14.4 million as of December 31, 2007 and 2006, respectively, and our second line of credit, respectively, to be \$20.2 million and \$11.2 million as of December 31, 2007 and 2006.

**Concentration of Credit Risk**

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and investments in marketable securities. Cash equivalents and marketable securities consist of money market funds, taxable commercial paper, corporate bonds with high credit quality and U.S. government agency obligations. Investments held by Symphony Evolution, Inc. consist of investments in money market funds. All cash and cash equivalents, marketable securities and investments held by Symphony Evolution, Inc. are maintained with financial institutions that management believes are creditworthy. Other receivables are typically 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.

The following table sets forth revenues recognized under our collaboration agreements that exceed 10% of total revenues during the years ending December 31, 2007, 2006 and 2005:

<u>Collaborator</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bristol-Myers Squibb	35%	22%	7%
GlaxoSmithKline	24%	28%	37%
Genentech	16%	6%	4%
Daiichi-Sankyo	10%	15%	1%
Wyeth Pharmaceuticals	2%	14%	0%
Genoptera	0%	0%	32%

**Revenue Recognition**

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.

We enter into corporate collaborations under which we may obtain up-front license fees, research funding, and contingent milestone payments and royalties. 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. Deliverables that do not meet these criteria are not evaluated separately for the purpose of revenue recognition. For a combined unit of accounting, non-refundable up-front fees and milestones are recognized in a manner consistent with the final deliverable, which is generally ratably over the research period.

Milestone payments are non-refundable and recognized as revenues over the period of the research arrangement. This typically results in a portion of the milestone being recognized at the date the milestone is achieved, which portion is equal to the applicable percentage of the research term that has elapsed at the date the milestone is achieved, and the balance being recognized over the remaining research term of the agreement. In

**EXELIXIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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 revenue when the milestone is achieved.

Revenues from chemistry collaborations were generally recognized upon the delivery of accepted compounds.

**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 performed by 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 costs for clinical trial activities performed by CROs based upon the estimated amount of work completed on each study. 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 study. 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 will 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. For example, during the quarter ended December 31, 2007, we recorded a reduction of \$2.6 million to our accrued clinical trial liabilities and research and development expenses related to our XL784 clinical trial.

**Net Loss Per Share**

Basic and diluted net loss per share are computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net loss per share excludes potential common stock because their effect is antidilutive. Potential common stock consists of incremental common shares issuable upon the exercise of stock options and warrants and shares issuable upon conversion of our convertible loans.

The following table sets forth potential shares of common stock that are not included in the computation of diluted net loss per share because to do so would be antidilutive for the years ended December 31:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Options to purchase common stock	20,718,661	17,210,626	13,157,431
Conversion of loans	11,315,160	10,769,781	13,920,556
Warrants	1,500,000	1,500,000	821,148
	<u>33,533,821</u>	<u>29,480,407</u>	<u>27,899,135</u>

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In addition, if we decide to exercise our option to repurchase our product candidates XL784, XL647 and XL999 from Symphony Evolution, we may issue a substantial number of shares in satisfaction of the purchase price. The Symphony Evolution transaction is described in further detail in Note 4 of the Notes to the Consolidated Financial Statements.

**Foreign Currency Translation**

Exelixis' subsidiary located in Germany operated using the local currency as the functional currency. Accordingly, all assets and liabilities of this subsidiary were translated using exchange rates in effect at the end of the period, and revenues and expenses were translated using average exchange rates for the period. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income. In November 2007, we sold 80.1% of our subsidiary located in Germany and as a result we removed from accumulated other comprehensive income the cumulative translation adjustment of \$1.0 million and reported this as part of the gain on the sale of the subsidiary in 2007.

**Stock-Based Compensation**

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123R") effective January 1, 2006, which requires the recognition of stock-based compensation at fair value in our consolidated statements of operations. We adopted SFAS 123R under the modified prospective method and therefore we have not restated results for prior periods. Under the modified prospective method, we recorded compensation expense for all awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, ("SFAS 123"). Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated using the Black-Scholes option pricing model.

We have limited historical information available to support the underlying estimates of certain assumptions required to value stock options. 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. However, empirical data shows 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. We estimate the term using historical data and peer data. We recognize compensation expense on a straight-line basis over the requisite service period. We have elected to use the simplified method to calculate the beginning pool of excess tax benefits as described in FASB FSP 123(R)-3.

Prior to the adoption of SFAS 123R, we recognized stock-based compensation expense in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, no compensation expense is recognized in our financial statements for the stock options granted to employees, which had an exercise price equal to the fair value of the underlying common stock on the date of grant. We have employee and director stock option plans that are more fully described in Note 10 of the Notes to the Consolidated Financial Statements.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**Comprehensive Loss**

Comprehensive loss represents net loss plus the results of certain stockholders' equity changes, which are comprised of unrealized gains and losses on available-for-sale securities and cumulative translation adjustments, not reflected in the consolidated statement of operations.

Comprehensive loss is as follows (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Net loss	\$(86,381)	\$(101,492)	\$(84,404)
Increase in net unrealized gains on available-for-sale securities	514	331	63
Reclassification for unrealized losses on marketable securities recognized in earnings	28	74	—
(Decrease) increase in cumulative translation adjustment	(162)	(233)	286
Reclassification adjustment for the cumulative translation adjustment upon the sale of Artemis Pharmaceuticals	(1,026)	—	—
Comprehensive loss	<u>\$(87,027)</u>	<u>\$(101,320)</u>	<u>\$(84,055)</u>

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

	December 31,		
	2007	2006	2005
Unrealized gains (losses) on available-for-sale securities	\$499	\$ (44)	\$ (449)
Cumulative translation adjustment	—	1,189	1,422
Accumulated other comprehensive income	<u>\$499</u>	<u>\$1,145</u>	<u>\$ 973</u>

**Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure certain assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by us in the first quarter of fiscal 2008. We do not believe the effect that the adoption of SFAS 157 will be material to our consolidated results of operations and financial condition.

In June 2007, the FASB also ratified EITF 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and will be adopted by us in the first quarter of fiscal 2008. We do not expect the adoption of EITF 07-3 to have a material effect on our consolidated results of operations and financial condition.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations and financial condition.

**NOTE 2. DISPOSITIONS**

**Sale of Plant Trait Business**

On September 4, 2007 (the “Closing Date”), we entered into an asset purchase and license agreement (the “APA”) with the Dow Chemical Company (“Dow”). Under the terms of the APA, we sold to Dow a major portion of our assets used for crop trait discovery, including a facility, and granted to Dow licenses to certain other related assets and intellectual property. As consideration for these assets and licenses, Dow paid us \$18.0 million and is obligated to pay an additional \$4.5 million upon the first anniversary of the Closing Date. Under the APA, we have agreed to indemnify Dow and its affiliates up to a specified amount if they incur damages due to any infringement or alleged infringement of certain patents.

Concurrently with the execution of the APA, we also entered into a contract research agreement (the “CRA”) with Dow. Dow has agreed to pay up to a maximum of \$24.7 million in research and development funding over the term of the CRA. The research funding will cover employee costs, facilities expenses and capital expenditures. After the Closing Date, the research and development funding to be received over the term of the CRA will be recognized as a reduction to expenses incurred by Exelixis in connection with its performance under the CRA. In order for us to perform our obligations under the CRA, we will lease at no cost the facility that Dow acquired under the APA. We are also entitled to receive additional payments of up to a maximum of \$13.5 million from Dow if we achieve the development of up to three designated assets during the term of the CRA. If development of any of the three designated assets is completed, the related payment will be treated as additional proceeds from the sale of our plant trait business.

The term of the CRA is five years, unless earlier terminated. Dow may terminate the CRA if we fail to complete the development of any of the three designated assets within our respective specified research periods or if we fail to cure a material breach within specified time periods. Following our development and transfer to Dow of the second designated asset, either party may terminate the CRA upon expiration of a specified notice period. In the event that the CRA is terminated prior to the end of the term, we will receive less than the maximum amount of research and development funding described above.

The transaction was accounted for as a sale of our plant trait business. We recognized a gain of \$18.8 million, net of \$0.2 million in transaction costs. The gain primarily consists of a purchase price of \$22.5 million, less a net book value of \$0.3 million of property and equipment, \$2.1 million of intangible assets (acquired patents) and the derecognition of \$1.4 million of goodwill. We allocated goodwill to the disposed business based on the relative fair value of our plant trait business to Exelixis (excluding the value of the Artemis Pharmaceuticals reporting unit) on the Closing Date.

**EXELIXIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****Artemis Pharmaceuticals**

On November 20, 2007 (the “Closing Date”), we entered into a share sale and transfer agreement with Taconic Farms, Inc. (“Taconic”), pursuant to which Taconic acquired from Exelixis, for \$19.8 million in cash, 80.1% of the outstanding share capital in our wholly-owned subsidiary, Artemis Pharmaceuticals GmbH (“Artemis”), located in Cologne, Germany. Artemis’ activities are directed toward providing transgenic mouse generation services, tools and related licenses to the industrial and academic community.

We also entered into a Shareholders’ Agreement and amended articles of association that govern the relationship between Exelixis and Taconic as shareholders of Artemis, particularly with respect to matters of corporate governance and the transfer of their respective ownership interests. The Shareholders’ Agreement provides that we may require Taconic to purchase our remaining 19.9% interest in Artemis (the “Minority Interest”) between 2010 and 2015 or in the event of a change in control of Taconic, and that Taconic may require us to sell our Minority Interest to Taconic between 2013 and 2015 or in the event of a change in control of Exelixis, in each case subject to certain conditions set forth in the shareholders’ agreement. The amended articles of association provide for the establishment of a shareholders’ committee, in which we participate based on our 19.9% ownership, to assist in the management of Artemis.

The sale of 80.1% of Artemis was accounted for as a sale of a business. We recognized a gain of \$18.1 million, net of \$1.6 million in transaction costs. The gain primarily consists of cash received of \$19.8 million, plus \$2.5 million relating to the elimination of the cumulative foreign currency translation adjustment and the elimination of net liabilities, less \$0.3 million of intangible assets (acquired patents) and derecognition of \$2.3 million of goodwill. As we believe we have significant influence over the operations of Artemis through our rights under the Shareholders’ Agreement and the amended articles of association, we will account for our remaining 19.9% equity interest in Artemis under the equity method of accounting. We will subsequently adjust our investment balance to recognize our share of future Artemis earnings or losses after the Closing Date. As of December 31, 2007, the carrying value of our investment in Artemis was approximately \$30,000.

Artemis’ revenues and net income (loss) after the effect of all intercompany eliminations are as follows (in thousands):

	For the Year Ended December 31		
	2007 (1)	2006	2005
Revenues	\$ 11,234	\$ 7,920	\$ 5,773
Net income (loss)	\$ 1,210	\$ (1,036)	\$ (619)

(1) The revenues and net income for the year ended December 31, 2007 only include revenues through November 20, 2007, the Closing Date.

**NOTE 3. RESEARCH AND COLLABORATION AGREEMENTS****Bristol-Myers Squibb**

## 2001 Cancer Collaboration

In July 2001, we entered into a cancer collaboration agreement with Bristol-Myers Squibb. Under the terms of the collaboration, Bristol-Myers Squibb paid Exelixis a \$5.0 million upfront license fee and agreed to provide Exelixis with \$3.0 million per year in research funding for a minimum of three years. In December 2003, the

**EXELIXIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

cancer collaboration was extended until January 2007, at which time Bristol-Myers Squibb elected to continue the collaboration until July 2009. The goal of the extension is to increase the total number and degree of validation of cancer targets that we will deliver to Bristol-Myers Squibb. Each company will maintain the option to obtain exclusive worldwide rights to equal numbers of validated targets arising from the collaboration. Under the terms of the extended collaboration, Bristol-Myers Squibb provided us with an upfront payment and will provide increased annual research funding and milestones on certain cancer targets arising from the collaboration that progress through specified stages of validation. We will also be entitled to receive milestones on compounds in the event of successful clinical and regulatory events and royalties on commercialized products.

**LXR Collaboration**

In December 2005, Exelixis entered into a collaboration agreement with Bristol-Myers Squibb, for the discovery, development and commercialization of novel therapies targeted against Liver X Receptor (“LXR”), a nuclear hormone receptor implicated in a variety of cardiovascular and metabolic disorders. This agreement became effective in January 2006, at which time Exelixis granted Bristol-Myers Squibb an exclusive, worldwide license with respect to certain intellectual property primarily relating to compounds that modulate LXR. During the research term, Exelixis and Bristol-Myers Squibb expect to jointly identify drug candidates that are ready for IND-enabling studies. After the selection of a drug candidate for further clinical development by Bristol-Myers Squibb, Bristol-Myers Squibb will be solely responsible for further preclinical development as well as clinical development, regulatory, manufacturing and sales/marketing activities for the selected drug candidate and we do not have rights to reacquire such drug candidates.

Under the LXR collaboration agreement, Bristol-Myers Squibb paid Exelixis a nonrefundable upfront payment in the amount of \$17.5 million and is obligated to provide research and development funding of \$10.0 million per year for an initial research period of two years. Bristol-Myers Squibb has the option to extend the research period for an additional one-year term. The upfront payment and the research and development funding will be recognized as revenue over the research period. Under the agreement, Bristol-Myers Squibb is required to pay us development and regulatory milestones of up to \$140.0 million per product for up to two products from the collaboration. In addition, we are also entitled to receive sales milestones and royalties on any sales of products commercialized under the collaboration.

In September 2007, Bristol-Myers Squibb exercised its existing option to extend the LXR collaboration research period for an additional one-year term, through January 2009. Under the terms of the extension, Bristol-Myers Squibb is obligated to provide Exelixis research and development funding of \$7.5 million during the extension period. In addition, the LXR collaboration agreement was amended to grant Bristol-Myers Squibb an option to extend the research period for an additional one-year term, which would be through January 2010. In December 2007, we received \$5.0 million for achieving a development milestone.

**2007 Cancer Collaboration**

In December 2006, Exelixis entered into a worldwide collaboration with Bristol-Myers Squibb Company, which became effective in January 2007, to collaborate in the discovery, development and commercialization of novel targeted therapies for the treatment of cancer. Exelixis is responsible for discovery and preclinical development of small molecule drug candidates directed against mutually selected targets. In January 2007, Bristol-Myers Squibb made an upfront payment of \$60.0 million to Exelixis for which we granted Bristol-Myers Squibb the right to select up to three IND candidates from six future Exelixis compounds. We are recognizing the upfront payment as revenue over the estimated four-year research term.

**EXELIXIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

For each IND candidate selected Exelixis is entitled to receive a \$20.0 million selection milestone from Bristol-Myers Squibb. Once selected, Bristol-Myers Squibb will lead the further development and commercialization of the selected IND candidates. In addition, we have the right to opt in to co-promote the selected IND candidates, in which case we will equally share all development costs and profits in the United States. If we opt-in, we will be responsible for 35% of all development costs related to clinical trials intended to support regulatory approval in both the United States and the rest of the world, with the remaining 65% to be paid by Bristol-Myers Squibb. This percentage ratio was intended to approximate a 50/50 split of development and commercialization costs in the United States. If we do not opt in to co-promote the selected IND candidates, we could be entitled to receive milestones and royalties in lieu of profits from sales in the United States. Outside of the United States, Bristol-Myers Squibb will have primary responsibility for development activities and we will be entitled to receive royalties on product sales. After exercising its co-development option, Bristol-Myers Squibb may, upon notice to us, terminate the agreement as to any product containing or comprising the selected candidate. In the event of such termination election, Bristol-Myers Squibb's license relating to such product would terminate and revert to Exelixis, and we would receive, subject to certain terms and conditions, licenses from Bristol-Myers Squibb to research, develop and commercialize certain collaboration compounds that were discovered.

In January 2008, Bristol-Myers Squibb exercised its option to develop and commercialize compound XL139, which entitles us to a selection milestone payment of \$20.0 million. In addition, we exercised our option under the collaboration agreement to co-develop and co-commercialize XL139 in the United States and share expenses and profits. We will be entitled to receive double-digit royalties on product sales outside of the United States.

**Genentech**

2005 Collaboration

In May 2005, Exelixis and Genentech, Inc. ("Genentech") established a collaboration to discover and develop therapeutics for the treatment of cancer, inflammatory diseases, and tissue growth and repair. Under the terms of the agreement, we granted to Genentech a license to certain intellectual property. Genentech paid us a nonrefundable upfront license payment and is obligated to provide research and development funding over the three-year research term, totaling \$16.0 million. The upfront license payment and the research and development funding are being recognized as revenue over the research term.

Under the agreement, Genentech will have primary responsibility in the field of cancer for research and development activities as well as rights for commercialization of any products to which we have no contractual reacquisition rights. In the fields of inflammatory disease and in the field of tissue growth and repair, we will initially have primary responsibility for research activities and after the expiration of the research term, we will have the option to elect to share a portion of the costs and profits associated with the development, manufacturing and commercialization of products in one of these fields. The research term under the agreement is three years and may be extended upon mutual consent for one-year terms. For all products under the agreement that are not elected as cost or profit sharing products, we may receive milestone and royalty payments.

MEK Collaboration

In December 2006, Exelixis entered into a worldwide co-development agreement with Genentech for the development and commercialization of XL518, a small-molecule inhibitor of MEK. Genentech paid upfront and milestone payments of \$25.0 million in December 2006 and \$15.0 million in January 2007 upon signing of the

**EXELIXIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

agreement and with the submission of an IND for XL518. We expect to recognize the upfront and milestone payments as revenue over the estimated research term of three years.

Under the terms of the agreement, we are responsible for developing XL518 through the end of a phase 1 clinical study at which point Genentech has the option to co-develop XL518. If Genentech exercises its option to co-develop XL518 we will be entitled to receive an opt-in payment and we will be required to grant to Genentech an exclusive worldwide revenue-bearing license to XL518. Genentech will be responsible for all further development and development costs of XL518 and we will share equally in the U.S. commercialization costs. On an annual basis we are entitled to an initial equal share of U.S. profits and losses, which will decrease as sales increase, and we are also entitled to royalties on non-U.S. sales. Genentech has the right to terminate the agreement without cause at any time. If Genentech terminates the co-development agreement without cause, all licenses that were granted to Genentech under the agreement terminate and revert to us. Additionally, we would receive, subject to certain conditions, licenses from Genentech to research, develop and commercialize reverted product candidates.

**Daiichi Sankyo Company Limited**

In March 2006, Exelixis and Daiichi Sankyo Company Limited entered into a collaboration agreement for the discovery, development and commercialization of novel therapies targeted against 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. After completion of the research term, Daiichi-Sankyo will be 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.

Daiichi-Sankyo paid us a nonrefundable upfront payment in the amount of \$20.0 million and is obligated to provide research and development funding of \$3.8 million over a 15-month research term through June 2007. The upfront payment and research and development funding will be recognized as revenue over the initial 15-month research term, which commenced on April 1, 2006. During June 2007, our collaboration agreement with Daiichi-Sankyo was amended to extend the research term by six months over which Daiichi-Sankyo is 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 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 will cease, its license relating to compounds that modulate MR will terminate and revert to us, and we will receive, subject to certain terms and conditions, licenses from Daiichi-Sankyo to research, develop and commercialize compounds that were discovered under the agreement.

**Wyeth Pharmaceuticals**

In December 2005, Exelixis and Wyeth Pharmaceuticals, a division of Wyeth, entered into a license agreement related to compounds targeting Farnesoid X Receptor (“FXR”), a nuclear hormone receptor implicated in a variety of metabolic and liver disorders. Under the terms of the agreement, we have granted to Wyeth Pharmaceuticals an exclusive, worldwide license with respect to certain intellectual property primarily relating to compounds that modulate FXR. Wyeth Pharmaceuticals paid us a nonrefundable upfront payment in the amount of \$10.0 million and we received \$4.5 million in November 2006 and \$2.5 million in November 2007.

**EXELIXIS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

for achieving development milestones. Wyeth Pharmaceuticals is obligated to pay additional development and commercialization milestones of up to \$140.5 million, as well as royalties on sales of any products commercialized by Wyeth Pharmaceuticals under the agreement. Substantially all the upfront and November 2006 milestone payments were recognized as revenue in 2006. In addition, the November 2007 milestone payment was recognized as revenue when the development milestone was achieved. Wyeth Pharmaceuticals will be responsible for all further preclinical and clinical development, regulatory, manufacturing and commercialization activities for the compounds.

**Helsinn Healthcare**

In June 2005, Exelixis and Helsinn Healthcare S.A. (“Helsinn”) entered into a license agreement for the development and commercialization of XL119 (becatecarin). Helsinn paid us a nonrefundable upfront payment in the amount of \$4.0 million and was obligated to pay development and commercialization milestones, as well as royalties on worldwide sales. The upfront payment was recognized as revenue during 2005. Helsinn assumed all costs incurred for the ongoing multi-national phase 3 clinical trial for XL119 after the execution of the license agreement.

In May 2006, we supplied Helsinn with certain clinical trial materials in order for Helsinn to maintain enrollment in the phase 3 clinical trial for XL119. Helsinn’s acceptance of the clinical trial materials triggered a \$4.0 million milestone payment, which was received and recognized as revenue in June 2006. In November 2006, Helsinn discontinued the XL119 phase 3 clinical trial program.

**Bayer**

In May 1998, Exelixis entered into a six-year research collaboration agreement with Bayer Corporation (“Bayer”) to identify novel screening targets for the development of new pesticides for use in crop protection. We received a \$1.2 million license fee upon execution of the agreement that was recognized as revenue over the term of the agreement.

In December 1999, we expanded our relationship with Bayer by forming a joint venture in the form of a new limited liability company, Genoptera LLC (“Genoptera”). Under the terms of the Genoptera operating agreement, Bayer provided 100% of the capital necessary to fund the operations of Genoptera and had the ability to control the entity with a 60% ownership interest and we owned the other 40% interest in Genoptera and we reported our investment in Genoptera using the equity method of accounting. Bayer’s initial capital contributions to Genoptera were \$10.0 million in January 2000 and another \$10.0 million in January 2001. Bayer also contributed cash to Genoptera in amounts necessary to fund its ongoing operating expenses. Genoptera incurred losses since inception. Since the carrying value of the investment remained at zero and we had no obligation to fund future losses, we did not record any equity method losses for Genoptera.

In January 2000, Exelixis, Bayer and Genoptera entered into an exclusive eight-year research collaboration agreement, which superseded the 1998 agreement discussed above. We were required to provide Genoptera with expanded research services focused on developing insecticides and nematocides for crop protection. Under the terms of the collaboration agreement, Genoptera paid us a \$10.0 million license fee and a \$10.0 million research commitment fee, which we received in January 2000 and January 2001, respectively. Additionally, Genoptera was required to pay us \$10.0 million in annual research funding.

In March 2005, Exelixis, Bayer and Genoptera agreed to amend the terms of the collaboration agreement, dated January 1, 2000, among Exelixis, Bayer and Genoptera. The amended agreement provided for an early termination of the research term and required Bayer to acquire our 40% ownership interest in Genoptera, which

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

was acquired in December 2005. The amended agreement also required Bayer to pay us an early termination fee of \$10.9 million, which was paid in April 2005.

In June 2005, the final knowledge transfer was completed and we recognized \$21.1 million in revenues, which included the early termination fee, paid in April 2005, and accelerated recognition of deferred revenues related to upfront payments and milestones. Pursuant to the terms of the amended agreement, Bayer, through Genoptera, obtained exclusive rights in the field of agriculture to assays, compounds and products developed under the collaboration and we have obtained exclusive rights in all other fields. In addition, the obligations of Bayer to fund further research ceased and we have no further obligations to perform research.

**GlaxoSmithKline**

In October 2002, Exelixis and SmithKlineBeecham Corporation, which does business as GlaxoSmithKline, established a collaboration to discover and develop novel therapeutics in the areas of vascular biology, inflammatory disease and oncology. The collaboration involved three agreements: (i) a Product Development and Commercialization Agreement (“PDA”); (ii) a Stock Purchase and Stock Issuance Agreement (“SPA”); and (iii) a Loan and Security Agreement (“LSA”). Under the original PDA, GlaxoSmithKline paid us \$30.0 million in an upfront fee and \$10.0 million in annual research funding, and agreed to pay a minimum of an additional \$80.0 million in research and development funding over the first six years of the collaboration.

Under the original SPA, GlaxoSmithKline purchased 2.0 million shares of our common stock in a private placement at a purchase price of \$7.00 per share, which represented a premium of approximately 100% to the stock price on the effective date of the agreements. We received cash proceeds of approximately \$14.0 million for the purchase of these shares in November 2002. The upfront fee and the premium portion of the equity purchase have been deferred and are being recognized as revenue over the development term. Under the terms of the SPA, we had the option to sell additional common shares to GlaxoSmithKline in the future, as described below.

Under the original LSA, GlaxoSmithKline provided a loan facility of up to \$85.0 million for use in our efforts under the collaboration, and we borrowed \$25.0 million under that agreement in December 2002, an additional \$30.0 million in December 2003, and the remaining \$30.0 million in December 2004. All loan amounts bear interest at a rate of 4.0% per annum and are secured by the intellectual property, technology and equipment created or utilized pursuant to the collaboration. Principal and accrued interest becomes due in installments, beginning on the first anniversary of the later of the: (a) completion of the development term; or (b) the end of any extension period. Repayment of all or any of the amounts advanced to us under this agreement may, at our election, be in the form of our common stock at fair market value, subject to certain conditions.

In January 2005, we amended the terms of our collaboration with GlaxoSmithKline. Under the amended PDA, GlaxoSmithKline selected a modified program election through which the focus of the collaboration is shifted to 12 internal programs at various stages of development (XL784, XL647, XL999, XL880, XL184, XL820, XL844, XL281, XL418, XL228 and two earlier stage oncology programs). Each program centers on compounds that are directed against one or more targets identified in the collaboration. Under the modified program, GlaxoSmithKline has the right to select from these programs up to two compounds, or three compounds if GlaxoSmithKline extends the specified development term. The amount of acceptance milestones that we receive from GlaxoSmithKline will depend on the number of compounds selected, the timing of the selection of the compounds and, for those acceptances made after the end of the original development term, whether GlaxoSmithKline extended the development term. GlaxoSmithKline retains exclusivity rights to the 32 specified targets that are encompassed by the 12 programs through the end of the specified development term, or any extension thereof by GlaxoSmithKline. After the end of the development term or any extension, GlaxoSmithKline retains exclusivity rights to a subset of these targets based on the compounds that they have

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

selected for development. We have retained rights to all compounds not encompassed by the 12 programs that are part of the collaboration with GlaxoSmithKline and may work on any targets with the exception of the 32 targets or, if applicable, a subset, subject to GlaxoSmithKline's exclusivity rights.

In May 2005, we filed the third of three INDs required by the amended PDA to achieve a \$30.0 million milestone, which we received from GlaxoSmithKline in May 2005. The revenue from this milestone is being recognized over the term of the amended PDA on a straight-line basis from January 2005 to November 2010. In return for the new \$30.0 million milestone, GlaxoSmithKline will receive a \$30.0 million credit and a specified reduction against the first acceptance milestone as well as a temporary reduction in the royalty rate it owes us on net sales of products developed under the collaboration. In May 2005, we submitted two new development candidates to GlaxoSmithKline, thereby triggering an additional \$5.0 million milestone, which we received in May 2005. We may also receive additional development related milestones and royalties on product sales and have certain co-promotion rights to products in North America. In addition, under the amended PDA, GlaxoSmithKline agreed to provide research funding of \$47.5 million over the remaining three-year term of the collaboration, all of which we have received by the end of 2007.

The terms of the amended PDA allow us to use third-party financing vehicles to fund the further clinical development of our compounds XL784, XL647 and XL999 but any such compounds developed through clinical financing vehicles continue to be subject to GlaxoSmithKline's compound selection rights. In June 2005, we entered into a transaction to fund the clinical development of XL784, XL647 and XL999 through Symphony Evolution, a third-party financing vehicle. This is described in further detail in Note 4 of the Notes to the Consolidated Financial Statements. During 2007, XL647 and XL784 data packages were presented to GlaxoSmithKline for selection for further development and commercialization, and GlaxoSmithKline elected not to select either compound for further development. We have discontinued development of XL999.

Pursuant to the terms of the original SPA and as a result of its modified program election, GlaxoSmithKline purchased an additional 1.0 million shares of our common stock in January 2005 at an aggregate purchase price of \$11.1 million, of which \$2.2 million was a premium to the then fair value of the shares. We have no further option to sell, and GlaxoSmithKline has no further obligation to purchase, additional shares of our common stock. The premium portion of the equity purchase has been deferred and is being recognized as revenue over the development term.

In December 2007, GlaxoSmithKline exercised its option under the original PDA to exclusively license XL880 for further development and commercialization. XL880 is a small molecule compound currently being evaluated in phase 2 trials in patients with papillary renal cell carcinoma, gastric cancer and head and neck cancer. Upon antitrust clearance, GlaxoSmithKline's selection of XL880 entitles us to the first selection milestone of \$35.0 million under the terms of the original PDA. Under the terms of the amended PDA, the first selection milestone is to be reduced by up to \$36.0 million as a result of a new \$30.0 million milestone that GlaxoSmithKline paid to us in 2005, as described above. As a result, we will not receive a payment or recognize any revenues related to the first selection milestone that was achieved. We are also entitled to receive specific development and commercialization milestones and double-digit royalties on product sales if the compound is approved for marketing and commercialized and we will have certain co-promotion rights to XL880 in North America.

**NOTE 4. SYMPHONY EVOLUTION**

On June 9, 2005 (the "Closing Date"), we entered into a series of related agreements providing for the financing of the clinical development of XL784, XL647 and XL999 (the "Programs"). Pursuant to the agreements, Symphony Evolution, Inc. ("SEI") invested \$80.0 million to fund the clinical development of these Programs and we have licensed to SEI our intellectual property rights related to these Programs. SEI is a wholly

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

owned subsidiary of Symphony Evolution Holdings LLC (“Holdings”), which provided \$40.0 million in funding to SEI at closing, and an additional \$40.0 million in June 2006. We continue to be primarily responsible for the development of the Programs in accordance with specified development plans and related development budgets.

In accordance with FIN 46R, we have determined that SEI is a variable interest entity for which we are the primary beneficiary. As a result, we will include the financial condition and results of operations of SEI in our consolidated financial statements. Accordingly, we have deducted the losses attributable to the noncontrolling interest in SEI from our net loss in the consolidated statement of operations and we have also reduced the noncontrolling interest holders’ ownership interest in SEI in the consolidated balance sheet by SEI’s losses. The noncontrolling interest holders’ ownership in the consolidated balance sheet was \$13.4 million as of December 31, 2007. Once SEI’s losses are in excess of the noncontrolling interest holders’ ownership, SEI’s losses will no longer be deducted from our net losses. For the years ended December 31, 2007, 2006 and 2005, the losses attributed to the noncontrolling interest holders were \$24.6 million, \$21.7 million and \$10.4 million, respectively. We also reduced the noncontrolling interest holders’ ownership interest in SEI in the consolidated balance sheet by: (i) a \$3.0 million structuring fee that we incurred in connection with the closing of the SEI transaction, (ii) a \$2.8 million value assigned to the warrants that were issued to Holdings upon closing, and (iii) a \$4.0 million value assigned to the warrants that were issued to Holdings in June 2006.

Pursuant to the agreements, we have received an exclusive purchase option (the “Purchase Option”) that gives us the right to acquire all of the equity of SEI, thereby allowing us to reacquire all of the Programs. The Purchase Option was amended in December 2006 to allow us, at our election, to pay up to 100% of the purchase option exercise price in shares of our common stock. Under the original terms of the purchase option, we were only entitled to pay up to 33% of the purchase option exercise price in shares. This Purchase Option is exercisable at any time, until the earlier of June 9, 2009 or the 90th day after the date that SEI provides us with financial statements showing cash and cash equivalents of less than \$5.0 million at an exercise price equal to the sum of: (i) the total amount of capital invested in SEI by Holdings and (ii) an amount equal to 25% per year on such funded capital (with respect to the initial funded capital, compounded from the Closing Date and, with respect to the second draw amount, compounded from the second draw date). The Purchase Option exercise price may be paid in cash, our common stock or in a combination of cash and our common stock, at our sole discretion.

Pursuant to the agreements, we issued to Holdings a five-year warrant to purchase 750,000 shares of our common stock at \$8.90 per share in June 2005. We issued an additional five-year warrant to purchase 750,000 shares of our common stock at \$8.90 per share in connection with the additional \$40.0 million in funding in June 2006. In addition, if the Purchase Option expires unexercised at June 9, 2009, we are obligated to issue to Holdings an additional warrant to purchase 500,000 shares of our common stock at a price per share equal to 125% of the market price of our common stock at the time of expiration of the Purchase Option, with a five-year term. The warrants issued upon closing were assigned a value of \$2.8 million and the warrants issued in June 2006 were assigned a value of \$4.0 million in accordance with the Black-Scholes option valuation methodology and we recorded these values as a reduction to the noncontrolling interest in SEI. Pursuant to the agreements, we have no further obligation beyond the items described above and we have no obligation to the creditors of SEI as a result of our involvement with SEI.

The Programs were subject to our collaboration with GlaxoSmithKline, and GlaxoSmithKline had the option to select at proof-of-concept for further development one or more of the Programs licensed to SEI, in which case we would have been required to repurchase the Programs through the exercise of our Purchase Option. During 2007, XL647 and XL784 data packages were presented to GlaxoSmithKline for selection for further development and commercialization, and GlaxoSmithKline elected not to select either compound for further development. In December 2007, we discontinued the development of XL999.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**NOTE 5. RELATED PARTY TRANSACTIONS**

For the year ended, December 31, 2005, we recognized revenues of \$24.0 million under a collaboration agreement with Bayer through our joint venture with Genoptera. The \$24.0 million recognized was primarily related to the recognition of \$21.1 million in revenues from the acceleration of upfront payments, milestones and a termination payment associated with the termination of our Genoptera collaboration.

**NOTE 6. PROPERTY AND EQUIPMENT**

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

	December 31,	
	2007	2006
Laboratory equipment	\$ 66,974	\$ 63,490
Computer equipment and software	21,027	17,890
Furniture and fixtures	4,577	5,182
Leasehold improvements	22,593	21,817
Construction-in-progress	2,357	1,264
	117,528	109,643
Less accumulated depreciation and amortization	(82,864)	(77,349)
	<u>\$ 34,664</u>	<u>\$ 32,294</u>

For the years ended December 31, 2007, 2006 and 2005, we recorded depreciation expense of \$13.7 million, \$15.3 million and \$13.9 million, respectively.

**NOTE 7. GOODWILL AND OTHER ACQUIRED INTANGIBLES**

Our annual goodwill impairment test date is performed at the beginning of the fourth quarter of every year. Following this approach, we monitor asset-carrying values as of October 1 and on an interim basis if events or changes in circumstances occur we assess whether there is a potential impairment and complete the measurement of impairment, if required. To date, our annual impairment tests have not resulted in impairment of recorded goodwill. Intangible asset components listed below have been amortized using the straight-line method over the assets estimated useful life.

As part of our business disposals in 2007, we sold the technology, patents and core technology related to these businesses. As a result, at December 31, 2007 we had no recorded intangible assets, apart from goodwill. The components of our intangible assets as of December 31, 2006 were as follows (in thousands):

	December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	\$ 1,240	\$ (1,240)	\$ —
Patents and core technology	4,323	(1,718)	2,605
Assembled workforce	1,100	(1,100)	—
Total	<u>\$ 6,663</u>	<u>\$ (4,058)</u>	<u>\$ 2,605</u>

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## NOTE 8. DEBT

Our debt consists of the following (in thousands):

	December 31,	
	2007	2006
GlaxoSmithKline convertible loans	\$ 85,000	\$ 85,000
Bank equipment lines of credit	36,514	36,653
	121,514	121,653
Less: current portion	(15,767)	(13,579)
Long-term debt	<u>\$105,747</u>	<u>\$108,074</u>

Under the LSA executed in connection with the GlaxoSmithKline collaboration, GlaxoSmithKline provided a loan facility of up to \$85.0 million for use in our efforts under the collaboration. We borrowed \$25.0 million under that agreement in December 2002, an additional \$30.0 million in December 2003 and the remaining \$30.0 million in 2004. All loan amounts bear interest at a rate of 4.0% per annum and are secured by the intellectual property, technology and equipment created or utilized pursuant to the collaboration. Principal and accrued interest becomes due in installments, beginning on the first anniversary of the later of the: (a) completion of the development term; or (b) the end of any extension period. Repayment of all or any of the amounts advanced to us under this agreement may, at our election, be in the form of Exelixis' common stock at fair market value, subject to certain conditions. This loan facility also contains financial covenants pursuant to which our working capital (the amount by which our current assets exceed our current liabilities as defined by the agreement) must not be less than \$25.0 million and our cash and investments (total cash and cash equivalents and investments as defined by the agreement, which excludes restricted cash and investments) must not be less than \$50.0 million. As of December 31, 2007, we were in compliance with these covenants.

In May 2002, we entered into a loan and security agreement with a bank for an equipment line of credit of up to \$16.0 million with a draw down period of one year. Each draw on the line of credit has a payment term of 48 months and bears interest at the bank's published prime rate. We extended the draw down period on the line-of-credit for an additional year in June 2003 and increased the principal amount of the line of credit from \$16.0 million to \$19.0 million in September 2003. This equipment line of credit was fully drawn as of December 31, 2004. This line of credit was fully paid off as of December 31, 2007 and had an outstanding balance as of December 31, 2006 of \$1.6 million.

In December 2004, we entered into a loan modification agreement #1 to the loan and security agreement originally entered into in May 2002. The terms associated with the original \$16.0 million line of credit under the May 2002 agreement were not modified. The loan modification agreement provides for an additional equipment line of credit in the amount of up to \$20.0 million with a draw down period of one year. Pursuant to the terms of the modified agreement, we were required to make interest only payments through February 2006 at an annual rate of 0.70% on all outstanding advances. Beginning in March 2006, we are required to make 48 equal monthly installment payments of principal plus accrued interest, at an annual rate of 0.70%. The loan facility is secured by a non-interest bearing certificate of deposit account with the bank, in an amount equal to at least 100% of the outstanding obligations under the line of credit. As of December 31, 2007, the collateral balance was \$11.8 million, and we recorded this amount in the accompanying consolidated balance sheet as cash and cash equivalents and long-term marketable securities as the deposit account is not restricted as to withdrawal. This equipment line of credit was fully drawn as of December 31, 2006. The outstanding obligation under the line of credit as of December 31, 2007 and 2006 was \$10.9 million and \$15.5 million, respectively.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In December 2006, we entered into a loan modification agreement #2 to the loan and security agreement originally entered into in May 2002. The terms associated with the original line of credit under the May 2002 agreement and December 2004 loan modification agreement were not modified. The December 2006 loan modification agreement provides for an additional equipment line of credit in the amount of up to \$25.0 million with a draw down period of approximately one year. Each advance must be repaid in 48 equal, monthly installments of principal, plus accrued interest, at an annual rate of 0.85% fixed and is subject to a prepayment penalty of 1.0%. The loan facility is secured by a non-interest bearing certificate of deposit account with the bank, in an amount equal to at least 100% of the outstanding obligations under the line of credit. This equipment line of credit was fully drawn as of December 31, 2007. The collateral balance of \$22.5 million was recorded in the accompanying consolidated balance sheet as cash and cash equivalents and marketable securities as the deposit account is not restricted as to withdrawal. The outstanding obligation under the line of credit as of December 31, 2007 and 2006 was \$21.9 million and \$12.4 million, respectively.

In December 2007, we entered into a loan modification agreement #3 to the loan and security agreement originally entered into in May 2002. The terms associated with the original line of credit under the May 2002 agreement and the subsequent loan modifications were not modified. The December 2007 loan modification agreement provides for an additional equipment line of credit in the amount of up to \$30.0 million with a draw down period of approximately 2 years. Each advance must be repaid in 48 equal, monthly installments of principal, plus accrued interest, at an annual rate of 0.75% fixed. The loan facility requires security in the form of a non-interest bearing certificate of deposit account with the bank, in an amount equal to at least 100% of the outstanding obligations under the line of credit. As of December 31, 2007 we had not drawn down from this equipment line of credit, and, as a result, there was no collateral balance and no outstanding obligation under this line of credit as of December 31, 2007.

In December 2003, we entered into a credit agreement with a bank for an equipment line of credit of up to \$15.0 million with a draw down period of one year. During the draw down period, we made interest only payments on outstanding balances. At the end of the draw down period, the outstanding balance converted to a 48-month term loan. The outstanding principal balance bears interest at LIBOR plus 0.625% (5.875% at December 31, 2007). This equipment line of credit had been fully drawn as of December 31, 2004. Of the \$15.0 million draw down, \$1.6 million was in the form of an irrevocable stand by letter of credit. This letter of credit is in lieu of a security deposit for one of our South San Francisco facilities. Pursuant to the terms of the line of credit, we are required to maintain a securities account at the bank equal to at least 100% of the outstanding principal balance. As of December 31, 2007, the collateral balance was \$5.2 million, and we recorded this amount in the balance sheet as restricted cash and investments as the securities are restricted as to withdrawal. The outstanding obligation under the line of credit as of December 31, 2007 and 2006 was \$3.6 million and \$7.0 million, respectively.

Aggregate future principal payments of our total long-term debt as of December 31, 2007 are as follows (in thousands):

<u>Year Ending December 31,</u>	
2008	\$ 15,767
2009	39,302
2010	34,612
2011	31,833
	<u>121,514</u>
Less current portion	(15,767)
	<u>\$105,747</u>

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## NOTE 9. COMMON STOCK AND WARRANTS

## Stock Repurchase Agreements

In October 2006, we completed a public offering of 11.5 million shares of our common stock under an effective registration statement, at a price of \$8.40 per share, for gross proceeds of \$96.6 million. We received approximately \$90.5 million in net proceeds after deducting underwriting fees of \$5.8 million and offering expenses of approximately \$0.3 million.

In September 2007, we completed a public offering of seven million shares of our common stock pursuant to an immediately effective automatic shelf registration statement filed with the SEC in September 2007. We received approximately \$71.9 million in net proceeds from the offering after deducting offering expenses of approximately \$0.2 million.

## Warrants

We have granted warrants to purchase shares of capital stock to SEI in connection with our financing transaction. At December 31, 2007, the following warrants to purchase common stock were outstanding and exercisable:

<u>Date Issued</u>	<u>Exercise Price per Share</u>	<u>Expiration Date</u>	<u>Number of Shares</u>
June 9, 2005	\$ 8.90	June 9, 2010	750,000
June 9, 2006	\$ 8.90	June 9, 2011	750,000
			<u>1,500,000</u>

## Reserved Shares

At December 31, 2007, common stock reserved for future issuance is as follows:

Outstanding common stock options	20,718,661
Common stock available for future grant under our stock option plans	12,687,767
Common stock available for future grant under the 401(k) plan	72,371
Common stock issuable upon conversion of loans	11,315,160
Common stock available for future grant under the 2000 Employee Stock Purchase Plan	1,082,742
Warrants	1,500,000
	<u>47,376,701</u>

## NOTE 10. EMPLOYEE BENEFIT PLANS

## Stock Option Plans

We have several stock option plans under which we have granted incentive stock options and non-qualified stock options to employees, directors and consultants. The Board of Directors or a designated Committee of the Board is responsible for administration of our employee stock option plans and determines the term, exercise price and vesting terms of each option. In general, our options have a four-year vesting term, an exercise price

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

equal to the fair market value on the date of grant, and a ten year life from the date of grant (five years for incentive stock options granted to holders of more than 10% of Exelixis' voting stock).

On December 9, 2005, Exelixis' Board of Directors adopted a Change in Control and Severance Benefit Plan (the "Plan") for executives and certain non-executives. Eligible Plan participants includes Exelixis employees with the title of vice president and higher. If a participant's employment with Exelixis is terminated without cause during a period commencing one month before and ending thirteen months following a change in control, then the Plan participant is entitled to have the vesting of all of his stock options accelerated with the exercise period being extended to no more than one year.

**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 \$1.3 million and \$0.9 million for 2007 and 2006, respectively. As of December 31, 2007, we had 1.1 million shares available for grant under our ESPP. We issued 411,121 shares, 376,544 shares, and 377,322 shares of common stock during 2007, 2006, and 2005, respectively, pursuant to the ESPP at an average price per share of \$8.68, \$7.42, and \$5.83, respectively.

**Stock-Based Compensation**

Prior to January 1, 2006, we accounted for those plans under the recognition and measurement provisions of APB 25. Accordingly, we generally recognized compensation expense only when we granted options with a discounted exercise price. Any resulting compensation expense was recognized ratably over the associated service period, which was generally the option vesting term. Also, we provided pro forma disclosure amounts in accordance with SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"), as if the fair value method defined by SFAS 123 had been applied to our stock-based compensation.

The following table illustrates the effect on net loss and loss per share for the year ended December 31, 2005, had we applied the fair value recognition provisions of SFAS 123 (in thousands, except per share amounts):

Net loss:	
As reported	\$(84,404)
Add: Stock-based employee compensation expense (reversal) included in reported net loss	(5)
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards	(11,912)
Pro forma	<u>\$(96,321)</u>
Net loss per share (basic and diluted):	
As reported	<u>\$ (1.07)</u>
Pro forma	<u>\$ (1.22)</u>

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We adopted Statement SFAS 123R effective January 1, 2006, which requires the recognition of stock-based compensation at fair value in our consolidated statements of operations. We adopted SFAS 123R under the modified prospective method. Under the modified prospective method, we recorded compensation expense for all awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated using the Black-Scholes option pricing model. We recognize compensation expense on a straight-line basis over the requisite service period. We recognize stock-based compensation expense net of estimated forfeitures in order to only recognize the expense for the shares expected to vest over the requisite service period of the award, which is generally the option vesting term of four years.

Employee stock-based compensation expense under SFAS 123R was allocated as follows (in thousands):

	Year Ended December 31, 2007	Year Ended December 31, 2006
Research and development expense	\$ 11,547	\$ 11,170
General and administrative expense	7,306	6,278
Total employee stock-based compensation expense	<u>\$ 18,853</u>	<u>\$ 17,448</u>

We use the Black-Scholes option pricing model to value our stock options. The expected life computation is based on historical exercise patterns and post-vesting termination behavior. However, only for options granted during 2005, we used the “simplified” method to estimate the expected term as outlined in Staff Accounting Bulletin No. 107. The simplified method establishes an estimate of the expected term as the mid-point between the vesting term and the maximum contractual term. We considered implied volatility as well as our historical volatility in developing our estimate of expected volatility. The fair value of employee share-based payments awards was estimated using the following assumptions and weighted average fair values:

	Stock Options		
	2007	2006	2005
Weighted average grant-date fair value	\$ 5.26	\$ 5.26	\$ 5.67
Risk-free interest rate	4.36%	4.42%	4.25%
Dividend yield	0%	0%	0%
Volatility	59%	64%	66%
Expected life	4.9 years	4.7 years	6.2 years

	ESPP		
	2007	2006	2005
Weighted average grant-date fair value	\$ 3.29	\$ 2.72	\$ 2.24
Risk-free interest rate	4.49%	4.69%	2.74%
Dividend yield	0%	0%	0%
Volatility	53%	53%	56%
Expected life	6 months	6 months	6 months

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A summary of all option activity was as follows for the following fiscal years ended December 31:

	<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, 2004	11,533,855	\$ 11.74		
Granted	3,869,375	8.78		
Exercised	(302,264)	5.80		
Cancelled	<u>(1,943,535)</u>	13.53		
Options outstanding at December 31, 2005	13,157,431	10.73		
Granted	5,441,225	9.40		
Exercised	(426,221)	7.46		
Cancelled	<u>(961,809)</u>	11.73		
Options outstanding at December 31, 2006	17,210,626	10.34		
Granted	5,667,880	9.69		
Exercised	(1,087,031)	7.64		
Cancelled	<u>(1,072,814)</u>	10.01		
Options outstanding at December 31, 2007	<u>20,718,661</u>	\$ 10.32	6.9 years	\$6,114,649
Exercisable at December 31, 2007	10,890,931	\$ 11.11	5.6 years	\$5,819,568

At December 31, 2007, a total of 12,687,767 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 2007 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, 2007. Total intrinsic value of options exercised was \$3.4 million, \$1.3 million and \$0.4 million for 2007, 2006 and 2005, respectively. Total fair value of employee options vested and expensed in 2007 and 2006 was \$17.5 million and \$16.5 million respectively. In addition, we recognized stock-based compensation expense of \$1.3 million, \$0.2 million and \$0.1 million relating to nonemployees in 2007, 2006 and 2005, respectively.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2007:

Exercise Price Range	Options Outstanding			Options Outstanding and Exercisable	
	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Exercisable	Weighted Average Exercise Price
\$0.27 - \$ 7.75	2,251,797	5.58	\$ 6.62	2,124,582	\$ 6.58
\$7.76 - \$ 8.85	1,347,658	6.16	8.10	1,113,619	8.01
\$8.86 - \$ 8.90	2,474,576	7.06	8.90	1,273,766	8.90
\$8.92 - \$ 8.99	2,048,132	7.35	8.96	969,132	8.94
\$9.00 - \$ 9.00	2,607,590	8.53	9.00	114,265	9.00
\$9.04 - \$ 9.42	2,899,918	7.74	9.41	1,397,163	9.41
\$9.50 - \$ 9.91	2,390,677	8.94	9.77	498,534	9.55
\$9.94 - \$ 12.31	2,096,709	7.61	11.09	798,266	11.15
\$12.63 - \$ 18.97	2,094,888	3.26	16.03	2,094,888	16.03
\$19.29 - \$ 47.00	506,716	2.64	32.92	506,716	32.92
	<u>20,718,661</u>	6.93	\$ 10.32	<u>10,890,931</u>	\$ 11.11

We had 9.2 million stock options exercisable with a weighted average exercise price of \$11.35 at December 31, 2006 and 8.6 million stock options exercisable with a weighted average exercise price of \$11.72 at December 31, 2005.

As of December 31, 2007, \$45.9 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 2.7 years. Cash received from option exercises and purchases under the ESPP in 2007 and 2006 was \$11.8 million and \$6.0 million respectively.

**401(k) Plan**

We sponsor a 401(k) Retirement Plan whereby eligible employees may elect to contribute up to the lesser of 20% of their annual compensation or the statutorily prescribed annual limit allowable under Internal Revenue Service regulations. The 401(k) Plan permits Exelixis to make matching contributions on behalf of all participants. Beginning in 2002, we matched 50% of the first 4% of participant contributions into the 401(k) Plan in the form of Exelixis stock. We recorded expense of \$0.8 million, \$0.6 million and \$0.6 million related to the stock match for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 11. INCOME TAXES**

We have incurred net losses since inception and, consequently, we have not recorded any U.S. federal or state income taxes. We have recorded no income tax provision for the years ended December 31, 2007 and 2006.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Our net loss includes the following components (in thousands):

	Year Ending December 31,		
	2007	2006	2005
Domestic	\$(87,980)	\$(102,136)	\$(83,937)
Foreign	1,599	644	(467)
Total	<u>\$(86,381)</u>	<u>\$(101,492)</u>	<u>\$(84,404)</u>

A reconciliation of income taxes at the statutory federal income tax rate to net income taxes included in the accompanying consolidated statement of operations is as follows (in thousands):

	Year Ending December 31,		
	2007	2006	2005
U.S. federal taxes (benefit) at statutory rate	\$(29,369)	\$(34,507)	\$(28,697)
Unutilized net operating losses	26,109	32,296	27,849
Stock based compensation	3,165	2,717	37
Other	95	(506)	811
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Deferred tax assets and liabilities reflect the net tax effects of net operating loss and tax credit carryforwards 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,	
	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	\$ 244,670	\$ 213,920
Tax credit carryforwards	59,110	43,860
Capitalized research and development costs	5,290	6,510
Deferred revenue	12,920	18,060
Accruals and reserves not currently deductible	2,460	6,600
Book over tax depreciation	2,240	3,480
Amortization of deferred stock compensation – non-qualified	7,870	3,830
Total deferred tax assets	334,560	296,260
Valuation allowance	(334,540)	(295,220)
Net deferred tax assets	20	1,040
Deferred tax liabilities:		
Other identified intangible assets	(20)	(1,040)
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 \$39.3 million, \$45.4 million, and \$44.8 million during 2007, 2006 and 2005, respectively.

**EXELIXIS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

In addition, approximately \$51.3 million of the valuation allowance was attributable to acquisition-related items that if and when realized in future periods, will first reduce the carrying value of goodwill, then other long-lived intangible assets of our acquired subsidiaries and then income tax expense.

At December 31, 2007, we had federal net operating loss carryforwards of approximately \$655.0 million, which expire in the years 2008 through 2027 and federal research and development tax credits of approximately \$46.4 million which expire in the years 2010 through 2026. We also had net operating loss carryforwards for California of approximately \$357.0 million, which expire in the years 2010 through 2016 and California research and development tax credits of approximately \$15.8 million which have no expiration.

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 carryforwards 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 carryforwards before utilization.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 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. FIN 48 is effective for fiscal years beginning after December 15, 2006 and was adopted by us on January 1, 2007.

We had \$20.3 million of unrecognized tax benefits as of January 1, 2007. The following table summarizes the activity related to our unrecognized tax benefits for the year ending December 31, 2007 (in thousands):

	<u>Year Ending December 31, 2007</u>
Balance at January 1, 2007	\$ 20,282
Increase relating to current year provision	6,363
Ending Balance at December 31, 2007	<u>\$ 26,645</u>

All of our deferred tax assets are subject to a valuation allowance. Further, there were no accrued interest or penalties related to tax contingencies. Any tax-related interest and penalties would be included in income tax expense in the consolidated statements of operations. We do not anticipate that the amount of unrecognized tax benefits existing as of December 31, 2007 will significantly decrease over the next 12 months. Because of our net operating loss position, all federal and state income tax returns from 1995 forward are subject to tax authority examination.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## NOTE 12. COMMITMENTS

## Leases

We lease office and research space and certain equipment 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. In 2007, we entered into a new lease agreement to lease an additional 66,000 square feet in South San Francisco, California that is estimated to commence in May 2008 and expires in 2015. Under the terms of this lease, we have the right to rent all of the remaining 62,393 rentable square feet of the building. This expansion right expires on December 31, 2008. If we exercise our right to lease the entire building, we will have the option to extend the Lease for an additional ten years. Aggregate future minimum lease payments under operating leases are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2008	\$ 16,600
2009	16,899
2010	17,958
2011	18,188
2012	18,524
Thereafter	83,847
	<u>\$ 172,016</u>

The following is a summary of aggregate future minimum lease payments under operating leases at December 31, 2007 by material operating lease agreements (in thousands):

	<u>Original Term (Expiration)</u>	<u>Renewal Option</u>	<u>Future Minimum Lease Payment</u>
Building Lease #1	May 2017	2 additional periods of 5 years	\$ 102,287
Building Lease #2	July 2018	1 additional period of 5 years	44,669
Building Lease #3	May 2015	1 additional period of 3 years	23,529
Other Building Leases			1,531
Total			<u>\$ 172,016</u>

Rent expense under operating leases was \$16.7 million, \$16.0 million and \$14.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

## Letter of Credit and Restricted Cash

We entered into two standby letters of credit in May 2007 with a bank for a combined value of \$0.9 million, which is related to our workers compensation insurance policy. As of December 31, 2007, the full amount of the 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 of \$1.1 million in the form of a non-interest bearing certificate of deposit. As of December 31, 2007, we recorded these amounts in the accompanying consolidated balance sheet as restricted cash and investments as the securities are restricted as to withdrawal.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**Licensing Agreements**

We have entered into several licensing agreements with various universities and institutions under which we obtained exclusive rights to certain patent, patent applications and other technology. Aggregate minimum future payments pursuant to these agreements are as follows (in thousands):

<u>Year Ending December 31,</u>	
2008	\$ 1,291
2009	230
2010	17
2011	5
2012	—
Thereafter	—
	<u>\$ 1,543</u>

In addition to the payments summarized above, we are required to make royalty payments based upon a percentage of net sales of any products or services developed from certain of the licensed technologies and milestone payments upon the occurrence of certain events as defined by the related agreements. During 2005, we made a royalty payment of \$1.8 million as a result of the Genentech collaboration we entered into in May 2005. No milestone payments have been paid during 2007, 2006, or 2005.

In January 2008, Bristol-Myers Squibb exercised its option to develop and commercialize compound XL139. In addition, we exercised our option under the collaboration agreement to co-develop and co-commercialize XL139 in the United States. Due to our election to co-develop and co-commercialize XL139, we will be required to pay 35% of the worldwide development expenses. See Note 3 of the Notes to the Consolidated Financial Statements for further information concerning this collaboration.

**Indemnification Agreements**

Related to the sale of our plant trait business we have 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 corporate insurance.

## EXELIXIS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## NOTE 13. 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):

	2007 Quarter Ended			
	March 31,	June 30,	September 30, (1)	December 31, (2)
Total revenues	\$ 28,136	\$ 29,259	\$ 26,825	\$ 29,250
Loss from operations	(33,357)	(38,302)	(42,626)	(42,762)
Net loss	(24,201)	(28,562)	(13,696)	(19,922)
Basic and diluted net loss per share	\$ (0.25)	\$ (0.29)	\$ (0.14)	\$ (0.19)

	2006 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Total revenues	\$ 18,119	\$ 27,240	\$ 23,540	\$ 29,771
Loss from operations	(31,057)	(30,383)	(31,561)	(33,753)
Net loss	(27,123)	(23,990)	(25,197)	(25,182)
Basic and diluted net loss per share	\$ (0.32)	\$ (0.29)	\$ (0.30)	\$ (0.27)

- (1) In September 2007, we sold our plant trait business to Agrigenetics, and, as a result, we recognized a gain of \$18.8 million in total other income.
- (2) In November 2007, we sold 80.1% of our German subsidiary, Artemis Pharmaceuticals, and, as a result, we recognized a gain of \$18.1 million in total other income. In addition, the quarter ended December 31, 2007, we recorded a change in estimate of \$2.6 million to reduce our accrued clinical trial liabilities and research and development expenses related to our XL784 clinical trial.

**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 in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), 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.

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

As of the end of the company's 2007 fiscal year, management conducted an assessment of the effectiveness of the company's internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the company's internal control over financial reporting as of December 31, 2007 was effective.

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 management and the directors of the company; and 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 our financial statements.

The independent registered public accounting firm, Ernst & Young LLP has issued an attestation report on our internal control over financial reporting.

**Attestation 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 December 28, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (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

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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 December 28, 2007, 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 December 28, 2007 and December 29, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three fiscal years in the period ended December 28, 2007 of Exelixis, Inc. and our report dated February 13, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California  
February 13, 2008

***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.

### **ITEM 9B. OTHER INFORMATION**

None.

**PART III**

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

The information required by this item, other than with respect to our Code of Ethics, is incorporated by reference to Exelixis' Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 28, 2007.

**Code of Ethics**

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

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Conduct and Ethics 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 Exelixis' Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 28, 2007.

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

The information required by this item, other than with respect to Equity Compensation Plan Information, is incorporated by reference to Exelixis' Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 28, 2007.

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**Equity Compensation Plan Information**

The following table provides certain information as of December 31, 2007 with respect to all of Exelixis' equity compensation plans in effect as of December 31, 2007:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
<b>Equity compensation plans approved by stockholders:</b>			
2000 Equity Incentive Plan <sup>1</sup>	19,821,572	\$ 10.28	10,336,209
2000 Non-Employee Directors' Stock Option Plan <sup>2</sup>	635,000	11.36	2,054,715
2000 Employee Stock Purchase Plan <sup>3</sup>	—	—	1,082,742
1994 & 1997 Equity Incentive Plan <sup>4</sup>	209,244	9.95	—
1997 Agritope Stock Award Plan <sup>5</sup>	52,845	15.11	296,844
<b>Equity compensation plans not approved by stockholders:</b>			
None	—	—	—
<b>Total</b>	<u>20,718,661</u>	<u>\$ 10.32</u>	<u>13,770,510</u>

The above equity compensation plans were adopted with the approval of our security holders.

- <sup>1</sup> In January 2000, we adopted the 2000 Equity Incentive Plan (the "2000 Plan") to replace the 1997 Plan (described below in note 4). A total of 3.0 million shares of Exelixis common stock were initially authorized for issuance under the 2000 Plan. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: (i) 5% of our outstanding shares on a fully-diluted basis and (ii) that number of shares subject to stock awards granted under the 2000 Plan during the prior 12-month period; provided, however, that the share increases shall not exceed 30.0 million shares in the aggregate. The Board of Directors may, however, provide for a lesser number at any time prior to the calculation date.
- <sup>2</sup> In January 2000, we adopted the 2000 Non-Employee Directors' Stock Option Plan (the "Director Plan"). The Director Plan provides for the automatic grant of options to purchase shares of common stock to non-employee directors. A total of 0.5 million shares of our common stock were initially authorized for issuance under the Director Plan. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: (i) 0.75% of our outstanding shares on a fully-diluted basis and (ii) that number of shares subject to options granted under the Director Plan during the prior 12-month period. The Board of Directors may, however, provide for a lesser number at any time prior to the calculation date.
- <sup>3</sup> In January 2000, we adopted the 2000 Employee Stock Purchase Plan (the "ESPP"). The ESPP was amended in April 2005 to increase the total number of shares issuable under the plan. 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 purchase period. A total of 0.3 million shares of common stock were initially authorized for issuance under the ESPP. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: (i) 0.75% of our outstanding shares on a fully-diluted basis and (ii) that number of shares subject to stock awards granted under the plan during the prior 12-month period; provided, however, that the share increases shall not exceed 3.4 million shares in the aggregate. However, the board may provide for a lesser number at any time prior to the calculation date.

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- 4 In January 1995, we adopted the 1994 Employee, Director and Consultant Stock Option Plan (the “1994 Plan”). The 1994 Plan provides for the issuance of incentive stock options, non-qualified stock options and stock purchase rights to key employees, directors, consultants and members of the Scientific Advisory Board. In September 1997, we adopted the 1997 Equity Incentive Plan (the “1997 Plan”). The 1997 Plan amends and supersedes the 1994 Plan. The 1997 Plan was replaced by the 2000 Plan. No further options will be issued under any of the predecessor plans to the 2000 Plan.
- 5 In November 1997, Agritope adopted the 1997 Stock Award Plan (the “Agritope Plan”). The Agritope Plan provides for the issuance of incentive stock options and non-qualified stock options to key Agritope employees, directors, consultants and members of its Scientific Advisory Board.

In connection with the acquisition of Agritope in December 2000, we assumed all the options granted and outstanding to former directors, consultants and employees of Agritope under the Agritope, Inc. 1997 Stock Award Plan. Each outstanding Agritope stock option was converted into the right to purchase the number of shares of our common stock as determined using the applicable exchange ratio of 0.35. All other terms and conditions of the Agritope stock options did not change and such options will operate in accordance with their terms.

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

Information required by this item is incorporated by reference to Exelixis’ Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended December 28, 2007.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this item is incorporated by reference to Exelixis’ Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended December 28, 2007.

**PART IV**

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

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

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

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	62
<a href="#">Consolidated Balance Sheets</a>	63
<a href="#">Consolidated Statements of Operations</a>	64
<a href="#">Consolidated Statements of Stockholders' Equity</a>	65
<a href="#">Consolidated Statements of Cash Flows</a>	66
<a href="#">Notes to Consolidated Financial Statements</a>	67

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

(3) The items listed on the Index to Exhibits on pages 105 through 110 are incorporated herein by reference.



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<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<hr/> <u>/S/ FRANK MCCORMICK</u> Frank McCormick, Ph.D.	Director	February 25, 2008
<hr/> <u>/S/ GEORGE POSTE</u> George Poste, D.V.M., Ph.D.	Director	February 25, 2008
<hr/> <u>/S/ LANCE WILLSEY</u> Lance Willsey, M.D.	Director	February 25, 2008
<hr/> <u>/S/ JACK L. WYSZOMIERSKI</u> Jack L. Wyszomierski	Director	February 25, 2008

**INDEX TO EXHIBITS**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
2.1	Agreement and Plan of Merger, dated September 27, 2004, by and among Exelixis, Inc., XBO Acquisition Corp., and X-Ceptor Therapeutics, Inc. (1)
2.2**	Asset Purchase and License Agreement, dated as of September 4, 2007, by and among Agrigenetics, Inc., Mycogen Corporation, Exelixis Plant Sciences, Inc., Agrinomics, LLC and Exelixis, Inc. (28)
2.3**	Share Sale and Transfer Agreement, dated November 20, 2007, by and between Taconic Farms, Inc. and Exelixis, Inc.
3.1	Amended and Restated Certificate of Incorporation of Exelixis, Inc. (2)
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Exelixis, Inc. (3)
3.3	Amended and Restated Bylaws of Exelixis, Inc. (30)
4.1	Specimen Common Stock Certificate. (2)
4.2	Form of Warrant, dated June 9, 2005, to purchase 750,000 shares of Exelixis, Inc. common stock in favor of Symphony Evolution Holdings LLC. (5)
4.3	Form of Warrant, dated June 13, 2006, to purchase 750,000 shares of Exelixis, Inc. common stock in favor of Symphony Evolution Holdings LLC. (6)
4.4*	Warrant Purchase Agreement, dated June 9, 2005, between Exelixis, Inc. and Symphony Evolution Holdings LLC. (5)
4.5	Fourth Amended and Restated Registration Rights Agreement, dated February 26, 1999, among Exelixis, Inc. and certain Stockholders of Exelixis, Inc. (2)
4.6	Registration Rights Agreement, dated October 18, 2004, by and among Exelixis, Inc., X-Ceptor Therapeutics, Inc., and certain holders of capital stock of X-Ceptor Therapeutics, Inc. listed in Annex I thereto. (7)
4.7	Registration Rights Agreement, dated October 18, 2004, by and among Exelixis, Inc., X-Ceptor Therapeutics, Inc., and certain holders of capital stock of X-Ceptor Therapeutics, Inc. listed in Annex I thereto. (7)
4.8*	Registration Rights Agreement, dated June 9, 2005, between Exelixis, Inc. and Symphony Evolution Holdings LLC. (5)
10.1	Form of Indemnity Agreement. (2)
10.2†	1994 Employee, Director and Consultant Stock Plan. (2)
10.3†	1997 Equity Incentive Plan. (2)
10.4†	2000 Equity Incentive Plan. (26)
10.5†	2000 Non-Employee Directors' Stock Option Plan.
10.6†	2000 Employee Stock Purchase Plan. (8)
10.7†	Agritope, Inc. 1997 Stock Award Plan. (9)
10.8†	Form of Stock Option Agreement under the 2000 Non-Employee Directors' Stock Option Plan. (10)

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<u>Exhibit Number</u>	<u>Description</u>
10.9 <sup>†</sup>	Form of Stock Option Agreement under the 2000 Equity Incentive Plan (early exercise permissible). (10)
10.10 <sup>†</sup>	Form of Stock Option Agreement under the 2000 Equity Incentive Plan (early exercise may be restricted). (4)
10.11 <sup>†</sup>	Employment Agreement, dated September 13, 1996, between George Scangos, Ph.D. and Exelixis, Inc. (2)
10.12 <sup>†</sup>	Offer Letter Agreement, dated June 18, 2001, between Jeffrey R. Latts, M.D. and Exelixis, Inc. (3)
10.13 <sup>†</sup>	Consulting Agreement, effective as of January 12, 2007, between Exelixis, Inc. and Jeffrey Latts. (30)
10.14 <sup>†</sup>	Offer Letter Agreement, dated February 3, 2000, between Michael Morrissey, Ph.D., and Exelixis, Inc. (3)
10.15 <sup>†</sup>	Offer Letter Agreement, dated November 20, 2003, between Frank Karbe and Exelixis, Inc. (3)
10.16 <sup>†</sup>	Offer Letter Agreement, dated March 27, 2000, between Pamela Simonton, J.D., L.L.M. and Exelixis, Inc. (11)
10.17 <sup>†</sup>	Offer Letter Agreement, dated June 20, 2006, between Exelixis, Inc. and Gisela M. Schwab, M.D. (12)
10.18 <sup>†</sup>	Compensation Information for the Company's Named Executive Officers. (13)
10.19 <sup>†</sup>	Compensation Information for Non-Employee Directors.
10.20 <sup>†</sup>	Exelixis, Inc. Change in Control and Severance Plan. (14)
10.21*	Amended and Restated Cancer Collaboration Agreement, dated as of December 15, 2003, by and between Exelixis, Inc. and Bristol-Myers Squibb Company. (15)
10.22*	Product Development and Commercialization Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (16)
10.23*	First Amendment to the Product Development and Commercialization Agreement, dated as of January 10, 2005, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (11)
10.24*	Stock Purchase and Stock Issuance Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (16)
10.25	First Amendment to the Stock Purchase and Stock Issuance Agreement, dated as of January 10, 2005, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (11)
10.26*	Loan and Security Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (16)
10.27	Second Amendment to the Loan and Security Agreement, dated as of September 20, 2004, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (17)
10.28*	Third Amendment to the Loan and Security Agreement, dated as of January 10, 2005, by and between SmithKlineBeecham Corporation and Exelixis, Inc. (11)
10.29*	Collaboration Agreement, dated May 31, 2005, between Exelixis, Inc. and Genentech, Inc. (5)
10.30*	License Agreement, dated June 10, 2005, between Exelixis, Inc. and Helsinn Healthcare, S.A. (5)

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<u>Exhibit Number</u>	<u>Description</u>
10.31*	Novated and Restated Technology License Agreement, dated June 9, 2005, between Exelixis, Inc. and Symphony Evolution, Inc. (5)
10.32*	Amended and Restated Research and Development Agreement, dated June 9, 2005, among Exelixis, Inc., Symphony Evolution, Inc. and Symphony Evolution Holdings LLC. (5)
10.33*	Purchase Option Agreement, dated June 9, 2005, among Exelixis, Inc., Symphony Evolution Holdings LLC and Symphony Evolution, Inc. (5)
10.34	Amendment No. 1, dated December 14, 2006, to the Purchase Option Agreement, dated June 9, 2005, among Exelixis, Inc., Symphony Evolution Holdings, LLC and Symphony Evolution, Inc. (18)
10.35*	Collaboration Agreement, dated December 5, 2005, between Exelixis, Inc. and Bristol-Myers Squibb Company. (19)
10.36**	Letter, dated August 20, 2007, relating to Notice under and Amendment to the Collaboration Agreement, dated December 5, 2005, between Exelixis, Inc. and Bristol-Myers Squibb Company. (27)
10.37*	License Agreement, December 21, 2005, between Exelixis, Inc. and Wyeth Pharmaceuticals Division. (19)
10.38*	Collaboration Agreement, dated March 20, 2006, between Exelixis, Inc. and Sankyo Company, Limited. (20)
10.39**	First Amendment, dated June 5, 2007, to Collaboration Agreement, dated March 20, 2006, between Exelixis, Inc. and Daiichi Sankyo Company Limited (formerly known as Sankyo Company Limited). (26)
10.40*	Collaboration Agreement, dated December 15, 2006, between Exelixis, Inc. and Bristol-Myers Squibb Company. (30)
10.41**	Amendment No. 1, dated January 11, 2007, to the Collaboration Agreement, dated December 15, 2006, between Exelixis, Inc. and Bristol-Myers Squibb Company. (27)
10.42*	Collaboration Agreement, dated December 22, 2006, between Exelixis, Inc. and Genentech, Inc. (30)
10.43	Lease, dated May 12, 1999, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc. (2)
10.44	First Amendment to Lease, dated March 29, 2000, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc. (21)
10.45	Lease Agreement, dated May 24, 2001, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc. (3)
10.46	Second Amendment to Lease, dated July 20, 2004, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc. (3)
10.47	Lease agreement, dated May 27, 2005, between Exelixis, Inc. and Britannia Pointe Grand Limited Partnership. (22)
10.48	Loan and Security Agreement, dated May 22, 2002, by and between Silicon Valley Bank and Exelixis, Inc. (31)
10.49	Loan Modification Agreement, dated December 21, 2004, between Silicon Valley Bank and Exelixis, Inc. (23)

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<u>Exhibit Number</u>	<u>Description</u>
10.50	Amendment No. 7, dated December 21, 2006, to the Loan and Security Agreement, dated May 22, 2002, between Silicon Valley Bank and Exelixis, Inc. (24)
10.51	Amendment No. 8, dated December 21, 2007, to the Loan and Security Agreement, dated May 22, 2002, between Silicon Valley Bank and Exelixis, Inc. (28)
10.52**	Contract Research Agreement, dated as of September 4, 2007, by and among Agrigenetics, Inc., Mycogen Corporation, Exelixis Plant Sciences, Inc. and Exelixis, Inc. (27)
10.53	Lease Agreement, dated September 14, 2007, between ARE-San Francisco No. 12, LLC and Exelixis, Inc. (27)
10.54**	Shareholders' Agreement, dated November 20, 2007, by and between Taconic Farms, Inc. and Exelixis, Inc.
21.1	Subsidiaries of Exelixis, Inc.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (contained on signature page).
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
32.1‡	Certification by the Chief Executive Officer and the 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).

† Management contract or compensatory plan.

± The reference to shares has been adjusted to reflect the reverse stock split which occurred in April 2000.

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

\*\* Confidential treatment requested 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.

1. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on September 28, 2004 and incorporated herein by reference.
2. Filed as an Exhibit to Exelixis, Inc.'s Registration Statement on Form S-1 (File No. 333-96335), as filed with the Securities and Exchange Commission on February 7, 2000, as amended, and incorporated herein by reference.
3. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the Securities and Exchange Commission on August 5, 2004 and incorporated herein by reference.
4. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 15, 2004 and incorporated herein by reference.
5. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, filed with the Securities and Exchange Commission on August 9, 2005 and incorporated herein by reference.

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6. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 15, 2006 and incorporated herein by reference.
7. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 21, 2004 and incorporated herein by reference.
8. Filed as an Appendix to Exelixis, Inc.'s Definitive Proxy Statement on Schedule 14A, as filed with the Securities and Exchange Commission on March 18, 2005 and incorporated herein by reference.
9. Filed as an Exhibit to Exelixis, Inc.'s Registration Statement on Form S-8 (File No. 333-52434), as filed with the Securities Exchange Commission on December 21, 2000 and incorporated herein by reference.
10. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, filed with the Securities and Exchange Commission on November 8, 2004 and incorporated herein by reference.
11. Filed as an Exhibit to Exelixis, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 15, 2005 and incorporated herein by reference.
12. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 26, 2006 and incorporated herein by reference.
13. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 12, 2007 and incorporated herein by reference.
14. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 15, 2005 and incorporated herein by reference.
15. Filed as an Exhibit to Exelixis, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on February 20, 2004, as amended, and incorporated herein by reference.
16. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, filed with the Securities and Exchange Commission on November 8, 2002 and incorporated herein by reference.
17. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on September 23, 2004 and incorporated herein by reference.
18. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 18, 2006 and incorporated herein by reference.
19. Filed as an Exhibit to Exelixis, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on March 9, 2006 and incorporated herein by reference.
20. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, filed with the Securities and Exchange Commission on May 9, 2006 and incorporated herein by reference.
21. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, filed with the Securities Exchange Commission on May 15, 2000 and incorporated herein by reference.
22. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on May 27, 2005 and incorporated herein by reference.
23. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 23, 2004 and incorporated herein by reference.

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24. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 27, 2006 and incorporated herein by reference.
25. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 30, 2007, filed with the Securities Exchange Commission on May 3, 2007 and incorporated herein by reference.
26. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 29, 2007, filed with the Securities Exchange Commission on August 7, 2007 and incorporated herein by reference.
27. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 28, 2007, filed with the Securities Exchange Commission on November 5, 2007 and incorporated herein by reference.
28. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 26, 2007 and incorporated herein by reference.
29. Filed as an Exhibit to Exelixis, Inc.'s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 4, 2007 and incorporated herein by reference.
30. Filed as an Exhibit to Exelixis, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 29, 2006, filed with the Securities and Exchange Commission on February 27, 2007 and incorporated herein by reference.
31. Filed as an Exhibit to Exelixis, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the Securities Exchange Commission on August 6, 2002 and incorporated herein by reference.

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{UR. Nr. {•}/2007}

#### NOTARIAL DEED

Negotiated at Frankfurt am Main this 20th (twentieth) day of November, 2007 (two thousand and seven).

Before me, the undersigned Notary Public

Dr. Gerhard Pilger

at Frankfurt am Main today appeared:

1. Dr. Alexander Veith, born [ \* ], German citizen, with business address at Shearman & Sterling LLP, Oberanger 28, 80331 Munich, Germany, identified by his identity card no. [ \* ], here not acting in his own name but as representative in the name and on behalf of  
Exelixis, Inc., 210 East Grand Avenue, South San Francisco, CA 94083, USA, (hereinafter referred to as “**Seller**”)  
by virtue of certified power of attorney dated November 15, 2007, the original of which was presented to the Notary Public and will be attached to this Notarial Deed.
2. Mr. Oliver Passavant, born [ \* ], German citizen, with business address at Jones Day, Grüneburgweg 102, 60323 Frankfurt am Main, Germany, known by person, here not acting in his own name but as representative in the name and on behalf of  
Taconic Farms, Inc., One Hudson City Centre, Hudson, NY 12534, USA, (hereinafter referred to as “**Purchaser**”)  
by virtue of certified power of attorney dated November 16, 2007, the original of which was presented to the Notary Public and will be attached to this Notarial Deed.

The Notary Public informed the persons appeared on the contents of Sec. 3 (1) no. (7) of the German Notarization Act. The Notary Public explained and the parties to this Notarial Deed confirmed that neither the Notary Public nor any of his partners or other persons associated with him within the meaning of said provision have been involved as legal advisors in the matter at hand.

The persons appeared requested this Notarial Deed including Annexes to be notarized in the English language. The Notary Public who is in sufficient command of the English language ascertained that also the persons appeared are in sufficient command of the English language. After having been advised by the Notary Public, the persons appeared waived their right to obtain the assistance of a sworn interpreter and to obtain a certified translation of this Notarial Deed including its Annexes.

The persons appeared, acting as stated above, requested the notarization of the following:

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PREAMBLE

1. WHEREAS Artemis Pharmaceuticals GmbH (hereinafter referred to as “**Artemis**”), is a German company with limited liability registered with the commercial register of the local court of Cologne under HRB 29566.
2. WHEREAS Artemis is engaged in the research, development and commercialization of genetically engineered ES cells and genetically engineered mouse models as genetic model systems for use at various stages of the drug discovery process or academic research.
3. WHEREAS Artemis has a fully paid-in registered share capital in the aggregate amount of DEM 787,400, divided into 17 shares, which are held as follows:
  - (a) Artemis holds 16 shares with a total par value of DEM 154,400;
  - (b) the Seller holds one share with a par value of DEM 633,000 (hereinafter referred to as “**Exelixis Share**”).
4. WHEREAS, the Seller has granted to Artemis certain Shareholder Loans (as defined in Part I Section 1 below).
5. WHEREAS the Seller is interested in selling the Sold Share (as defined in Part I Section 1 below) and its rights and claims under the Shareholder Loans to the Purchaser as described in more detail in this Agreement and whereas the Purchaser is interested in acquiring the Sold Share and the Seller’s rights and claims under the Shareholder Loans in this form.

NOW THEREFORE, the Seller and the Purchaser (hereinafter individually referred to as a “**Party**” and collectively as “**Parties**”) agree as follows:

**I.**

**Sale and Transfer of Sold Share and  
Rights and Claims under Shareholder Loans**

1. The Seller hereby divides the Exelixis Share in two shares, one with a nominal amount of DEM 507,000 (hereinafter referred to as “**Sold Share**”) and one with a

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nominal amount of DEM 126,000, and hereby sells and, subject to the satisfaction of all conditions precedent set forth in Section 2 below, transfers to the Purchaser, who accepts such sale and transfer, (i) the Sold Share with the right to all dividends not distributed as of the date hereof (hereinafter referred to as “**Closing Date**”), and all subscription and other rights pertaining to the Sold Share, and (ii) all rights and claims against Artemis under a loan agreement dated December 18, 2003, with an outstanding principal amount as of the Closing Date of [ \* ] and under a loan agreement dated September 24, 2004, with an outstanding principal amount as of the Closing Date of [ \* ] (hereinafter collectively referred to as “**Shareholder Loans**”), including all outstanding principal and any accrued but unpaid interest thereon at the Closing Date. Copies of the Shareholder Loans are attached hereto as **Annex I.1**.

2. The transfer of the Sold Share and the rights and claims against Artemis under the Shareholder Loans pursuant to Section 1 above is subject to the satisfaction of the following conditions precedent:
  - (a) Purchaser has provided to Artemis a comfort letter acceptable for purposes of replacing the comfort letter issued by the Seller to Artemis on September 6, 2007; and
  - (b) receipt by the Seller of the Preliminary Purchase Price (as defined in Part II Section 1 below) pursuant to Part II Section 1 below.
3. A copy of the approval of the sale and transfer of the Sold Share by Artemis is attached hereto as **Annex I.3**.

## **II.**

### **Preliminary Purchase Price, Purchase Price Adjustment**

1. The entire consideration for the sale and transfer of the Sold Share, the rights and claims against Artemis under the Shareholder Loans, and for all other obligations and liabilities assumed by the Seller in this Agreement shall be calculated as follows:
  - (a) On the Closing Date, the sum of:
    - (i) USD [ \* ] (in words: US Dollars [ \* ]), plus
    - (ii) USD [ \* ] (in words: US Dollars [ \* ]), which amount equals 80.1% of the Preliminary Cash (as defined in **Annex II.1**), minus

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- (iii) USD [ \* ] (in words: US Dollars [ \* ]), which amount equals 80.1% of the Preliminary Financial Debt (as defined in Annex II.1) (taken together, the “**Preliminary Purchase Price**”).
- (b) Following the Closing Date, the Preliminary Purchase Price
  - (i) plus or minus, as the case may be, 80.1% of the amount by which the Closing Cash (as defined in Annex II.1) is greater than or less than the Preliminary Cash;
  - (ii) plus or minus, as the case may be, 80.1% of the amount by which the Closing Financial Debt (as defined in Annex II.1) is less than or greater than the Preliminary Financial Debt; and
  - (iii) plus or minus, as the case may be, 80.1% of the amount by which the Net Working Capital (as defined in Annex II.1) as of the Closing Date is greater or less than [ \* ].

The amount consisting of the positive or negative amount of (b)(i) plus or minus, as the case may be, (b)(ii) and plus or minus, as the case may be, (b)(iii) shall be the “**Adjustment Amount**”, and the amount consisting of the Preliminary Purchase Price plus or minus, as the case may be, the Adjustment Amount shall be the “**Purchase Price**”.

For purposes of determining the Adjustment Amount any Euro amounts shall be converted into US Dollar amounts by applying [ \* ] as exchange rate.

- 2. The Adjustment Amount shall be finally determined on the basis of the balance sheet of the financial statements of Artemis as of the Closing Date (hereinafter referred to as “**Closing Balance Sheet**”).
  - (a) Purchaser shall cause Artemis to prepare the Closing Balance Sheet in full compliance with accounting principles generally applied in Germany (hereinafter referred to as “**German GAAP**”), and in accordance with Sections 264 et seq. of the German Commercial Code, the statutory provisions of German law regarding bookkeeping and accounting, as soon as reasonably possible after the Closing Date.

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- (b) Purchaser shall submit to Seller not later than 90 days after the Closing Date the Closing Balance Sheet together with the calculation of the Adjustment Amount and a list of any accounts receivable which are more than 120 days past the invoice date as of the Closing Date and which are therefore considered uncollectible and reduce the Net Working Capital as of the Closing Date. Seller shall have the right to review the Closing Balance Sheet and the calculation of the Adjustment Amount and/or to have the Closing Balance Sheet and the calculation of the Adjustment Amount reviewed by auditors of Seller's own choice at Seller's own expenses within 30 days following the receipt of the Closing Balance Sheet and the calculation of the Adjustment Amount (hereinafter referred to as "**Review Period**"). For such purposes Purchaser shall cause Artemis to grant the Seller's auditors the rights set forth in Section 320 para. 1 sentence 2, para. 2 sentence 1 and 3 of the German Commercial Code during the usual business hours.
- (c) If Seller does not submit any objections to the Closing Balance Sheet or the calculation of the Adjustment Amount in writing to Purchaser within 30 days following the expiration of the Review Period, the Closing Balance Sheet and Purchaser's calculation of the Adjustment Amount shall be deemed final and binding upon the Parties.
- (d) To the extent Seller objects in writing to the Closing Balance Sheet or the calculation of the Adjustment Amount within 30 days following the expiration of the Review Period and Seller and Purchaser cannot reach an agreement on the objections within a period of one month following the receipt of the objections by Purchaser, Seller and Purchaser shall be entitled to submit the Closing Balance Sheet, the calculation of the Adjustment Amount and the objections to an auditor (hereinafter referred to as "**Expert**") to be appointed by the German Institution of Auditors (*Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)*) on request of Seller or Purchaser. The Expert shall act as arbitration expert (*Schiedsgutachter*) and shall make a decision on the objections on the basis of the statutory provisions of German law regarding bookkeeping and accounting within one month. Such decision shall be final and binding upon the Parties. The Closing Balance Sheet and the calculation of the Adjustment Amount shall be deemed final and binding upon the Parties, once Seller and Purchaser have reached an agreement on the objections or once the Expert has made a final and binding decision on the objections.

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- (e) The costs and fees of the Expert shall be born by the Parties in accordance with the principles set forth in der Sections 91 et seq. of the German Code of Civil Procedure (ZPO).
3. The Preliminary Purchase Price shall be due and payable by wire transfer on the Closing Date to Seller's bank account at [ \* ].
4. The Adjustment Amount shall be due and payable [ \* ] bank working days (in San Francisco, California and Hudson, New York) after the Closing Balance Sheet and the calculation of the Adjustment Amount have become final and binding upon the Parties and shall be paid (i) in case it is a positive amount to Seller's bank account set forth in Section 3 above and (ii) in case it is a negative amount to an account designated by Purchaser. To the extent any accounts receivable excluded from the calculation of the Net Working Capital (because they are more than [ \* ] past the invoice date as of the Closing Date) are subsequently paid to Artemis, an amount equaling such account receivable shall be paid by Purchaser to Seller's bank account set forth in Section 3 above within [ \* ] business days following the receipt of the respective account receivable by Artemis. For purposes of converting any Euro amounts into US Dollar amounts, the exchange rate set forth in Section 1 above shall apply. Purchaser shall cause Artemis to use commercially reasonable efforts to collect such receivables; provided, however, neither Purchaser nor Artemis shall be obligated to institute a collection action.
5. Any failure by either Party to make any payment pursuant to this Part II when due shall result in such Party's immediate default (*Verzug*), without any notice by the other Party being required.

### III. Covenants, Indemnifications

Except as expressly set forth in **Annex III** hereto, with the satisfaction of all conditions precedent set forth in Part I Section 2 above, all legal relations between the Seller and Artemis and all rights and claims of the Seller against Artemis shall terminate.

The Seller undertakes to cause that the same applies to all legal relations between companies other than Artemis, which are directly or indirectly controlled by the Seller (hereinafter referred to as "**Controlled Companies**") on the one hand and Artemis on the other hand and to all rights and claims of Controlled Companies against Artemis and will, if necessary, hold Artemis fully harmless in good time.

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**IV.  
Seller's Guarantees**

Based on and subject to the restrictions set forth in Part V below the Seller herewith represents to the Purchaser by way of independent guarantees (hereinafter referred to as "**Independent Guarantees**"), that the following statements are, to the extent not otherwise provided for hereinafter, correct on the Closing Date:

1. (a) The Seller has the corporate power and authority under its amended and restated certificate of incorporation and any other charter documents and applicable laws to enter into and perform its obligations under this Agreement. The Seller has taken all corporate actions necessary in order to execute this Agreement and consummate the transaction contemplated hereby.
- (b) The execution and consummation of this Agreement by the Seller does not and will not result, except on account of facts or circumstances concerning the Purchaser and/or its affiliates, in a material violation of or material default under any material law, any administrative act or any court decision in effect as of the Closing Date having applicability to the Seller.
2. (a) Artemis is a German limited liability company duly organized and validly existing under German law and has been in continuous existence and operation since its incorporation.
- (b) The statements in Sections 1 to 3 of the Preamble to this Agreement with respect to Artemis and the participations of the Seller therein are true and correct on the Closing Date.  
The Sold Share is on the Closing Date fully paid-in, non-assessable and free of secondary rights or other obligations and restrictions.
- (c) Persons and companies other than Artemis and the Seller do not hold any direct or indirect participation of any type whatsoever in Artemis on the Closing Date and there are no claims for the granting of such rights.
- (d) On the Closing Date, the Sold Share is owned by the Seller free and clear of any rights of third parties, including without limitation any claims, liens, pledges, charges, encumbrances, mortgages, security interests, options, rights of first refusal or restrictions on transfer (hereinafter collectively referred to as "**Encumbrances**"). After giving effect to the transaction contemplated by this Agreement, on the Closing Date, the Purchaser shall receive and have title to the Sold Share free and clear of any Encumbrances created by the Seller or Artemis.

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- (e) Except for treasury shares and shares held in Exelixis, Artemis does not hold any shares or partnership interest in any other company, except temporary investments in the ordinary course of business. Artemis is not a party to any agreement within the meaning of Sec. 291 of the German Stock Corporation Act (*Aktiengesetz – AktG*), whereby it agrees to share any revenue or profit with any other person.
  - (f) Artemis has the corporate power and authority to conduct its business as conducted at the Closing Date.
  - (g) Prior to the Closing Date, Artemis has not paid any dividends, be it by payments in cash or in kind on any legal basis whatsoever to the Seller or the Controlled Companies.
  - (h) Artemis is not subject to any obligations vis-à-vis brokers or finders in connection with the transactions contemplated by this Agreement.
3. (a) Except for the agreements, resolutions and promises set forth in **Annex IV.3(a)** hereto and for other agreements, resolutions and promises explicitly set forth in this Agreement and its Annexes, there are no agreements, resolutions or promises concerning (i) the corporate relations between the Seller or the Controlled Companies on the one hand and Artemis on the other hand or (ii) the appointment of members of any of the boards of Artemis nor are there any obligations to enter into such agreements, resolutions or promises.
- (b) **Annex IV.3(b)** hereto contains a complete and correct list of all managing directors, *Prokurists* and comparable members of the management of Artemis and of all members of supervisory boards, advisory boards and comparable boards of Artemis, if any. There are no outstanding general powers of attorney executed by or on behalf of Artemis in favor of any person or party.
4. (a) Except as set forth in **Annex IV.4(a)** hereto, Artemis has full, unrestricted and unencumbered title to, and possession of, all material tangible and intangible assets, which serve its business in its current scope except for those assets

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which are leased or licensed from persons and companies other than the Seller or the Controlled Companies in the ordinary course of business on normal market terms or which are still subject to usual reservations of title by suppliers pending payment (*Eigentumsvorbehalt*). All assets of Artemis are located at its premises in Cologne, Germany.

- (b) Artemis does not have branches or divisions outside of its principal place of business.
5. (a) The audited financial statements of Artemis as of December 31, 2006 (hereinafter referred to as “**Artemis Financial Statements 2006**”) and the unaudited interim financial statements of Artemis as of September 30, 2007 (hereinafter referred to as “**2007 Interim Financial Statements**”) were prepared in all material respects in accordance with German GAAP, except as set forth in **Annex IV.5(a)** hereto.
- (b) Except as set forth in **Annex IV.5(b)** hereto, these principles have been applied consistently and without change as in the preceding year.
  - (c) All risks, devaluations and losses ascertainable at the time of the preparation of the Artemis Financial Statements 2006 have been duly provided for by sufficient depreciations, changes of evaluation or reserves.
  - (d) The Artemis Financial Statements 2006 present, pursuant to Sections 264 (2) of the German Commercial Code (*HGB*), correctly the asset, financial and profit situation of Artemis for the business year ending on December 31, 2006.
  - (e) Copies of the Artemis Financial Statements 2006 and the 2007 Interim Financial Statements are attached hereto as **Annex IV.5(e)**.
6. Since January 1, 2007, (i) the business of Artemis has only been conducted in the ordinary course consistent with past practice and (ii) all salary and wage increases granted by Artemis were within the normal scope.
7. All material movable assets of Artemis are in serviceable condition and free of any material defects, normal wear and tear excepted.
8. Except as set forth in **Annex IV.8** hereto, Artemis (i) is not a party to, or, to the Seller’s knowledge, threatened by, any litigation, administrative proceedings or investigations and (ii) is not subject to any judgment, decree or settlement in any legal or administrative proceedings, which materially restricts or impairs it in the operation of its business, in the acquisition or disposition of assets or in competition.

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9. Except for the contracts, agreements and promises listed in **Annex IV.9** hereto (hereinafter referred to as “**Material Contracts**”), Artemis is not subject to any contract, agreement or promise of the type set forth in Annex IV.9 hereto, except for contracts, agreements or promises of such type entered into with the Purchaser.

The Seller has caused to be provided to the Purchaser true and correct copies of all of the Material Contracts to the Purchaser. The Material Contracts are valid and enforceable against the parties thereto and neither Artemis nor, to the Seller’s knowledge, the respective other party has breached, or is in default under, any of the Material Contracts to any material degree.

To Seller’s knowledge, and except as set forth in Annex IV.9 hereto, the execution and consummation of this Agreement will not result in any breach, automatic change or termination of any Material Contract or to a right of the other contractual party to change or terminate any Material Contract, in any repayment of any grants or comparable benefits of any kind whatsoever granted to Artemis, in the acceleration of any material obligation or liability of Artemis or in the reduction or termination of any supply or delivery relations between Artemis and its suppliers and customers.

10. (a) Artemis is not bound by any written (i) shop agreements (*Betriebsvereinbarungen*), (ii) collective bargaining agreements (*Tarifverträge*) or (iii) any other collective agreements (*Kollektivvereinbarungen*).
- (b) Artemis is not involved in any disputes with trade unions, corporate bodies representing any of its employees, or any of its current or former employees and has not been involved in such disputes within the period of 12 months prior to the Closing Date.
- (c) Artemis has maintained records regarding employment contracts of each of its employees and the termination of employment contracts.
- (d) Artemis has not entered into collective agreements (*Kollektivvereinbarungen*) with its employees, which provide for payments to be made by Artemis in connection with the termination of employment contracts.

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- (e) The execution and consummation of this Agreement will not result in any automatic change or termination of any employment or director service agreement entered into by Artemis, in a right of the other party to change or terminate such employment or director service agreement, or any payment obligation of Artemis towards its employees or managing directors.
  - (f) All salaries of the current and former employees of Artemis for the period prior to the Closing Date have been paid in the ordinary course of business by Artemis in accordance with its customary payroll practices, and to the extent paid subsequent to January 1, 2007 and on or before September 30, 2007, are properly reflected in the 2007 Interim Financial Statements.
  - (g) Except as set forth on **Annex IV.10(g)** hereto, Artemis is not, directly or indirectly, party or subject to any funded or unfunded pension plan or similar commitment. Neither of the agreements listed in Annex IV.10(g) requires any funding by Artemis other than by sacrificed compensation (*Gehaltsumwandlung*).
11. **Annex IV.11(a)** hereto contains a complete and correct list of all registrations for patents, utility models (*Gebrauchsmuster*), registered designs (*Geschmacksmuster*), trademarks (*Warenzeichen*), and domain names, and all respective applications with respect to such rights, owned by Artemis (hereinafter referred to as “**Owned IP Rights**”). Artemis maintains all Owned IP Rights, in particular, all registration fees due have been fully paid. **Annex IV.11(b)** hereto contains a complete and correct list of all agreements relating to patents, patent utility models, registered designs, trademarks and domain names, licensed to Artemis, except for those agreement to which the Purchaser is a party (hereinafter referred to as “**Licensed IP Rights**”) (the Owned IP Rights and the Licensed IP Rights hereinafter collectively referred to as “**Intellectual Property Rights**”). To the Seller’s knowledge, Artemis does not infringe any patents, utility models, registered designs, trademarks and domain names owned by third parties.
- Except as set forth in Annex IV.11(a) or IV.11(b) hereto, (i) no Owned IP Right is encumbered with any rights of any third party, (ii) all agreements providing for a license of the Licensed IP Rights are valid and enforceable against the respective licensor in accordance with their terms, and (iii) Artemis has not received a written notice of a challenge by a third party, a cancellation or total or partial nullification or any material rights of prior users with respect to the Intellectual Property Rights, except for communication in the ordinary course of applying for patents with the respective patent office. Except for Licensed IP Rights that are non-exclusive, to the

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Seller's knowledge, Artemis is neither restricted in the sole and exclusive use of the Intellectual Property Rights (subject to the respective license agreements for the Licensed IP Rights) nor are these Intellectual Property Rights infringed by third parties.

Artemis has the material manufacturing, processing and marketing know-how for its entire present products and, to the extent that such know-how has been laid down in writing, all documents pertaining thereto.

To the extent Artemis exploits any inventions by its employees, Artemis has duly complied with the provisions of the German Act on Employee Inventions (*Arbeitnehmererfindungsgesetz*) to the extent required by law, agreement or otherwise. Artemis has paid all compensation to persons entitled to payments under the German Act on Employee Inventions, or any related agreements, up to and including the Closing Date.

12. Artemis has filed all tax returns and other tax and similar reports required under the applicable laws to be filed with tax and other authorities, paid all due taxes, tax prepayments and other public dues, retained all taxes, social security charges and other charges to be retained and paid by it by the respective due dates to the respective recipients and paid all related delay charges and penalties, if any.

To the extent not due as of September 30, 2007, sufficient reserves have been made in the Artemis Financial Statements 2006 or in the 2007 Interim Financial Statements in respect of taxes, social security charges and other charges to be retained relating to the period prior to and including September 30, 2007, including without limitation, any potential tax liability from any cancellation or forgiveness of Artemis indebtedness to Seller.

13. **Annex IV.13** hereto sets forth a complete list of all material insurance agreements of Artemis. No insurance carrier has either disclaimed coverage or reserved its right to disclaim coverage for any claim, suit, occurrence or event in writing to Artemis and none of such coverage will be negated by reason of the consummation of the transactions contemplated by this Agreement (other than by reason of action taken by Taconic).

The insurance agreements are in full force and effect and all premiums due have been paid. No damages have occurred with respect to which Artemis would be required to or, in order to maintain its coverage, should give any notice to the insurers under any such insurance policies which has not been given. Artemis has not received written notice from any of the insurers regarding cancellation of or denial of coverage under such insurance policies.

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Since December 31, 2005, there have not been any material (i) claims, (ii) lawsuits or (iii) damages at Artemis, which are not covered by insurance.

14. Artemis holds those material administrative approvals and licenses which are required for the conduct of its present business on the Closing Date, all of which are listed in **Annex IV.14** hereto (hereinafter collectively referred to as "**Material Permits**"). The Material Permits are in full force and effect, and Artemis has paid all fees and charges payable with regard to the Material Permits. To the Seller's knowledge, no event has occurred as a result of which (i) any of the Material Permits may be revoked or challenged (*angefochten*) or (ii) any conditions may be imposed on the Material Permits. Artemis operates its business in material compliance with the Material Permits and all material applicable German laws, regulations and governmental or administrative orders including without limitation the Act on Gene Technology (*Gentechnikgesetz*) and the regulations based thereon, the Animal Protection Act (*Tierschutzgesetz*), the Act on Nuclear Energy (*Atomgesetz*) and the Regulation on Protection from Radiation (*Strahlenschutzverordnung*), and the laws and regulations on waste water (*Landeswassergesetz Nordrheinwestfalen, Wasserhaushaltsgesetz, Verordnung über die Genehmigungspflicht für die Einleitung von Abwasser mit gefährlichen Stoffen; Verordnung über Anforderungen an das Einleiten von Abwasser in Gewässer*).
15. (a) Artemis does not own any real estate.  
(b) **Annex IV.15(b)** attached hereto lists all real property leased to Artemis. The Seller has caused to be provided to the Purchaser correct and complete copies of the leases (as amended to date) listed in Annex IV.15(b).
16. Artemis has not released any toxic or hazardous materials into the soil, ground water or air at or from any parcel of real property or any facility formerly or currently owned, leased, operated or controlled by Artemis in quantities which would be in violation of applicable environmental laws and, to the Seller's knowledge, there have been no such releases by any person or entity other than Artemis that could reasonably be expected to have an impact on any parcel of real property or facility formerly or currently owned, leased, operated or controlled by Artemis.

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17. Except as set forth in **Annex IV.17** hereto, Seller does not have knowledge of any material defect in any products or services heretofore or currently distributed, provided or sold by Artemis which could give rise to any material claim, provided that this Independent Guarantee does not apply to any liabilities directly caused by any modifications or similar actions by Purchaser (and/or Artemis after the Closing Date) to products or services delivered by Artemis prior to the Closing Date.
18. Neither Artemis, nor any shareholder, officer, director or employee thereof have paid or caused to be paid or received, directly or indirectly, in connection with its business (a) any bribe, kickback or other similar payment to or from any government or similar agency thereof or any other person, or (b) any contribution to any political party or candidate, other than from personal funds of such shareholder, officer, director or employee not reimbursed by Artemis and unrelated to the business of Artemis or the Seller.

## V.

### Performance and Liability

1. The Parties herewith expressly exclude all provisions of Sections 434 *et seq.* of the German Civil Code (*BGB*).  
Except for claims resulting from a breach of the Independent Guarantees and except for the claims for specific performance (*Erfüllungsansprüche*), all other claims of the Purchaser with respect to the sale and transfer of the Sold Share including, but not limited to, claims under Sections 241 (2), 311 (2) and (3), 280 (1) and 313 of the German Civil Code (*BGB*) are herewith expressly excluded.  
The withdrawal or rescission from this Agreement is herewith excluded.  
The rights under Sections 123 and 826 of the German Civil Code (*BGB*) shall not be affected.
2. In case of a breach of any Independent Guarantee that is curable, the Seller may put Artemis or the Purchaser, as the case may be, into the respective position in which Artemis or the Purchaser would have been if the respective Independent Guarantee had not been breached (*Naturalrestitution*).  
In case that the Seller has not effected such remedy (*Naturalrestitution*) within [ \* ] (hereinafter referred to as “**Cure Period**”) after receipt of notification by the Purchaser regarding the breach of the respective Independent Guarantee or has

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rejected such remedy, the Purchaser shall be entitled, (i) in case of a breach of any Independent Guarantee set forth in Part IV [ \* ] above, to request a monetary payment in order to compensate any direct damages suffered by itself and (ii) in case of a breach of any other Independent Guarantee, to request a monetary payment in order to compensate the direct damage suffered by Artemis (hereinafter referred to as “**Artemis Damage**”). In case Purchaser requests a monetary payment in order to compensate the Artemis Damage, it shall be in the sole discretion of the Seller to make a monetary payment in the amount of [ \* ], in each case, however, subject to the limitations set forth in this Part V.

Notwithstanding the foregoing, there shall be no Cure Period for any breach of an Independent Guarantee that, in Purchaser’s reasonable discretion, either threatens the business of Artemis or, without immediate attention, exposes Artemis to material business or financial risk or consequential damage (hereinafter referred to as “**Immediate Threat**”). The Purchaser shall give the Seller prompt notice of any such Immediate Threat.

3. The legal concepts of mitigation of damages (*Schadensminderungspflicht*) and the offsetting of advantages (*Vorteilsausgleichung*) shall apply to all claims of the Purchaser under this Agreement. The Purchaser shall not be entitled to request the compensation of consequential damages (*Mangelfolgeschäden*), including the loss of profit (*entgangener Gewinn*).
4. The period of limitation for all claims of the Parties pursuant to this Agreement shall expire [ \* ] after the Closing Date unless a longer period of limitation results from this Section 4 for the respective claim.

There shall be no period of limitation for claims based on the breach of any Independent Guarantee set forth in Part IV [ \* ] above, or the breach of any covenant set forth in Part III above and Part VII below.

The period of limitation for claims based on the incorrectness of the Independent Guarantee set forth in Part IV [ \* ] above shall expire [ \* ].

5. Claims of the Purchaser against the Seller based on a breach of any Independent Guarantee can only be raised if and to the extent that (i) the facts giving rise to such claims have not been specifically disclosed in this Agreement or its Annexes and such disclosure was made for the specific purpose of avoiding the claim in issue, and (ii) the Purchaser and/or its professional advisors are not aware of the breach of the

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Independent Guarantee as of the Closing Date. In order to enable the Seller to prove knowledge of the Purchaser and/or its professional advisors of the breach of an Independent Guarantee, the Purchaser shall only be entitled to claim any remedies for a breach of any Independent Guarantee if it provides or has provided to Seller any due diligence reports prepared by its professional advisors with respect to due diligence performed by its professional advisors prior to the Closing Date in the context of the transactions contemplated by this Agreement; provided, however, (i) that the provision of any such report shall not constitute a waiver of attorney-client privilege and (ii) that the Seller shall provide Purchaser's professional advisors with hold harmless letters if so requested by Purchaser's professional advisors.

6. Claims of the Purchaser against the Seller based on a breach of any Independent Guarantee cannot be raised if and to the extent that the damages giving rise to such claims:
  - (a) have already been reserved or otherwise reflected in the Artemis Financial Statements 2006, the 2007 Interim Financial Statements or the Closing Balance Sheet, however, with respect to the Closing Balance Sheet only to the extent such reserve or reflection has reduced the Purchase Price; or
  - (b) have resulted in receipt of insurance payments or other third party payments by Artemis; provided, however, that an amount equal to any insurance payments or other third party payments with respect to a damage giving rise to a claim of the Purchaser against the Seller received by Artemis after an indemnification payment is made by the Seller to the Purchaser, shall be paid by Purchaser to Seller's bank account set forth in Part II Section 3 above within [ \* ] following the receipt of the payment by Artemis.
7.
  - (a) Claims of the Purchaser against the Seller based on a breach of any Independent Guarantee can, subject to the provisions set forth in Section 5 and Section 6 above, only be raised if the aggregate amount of claims by the Purchaser exceeds an amount of [ \* ].
  - (b) The maximum liability of the Seller based on a breach of any Independent Guarantee shall not exceed [ \* ].
  - (c) The provisions of this Section 7(a) and (b) shall not apply to claims based on a breach of the Independent Guarantees set forth in Part IV [ \* ] above and shall not apply to Purchaser's claims pursuant to Part VII [ \* ] below.

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8. For purposes of this Agreement, “knowledge” of Seller or any similar phrase means, with respect to any fact, [ \* ].

**VI.  
Purchaser’s Warranties**

The Purchaser herewith represents to the Seller by way of independent guarantees, that the following statements are, to the extent not otherwise provided for hereinafter, correct on the Closing Date.

1. The Purchaser is duly organized and validly existing under the laws of the jurisdiction of its incorporation.
2. The Purchaser has the corporate power and authority under its articles of incorporation and any other charter documents and applicable laws to enter into and perform its obligations under this Agreement. The Purchaser has taken all corporate actions necessary in order to execute this Agreement and consummate the transaction contemplated hereby.
3. The execution and delivery of and the performance by the Purchaser of its obligations under this Agreement will not result in a breach of any provision of the certificate of incorporation, as amended, of the Purchaser or any order, judgment or decree of any court, governmental agency or regulatory body.
4. No governmental or state approval is necessary (including merger control approval) for the execution, delivery and performance of this Agreement by the Purchaser and the consummation by the Purchaser of the transactions contemplated hereby.

**VII.  
Post Closing Covenant, Shareholders’ Agreement**

1. In the case of claims of third parties against Artemis, which may constitute a claim of the Purchaser under Part V above (hereinafter referred to as “**Third-Party Claim**”), Purchaser shall give written notice (hereinafter referred to as “**Notice**”) to Seller within fifteen (15) days of the filing or other assertion of any such Third-Party Claim. The Notice shall specify in detail the amount of the Third-Party Claim, if known, and method of computation thereof, and contain a reference to the provisions of Part V above in respect of which a claim of the Purchaser may be constituted. The failure of the Purchaser to give the Notice within such time period shall not relieve the Seller of any liability that the Seller may have to the Purchaser, however, the concept of mitigation of damages (*Schadensminderungspflicht*) shall apply.

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In the case of any Third-Party Claims for which damages are sought by the Purchaser, Purchaser shall ensure that Artemis grants the Seller the option, at Seller's expense, to (i) conduct and control any proceedings or negotiations, (ii) take all other steps to settle or defend any such claim; provided that the Seller shall not settle any such claim without the consent of the Purchaser (which consent shall not be unreasonably withheld, conditioned or delayed unless such settlement may prejudice the Purchaser or its affiliates or any of their officers, directors, employees or agents) unless the settlement includes a complete release of Artemis with respect to the claim and (iii) employ counsel to contest any such claim or liability. In the event the Seller elects to conduct and control any proceedings itself, Artemis shall be entitled to fully participate at its own expense and by its own counsel reasonably acceptable to the Seller in any proceedings relating to any Third-Party Claim. Within thirty (30) days after the Purchaser's delivery of the Notice to Seller, the Seller shall notify the Purchaser of its intention as to the conduct and control of the defense of such claim and the Purchaser shall ensure that Artemis and its counsel shall cooperate with the Seller and its counsel. Until the Purchaser has received notice of the Seller's election whether to defend any Third-Party Claim, the Purchaser shall ensure that Artemis takes reasonable steps to defend (but may not settle) such claim. If the Seller shall decline to assume the defense of a Third-Party Claim, or the Seller shall fail to notify the Purchaser within thirty (30) days after delivery of the Notice, the Purchaser shall ensure that Artemis defends against that Third-Party Claim. The reasonable expenses of all proceedings, contests or lawsuits in respect of Third-Party Claims shall be borne by the Seller but only if the Seller is responsible pursuant hereto to indemnify the Purchaser in respect of the Third-Party Claim. Regardless of whether Seller or Artemis shall assume the defense of the claim, Seller undertakes to cooperate and Purchaser undertakes to ensure that Artemis cooperates fully with each other in connection therewith and to keep each other reasonably informed of the status of the claim and any related proceeding. Seller shall take no action or make any admissions or statements not required by applicable law which would adversely effect the defense of any such claim and Purchaser shall ensure that Artemis acts accordingly.

Purchaser shall not and shall ensure that Artemis does not negotiate, settle or pay (except in the case of payment of a judgment) any third party liability as to which it proposes to assert a damage claim, except with the prior written consent of the Seller (which consent shall not be unreasonably withheld, conditioned or delayed), unless

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there is a reasonable possibility that such third party liability may have a material adverse effect on Artemis, in which case Artemis and the Purchaser shall have the right, after notifying the Seller, to negotiate, settle or pay such third party liability without prejudice to Purchaser's damage claims.

2. The Purchaser undertakes to ensure that in the period after the Closing Date tax matters (*Steuer- und Abgabenangelegenheiten*) of Artemis (including appeals), which may have consequences for the Seller, shall be handled by Artemis and the Purchaser only together with the Seller. The Seller must in particular be notified in time of, and must be given an opportunity to comment on and to participate in, audits by financial authorities and social security carriers. Binding declarations to the auditing authorities, which may have consequences for the Seller, shall be made by Artemis and the Purchaser only in agreement with the Seller, which agreement shall not be unreasonably withheld, conditioned or delayed.
3. The Purchaser grants and undertakes to ensure that Artemis grants to the Seller and its professional advisors also after the Closing Date all information and access (during normal business hours) to all premises, books and personnel of Artemis to the extent that such information or access is reasonably requested for tax reasons, for reasons of defense against claims of the Purchaser and/or third parties or for other legitimate reasons.
4. The Parties undertake, upon the request of any other Party, at any time after the Closing Date and without further compensation to execute all documents in proper form and to take all measures, which may still be necessary in order to consummate this Agreement and to comply fully with the purposes of this Agreement.
5. Seller covenants the following with respect to the non-exclusive license agreement dated July 1, 1999, between The Salk Institute for Biological Studies (hereinafter referred to as "Salk") and the Seller with respect to FLP Technology, Transgenic Animals attached hereto as **Annex VII.5** (hereinafter referred to as "Salk License"):
  - (a) The Salk License is in full force and effect.
  - (b) Until an Assignment (as defined in (ii) below) or until Artemis obtains an Equivalent License (as defined in Section 5(c) below) as the case may be:
    - (i) Artemis has the legal right to [ \* ];

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- (ii) Seller shall [ \* ] to obtain Salk's consent to an assignment of the Salk License to Artemis [ \* ] after the Closing Date (hereinafter referred to as "Assignment"). The Seller shall keep the Purchaser informed in a timely manner of all material actions taken in connection with obtaining the Assignment. The Seller shall not agree to the terms of an Assignment without the prior consent of the Purchaser, which consent shall not be unreasonably withheld, conditioned or delayed and at the Purchaser's reasonable request, the Seller will include Artemis in all discussions with Salk. If the Seller obtains Salk's consent to an Assignment, promptly thereafter Seller will transfer to Artemis all of Seller's rights and post-Assignment obligations under the Salk License without reservation or retained rights;
  - (iii) in the event that the Seller is unable to obtain Salk's consent to an Assignment, the Seller will [ \* ] to assist Artemis in obtaining from Salk its own license on terms [ \* ] equivalent to the Salk License (hereinafter referred to as "Equivalent License"); and
  - (iv) the Seller shall neither [ \* ], nor [ \* ], and the Seller will support Artemis' continued use of the Salk License, subject to [ \* ].
- (c) Notwithstanding Section 5(b) above, the Seller shall have no obligation to ensure that the Purchaser or any entity affiliated to it other than Artemis receives or enjoys any legal rights under the Salk License, an Assignment or an Equivalent License.
- (d) The Seller shall pay all costs and expenses incurred in connection with seeking and obtaining an Assignment or an Equivalent License, as the case may be, provided, however, that in the case of the aggregate of the first annual license fee and any other upfront fees required by Salk to be paid in connection with an Assignment or Equivalent License, as the case may be, the Seller shall only be responsible for [ \* ] under the Salk License. The Seller shall have no obligation to pay any costs or expenses, including, without limitation, any license fees or royalties, in connection with the ongoing maintenance of an Assignment or Equivalent License, as the case may be.
6. Purchaser covenants as follows:
- (a) to cause Artemis to accept the Assignment;

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- (b) unless Salk gives notice that Artemis is to cease using the Salk License as a result of Seller's sale of the Sold Share to Purchaser, to cause Artemis to comply with the terms of the Salk License;
  - (c) in the event Salk's consent to an Assignment is not obtained, to cause Artemis to use commercially reasonable efforts to attempt to obtain an Equivalent License;
  - (d) to cause Artemis to reimburse the Seller for payments made by Seller to Salk under the Salk License in accordance with past practice, but only to the extent such payments are reflected on the Closing Balance Sheet; and
  - (e) unless Salk gives notice that Artemis is to cease using the Salk License as a result of Seller's sale of the Sold Share to Purchaser, to cause Artemis to pay directly to Salk all payments under the Salk License that become due and payable after December 31, 2007.
7. The covenants in Sections 5(a) and (b) above shall be subject to the provisions of Part V above, except for the provisions of Part V Section 7 above, provided, however, that the Purchaser shall have no claims against Seller for any damages or expenses arising from: (i) the failure by Artemis to comply with the terms of the Salk License, an Assignment or an Equivalent License, (ii) the failure by Artemis to make any payments under the Salk License that become due and payable after December 31, 2007, and (iii) the breach of any covenant of the Purchaser set forth in Section 6 above.
8. The Purchaser shall indemnify the Seller against any direct damages or expenses incurred by the Seller arising from: (i) the failure by Artemis to comply with the terms of the Salk License during such period of time as Artemis is using the Salk License prior to an Assignment or obtaining an Equivalent License, as the case may be; (ii) the failure by Artemis to make any payments under the Salk License that become due and payable after December 31, 2007; and (iii) the breach of any covenant set forth in Section 6 above.
9. The Seller shall promptly indemnify Artemis for any legally required or commercially reasonable payments made by Artemis [ \* ], provided that Seller's obligation to indemnify Artemis pursuant to this Section 9 shall be limited to a total amount of [ \* ].

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10. The Parties hereby enter into the shareholders' agreement attached hereto as **Annex VII.10** (hereinafter referred to as "**Shareholders' Agreement**").

**VIII.  
Miscellaneous**

1. All public announcements, including any announcements to employees, customers and suppliers, concerning the transaction under this Agreement shall be agreed between the Parties hereto in advance as to the timing and the contents except as otherwise required by mandatory law, regulations of stock exchanges or capital market requirements.
2. Transfer taxes, if any, connected with the conclusion and consummation of this Agreement as well as costs and expenses in connection with the notarization of this Agreement shall be borne by the Purchaser. Apart therefrom, each Party shall bear its own costs and taxes and the costs of its advisors and auditors.
3. Changes and amendments of this Agreement as well as declarations to be made or notices required to be given or otherwise given hereunder shall be valid only if made in writing unless a notarial deed is legally required. This shall also apply to any change of this Section 3.
4. (a) The Seller shall appoint a person or legal entity, which is authorized to make and accept with legally binding effect for the Seller all declarations under this Agreement or in consummation thereof.

The Seller appoints as such agent:

President & Chief Executive Officer,  
Exelixis, Inc.,  
170 Harbor Way  
South San Francisco, CA 94083 (USA).

A copy of each declaration shall be sent to:

Vice President, Corporate Legal Affairs and Secretary,  
Exelixis, Inc.,  
170 Harbor Way  
South San Francisco, CA 94083 (USA).

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- (b) The Purchaser shall appoint a person or legal entity, which is authorized to make and accept with legally binding effect for the Purchaser all declarations under this Agreement or in consummation thereof.

The Purchaser appoints as such agent:

Chief Executive Officer  
Taconic Farms, Inc.  
One Hudson City Centre  
Hudson, NY 12534

A copy of each declaration shall be sent to:

Leslie M. Apple, Esq.  
Whiteman Osterman & Hanna LLP  
One Commerce Plaza, 19<sup>th</sup> Floor  
Albany, NY 12260

- (c) A change in the person or address of the agent appointed under lit. (a) and (b) above shall be effective for the other Party only one month after the date on which they have been notified of such change. Until the lapse of such period, the authority of the previous agent as well as his address shall be deemed to continue.

5. If a provision of this Agreement should be or become invalid or unenforceable or not contain a necessary regulation, the validity of the other provisions of this Agreement shall not be affected thereby. The invalid or unenforceable provision shall be replaced and the gap be filled by a legally valid arrangement which corresponds as closely as possible to the intention of the Parties or what would have been the intention of the Parties according to the aim and purpose of the Parties of this Agreement if they had recognized the gap.
6. The Annexes to this Agreement form an integral part of this Agreement. The headings to this Agreement shall only serve the purpose of easier orientation and are of no consequences for the contents and interpretation of this Agreement.
7. This Agreement shall be governed by the laws of the Federal Republic of Germany.

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8. Except for a Purchase Price dispute pursuant to Part II Section 2, all disputes arising out of or in connection with this Agreement shall be finally settled in accordance with the Arbitration Rules of the German Institution of Arbitration e.V. (DIS) without recourse to the ordinary courts of law by one arbitrator appointed in accordance with the said Rules. The forum for all arbitration shall be at a location in Frankfurt a.M., Germany. The language of the arbitral proceedings shall be English.

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**Copies of Shareholder Loans**

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THIS LOAN AGREEMENT dated as of December 18, 2003 (the "Agreement") is entered into between:

(i) Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511, United States of America (the "Lender"), a corporation organized and existing under the laws of the State of Delaware, United States of America, and

(ii) Artemis Pharmaceuticals GmbH, Neurather Ring 1, 51063 Cologne, Germany, a company incorporated with limited liability (*Gesellschaft mit beschränkter Haftung*) under the laws of the Federal Republic of Germany and registered with the commercial register at the local court (*Amtsgericht*) in Cologne under registration number HRB 29566 (the "Borrower").

WHEREAS, the Lender is currently the sole shareholder in the Borrower and holds Shares in the aggregate nominal amount (*Stammeinlage*) of DEM 787,400.

WHEREAS, the Borrower is currently investigating the possibility of specific Business Combinations.

WHEREAS, as of its December 31, 2002 balance sheet, the Borrower showed an adverse balance (*Unterbilanz*) of € [ \* ] and as of the date hereof remains in financial distress.

WHEREAS, the Borrower has requested the Lender to make Advances to it on the terms and conditions set forth in this Agreement in order to meet its current financial obligations.

WHEREAS, the Lender has agreed to make such Advances to the Borrower on such terms and condition.

WHEREAS, certain capitalized terms used in this Agreement are defined in Section 1.01 of this Agreement.

NOW, THEREFORE, intending to be legally bound hereby, the Borrower and the Lender individually hereby agree as follows:

## ARTICLE I

### DEFINITIONS

SECTION 1.01 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Additional Advances" has the meaning specified in Section 2.02.

"Advances" means, collectively, the Initial Advance and all Additional Advances in an amount not to exceed at any time outstanding [ \* ] in the aggregate.

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“Business Combinations” means (i) the combination of the business of the Borrower with the business of another Person by way of (x) establishment of a new company, (y) contribution in kind of the business of another Person to the Borrower or (z) in any other legal manner or (ii) any venture capital investment in the Borrower or (iii) any other transaction as a result of which the Lender’s relative equity interest in the Borrower would be reduced.

“Business Combination Agreement” means any agreement executed in respect of any Business Combination.

“Business Day” means a day of the year on which banks are open for business in Cologne and San Francisco.

“Dollars” and the sign “\$” each mean the lawful currency of the United States.

“Euro” and the sign “€” each mean the lawful currency of the Federal Republic of Germany.

“Initial Advance” has the meaning specified in Section 2.01.

“Notice of Advance” has the meaning specified in Section 2.04.

“Person” means any individual, corporation, partnership, association, trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Relevant Valuation” means the specific valuation of Borrower agreed on the occasion of (i) the disposal of Shares in Borrower by Lender or (ii) the issue of Shares in Borrower to another Person, both in connection with any Business Combination.

“Shares” means all (i) currently issued and outstanding company shares (*Geschäftsanteile*) of the Borrower and (ii) any company shares that may be issued in the future.

#### SECTION 1.02 Computation of Time Periods.

In this Agreement in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

## ARTICLE II

### AMOUNT AND TERMS OF THE ADVANCES

SECTION 2.01 The Initial Advance. The Borrower acknowledges and confirms that the Lender has already made available to the Borrower an amount of [ \* ] on October 28, 2003 (the “Initial Advance”) and that this Initial Advance was extended to the Borrower pursuant to the terms and conditions set forth herein.

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SECTION 2.02 Additional Advances. The Lender agrees, on the terms and conditions set forth herein, to make additional advances to the Borrower on any Business Day on or after the date which is five Business Days from the execution of this Agreement in an aggregate amount of [ \* ] in excess thereof (the "Additional Advances").

SECTION 2.03 Aggregate Amount of Advances. At no time may the aggregate amount of all Advances outstanding exceed [ \* ].

SECTION 2.04 Making of the Additional Advances. Each Advance shall be made on notice, given not later than five Business Day prior to the date of the proposed Advance, by the Borrower to the Lender (each a "Notice of Advance"). Each Notice of Advance shall be by telecopier or telex, confirmed immediately in writing, in substantially the form of Exhibit A hereto, specifying the requested date and amount of the proposed Advance. Upon receipt of a Notice of Advance, the Lender will make such funds available to the Borrower to the Borrower's account as set forth in the Notice of Advance for value on the Business Day specified in the Notice of Advance.

SECTION 2.05 Interest. The Advances shall not bear any interest.

### ARTICLE III

#### REPAYMENT

SECTION 3.01 Repayment. The Lender may terminate this Agreement at any time after June 30, 2005 by giving not less than three months notice to the Borrower (the "Termination Notice"). Any such Termination Notice shall be by telecopier or telex, confirmed immediately in writing, specifying the aggregate amount of the Advances then outstanding, the Lender's account details and the requested repayment date (the "Repayment Date"). In the case of a Termination Notice, the aggregate amount of the Advances then outstanding shall become due and payable on the Repayment Date.

SECTION 3.02 Termination for Important Reason. The Lender shall in no event be entitled to terminate this Agreement before June 30, 2005, except for an important reason (*wichtiger Grund*). In the case of such early termination, the Lender shall give notice to the Borrower (the "Early Termination Notice") by telecopier or telex, confirmed immediately in writing, specifying the aggregate amount of the Advances then outstanding and the Lender's account details, and the aggregate amount of the Advances then outstanding shall become due and payable on the Business Day which is three months after receipt of the Early Termination Notice.

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SECTION 3.03 Conversion Option. (a) Notwithstanding anything to the contrary set forth in Sections 3.01 and 3.02 hereof, in connection with any Business Combination, the Lender may, in its sole discretion, contribute its repayment claim in respect of the Advances then outstanding, in whole but not in part (the "Contribution"), to the Borrower by way of a contribution in kind in exchange for Shares (the "Conversion Option").

(b) The Conversion Option shall be exercised by notice to the Borrower, given not later than ten Business Days prior to the anticipated execution date of any Business Combination Agreement (the "Conversion Notice"). The Conversion Notice shall be by telecopier or telex, confirmed immediately in writing, in substantially the form of Exhibit B hereto, specifying the aggregate amount of the Advances then outstanding (converted from Dollars to Euro in accordance with Section 3.04 below) to be contributed.

(c) The Contribution shall be made pursuant to a contribution in kind agreement between the Borrower and the Lender, specifying, *inter alia*, the number of Shares to be issued to the Lender against contribution of its repayment claim in respect of the aggregate amount of the Advances then outstanding.

(d) The number of Shares to be issued upon Contribution shall be calculated on the basis of the Relevant Valuation.

(e) For the avoidance of doubt, the Conversion Option may only be exercised (i) in connection with any Business Combination and (ii) if and to the extent the Lender's repayment claim in respect of the aggregate amount of Advances then outstanding is of full value (*vollwertig*).

SECTION 3.04 Currency Conversion. The parties to this Agreement acknowledge and agree that upon exercise of the Conversion Option and for purposes of the Contribution, the aggregate amount of the Advances then outstanding shall be converted from Dollars to Euro at the rate of exchange at which the Lender could purchase Euros with Dollars at the Frankfurt Currency Exchange on the Business Day preceding the date of the Conversion Notice

#### ARTICLE IV

#### MISCELLANEOUS

SECTION 4.01 Amendments, Etc. No amendment or waiver of any provision of this Agreement (including this Section 4.01.), nor consent to any departure by any of the parties therefrom, shall in any event be effective unless the same shall be in writing (unless

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German law provides for a stricter form, in which case such stricter form shall be required for any such amendment, waiver or consent) and signed by all parties hereto, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 4.02 Notices, Etc. (a) All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including telecopier or telex) and mailed, telecopied, telexed or delivered, as to each party hereto, at its address set forth under its name on the signature pages hereof or as to such other address as shall be designated by such party in a written notice to the other party.

SECTION 4.03 Costs and Expenses. Each party shall bear the costs and expenses incurred by it in connection with the negotiation, preparation, execution and performance (including, without limitation, any amendment or waiver) of this Agreement and any related documents, provided however, that the Lender shall bear the costs (other than (legal) advisory fees) arising in connection or associated with the exercise of the Conversion Option (including, without limitation, any notary fees).

SECTION 4.04 Assignment. No party to this Agreement shall have the right to assign all or a portion of its rights and obligations hereunder or any interest herein without the prior written consent of the other party.

SECTION 4.05 Governing Law; Jurisdiction. This Agreement shall be governed by the laws of the Federal Republic of Germany. Exclusive place of jurisdiction for any litigation, action or proceeding arising out of or relating to this Agreement shall be Cologne.

SECTION 4.06 Invalidity. Should any provision of this Agreement be or become void or unenforceable in whole or in part, the other provisions of this Agreement shall remain in force. The void or unenforceable provision shall be substituted by a valid provision which accomplishes, to the extent legally possible, the economic purposes of the void or unenforceable provision. The same shall apply *mutatis mutandis* with respect to any omissions.

{Signature page follows}

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers or agents thereunto duly authorized, as of the date first above written.

**THE BORROWER**

Artemis Pharmaceuticals GmbH

By /s/ Stadler  
Name Stadler  
Title Manag. Director

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

Address:

Artemis Pharmaceuticals GmbH  
Prof. Dr. Peter Stadler  
Neurather Ring 1  
51063 Cologne  
Germany  
Facsimile no. {+49 (0) 221 9645321}

**THE LENDER**

Exelixis, Inc.

By /s/ George Scangos  
Name George Scangos  
Title President and CEO

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

Address:

General Counsel  
170 Harbor Way,  
P.O. Box 511,  
South San Francisco, California 94083-0511  
United States of America  
Facsimile no. 650-837-7000

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DRAFT

THIS LOAN AGREEMENT (the "**Agreement**") dated as of September 24, 2004 is entered into between:

(i) Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511 ("**Exelixis**" or "**Lender**"), a corporation organized and existing under the laws of the State of Delaware, United States of America, and

(ii) Artemis Pharmaceuticals GmbH, Neurather Ring 1, 51063 Cologne, Germany, a company incorporated with limited liability (*Gesellschaft mit beschränkter Haftung*) under the laws of the Federal Republic of Germany and registered with the commercial register at the local court (*Amtsgericht*) in Cologne under registration number HRB 29566 ("**Artemis**" or "**Borrower**").

#### RECITALS

WHEREAS, the Lender is currently the sole shareholder in the Borrower.

WHEREAS, the Borrower has requested the Lender to make advances in one or parts of the total sum not to exceed at any time outstanding [ \* ] in the aggregate ("**Advances**") to it on the terms and conditions set forth in this Agreement in order to meet its current financial obligations.

WHEREAS, the Lender has agreed to make such Advances to the Borrower on such terms and conditions.

NOW, THEREFORE, the parties hereto agree as follows:

#### ARTICLE I

##### AMOUNT AND TERMS OF THE ADVANCES

SECTION 1.01 Advances. The Lender agrees, on the terms and conditions set forth herein, to make Advances to the Borrower on written notice, given not later than three business days prior to the date of the proposed Advance, by the Borrower to the Lender.

SECTION 1.02 Aggregate Amount of Advances. At no time may the aggregate amount of all Advances outstanding exceed [ \* ].

SECTION 1.03 Interest. The Advances shall not bear any interest.

#### ARTICLE II

##### REPAYMENT

SECTION 2.01 Termination. The Lender may terminate this Agreement at any time by giving not less than one month written notice to the Borrower. In the case of termination of this Agreement, the aggregate amount of the Advances then outstanding shall become due and payable on the Business Day which is one month after the receipt of the notice regarding termination of this Agreement.

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SECTION 2.02 Right to Early Repayment. The Borrower shall - in its sole discretion -be entitled to repay the Advances in full or in part at any time during the term of this Agreement.

### ARTICLE III

#### MISCELLANEOUS

SECTION 3.01 Costs and Expenses. Each party shall bear the costs and expenses incurred by it in connection with the negotiation, preparation, execution and performance (including, without limitation, any amendment or waiver) of this Agreement and any related documents.

SECTION 3.02 Assignment. No party to this Agreement shall have the right to assign all or a portion of its rights and obligations hereunder or any interest herein without the prior written consent of the other party.

SECTION 3.03 Governing Law; Jurisdiction. This Agreement shall be governed by the laws of the Federal Republic of Germany. Exclusive place of jurisdiction for any litigation, action or proceeding arising out of or relating to this Agreement shall be Cologne.

SECTION 3.04 Invalidity. Should my provision of this Agreement be or become void or unenforceable in whole or in part, the other provisions of this Agreement shall remain in force. The void or unenforceable provision shall be substituted by a valid provision which accomplishes, to the extent legally possible, the economic purposes of the void or unenforceable provision. The same shall apply *matatis mutandis*, with respect to any omissions.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers or agents thereunto duly authorized, as of the date first above written.

**THE BORROWER**

Artemis Pharmaceuticals GmbH

By /s/ Stadler  
Name Prof. Stadler  
Title gesch. Führer

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

Address:

Artemis Pharmaceuticals GmbH  
Prof. Dr. Peter Stadler  
Neurather Ring 1  
51063 Cologne  
Germany

**THE LENDER**

Exelixis, Inc.

By /s/ George Scangos  
Name George Scangos  
Title President & CEO

By /s/ Frank Karbe  
Name Frank Karbe  
Title Chief Financial Officer

Address:

General Counsel  
170 Harbor Way,  
P.O. Box 511,  
South San Francisco, California 94083-0511  
United States of America

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Approval of Artemis

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### Zustimmungserklärung

Exelixis, Inc., 210 East Grand Avenue, San Francisco, CA 94080, USA (“**Exelixis**”), wird nach der Zusammenlegung sämtlicher von ihr gehaltenen Geschäftsanteile an der Artemis Pharmaceuticals GmbH (“**Gesellschaft**”) einen Geschäftsanteil an der Gesellschaft im Nominalwert von insgesamt DEM 633.000 halten.

Die Gesellschaft stimmt hiermit der Teilung des Geschäftsanteils der Exelixis zu Zwecken der Veräußerung eines Teilgeschäftsanteils im Nominalwert von DEM 507.000 (“**Teilgeschäftsanteil**”) an die Taconic Farms, Inc., One Hudson City Centre, Hudson, NY 12534, USA, (“**Taconic**”) sowie der Veräußerung des Teilgeschäftsanteils an Taconic zu.

/s/ Stadler

\_\_\_\_\_  
Prof. Dr. Peter Stadler

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1. “**Preliminary Cash**” and “**Preliminary Financial Debt**” have been calculated based upon the Artemis September 30, 2007 balance sheet (the “**Reference Balance Sheet**”), as illustrated below. “**Closing Cash**” and “**Closing Financial Debt**” shall be calculated in accordance with the principles set forth in Section 2 and 3 below, based upon the Closing Balance Sheet, taking into account the line items used for purposes of calculating the Preliminary Cash and the Preliminary Financial Debt, provided, however, that any new line items on the Closing Balance Sheet compared to the Reference Balance Sheet shall be taken into consideration to the extent they constitute Cash (as defined in Section 2 below) or Financial Debt (as defined in Section 3 below).
2. “**Cash**” shall mean the sum of all cash and cash equivalent accounts held on the balance sheet, including actual cash deposits and marketable securities. For purposes of calculating Preliminary Cash, Cash is represented by the following line items on the Reference Balance Sheet:

No.	Name of Account	Position (EUR) as of September 30, 2007
A0930	Checks, cash in hand, cash at the German Central Bank and postal account credit balance, cash at banks	[ * ]
A0910	Other securities	[ * ]
	<b>Cash as of Reference Balance Sheet Date</b>	<b>[ * ]</b>

For purposes of calculating Closing Cash, the deferred portion of license agreement revenues received by Artemis after September 30, 2007, shall not be included in the Cash balance on the Closing Balance Sheet. For the avoidance of doubt, such license agreement revenues are of the type for which corresponding deferred revenue liabilities of [ \* ] were recognized on Reference Balance Sheet.

3. “**Financial Debt**” shall mean the aggregate amount of (i) [ \* ]; (ii) indebtedness for money borrowed from others, indebtedness inherent in capital lease obligations (in each case including interest expense accrued but unpaid).

Notwithstanding the foregoing, Financial Debt does not include any loans by shareholders of Artemis; nor shall it include the outstanding balance of any of the three capital lease obligations reflected on the Reference Balance Sheet, which had a total outstanding balance of [ \* ] as of September 30, 2007 (the “**Excluded Capital Leases**”).

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Legal Relations between Seller and Artemis surviving the Closing Date

No.	Contracting Parties	Date of Contract	Subject Matter
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

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**Corporate Agreements, Resolution and Promises**

Except for the articles of association of Artemis, there are no agreements, resolutions or promises concerning (i) the relations between the Seller or the Controlled Companies on the one hand and Artemis on the other hand or (ii) the appointment of members of any of the boards of Artemis.

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**Managing Directors and Prokurists****A. Managing directors**

<b>No.</b>	<b>Name</b>
1.	Prof. Dr. Stadler, Peter
2.	Dr. Rounding, Howard Paul

**B. Prokurist**

<b>No.</b>	<b>Name</b>
1.	Stelzer, Manfred
2.	Radtke, Oliver

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## Restricted and Encumbered Titles to Assets

No.	Asset	Restriction in Title / Encumbrance
1.	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

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No.	Asset	Restriction in Title / Encumbrance
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

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Deviations from German GAAP

[ \* ]

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## Changes in Accounting

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No.	Changes
1.	None

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Financial Statements

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[ \* ]

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[ \* ]

Anlage 1

Anlage 2

ARTEMIS Pharmaceuticals GmbH, Köln  
Gewinn- und Verlustrechnung für den Zwischenabschluß zum 30. September 2007

[ \* ]

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

## Pending Disputes

<u>No.</u>	<u>Claimant</u>	<u>Subject Matter</u>
1.	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]

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## Material Contracts

## A. Customer agreements with a firm commitment of the customer to spend more than [ \* ] for products or services in 2008 and 2009 (excluding agreements to which Purchaser is a party)

No.	Customer	Date of Contract	Subject Matter
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

## B. Framework supply agreements (excluding agreements to which Purchaser is a party)

No.	Customer	Date of Contract	Subject Matter
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

## C. Leasing agreements (equipment)

(a) Contracts stipulating Artemis as tenant, hirer or lessee

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<u>No.</u>	<u>Landlord, Lessor</u>	<u>Effective Date</u>	<u>Subject Matter</u>
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

2. Contracts stipulating Artemis as landlord or lessor

<u>No.</u>	<u>Tenant, hirer, lessee</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	None		

D. Material license agreements stipulating Artemis as licensor with total license fee payments of more than [ \* ]

<u>No.</u>	<u>Licensee</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	[ * ]	[ * ]	[ * ]

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**E. Agreements containing provisions with restrictions of competition**

<u>No.</u>	<u>Other Party</u>	<u>Date of Agreement</u>	<u>Contents of Restriction</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

**F. Joint ventures, cooperation agreements (excluding agreements to which Purchaser is a party)**

<u>No.</u>	<u>Contracting Party</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

**G. Service agreements (except for employment contracts) stipulating services to be received by Artemis with annual remuneration of more than [ \* ]**

<u>No.</u>	<u>Contracting Party</u>	<u>Effective Date</u>	<u>Subject Matter</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

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<u>No.</u>	<u>Contracting Party</u>	<u>Effective Date</u>	<u>Subject Matter</u>
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

**H. Advisory agreements with an estimated aggregate annual gross compensation of more than [ \* ]**

<u>No.</u>	<u>Advisor</u>	<u>Date of Agreement</u>	<u>Annual Compensation</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

**I. Agency and other distribution agreements**

1. Agreements under which products of Artemis are distributed (except for the agreements with [ \* ])

<u>No.</u>	<u>Other Party</u>	<u>Date of Agreement</u>	<u>Description</u>
1.	None		

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2. Agreements under which Artemis distributes products of third parties

<u>No.</u>	<u>Other Party</u>	<u>Date of Agreement</u>	<u>Description</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

J. Loan agreements under which loans of more than [ \* ] were granted

<u>No.</u>	<u>Lender</u>	<u>Borrower</u>	<u>Date of Agreement</u>	<u>Amount</u>
1.	Exelixis Inc.	Artemis Pharmaceuticals GmbH	December 18, 2003	[ * ]
2.	Exelixis Inc.	Artemis Pharmaceuticals GmbH	September 24, 2004	[ * ]

K. Guarantees (*Garantien*), letters of support, suretyships (*Bürgschaften*) and other collateral securities, which Artemis has provided for third party obligations

<u>No.</u>	<u>Beneficiary</u>	<u>Legal person/ Unit, whose obligation is secured</u>	<u>Date of security</u>	<u>Amount of security</u>
1.	None			

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**L. Employment agreements with an aggregate annual gross compensation of more than [ \* ], excluding Managing Directors**

No.	Employee	Date of Contract	Yearly fixed compensation in 2006	Special Arrangements (including bonus and commission payments)
1.	[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]	[ * ]

**M. Benefit, bonus, retention bonus, compensation profit sharing or any other employee benefit plans (other than pension related)**

No.	Beneficiary/-ies	Date of Agreement / Undertaking	Subject Matter
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

**N. Agreements relating to the disposal of real estate, shares in companies or other assets containing representations, indemnification undertakings or (contingent) liabilities**

No.	Other Party	Date of Agreement	Description
1.	None		

**O. Agreements relating to the purchase of real estate, shares in companies or other assets which have not yet been consummated**

No.	Other Party	Date of Agreement	Description
1.	None		

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**Pension Plan or Similar Commitment**

<b>No.</b>	<b>Insurance</b>	<b>Effective Date</b>	<b>Subject Matter</b>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

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<u>No.</u>	<u>Patent No.</u>	<u>Application Date</u>	<u>Status/designated countries</u>
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]		[ * ]	
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]		[ * ]	
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]		[ * ]	
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

**B. Utility models registrations (*Gebrauchsmuster*)**

<u>No.</u>	<u>Utility models</u>	<u>Registration No.</u>
1.	None	

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**C. Registered designs registrations (*Geschmacksmuster*)**

<u>No.</u>	<u>Registered designs</u>	<u>Registration No.</u>
1.	None	

**D. Trademarks registrations**

<u>No.</u>	<u>Trademark</u>	<u>Trademark No.</u>	<u>Application Date</u>	<u>Registration Date</u>
1.	CONDITIONAL	1 317 056	September 21, 1999	March 19, 2001
2.	FLOX	398 75 018	December 30, 1998	March 18, 1999
3.	CONDITIONAL	TMA 547,495	September 20, 1999	June 29, 2001
4.	CONDITIONAL	470 119	September 23, 1999	March 2, 2000
5.	CONDITIONAL	398 75 020.3	December 30, 1998	July 9, 1999
6.	CONDITIONAL	4454104	September 22, 1999	February 16, 2001
7.	CONDITIONAL	2,475,127	October 14, 1999	August 7, 2001
8.	ARTEMICE	TMA 671,862	August 25, 2003	September 1, 2006
9.	ARTEMICE	303 10 335	February 26, 2003	August 21, 2003
10.	ARTEMICE	818 882	August 25, 2003	August 25, 2003
11.	ARTEMICE	2,943,650	August 26, 2003	April 4, 2005

**E. Domain names**

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<b>No.</b>	<b>Domain Name</b>
1.	www. artemis-pharmaceuticals.de
2.	www. artemisgmbh.com
3.	www. artemisgmbh.de
4.	www. artemispharma.com
5.	www. artemispharma.de
6.	www. artemispharmaceuticals.com
7.	www. artemispharmaceuticals.de

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**Licensed Intellectual Property Rights**

1. License Agreements regarding patents (excluding agreements to which Purchaser is a party)

<u>No.</u>	<u>Licensor</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
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[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

2. License Agreements regarding utility models

<u>No.</u>	<u>Licensor</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	None		

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3. License Agreements regarding registered designs

<u>No.</u>	<u>Licensor</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	None		

4. License Agreements regarding trademarks

<u>No.</u>	<u>Licensor</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	None		

5. License Agreements regarding domain names

<u>No.</u>	<u>Licensor</u>	<u>Date of Contract</u>	<u>Subject Matter</u>
1.	None		

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## Material Insurance Agreements

<u>No.</u>	<u>Insurance</u>	<u>Effective Date</u>	<u>Subject Matter</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
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[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

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## Material Permits

<u>No.</u>	<u>Authority</u>	<u>Grant Date</u>	<u>Subject Matter</u>
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

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## Leased Real Property

No.	Landlord, Lessor	Effective Date	Subject Matter
1.	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]
[ * ]	[ * ]	[ * ]	[ * ]

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**Material Defects in Products or Services**

[ \* ]

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NON-EXCLUSIVE LICENSE AGREEMENT

BETWEEN

THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

AND

EXELIXIS PHARMACEUTICALS, INC.

FLP TECHNOLOGY

TRANSGENIC ANIMALS

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**LICENSE AGREEMENT**  
**BETWEEN**  
**THE SALK INSTITUTE FOR BIOLOGICAL STUDIES**  
**AND**  
**EXELIXIS PHARMACEUTICALS, INC.**  
**TRANSGENIC ANIMALS**

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## LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the "**Agreement**") is made and entered into as of July 1, 1999 (the "**Effective Date**"), by and between THE SALK INSTITUTE FOR BIOLOGICAL STUDIES, a nonprofit public benefit corporation organized under the laws of the State of California ("**Salk**"), and Exelixis Pharmaceuticals, Inc., a corporation organized under the laws of the State of Delaware ("**Licensee**").

WHEREAS, Salk is the owner of certain Licensed Technology (as hereinafter defined).

WHEREAS, Salk desires that the Licensed Technology be developed and utilized to the fullest extent possible for research and commercial use to the ultimate benefit of humankind;

WHEREAS, Licensee represents that it can bring to bear the scientific talent, know-how and facilities to perform research utilizing the Licensed Technology; and

WHEREAS, Licensee wishes to obtain, and Salk is willing to grant, a license to practice inventions covered by the Patent Rights, subject to the terms set forth below, for the purpose of certain internal research programs.

NOW, THEREFORE, in consideration of the above premises and the mutual covenants contained herein, the parties hereby agree as follows:

### 1. DEFINITIONS.

1.1 The term "**Affiliate**" shall mean any entity which controls, is controlled by or is under common control with Licensee, where "control" means beneficial ownership of more than fifty percent (50%) of the outstanding shares or securities or the ability otherwise to elect a majority of the board of directors or other managing authority. For the purposes of this Agreement, the term "**Affiliate**" shall [ \* ].

1.2 The term "**Collaborator**" shall mean any person or entity, which is engaged with Licensee in research, product development, marketing and/or commercialization.

1.3 The term "**Customer**" shall mean any person or entity, which purchases, or receives for other value, transgenic mice from Licensee.

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1.4 The term “**Patent Rights**” shall mean the patent applications and patents listed on Schedule A hereto, and all substitutions, divisions, continuations, continuations-in-part (but only to the extent that claims in continuations-in-part of the aforementioned are directed to subject matter within the scope of the patent applications and patents resulting on any of the forgoing listed in Schedule A hereto), and any and all patents issuing thereon, and renewals, reissues, and extensions of such patents that may be granted thereon, (including alternate extension rights such as Supplementary Protection Certificates).

1.5 The term “**Biological Materials**” shall mean the constructs identified in Schedule B and any progeny and unmodified derivatives thereof. An “unmodified derivative” means any substance that Licensee may create using the constructs supplied hereunder, which substance constitutes an important unmodified functional subunit or expression product of the originally supplied material.

1.6 The term “**Licensed Technology**” shall mean the Patent Rights and the Biological Materials.

1.7 The term “**Field of Use**” shall mean [ \* ] covered by the Patent Rights. Field of Use includes [ \* ] but specifically excludes both the right to make, use or sell any [ \* ] and the right to use Patent Rights [ \* ].

1.8 The term “**Licensed Product**” shall mean any [ \* ] which is directly or indirectly developed using any methods or materials covered by the Licensed Technology.

1.9 The term “**Licensed Service**” shall mean any service provided by Licensee to a Collaborator, Customer, or other third party which uses a Licensed Product or any methods or materials covered by the Licensed Technology or made, either directly or indirectly, using the Licensed Technology.

1.10 The term “**Net Sales**” shall mean the gross sales price actually charged by LICENSEE to any third party, in the sale of a Licensed Product or Licensed Service less:

- (a) shipping, storage, packing and insurance expenses, each as actually paid or allowed;
- (b) distributor discounts;

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- (c) amounts repaid or credited by reason of rejections, defects or returns or because of retroactive price reductions; and
- (d) sales and other excise taxes, use taxes, tariffs, export license fees and duties actually paid or allowed.

**2. GRANT OF LICENSE**

SALK grants to LICENSEE and its Affiliates and LICENSEE and its Affiliates accepts from SALK, on the terms and conditions specified, the following:

- (a) a worldwide, non-exclusive, non-transferable license in and to the Licensed Technology to make, have made, use, import, sell, and offer for sale Licensed Products and Licensed Services in the Field of Use.
- (b) LICENSEE does not have the right to grant any sublicenses under the limited license Granted under this Agreement.

**3. ROYALTIES AND FEES**

**3.1** LICENSEE shall pay to SALK, within thirty (30) days after the execution and delivery of this Agreement, a non-refundable license and rights issue fee of [ \* ] United States Dollars (U.S. \$[ \* ]]). The issue fee is non-creditable and not an advance against royalties.

**3.2** LICENSEE shall pay to SALK an annual license maintenance fee of [ \* ] United States Dollars (U.S. \$[ \* ]), payable beginning on the one year anniversary of the Effective Date and continuing every anniversary of the Effective Date during the life of one or more of the Patent Rights.

**3.3** LICENSEE shall pay to SALK a [ \* ] percent ([ \* ]%) royalty on Net Sales of Licensed Products and Licensed Services sold or provided to any third party by [ \* ]. Notwithstanding the foregoing, LICENSEE shall have no obligation to pay to SALK any amounts it receives from [ \* ].

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3.4 No royalty payment shall be altered by any tax on royalties which may be imposed on, applied to or withheld from the payment. LICENSEE shall be responsible for the satisfaction of the taxes so that the payments to SALK are not reduced thereby.

#### 4. REPORTING AND ACCOUNTING

4.1 LICENSEE agrees to keep for a period of three (3) years after the expiration or termination of this Agreement proper records and books of account in accordance with good accounting practices, showing the sales upon which the royalty payments of LICENSEE are based, and all other information necessary for the accurate determination of payments. LICENSEE agrees to deliver to SALK, within thirty (30) days after each calendar quarter, a report showing the information on which the payments were calculated, including a breakdown of income from sales of each Licensed Product and Licensed Service, which report shall be accompanied by any royalty due under Section 3.3.

4.2 LICENSEE agrees to make a written report to SALK within sixty (60) days after the termination date of this Agreement, reporting all royalty income payable which was not previously reported to SALK.

4.3 All royalty payments by LICENSEE to SALK shall be payable in United States currency in San Diego, California.

4.4 On reasonable written notice, Salk, at its own expense, shall have the right to have an independent certified public accountant, satisfactory to Licensee, inspect and audit the books and records of Licensee and its Affiliates during usual business hours for the sole purpose of, and only to the extent necessary for, determining the correctness of payments due under this Agreement. Such examination with respect to any fiscal year shall not take place later than three (3) years following the expiration of such period. Such examination shall not be conducted more often than once a year. The expense of any such audit shall be borne by Salk; *provided, however*, that, if the audit discloses an error in excess of five percent (5%) in favor of Licensee, then Licensee shall pay, in addition to the amount of any underpayment, the cost to Salk of the audit.

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## **5. BIOLOGICAL MATERIALS**

**5.1** Upon execution of this Agreement, Salk or its designee shall make available to Licensee reasonable quantities of Biological Materials described in Schedule B. Thereafter, Licensee may only request and obtain from Salk additional quantities of said Biological Materials that Salk has in its possession and does not need for its own research or to meet other contractual obligations, at no charge other than a reasonable charge by Salk for handling and shipping. If Salk is unable to supply any of the Biological Materials to Licensee for use hereunder, Licensee shall be free to produce such Biological Materials itself, or to purchase such Biological Materials from a source authorized by Salk.

**5.2** Title to said Biological Materials received by Licensee shall remain in Salk. Licensee shall have only the right to use said Biological Materials in accordance with the grant of rights under Article 2 hereof, and shall not use said Biological Materials for any other purpose. The Biological Materials shall not be used in humans, including for purposes of therapy or diagnostic testing. In no event shall Licensee permit said Biological Materials or any sample thereof to be distributed or delivered to any person whatsoever, other than to its own employees and those of its Affiliates and Collaborators to be used as permitted herein. Requests for the Biological Materials from other research investigators or others are to be referred to Salk.

**5.3** Licensee acknowledges that said Biological Materials are experimental in nature and may have unknown characteristics. Licensee therefore agrees to use prudence and reasonable care in the use, handling, storage, transportation, disposition and containment of said Biological Materials and all products derived therefrom. If Salk possesses Material Safety Data Sheets for any Biological Materials it will provide Licensee with copies thereof.

**5.4** Licensee shall comply with all applicable Governmental laws and regulations, and with all published Governmental guidelines, pertaining to the use, handling, storage, transportation, disposition and containment of said Biological Materials and all products derived therefrom.

## **6. OWNERSHIP OF INTELLECTUAL PROPERTY.**

Licensee (for itself and its Affiliates) acknowledges and agrees that Salk is and shall remain (as to Licensee) the sole owner of the Patent Rights, subject to Salk's obligations to the U.S. Government as a result of funding of research leading to the Patent Rights, and that Licensee (including its Affiliates) has no rights in or to the Patent Rights other than the rights specifically granted herein.

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**7. MAINTENANCE OF PATENT RIGHTS.**

**7.1 Maintenance of Patent Rights.** Salk shall have full control over maintenance of the patents contained in the Patent Rights.

**7.2 Third Party Infringement Claims.** In the event either party becomes aware that any Licensed Product becomes the subject of a claim for patent or other proprietary right infringement anywhere in the world by virtue of the incorporation of the Patents Rights therein, the party who becomes aware of such infringement shall promptly give notice to the other and the parties shall meet to consider the claim and the appropriate course of action.

**8. TAXES**

Licensee shall be liable for any and all taxes which may be levied by a proper taxing authority on account of any payments accruing to Salk under this Agreement. Such taxes may not be deducted from payments to be paid to Salk hereunder. Licensee acknowledges that Salk is a not-for-profit corporation and thus does not qualify under U.S. tax laws to obtain a tax credit for any such taxes paid by Licensee.

**9. DISCLAIMERS.**

**9.1 Warranty Disclaimer.** Nothing in this Agreement is or shall be construed as:

- (a) a warranty or representation by Salk as to the validity or scope of any Patent Rights;
- (b) a warranty or representation that anything made, used, sold or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of patents, copyrights and other rights of third parties;
- (c) an obligation to bring or prosecute actions or suits against third parties for infringement, except to the extent and in the circumstances described in Article 7; or

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(d) a grant by implication, estoppel, or otherwise of any licenses under patent applications or patents of Salk or other persons other than as provided in Article 2 hereof.

**9.2 No Warranty.** EXCEPT AS SET FORTH EXPRESSLY HEREIN, SALK MAKES NO REPRESENTATION AND EXTENDS NO WARRANTY OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES AS TO MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. SALK WARRANTS ONLY THAT IT HAS THE RIGHT AND POWER TO GRANT THIS LICENSE.

**10. INDEMNIFICATION.**

Licensee hereby indemnifies, holds harmless and agrees to defend Salk, its trustees, officers, employees and agents (the "**Salk Indemnitees**") against any and all liability or damages with respect to any claims, suits, demands, judgments or causes of action ("**Claims**") arising out of (a) the use of Patent Rights, by Licensee, its Affiliates, agents or representatives; and/or (b) any representation, warranty or statement by Licensee, its Affiliates, agents or representatives concerning the Patent Rights or concerning Salk under this Agreement. In the event any such Claims are made, Licensee shall defend Salk Indemnitees, as applicable, at Licensee's sole expense by counsel selected by Licensee.

**11. TERM.**

Unless this Agreement is terminated at an earlier date according to Section 12, this Agreement and the right and license granted hereunder and the obligation to pay royalties shall continue for each year during the life of the last to expire of the Patent Rights.

**12. TERMINATION.**

**12.1** If LICENSEE defaults or otherwise commits a material breach under this Agreement, SALK may terminate this Agreement by sixty (60) days written notice to LICENSEE. The termination will become effective at the end of sixty (60) days unless LICENSEE cures the defect or default during the period.

**12.2** LICENSEE may terminate this Agreement at any time upon sixty (60) days written notice to SALK.

**12.3** On termination of this Agreement for any reason, all rights granted hereunder by SALK shall revert to SALK for the benefit of SALK.

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12.4 If this Agreement terminates, LICENSEE shall not be relieved of any duty and obligation to pay royalties which may have accrued prior to the effective date of such termination and SALK shall not be relieved of any duty and obligation which may have accrued prior to the effective date of such termination.

12.5 The provisions of Section 4 (Reporting and Accounting) and the provisions of Sections 9 and 10 concerning disclaimer of warranties and indemnification shall survive the termination of this Agreement.

### 13. CONFIDENTIAL INFORMATION.

All Confidential Information (as defined below) communicated by one party (the "**Disclosing Party**") to the other party (the "**Receiving Party**") hereunder, including without limitation, information contained in patent applications shall be received in strict confidence by the Receiving Party and used only for the purposes authorized under this Agreement and not disclosed by the Receiving Party except to its agents, employees or consultants, and in the case of Licensee, also its Affiliates and Collaborators which agree to be bound to the terms of this Article 13, without the prior written consent of the Disclosing Party; unless such information (i) was publicly known or available at the time of disclosure, (ii) later became publicly known or available through no act or omission of the Receiving Party, its employees, agents, successors, or assigns, (iii) was lawfully disclosed to the Receiving Party by a third party having the right to disclose it, (iv) was already known by the Receiving Party at the time of disclosure and recipient can so demonstrate by competent written proof; (v) was independently developed by the Receiving Party without use of Confidential Information of the Disclosing Party; or (vi) is required to be disclosed pursuant to applicable law, provided that the Receiving Party shall first give notice to the Disclosing Party of such disclosure and shall have made a reasonable effort to maintain the confidentiality of such information. It is not anticipated that Salk will receive any Confidential Information from Licensee. Should Salk receive any such Confidential Information, however, Salk shall use reasonable efforts to make its scientific personnel aware of the provisions of this Section 13, but shall not have any liability arising from the breach of any such provisions by its scientific personnel.

### 14. CHOICE OF LAW; DISPUTE RESOLUTION.

**14.1 Governing Law.** This Agreement is made in accordance with and shall be governed and construed in accordance with the laws of the State of California, as applied to contracts executed and performed entirely within the State of California, without regard to conflicts of laws rules.

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**14.2 Disputes.** If a dispute arises between the parties relating to the interpretation or performance of this Agreement or the grounds for the termination thereof, the parties agree to hold a meeting, within forty-five (45) days after such meeting is requested in writing by either party, attended by individuals with decision-making authority regarding the dispute, to attempt in good faith to negotiate a resolution of the dispute prior to pursuing other available remedies.

**15. PUBLICITY.**

Licensee shall have no right to publicize this Agreement or its relationship with Salk without Salk's prior written approval, except as provided in this Section 15 or as may be required to comply with federal or state laws and regulations. Salk agrees that Licensee may make known in promotional and technical literature that the Patent Rights were licensed from Salk; provided, however, that such use shall not state or imply that Salk has any relationship with Licensee other than as licensor.

**16. ADDRESSES.**

The payments to be made hereunder to Salk shall be made by wiring the required amount to Salk's bank in accordance with Salk's instructions or by mailing, or sending by commercial courier, checks for the required amount to Salk's address. Notices provided for herein shall effectively be given by mailing the same by certified or registered mail or by contracting for delivery by commercial courier, in each case properly addressed with charges prepaid. For the purposes of making payments and giving notices, the addresses of the parties hereto are as follows:

The Salk Institute for Biological Studies

10010 North Torrey Pines Road

La Jolla, CA 92037

Attn: Licensing Administrator, Intellectual Property and Technology Transfer Dept.

Exelixis Pharmaceuticals, Inc.

260 Littlefield Ave.

South San Francisco, CA 94080

Attn: Dr. Lynne Zydowsky

or to such subsequent addresses as either party may furnish the other by giving notice thereof as provided in this Article 16.

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**17. MISCELLANEOUS.**

**17.1 Assignment.** Neither this Agreement nor any of the rights or obligations hereunder may be assigned by either party without the prior written consent of the other party (such consent not to be unreasonably withheld or delayed); provided, however, that either party may freely assign this Agreement and its rights and obligations hereunder to any person or entity that acquires all or substantially all of such party's business or assets. This Agreement shall be binding, upon and inure to the benefit of Salk, Licensee and their respective assigns and successors in interest.

**17.2 Headings.** The headings used in this Agreement are for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

**17.3 Amendment.** No amendment or modification hereof shall be valid or binding upon the parties unless made in writing and signed by both parties.

**17.4 Force Majeure.** Any delays in performance by any party under this Agreement (other than payment of monies due) shall not be considered a breach of this Agreement if and to the extent caused by occurrences beyond the reasonable control of the party affected, including but not limited to, acts of God, embargoes, governmental restrictions, strikes or other concerted acts of workers, fire, flood, explosion, riots, wars, civil disorder, rebellion or sabotage. The party suffering such occurrence shall immediately notify the other party and any time for performance hereunder shall be extended by the actual time of delay caused by the occurrence.

**17.5 Independent Contractors.** In making and performing this Agreement, Salk and Licensee act and shall act at all times as independent contractors and nothing contained in this Agreement shall be construed or implied to create an agency, partnership or employer and employee relationship between Salk and Licensee. At no time shall one party have any power or authority to make commitments or incur any charges or expenses for or in the name of the other party.

**17.6 Waiver.** None of the terms, covenants, and conditions of this Agreement can be waived except by the written consent of the party waiving compliance.

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**17.7 Severability.** If any term, condition or provision of this Agreement is held to be unenforceable for any reason, it shall, if possible, be interpreted rather than voided, in order to achieve the intent of the parties to this Agreement to the extent possible. In any event, all other terms, conditions and provisions of this Agreement shall be deemed valid and enforceable to full extent.

**17.8 Entire Agreement.** This Agreement [ \* ], comprise the entire agreement and understanding between the parties with respect to the subject matter hereof, and merges all prior discussions, representations and negotiations with respect to the subject matter.

**17.9 Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement by their duly authorized officers or representatives.

THE SALK INSTITUTE FOR  
BIOLOGICAL STUDIES

/s/ Thomas E. Jurgensen

Thomas E. Jurgensen

Vice President

Intellectual Property and Technology Transfer

EXELIXIS PHARMACEUTICALS, INC.

/s/ George Scangos

By: George Scangos

Title: President & CEO

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**SCHEDULE A**  
**THE SALK INSTITUTE FOR BIOLOGICAL STUDIES**

[ \* ]

**U.S. PATENTS**

[ \* ]

**U.S. PATENT APPLICATIONS**

[ \* ]

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**SCHEDULE B**

**BIOLOGICAL MATERIALS**

[ \* ]

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Shareholders' Agreement

{Note: The Shareholders' Agreement attached to the executed version of this Exhibit 2.3 is being filed by Exelixis, Inc. as Exhibit 10.54 to the Form 10-K for the year ended December 31, 2007.}

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## Exelixis, Inc.

## 2000 Non-Employee Directors' Stock Option Plan

Adopted by the Board of Directors on January 27, 2000  
Approved By Stockholders March 15, 2000  
Amended By the Board of Directors on February 24, 2004  
Approved By Stockholders April 8, 2004  
Amended By the Board of Directors on February 6, 2008

## 1. PURPOSE.

(a) **Eligible Option Recipients.** The persons eligible to receive Options are the Non-Employee Directors of the Company.

(b) **Available Options.** The purpose of the Plan is to provide a means by which Non-Employee Directors may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Nonstatutory Stock Options.

(c) **General Purpose.** The Company, by means of the Plan, seeks to retain the services of its Non-Employee Directors, to secure and retain the services of new Non-Employee Directors and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

## 2. DEFINITIONS.

(a) **"Affiliate"** means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) **"Annual Grant"** means an Option granted annually to all Non-Employee Directors who meet the specified criteria pursuant to subsection 6(b) of the Plan.

(c) **"Annual Meeting"** means the annual meeting of the stockholders of the Company.

(d) **"Board"** means the Board of Directors of the Company.

(e) **"Calculation Date"** means the last day of each fiscal year of the Company.

(f) **"Code"** means the Internal Revenue Code of 1986, as amended.

(g) **"Committee"** means a committee of one or more members of the Board appointed by the Board in accordance with subsection 3(c).

(h) **"Common Stock"** means the common stock of the Company.

(i) **“Company”** means Exelixis, Inc., a Delaware corporation.

(j) **“Consultant”** means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of an Affiliate. However, the term “Consultant” shall not include either Directors of the Company who are not compensated by the Company for their services as Directors or Directors of the Company who are merely paid a director’s fee by the Company for their services as Directors.

(k) **“Continuous Service”** means that the Optionholder’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Optionholder’s Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionholder renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Optionholder renders such service, provided that there is no interruption or termination of the Optionholder’s Continuous Service. For example, a change in status from a Non-Employee Director of the Company to a Consultant of an Affiliate or an Employee of the Company will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(l) **“Diluted Shares Outstanding”** means the number of outstanding shares of Common Stock on the Calculation Date, plus the number of shares of Common Stock issuable on the Calculation Date assuming the conversion of all outstanding preferred stock and convertible notes, and the additional number of dilutive Common Stock equivalent shares outstanding as the result of any options or warrants outstanding during the fiscal year, calculated using the treasury stock method.

(m) **“Director”** means a member of the Board of Directors of the Company.

(n) **“Disability”** means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(o) **“Employee”** means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director’s fee by the Company or an Affiliate shall not be sufficient to constitute “employment” by the Company or an Affiliate.

(p) **“Exchange Act”** means the Securities Exchange Act of 1934, as amended.

(q) **“Fair Market Value”** means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no

sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(r) **“Initial Grant”** means an Option granted to a Non-Employee Director who meets the specified criteria pursuant to subsection 6(a) of the Plan.

(s) **“IPO Date”** means the effective date of the initial public offering of the Common Stock.

(t) **“Non-Employee Director”** means a Director who is not an Employee.

(u) **“Nonstatutory Stock Option”** means an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(v) **“Officer”** means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(w) **“Option”** means a Nonstatutory Stock Option granted pursuant to the Plan.

(x) **“Option Agreement”** means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(y) **“Optionholder”** means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(z) **“Plan”** means this Exelixis, Inc. 2000 Non-Employee Directors’ Stock Option Plan.

(aa) **“Rule 16b-3”** means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(bb) **“Securities Act”** means the Securities Act of 1933, as amended.

### 3. ADMINISTRATION.

(a) **Administration by Board.** The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b) **Powers of Board.** The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine the provisions of each Option to the extent not specified in the Plan.

(ii) To construe and interpret the Plan and Options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or an Option as provided in Section 12.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

**(c) Delegation to Committee.** The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan.

**(d) Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

#### 4. SHARES SUBJECT TO THE PLAN.

**(a) Share Reserve.** Subject to the provisions of subsection 4(b) relating to automatic increases to the share reserve, the provisions of subsection 4(c) relating to reversion of shares of Common Stock to the share reserve and the provisions of Section 11 relating to adjustments upon changes in the Common Stock, the Common Stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate five hundred thousand (500,000) shares of Common Stock.

**(b) Automatic Increase.** For a period of ten (10) years, the share reserve specified in subsection 4(a) automatically shall be increased on the Calculation Date by the greater of that number of shares of Common Stock equal to 0.75% of the Diluted Shares Outstanding or that number of shares of Common Stock that have been made subject to Options granted under the Plan during the prior 12-month period; provided, however, that the Board may provide for a lesser number at any time prior to the Calculation Date.

**(c) Reversion of Shares to the Share Reserve.** If any Option shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the shares of Common Stock not acquired under such Option shall revert to and again become available for issuance under the Plan. If the Company repurchases any unvested shares of Common Stock acquired under the Plan, the repurchased shares of Common Stock shall revert to and again become available for issuance under the Plan.

**(d) Source of Shares.** The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

**5. ELIGIBILITY.**

The Options as set forth in section 6 automatically shall be granted under the Plan to all Non-Employee Directors.

**6. NON-DISCRETIONARY GRANTS.**

**(a) Initial Grants.** Without any further action of the Board, each Non-Employee Director shall be granted the following Options:

**(i)** On the IPO Date, each person who is then a Non-Employee Director automatically shall be granted an Initial Grant to purchase Twenty-five Thousand (25,000) shares of Common Stock on the terms and conditions set forth herein.

**(ii)** After the IPO Date, each person who is elected or appointed for the first time to be a Non-Employee Director automatically shall, upon the date of his or her initial election or appointment to be a Non-Employee Director by the Board or stockholders of the Company, be granted an Initial Grant to purchase Twenty-five Thousand (25,000) shares of Common Stock on the terms and conditions set forth herein.

**(b) Annual Grants.** On the day following each Annual Meeting each person who is then a Non-Employee Director automatically shall be granted an Annual Grant to purchase Fifteen Thousand (15,000) shares of Common Stock on the terms and conditions set forth herein.

**7. OPTION PROVISIONS.**

Each Option shall be in such form and shall contain such terms and conditions as required by the Plan. Each Option shall contain such additional terms and conditions, not inconsistent with the Plan, as the Board shall deem appropriate. Each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

**(a) Term.** No Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

**(b) Exercise Price.** The exercise price of each Option shall be one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

**(c) Consideration.** The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option or subsequently (1) by delivery to the Company of other Common Stock, (2) according to a deferred payment or other similar arrangement with the Optionholder or (3) in any other form of legal consideration that may be acceptable to the Board. Unless otherwise specifically provided in the Option, the purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). At any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

**(d) Transferability.** An Option shall not be transferable except by will or by the laws of descent and distribution and to such further extent as permitted by the Rule as to Use of Form S-8 specified in the General Instructions of the Form S-8 Registration Statement under the Securities Act, and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

**(e) Exercise and Vesting.** Options shall be exercisable immediately upon grant. Options shall vest as follows:

- (i)** Initial Grants shall provide for vesting of 1/4th of the shares 12 months after the date of the grant and 1/48th of the shares each month thereafter.
- (ii)** Annual Grants shall provide for vesting of 1/12th of the shares each month after the date of the grant.

**(f) Termination of Continuous Service.** In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as

of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service, or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

**(g) Extension of Termination Date.** If the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 7(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

**(h) Disability of Optionholder.** In the event an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

**(i) Death of Optionholder.** In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the three-month period after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise the Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death, but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

## **8. COVENANTS OF THE COMPANY.**

**(a) Availability of Shares.** During the terms of the Options, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Options.

**(b) Securities Law Compliance.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Options and to issue and sell shares of Common Stock upon exercise of the Options; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Option or any stock issued or issuable pursuant to any such Option. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Options unless and until such authority is obtained.

**9. USE OF PROCEEDS FROM STOCK.**

Proceeds from the sale of stock pursuant to Options shall constitute general funds of the Company.

**10. MISCELLANEOUS.**

**(a) Stockholder Rights.** No Optionholder shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Option unless and until such Optionholder has satisfied all requirements for exercise of the Option pursuant to its terms.

**(b) No Service Rights.** Nothing in the Plan or any instrument executed or Option granted pursuant thereto shall confer upon any Optionholder any right to continue to serve the Company as a Non-Employee Director or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

**(c) Investment Assurances.** The Company may require an Optionholder, as a condition of exercising or acquiring stock under any Option, (i) to give written assurances satisfactory to the Company as to the Optionholder's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option; and (ii) to give written assurances satisfactory to the Company stating that the Optionholder is acquiring the stock subject to the Option for the Optionholder's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (iii) the issuance of the shares upon the exercise or acquisition of stock under the Option has been registered under a then currently effective registration statement under the Securities Act or (iv) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

**(d) Withholding Obligations.** The Optionholder may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under an Option by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Optionholder by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to the Optionholder as a result of the exercise or acquisition of stock under the Option, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of the Common Stock.

#### **11. ADJUSTMENTS UPON CHANGES IN STOCK.**

**(a) Capitalization Adjustments.** If any change is made in the stock subject to the Plan, or subject to any Option, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject both to the Plan pursuant to subsection 4(a) and to the nondiscretionary Options specified in Section 5, and the outstanding Options will be appropriately adjusted in the class(es) and number of securities and price per share of stock subject to such outstanding Options. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

**(b) Change in Control—Dissolution or Liquidation.** In the event of a dissolution or liquidation of the Company, then all outstanding Options shall terminate immediately prior to such event.

**(c) Change in Control—Asset Sale, Merger, Consolidation or Reverse Merger.** In the event of (i) a sale, lease or other disposition of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Options outstanding under the Plan or shall substitute similar options (including an option to acquire the same consideration paid to the stockholders in the transaction described in this subsection 11(c) for those outstanding under the Plan). In the event any surviving corporation or acquiring corporation refuses to assume such Options or to substitute similar options for those outstanding under the Plan, then with respect to Options held by Optionholders whose Continuous Service has not terminated, the vesting of such Options and any shares of Common Stock acquired under such Options (and, if applicable, the time during which such Options may be exercised) shall be accelerated in full, and the Options shall terminate if not exercised at or prior to such event. With respect to any other Options outstanding under the Plan, such Options shall terminate if not exercised prior to such event.

**(d) Change in Control—Securities Acquisition.** In the event of an acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Exchange Act, or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or an Affiliate) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of Directors and provided that such acquisition is not a result of, and does not constitute a transaction described in, subsection 11(c) hereof, then with respect to Options held by Optionholders whose Continuous Service has not terminated, the vesting of such Options and any shares of Common Stock acquired under such Options (and, if applicable, the time during which such Options may be exercised) shall be accelerated in full.

**12. AMENDMENT OF THE PLAN AND OPTIONS.**

**(a) Amendment of Plan.** The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

**(b) Stockholder Approval.** The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval.

**(c) No Impairment of Rights.** Rights under any Option granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Optionholder and (ii) the Optionholder consents in writing.

**(d) Amendment of Options.** The Board at any time, and from time to time, may amend the terms of any one or more Options; provided, however, that the rights under any Option shall not be impaired by any such amendment unless (i) the Company requests the consent of the Optionholder and (ii) the Optionholder consents in writing.

**13. TERMINATION OR SUSPENSION OF THE PLAN.**

**(a) Plan Term.** The Board may suspend or terminate the Plan at any time. No Options may be granted under the Plan while the Plan is suspended or after it is terminated.

**(b) No Impairment of Rights.** Suspension or termination of the Plan shall not impair rights and obligations under any Option granted while the Plan is in effect except with the written consent of the Optionholder.

**14. EFFECTIVE DATE OF PLAN.**

The Plan shall become effective on the IPO Date, but no Option shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

**15. CHOICE OF LAW.**

All questions concerning the construction, validity and interpretation of this Plan shall be governed by the law of the State of Delaware, without regard to such state's conflict of laws rules.

### COMPENSATION INFORMATION FOR NON-EMPLOYEE DIRECTORS

The tables below provide information regarding the current annual cash compensation amount and equity compensation for Non-Employee Directors of Exelixis, Inc. Directors who are employees of Exelixis do not receive additional compensation for director services.

#### 2008 Cash Compensation for Non-Employee Directors

<b>Board of Directors</b>	Retainer Fee	\$ 20,000
	Additional Chair Retainer Fee	\$ 25,000
	Regular Meeting Fee	\$ 2,500
	Special Meeting Fee <sup>1</sup>	\$ 1,000
<b>Audit Committee</b>	Retainer Fee	\$ 6,000
	Additional Chair Retainer Fee	\$ 10,000
	Meeting Fee <sup>2</sup>	\$ 1,000
<b>Compensation Committee</b>	Retainer Fee	\$ 5,000
	Additional Chair Retainer Fee	\$ 5,000
	Meeting Fee <sup>2</sup>	\$ 1,000
<b>Nominating &amp; Corporate Governance Committee</b>	Retainer Fee	\$ 5,000
	Additional Chair Retainer Fee	\$ 5,000
	Meeting Fee <sup>2</sup>	\$ 1,000
<b>Research &amp; Development Committee</b>	Retainer Fee	\$ 10,000
	Additional Chair Retainer Fee	\$ 10,000
	Meeting Fee <sup>2</sup>	\$ 5,000

<sup>1</sup> Meeting at which minutes are generated.

<sup>2</sup> In-person meeting or teleconference at which minutes are generated.

#### 2008 Equity Compensation for Non-Employee Directors

<b>Board of Directors</b>	<b>Initial Option Grant<sup>3</sup></b>	Number of Options	25,000
	<b>Annual Option Grant</b>	Number of Options	15,000

<sup>3</sup> For new directors only.

Except as provided above, all other terms and conditions regarding compensation for Non-Employee Directors remain as outlined in Exelixis' Proxy Statement for the 2007 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission on March 29, 2007. Information regarding compensation for Non-Employee Directors will also be provided in the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission in March 2008.

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SHAREHOLDERS' AGREEMENT

among

Exelixis, Inc.,  
210 East Grand Avenue, San Francisco, CA 94080, USA  
(“**Exelixis**”)

and

Taconic Farms, Inc.,  
One Hudson City Centre, Hudson, NY 12534, USA  
(“**Taconic**”)

Exelixis and Taconic are hereinafter individually referred to as a “**Party**” and collectively as “**Parties**”

November 20, 2007

**PREAMBLE**

1. WHEREAS, Exelixis is a development-stage biotechnology company dedicated to the discovery and development of novel small molecule therapeutics for the treatment of cancer and other serious diseases.
2. WHEREAS, Taconic is a commercial supplier of transgenic, inbred, outbred and hybrid mice and rats and also provides various laboratory services for research using animal models.
3. WHEREAS Artemis Pharmaceuticals GmbH (to be renamed to “TaconicArtemis GmbH”, hereinafter referred to as “**Artemis**”), is a German company with limited liability registered with the commercial register of the local court of Cologne under HRB 29566 and is engaged in the development and use of various genetic engineering techniques to generate genetically modified mice and rats for commercialization and use by biomedical researchers. This includes, but is not limited to research, development and commercialization of genetically engineered ES cells and genetically engineered mouse models as genetic model systems for use at various stages of the drug discovery process or academic research.
4. WHEREAS Artemis has a fully paid-in registered share capital in the aggregate amount of DEM 787,400. Following the consummation of a share purchase agreement between Exelixis and Taconic, by which Exelixis sells and transfers a share in Artemis with a total par value of DEM 507,000 to Taconic (hereinafter referred to as “**Share Purchase Agreement**”), the shares in Artemis will be held as follows:
  - (a) Artemis holds 16 shares with a total par value of DEM 154,400;
  - (b) Exelixis holds one share with a par value of DEM 126,000;
  - (c) Taconic holds one share with a par value of DEM 507,000.
5. WHEREAS, the Parties intend to cooperate as shareholders of Artemis pursuant to the following terms and conditions.

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NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

**I.  
COOPERATION UNDERTAKINGS**

1. The Parties undertake to cooperate in a constructive way and based on a relation of personal confidence and partnership as shareholders of Artemis in connection with all matters of Artemis.
2. The Parties undertake to pursue an open information policy, to appoint dedicated persons as members of the shareholders' committee and to respect the interests of the respective other Party.
3. The Parties shall use their best efforts to unanimously settle any disagreement in particular with respect to the objectives and the strategy of Artemis taking into consideration the intention of the Parties as set forth in this Shareholders' Agreement.

**II.  
STRATEGIC GOALS**

The Parties shall ensure that the shareholders' committee of Artemis (see Part VI below) agrees on strategic goals for Artemis as soon as reasonable possible after the date hereof.

**III.  
ARTICLES OF ASSOCIATION**

1. The Parties as shareholders of Artemis shall resolve on the adoption of the Articles of Association as attached hereto as **Annex III** in a shareholders' meeting to be held without undue delay following the execution of this Shareholders' Agreement.
2. As of the date hereof until the registration of the amendments of the Articles of Association of Artemis with the commercial register of the local court of Cologne, the Parties undertake to treat each other as if the amended Articles of Association were already in force.

**IV.  
MANAGING DIRECTORS**

The Parties shall cause the shareholders' committee to adopt rules of procedure of the managing directors of Artemis including the provisions set forth in **Annex IV** hereto.

**V.  
SHAREHOLDERS' MEETING**

1. To the extent resolutions of the shareholders' meeting require the affirmative vote of 85% of the votes cast according to the Articles of Association of Artemis, the Parties agree that they will not unreasonably withhold, condition or delay their approval.

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2. The Parties agree that PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft shall be the auditor of Artemis as soon as practicable and that the Parties will cast their votes in the shareholders' meeting accordingly.

## VI.

### SHAREHOLDERS' COMMITTEE

1. According to Part X of the Articles of Association of Artemis to be adopted in accordance with Part III Sec. 1 above, Artemis has a shareholders' committee. Four (4) members of the shareholders' committee shall be appointed by Taconic and one (1) member shall be appointed by Exelixis. The shareholders' committee is expected to initially consist of five members, including [ \* ]. Members of the shareholders' committee being managing directors of Artemis shall be excluded from such negotiations of the shareholders' committee, and shall have no vote in such resolutions of the shareholders' committee, that concern their role as managing directors of Artemis.
2. In addition to the competences set forth in the Articles of Association of Artemis, the shareholders' committee shall have the exclusive authority to determine:
  - (a) the purpose and the overall strategy of Artemis;
  - (b) product development priorities;
  - (c) annual budget of Artemis (including projected revenues, expenses, CAPEX, operating profits, indebtedness, cash flows and headcount);
  - (d) any funding to be provided by the shareholders of Artemis; and
  - (e) agreements granting exclusivity to any Party for a genetic model or technology.The resolution of the shareholders' committee set forth in 2(a) and (e) shall require a unanimous vote. The Parties shall conduct a shareholders' meeting to adopt resolutions allocating the appropriate responsibilities to the shareholders' committee.
3. The Parties shall cause the shareholders' meeting to adopt the rules of procedure of the shareholders' committee of Artemis as attached hereto as **Annex VI.3**.

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**VII.**  
**RESTRICTIONS TO DISPOSAL OF SHARES**

Any transfer of shares in Artemis (hereinafter referred to as “**Artemis Shares**”), in whole or in part, all other disposals or encumbrances, and the conclusion of trust arrangements with respect to Artemis Shares require the approval of a majority vote of the Artemis Shares in order to be effective in accordance with Part V of the Articles of Association of Artemis.

**VIII.**  
**OPTION RIGHTS**

1. Taconic hereby offers to buy and to accept the transfer of all of the Artemis Shares held by Exelixis as of the date hereof or in the future (hereinafter referred to as “**Option Shares**”) with the right to all dividends not distributed at the day of the transfer of the Option Shares (hereinafter referred to as “**Purchase Offer**”). Exelixis may accept the Purchase Offer by notarized declaration of acceptance to be delivered to Taconic (i) within 30-days after Exelixis has received from Taconic the audited financial statements for Artemis for any calendar year-end, beginning with the year ending December 31, 2009, and ending with fiscal year ending December 31, 2014, or (ii) following a Change of Control (as defined in Section 3 below) with respect to the shares in Taconic. In case of a Change of Control with respect to the shares in Taconic, Exelixis may accept the Purchase Offer at any time following such Change of Control, provided, however, that it may not accept the Purchase Offer later than thirty days following a written notification by Taconic to Exelixis with respect to such Change of Control. The declaration of acceptance shall be deemed to be received by Taconic on the third business day following the posting of the declaration of acceptance.

The Purchase Offer shall not be effective and Exelixis may not accept the Purchase Offer, in each case other than following a Change of Control with respect to the shares in Taconic, unless and until [ \* ], as the case may be.

2. Exelixis hereby offers to sell and to transfer all of the Options Shares with the right to all dividends not distributed at the day of the transfer of the Option Shares (hereinafter referred to as “**Sale Offer**”). Taconic may accept the Sale Offer by notarized declaration of acceptance to be delivered to Exelixis (i) within the 30-day period following the 30-day period in which Exelixis is entitled to accept the Purchase Offer after Exelixis has received from Taconic the audited financial statements for Artemis for any calendar year-end, beginning with December 31, 2012, and ending with December 31, 2014, or (ii) following a Change of Control (as defined in Section 3

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below) with respect to the shares in Exelixis. In case of a Change of Control with respect to the shares in Exelixis, Taconic may accept the Sale Offer at any time following such Change of Control, provided, however, that it may not accept the Sale Offer later than thirty days following a written notification by Exelixis to Taconic with respect to such Change of Control. The declaration of acceptance shall be deemed to be received by Exelixis on the third business day following the posting of the declaration of acceptance.

3. (a) A “**Change of Control**” with respect to Taconic shall be deemed to have occurred if (in one or a series of transactions) more than 50% of the shares of Taconic have been directly or indirectly transferred to one or more persons who are not shareholders of Taconic at the Closing Date as defined in the Share Purchase Agreement. However, shares of Taconic may be transferred to spouses and lineal descendants of Taconic shareholders and their affiliated trusts and/or foundations, and such transfers shall not constitute (or be counted toward the threshold required for) a Change of Control of Taconic.
  - (b) A “**Change of Control**” with respect to Exelixis shall be deemed to have occurred if (in one or a series of transactions) a person, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) acquires beneficial ownership of the capital stock of Exelixis equal to 35% or more of either (i) the then-outstanding shares of the common stock of Exelixis or (ii) the combined voting power of the then-outstanding securities of Exelixis to vote generally in the election of directors.
4. If neither Exelixis accepts the Purchase Offer nor Taconic accepts the Sale Offer within 60 days after Exelixis has received from Taconic the audited financial statements for the fiscal year ending December 31, 2014, Taconic hereby grants approval to any transfers or disposal by Exelixis of its Artemis Shares after such date to any third party [ \* ]; provided, however, that Exelixis shall pay Taconic any Funding Adjustment Amount (as defined in Section 6(e) below) within 30 days from the date of such sale or other disposition by Exelixis of its Artemis Shares.
  5. The transfer of the Option Shares to Taconic upon acceptance of the Purchase Offer or the Sale Offer by Exelixis or Taconic respectively shall be effective upon receipt of the purchase price for the Options Shares (hereinafter referred to as “**Purchase Price**”) by Exelixis in accordance with Section 7 below.

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6. (a) The Purchase Price shall be equal to (i) 19.9% of the Market Value (as defined in Section 6(b) below) of Artemis at the point in time of the acceptance of the Purchase Offer or the Sale Offer by Exelixis or Taconic respectively plus (ii) 19.9% of any Cash, less (iii) 19.9% of any Financial Debt, and (iv) less any Funding Adjustment Amount. In case Exelixis holds less or more than 19.9% of the share capital of Artemis at the relevant point in time, the calculation of the Purchase Price shall be adjusted accordingly.
- (b) For purposes of this Section 6, the “**Market Value**” of Artemis shall be equal to either (i) the average of the annual EBITDA of Artemis in the [ \* ] ended before the acceptance of the Purchase Offer or the Sale Offer by Exelixis or Taconic respectively, or (ii) in the case of a Change of Control, the average of the annual EBITDA for the [ \* ] as measured from the [ \* ] ended immediately before the Change of Control, and then in either case (i) and (ii) multiplied by twelve.
- (c) For purposes of this Section 6, “**Cash**” shall have the meaning as defined in Annex II.1 of the Share Purchase Agreement, provided, however, that the amount of Cash shall be calculated on the basis of either (i) the [ \* ] accounts of Artemis available, or (ii) in case of a Change of Control, the accounts of Artemis of the [ \* ], in either case (i) and (ii) at the acceptance of the Purchase Offer or the Sale Offer respectively.
- (d) For purposes of this Section 6, “**Financial Debt**” shall have the meaning as defined in Annex II.1 of the Share Purchase Agreement, provided, however, that the parties shall include, in the definition of Financial Debt, [ \* ], and that the amount of Financial Debt shall be calculated on the basis of either (i) the [ \* ] accounts of Artemis available, or (ii) in case of a Change of Control, the accounts of Artemis of the [ \* ], in either case (i) and (ii) at the acceptance of the Purchase Offer or the Sale Offer respectively.
- (e) For purposes of this Section 6, “**Funding Adjustment Amount**” shall be the value of any Funding Obligation (as defined in Part IX below) Exelixis has elected not to pay in accordance with Part IX below, [ \* ].
- (f) For purposes of this Section 6, the EBITDA of Artemis of the relevant business year(s) shall be calculated as set forth in **Annex VIII.6(f)** hereto.
- (g) In case Artemis has any subsidiaries, the consolidated financial statements shall be decisive for purposes of the above calculations.

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- (h) For purposes of this Section 6, any indemnification payments made by Exelixis to Taconic or Artemis pursuant to Part V of the Share Purchase Agreement shall be added to EBITDA for purposes of calculating Market Value, but only to the extent that any such damages for which indemnification was paid and received reduced Artemis' EBITDA for the period included in the calculation of Market Value.
7. The Purchase Price shall be due and payable by wire transfer to an account designated by Exelixis within [ \* ] after the receipt of the acceptance of the Purchase Offer or the Sale Offer by Exelixis or Taconic respectively. In the event payment is not made within such time, interest will accrue on the amount outstanding at [ \* ] until paid in full. In the event payment is not made within [ \* ] after the receipt of the acceptance of the Purchase Offer or the Sale Offer by Exelixis or Taconic respectively, Exelixis shall be entitled to transfer its Artemis Shares to any third party [ \* ].
8. Exelixis herewith represents to Taconic by way of independent guarantees, that the following statements are correct on the date of the transfer of the Option Shares to Taconic as a consequence of the acceptance of the Purchase Offer or the Sale Offer by Exelixis or Taconic respectively:
- (a) Exelixis is the sole owner of the Option Shares.
  - (b) The Option Shares are free from all rights of third parties of any type whatsoever and there are no claims for the granting of such rights or the transfer of the Option Shares.
  - (c) The Option Shares are fully paid-in, non-assessable and free of secondary rights or other obligations and restrictions.

**IX.**  
**FUNDING OBLIGATION**

Taconic and Exelixis shall be responsible for their respective proportionate shares of any obligations to fund Artemis' operations as determined by the shareholders' committee by capital investments (each capital investment hereinafter referred to as a "**Funding Obligation**"). Notwithstanding the foregoing, but subject to Part VIII Sections 4 and 6 above, within [ \* ] of receiving notice of a Funding Obligation, Exelixis may elect not to pay all or part of the Funding Obligation.

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**X.**  
**PREFERRED TECHNOLOGY ACCESS OF EXELIXIS**

Taconic shall ensure that Artemis grants to Exelixis for the duration of this Shareholders' Agreement preferred access to Artemis' scientific resources (particularly those required for the [ \* ]) according to the principles set forth below:

1. Exelixis shall provide Artemis its requests for scientific services to be performed by Artemis as part of the annual determination of the budget of Artemis.
2. Artemis shall treat Exelixis as a preferred customer. Artemis shall therefore use its best efforts to deliver the services requested by Exelixis on the agreed upon time frame. In case of a shortage of its resources, Artemis shall grant Exelixis priority access to its [ \* ] resources compared to other customers.
3. Artemis shall not actively market any [ \* ] developed for and paid for by Exelixis without the prior written consent of Exelixis. However, in case another customer asks Artemis to provide the same [ \* ], which were developed on request of and paid by Exelixis, then Artemis [ \* ]. Notwithstanding the above, Artemis shall be allowed to [ \* ]. Artemis will further be free to [ \* ].
4. The cost of any scientific services provided by Artemis to Exelixis shall be calculated on an arms' length basis.
5. Artemis shall not [ \* ].

**XI.**  
**DISPUTE RESOLUTION WITH RESPECT TO FINANCIAL STATEMENTS**

1. If the Parties are in disagreement with respect to any issues related to the financial statements of Artemis, they shall use their best efforts to mutually settle such disagreement within four weeks following the submission of the financial statements to them by the managing directors of Artemis.
2. To the extent the Parties cannot reach an agreement on the issues related to the financial statements in dispute, Exelixis shall be entitled to submit the relevant financial statements and the issues in dispute to an auditor (hereinafter referred to as "**Expert**") to be appointed by the German Institution of Auditors (*Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)*) on request of Exelixis, provided, however, that this shall not prevent Taconic from approving the financial statements in the shareholders' meeting of Artemis. If Taconic sends a written notification to

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Exelixis, stating that the Parties do not agree on the issues in dispute, Exelixis shall only be entitled to start the audit procedure by requesting the German Institution of Auditors to appoint an auditor within two weeks following the receipt of such written notification from Taconic. If Exelixis starts the audit procedure, it shall inform Taconic in writing accordingly as soon as reasonably practicable. The Expert shall act as arbitration expert (*Schiedsgutachter*) and shall make a decision on the issues in dispute on the basis of the statutory provisions of German law regarding bookkeeping and accounting within one month. Such decision shall be final and binding upon the Parties.

3. The Parties shall approve (*feststellen*) the financial statements in accordance with the decision of the Expert without undue delay. If the shareholders' meeting has already approved the financial statements at the time at which the Expert has made its decision on the issues in dispute, Taconic shall cause the financial statements to be corrected to the effect that they comply with the decision of the Expert.
4. The costs and fees of the Expert shall be borne by the Parties in accordance with the principles set forth in Sections 91 et seq. of the German Code of Civil Procedure (ZPO).

## XII.

### NON COMPETE UNDERTAKINGS

1. The Parties undertake not to, directly or through affiliated entities, [ \* ].  
Excluded from this restriction are (i) the Parties' participation in Artemis and any of the above activities to the extent based on a contractual relationship with Artemis and (ii) the acquisition and holding of financial investments in companies, which are engaged in the development, distribution or rendering of such products or services, representing up to [ \* ] per cent of the voting rights in such companies.
2. Each Party shall take such action as necessary to cause the respective companies affiliated with it within the meaning of Sec. 15 et seq. of the German Stock Corporation Act (*Aktiengesetz – AktG*) to comply with the obligations set forth in this Part XII.

## XIII.

### SHAREHOLDER PROTECTIVE PROVISIONS

If Taconic intends to sell its shares in Artemis, such sales shall be subject to the provisions of Part XIII of the Articles of Association of Artemis. The Parties agree that the threshold for

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purposes of Part XIII Section 2 (Right of First Refusal) of the Articles of Association of Artemis shall be not less than [ \* ] (as defined in the Share Purchase Agreement). The Parties further agree that the threshold for purposes of Part XIII Section 4 (Drag Along Rights) of the Articles of Association of Artemis shall be [ \* ].

**XIV.  
FINANCIAL REPORTING**

As long as Exelixis is a shareholder of Taconic, the Parties shall cause Artemis to prepare an income statement and balance sheet on a calendar quarterly basis in accordance with US GAAP (hereinafter referred to as “**Quarterly Financial Statements**”) and to deliver such Quarterly Financial Statements to the Parties as soon as reasonably practicable after the end of the respective calendar quarter but no later than 60 days subsequent to the quarter end.

**XV.  
TERM**

1. This Shareholders’ Agreement is concluded for an unlimited period of time and shall apply to the Parties as long as they are, directly or indirectly, shareholders of Artemis.
2. The right to withdraw from this Shareholders’ Agreement for important reason (*wichtiger Grund*) shall remain unaffected.

**XVI.  
MISCELLANEOUS**

1. Each Party shall bear its own costs and taxes as well as the costs of its advisors in connection with the execution and consummation of this Shareholders’ Agreement.
2. Changes and amendments of this Shareholders’ Agreement as well as declarations to be made hereunder shall be valid only if made in writing unless a notarial deed is legally required. This shall also apply to any change of this Section 2.
3. (a) Exelixis shall appoint a person or legal entity, which is authorized to make and accept with legally binding effect for Exelixis all declarations under this Shareholders’ Agreement or in consummation thereof.  
Exelixis appoints as such agent:  
President & Chief Executive Officer  
Exelixis, Inc.,  
170 Harbor Way  
South San Francisco, CA 94083 (USA).

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A copy of each declaration shall be sent to:

Vice President, Corporate Legal Affairs and Secretary,  
Exelixis, Inc.,  
170 Harbor Way  
South San Francisco, CA 94083 (USA).

- (b) Taconic shall appoint a person or legal entity, which is authorized to make and accept with legally binding effect for Taconic all declarations under this Shareholders' Agreement or in consummation thereof.

Taconic appoints as such agent:

Chief Executive Officer or President  
Taconic Farms, Inc.  
One Hudson City Centre  
Hudson, NY 12534 (USA)

A copy of each declaration shall be sent to:

Leslie M. Apple, Esq.  
Whiteman Osterman & Hanna LLP  
One Commerce Plaza, 19<sup>th</sup> Floor  
Albany, NY 12260 (USA)

- (c) A change in the person or address of the agent appointed under lit. (a) and (b) above shall be effective for the other Party only one month after the date on which they have been notified of such change. Until the lapse of such period, the authority of the previous agent as well as his address shall be deemed to continue.

4. This Shareholders' Agreement shall become effective upon the Closing Date as defined in the Share Purchase Agreement.
5. If a provision of this Shareholders' Agreement should be or become invalid or unenforceable or not contain a necessary regulation, the validity of the other provisions of this Shareholders' Agreement shall not be affected thereby. The invalid or unenforceable provision shall be replaced and the gap be filled by a legally valid arrangement which corresponds as closely as possible to the intention of the Parties or what would have been the intention of the Parties according to the aim and purpose of the Parties of this Shareholders' Agreement if they had recognized the gap.

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6. This Shareholders' Agreement shall be governed by the laws of the Federal Republic of Germany.
7. All disputes arising out of or in connection with this Shareholders' Agreement shall be finally settled in accordance with the Arbitration Rules of the German Institution of Arbitration e.V. (DIS) without recourse to the ordinary courts of law by one arbitrator appointed in accordance with the said Rules. The forum for all arbitration shall be at a location in Frankfurt, Germany designated by the arbitrator. The language of the arbitral proceedings shall be English.

/s/ A. Veith

/s/ Oliver Passavant

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ARTICLES OF ASSOCIATION  
OF TACONIC ARTEMIS GMBH

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## **Gesellschaftsvertrag**

der TaconicArtemis GmbH

### **I.**

#### **FIRMA, SITZ UND GESCHÄFTSJAHR**

1. Die Firma der Gesellschaft lautet

TaconicArtemis GmbH

2. Die Gesellschaft hat ihren Sitz in Köln.
3. Geschäftsjahr ist das Kalenderjahr.

### **II.**

#### **GEGENSTAND DES UNTERNEHMENS**

1. Gegenstand des Unternehmens ist die Entwicklung und Nutzung verschiedener Methoden der Gentechnik, um gentechnisch veränderte Mäuse und Ratten für die Vermarktung und Nutzung durch die biomedizinische Forschung zu züchten. Dies umfasst insbesondere aber nicht ausschließlich die Erforschung, Entwicklung und Vermarktung von gentechnisch veränderten embryonalen Stammzellen und gentechnisch veränderten Mausmodellen als genetische Modellsysteme zur Nutzung in verschiedenen Stadien der Arzneimittelherstellung oder der wissenschaftlichen Forschung.
2. Die Gesellschaft kann darüber hinaus Geschäfte aller Art tätigen, die geeignet sind, den vorstehenden Gegenstand zu fördern. Sie kann andere Gesellschaften und Zweigniederlassungen errichten und sich an anderen Unternehmen beteiligen.

### **III.**

#### **BEKANNTMACHUNGEN**

Die Bekanntmachungen der Gesellschaft erfolgen ausschließlich im elektronischen Bundesanzeiger oder dem etwa an seine Stelle tretenden amtlichen Veröffentlichungsorgan.

### **IV.**

#### **STAMMKAPITAL**

Das Stammkapital der Gesellschaft beträgt DM 787.400,00.

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**V.**  
**VERFÜGUNGEN ÜBER GESCHÄFTSANTEILE**

Die Übertragung von Geschäftsanteilen, insgesamt oder von Teilen von Geschäftsanteilen, alle anderen Verfügungen oder Belastungen, sowie der Abschluss von Treuhandvereinbarungen in Bezug auf die Anteile an der Gesellschaft bedürfen zu ihrer Wirksamkeit der Zustimmung der Gesellschafterversammlung, die mit einfacher Mehrheit erteilt werden kann. Dies gilt auch für die von der Gesellschaft selbst gehaltenen Anteile.

**VI.**  
**EINZIEHUNG VON GESCHÄFTSANTEILEN**

1. Die Einziehung von Geschäftsanteilen bedarf eines Beschlusses der Gesellschafterversammlung und ist nur mit Zustimmung des betroffenen Gesellschafters zulässig. Der Zustimmung des betroffenen Gesellschafters bedarf es nicht und der betroffene Gesellschafter hat kein Stimmrecht bezüglich des Beschlusses über die Einziehung seiner Geschäftsanteile, wenn
  - (a) über das Vermögen des Gesellschafters ein Insolvenzverfahren eröffnet wurde oder wenn die Eröffnung eines Insolvenzverfahrens mangels Masse abgelehnt wurde oder, falls der Gesellschafter US-amerikanischem Recht unterliegt, wenn der Gesellschafter einen Antrag auf ein Konkurs- (*bankruptcy*), Insolvenz- (*insolvency*) oder Umstrukturierung- (*reorganization*) Verfahren eingereicht hat oder gegen den Gesellschafter ein Antrag auf ein Konkurs-, Insolvenz- oder Umstrukturierungsverfahren eingereicht wurde, welcher (i) die Erteilung eines Eröffnungsbeschlusses zur Folge hat und (ii) nicht innerhalb von 60 Tagen abgelehnt wird oder erledigt ist;
  - (b) die Geschäftsanteile des Gesellschafters gepfändet wurden und die Pfändung nicht innerhalb eines Monats aufgehoben wurde oder der Gläubiger die Verwertung der gepfändeten Geschäftsanteile betreibt;
  - (c) der Gesellschafter Auflösungsklage erhebt; oder
  - (d) sonst ein wichtiger Grund vorliegt, einschließlich Umstände in der Person des Gesellschafters, welche die anderen Gesellschafter dazu berechtigen würden, den betreffenden Gesellschafter gemäß § 140 HGB auszuschließen.

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2. Die Einziehung erfolgt gegen Entgelt. Die Höhe des Entgelts richtet sich nach dem gemeinen Wert der Geschäftsanteile, der nach den Richtlinien der Finanzverwaltung in ihrer jeweils gültigen Fassung zur Bewertung von Geschäftsanteilen, deren Wert sich nicht aus Verkäufen ableiten lässt, zu ermitteln ist. Maßgebend für die Wertermittlung sind die Verhältnisse am letzten Bilanzstichtag der Gesellschaft, jedoch kann jeder der Gesellschafter auf eigene Kosten eine Berichtigung des Wertansatzes zum Einziehungsstichtag verlangen. Im Streitfall und auf Antrag eines Gesellschafters wird der Wert der Geschäftsanteile durch einen von der Industrie- und Handelskammer am Sitz der Gesellschaft zu benennenden Schiedsgutachter, der Wirtschaftsprüfer sein muss, rechtsverbindlich festgesetzt. Eventuell vorhandene Grundstücke und Gebäude werden mit ihrem gutachterlich festgesetzten üblichen Verkehrswert bewertet.
3. Sofern die Einziehung von Geschäftsanteilen zulässig ist, können die betroffenen Geschäftsanteile ganz oder teilweise durch Beschluss der Gesellschafterversammlung an einen durch diesen Gesellschafterbeschluss zu benennenden Dritten (einschließlich Gesellschafter der Gesellschaft) übertragen werden. Bei dieser Beschlussfassung durch die Gesellschafter steht dem betroffenen Gesellschafter kein Stimmrecht zu. Falls die Gesellschafterversammlung die Übertragung des betroffenen Anteils an einen Dritten beschlossen hat, gilt der obige Abschnitt 2 entsprechend, jedoch mit der Maßgabe, dass das Entgelt von diesem Dritten zu zahlen ist.
4. Wenn die Gesellschafterversammlung beschließt, die Geschäftsanteile des betroffenen Gesellschafters einzuziehen oder die Übertragung seiner Geschäftsanteile an einen Dritten zu verlangen, scheidet dieser unmittelbar aus der Gesellschaft aus.

## VII. GESCHÄFTSFÜHRUNG UND VERTRETUNG

1. Die Gesellschaft hat einen oder mehrere Geschäftsführer. Ist nur ein Geschäftsführer bestellt, so vertritt dieser die Gesellschaft allein. Sind mehrere Geschäftsführer bestellt, so wird die Gesellschaft durch zwei Geschäftsführer gemeinschaftlich oder durch einen Geschäftsführer in Gemeinschaft mit einem Prokuristen vertreten. Die Gesellschafterversammlung kann beschließen, einzelnen oder allen Geschäftsführern Einzelvertretungsbefugnis zu erteilen und/oder diese von den Beschränkungen des § 181 BGB zu befreien.
2. Der Geschäftsführer Prof. Dr. Peter Stadler wird von den Beschränkungen des § 181 BGB befreit.

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3. Die Geschäftsführer sind verpflichtet, die Gesetze, die Vorschriften dieses Gesellschaftsvertrages, die Weisungen der Gesellschafterversammlung und des Gesellschafterausschusses sowie eine von dem Gesellschafterausschuss aufgestellte Geschäftsordnung zu beachten. § 90 AktG gilt entsprechend für den Gesellschafterausschuss.

## VIII.

### GESELLSCHAFTERVERSAMMLUNGEN

1. Gesellschafterversammlungen werden schriftlich, per Fax, Telegramm oder E-Mail mit einer Frist von mindestens zwei Wochen einberufen, wobei die Einladung an die letzte bekannte Adresse des jeweiligen Gesellschafters zu versenden ist. Für die Berechnung der Frist sind der Tag der Absendung der Einladung und der Tag der Gesellschafterversammlung nicht zu berücksichtigen.  
Die Einladung hat die Tagesordnung für die Gesellschafterversammlung zu enthalten, wobei jeder Tagesordnungspunkt in dem Umfang zu erläutern ist, der erforderlich ist, um den Gesellschaftern eine Vorbereitung auf die Gesellschafterversammlung zu ermöglichen.
2. Die Gesellschafterversammlung ist beschlussfähig, wenn mindestens 85 % des stimmberechtigten Stammkapitals vertreten sind. Wenn die Beschlussfähigkeit nicht erreicht wird, kann eine weitere Gesellschafterversammlung mit der gleichen Tagesordnung für einen Zeitpunkt einberufen werden, der nicht weniger als eine Woche und nicht mehr als zwei Wochen nach dem Zeitpunkt der nicht beschlussfähigen Gesellschafterversammlung liegt. Diese Gesellschafterversammlung gilt als beschlussfähig, unabhängig davon, in welcher Höhe das stimmberechtigte Stammkapital vertreten ist.
3. Die Gesellschafterversammlung findet an einem Ort statt, der gegebenenfalls von den Gesellschaftern vereinbart wird.
4. Die Diskussionen und Entscheidungen der Gesellschafterversammlung werden in Protokollen festgehalten, die vom Vorsitzenden der Gesellschafterversammlung unterzeichnet und an alle Gesellschafter verteilt werden.

## IX.

### GESELLSCHAFTERBESCHLÜSSE

1. Die Beschlüsse der Gesellschafter werden in Gesellschafterversammlungen gefasst. Sie können auch schriftlich, per Fax, Telegramm, E-Mail, Telefon oder Videokonferenz gefasst werden, wenn alle Gesellschafter dieser Art der Beschlussfassung zustimmen.

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2. Die Gesellschafterbeschlüsse werden mit einfacher Mehrheit der abgegebenen Stimmen gefasst, soweit im Gesetz oder im Gesellschaftsvertrag keine andere Mehrheit vorgesehen ist. Die folgenden Beschlüsse der Gesellschafterversammlung erfordern die Zustimmung von 85 % der abgegebenen Stimmen:
  - (a) Änderung des Gesellschaftsvertrags (einschließlich Kapitalerhöhungen oder -herabsetzungen);
  - (b) Änderung der Unternehmensform, Verschmelzungen, Spaltung oder andere Maßnahmen nach dem Umwandlungsgesetz;
  - (c) Änderung der Geschäftsordnung des Gesellschafterausschusses;
  - (d) Auflösung der Gesellschaft.

**X.**

**GESELLSCHAFTERAUSSCHUSS**

1. Die Gesellschaft hat einen Gesellschafterausschuss.
2. Der Gesellschafterausschuss berät und unterstützt die Geschäftsführung der Gesellschaft in allen Angelegenheiten der Gesellschaft. Darüber hinaus hat der Gesellschafterausschuss die alleinige Befugnis, über
  - (a) die Bestellung von Geschäftsführern;
  - (b) die Abberufung von Geschäftsführern;
  - (c) die Geschäftsordnung der Geschäftsführer;
  - (d) Zustimmungen zu Handlungen der Geschäftsführer, die gemäß der Geschäftsordnung der Geschäftsführer die Zustimmung des Gesellschafterausschusses erfordern;
  - (e) den Abschluss, die Beendigung und die Änderung von Anstellungsverträgen mit den Geschäftsführern;
  - (f) die Erteilung von Weisungen an die Geschäftsführer;
  - (g) die Entlastung der Geschäftsführer;

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- (h) die Wahl der Abschlussprüfer;
  - (i) die Feststellung des Jahresabschlusses und gegebenenfalls Änderungen des Jahresabschlusses;
  - (j) die Verwendung des Gewinns zu entscheiden.
3. Die Beschlüsse des Gesellschafterausschusses werden mit einfacher Mehrheit der abgegebenen Stimmen gefasst, soweit dieser Gesellschaftsvertrag keine andere Mehrheit vorsieht. Die oben in Ziffer 2 Buchst. a) und c) genannten Beschlüsse des Gesellschafterausschusses sind einstimmig zu fassen. Die oben in Ziffer 2 Buchst. d) und f) genannten Beschlüsse des Gesellschafterausschusses sind einstimmig zu fassen, soweit sie sich auf Handlungen der Geschäftsführer beziehen, welche die einstimmige Zustimmung des Gesellschafterausschusses gemäß der Geschäftsordnung der Geschäftsführer erfordern.
4. Soweit gesetzlich zulässig, findet § 52 GmbHG keine Anwendung. Die Gesellschafterversammlung kann über die Geschäftsordnung des Gesellschafterausschusses entscheiden.

## XI. JAHRESABSCHLUSS

Der/die Geschäftsführer erstellt/erstellen den Jahresabschluss und, falls erforderlich, den Lagebericht innerhalb der gesetzlich vorgeschriebenen Frist und legt/legen diese, soweit die Prüfung gesetzlich vorgeschrieben ist, dem Abschlussprüfer zur Prüfung vor, und unverzüglich nach der Prüfung durch den Abschlussprüfer, falls diese erforderlich ist, der Gesellschafterversammlung und dem Gesellschafterausschuss.

## XII. VERWENDUNG DES GEWINNS

1. Der Gesellschafterausschuss beschließt über die Verwendung des Gewinns.
2. Der Bilanzgewinn wird vollständig auf neue Rechnung vorgetragen, sofern der Gesellschafterausschuss nicht etwas anderes beschließt.

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**XIII.**  
**MITVERÄUßERUNGSRECHT, VORKAUFRECHT, ANDIENUNGSPFLICHT**

1. Für den Fall, dass Taconic Farms, Inc. ("**Taconic**") den Verkauf oder die Übertragung ihrer Anteile an der Gesellschaft beabsichtigt, wird Taconic Exelixis Inc. ("**Exelixis**") schriftlich (i) die Person, an die Taconic die Geschäftsanteile verkaufen oder übertragen will ("**Käufer**"), und (ii) den Kaufpreis und sämtliche anderen Bedingungen, zu denen sie beabsichtigt, ihre Geschäftsanteile zu verkaufen oder zu übertragen, mitteilen ("**Angebot**"). Exelixis wird Taconic innerhalb von dreißig Tagen nach Erhalt des Angebots schriftlich darüber in Kenntnis setzen, ob sie ihre Anteile an der Gesellschaft zu den im Angebot festgelegten Bedingungen mitveräußern möchte ("**Annahmefrist**"). Für den Fall, dass Exelixis Taconic innerhalb der Annahmefrist mitteilt, dass sie ihre Anteile an der Gesellschaft zu den im Angebot festgelegten Bedingungen mitveräußern möchte, wird Taconic dafür sorgen, dass (i) der Käufer alle von Exelixis gehaltenen Anteile an der Gesellschaft zusammen mit den von Taconic gehaltenen Anteilen an der Gesellschaft zu Bedingungen erwirbt, die für Exelixis nicht ungünstiger sind als die im Angebot festgelegten Bedingungen, und dass (ii) Exelixis im Rahmen des Anteilskaufvertrags mit dem Käufer lediglich Garantien im Hinblick auf die freie und unbelastete Übertragung des Eigentums an den Anteilen der Gesellschaft abgeben muss.
2. Für den Fall, dass der im Angebot festgesetzte Kaufpreis einen bestimmten Schwellenwert unterschreitet, der von Zeit zu Zeit zwischen Taconic und Exelixis vereinbart wird, gewährt Taconic Exelixis ein Vorkaufsrecht. In diesem Fall teilt Exelixis Taconic schriftlich innerhalb der Annahmefrist mit, ob sie die von Taconic gehaltenen Anteile an der Gesellschaft zu den im Angebot festgelegten Bedingungen erwerben möchte. Für den Fall, dass Exelixis Taconic innerhalb der Annahmefrist mitteilt, dass sie die von Taconic gehaltenen Anteile an der Gesellschaft zu den im Angebot festgelegten Bedingungen erwerben möchte, werden die Parteien einen entsprechenden Anteilskauf- und Übertragungsvertrag schließen.
3. Für den Fall, dass (i) Exelixis Taconic mitteilt, dass sie ihre Anteile an der Gesellschaft nicht an den Käufer mitveräußern und dass sie die von Taconic gehaltenen Anteile an der Gesellschaft nicht erwerben möchte, oder dass (ii) Exelixis Taconic mitteilt, dass sie ihre Anteile an der Gesellschaft erwerben möchte und die Parteien nach den Grundsätzen von Treu und Glauben einen Kauf- und Übertragungsvertrag verhandeln, aber innerhalb von 90 Tagen nach Erhalt der Mitteilung durch Taconic keine Einigung über dessen abschließenden Inhalt erzielen können, oder dass (iii) Exelixis Taconic nicht innerhalb der Annahmefrist benachrichtigt, ist Taconic berechtigt, die Anteile an der Gesellschaft zu den im Angebot festgelegten Bedingungen (einschließlich des Kaufpreises) innerhalb von sechs Monaten nach Ablauf der Annahmefrist an den Käufer zu verkaufen und auf

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diesen zu übertragen, jedoch mit der Maßgabe, dass Taconic dafür Sorge trägt, dass der Käufer anstelle von Taconic als Partei in eine etwa zu diesem Zeitpunkt zwischen Exelixis und Taconic bestehende Gesellschaftervereinbarung eintritt.

4. Ungeachtet der oben in den Ziffern 1 und 2 genannten Bestimmungen ist Taconic, für den Fall, dass sie beabsichtigt, ihre Anteile an der Gesellschaft an einen Dritten zu verkaufen oder zu übertragen, berechtigt, Exelixis aufzufordern, ihre Geschäftsanteile zu den gleichen Bedingungen an diesen Dritten zu verkaufen oder zu übertragen (**“Andienungsverpflichtung”**), mit der Maßgabe, dass (i) Exelixis, mit Ausnahme von Garantien, die sich auf die freie und unbelastete Übertragung des Eigentums an den Anteilen der Gesellschaft beschränken, nicht verpflichtet ist, Garantien gegenüber Dritten abzugeben, (ii) Taconic die Andienungsverpflichtung innerhalb eines Zeitraums von einem Jahr nach Unterzeichnung dieses Gesellschaftsvertrags nicht ausüben darf und (iii) der Kaufpreis für die von Exelixis gehaltenen Anteile an der Gesellschaft entweder (A) dem Betrag entspricht, der nach einer von Zeit zu Zeit zwischen Taconic und Exelixis zu vereinbarenden Marktwertformel zu berechnen ist, mit der Maßgabe, dass die Mitteilung von Taconic an Exelixis über die Ausübung der Andienungsverpflichtung der maßgebliche Zeitpunkt für die Berechnung ist oder (B) einem bestimmten Schwellenwert entspricht, der von Zeit zu Zeit zwischen Taconic und Exelixis vereinbart wird, je nachdem, welcher Wert (A) oder (B) höher ist. Für den Fall, dass Taconic berechtigt ist, die Andienungsverpflichtung gemäß dieser Ziffer 4 auszuüben, gilt die Zustimmung von Exelixis zum Verkauf oder der Übertragung der von Taconic gehaltenen Anteile an der Gesellschaft an einen Dritten als erteilt.
5. Die Regelungen in diesem Abschnitt XIII gelten nicht für den Fall des Verkaufs und der Übertragung von Anteilen an der Gesellschaft durch Taconic an Gesellschafter von Taconic, Verwandte im Sinne des § 15 AO von Gesellschaftern von Taconic, sowie verbundene Unternehmen im Sinne der §§ 15 ff. AktG, einschließlich verbundenen *Trusts* und *Foundations*, von (i) Taconic, (ii) den Gesellschaftern von Taconic oder (iii) einem Verwandten im Sinne des § 15 AO von Gesellschaftern von Taconic (jeweils eine **“nahestehende Person”**). In vorgenanntem Fall tritt jedoch die nahestehende Person in die Rechte und Pflichten von Taconic aus diesem Abschnitt XIII ein.
6. Alle im Rahmen dieses Abschnitts XIII erforderlichen Mitteilungen gelten als bei der jeweils anderen Partei am dritten Werktag nach Absendung der jeweiligen Mitteilung zugegangen.

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**XIV.  
SALVATORISCHE KLAUSEL**

Sollten Bestimmungen dieses Gesellschaftsvertrags oder eine zu einem späteren Zeitpunkt aufgenommene Bestimmung ganz oder teilweise rechtsunwirksam oder undurchführbar sein oder werden, so werden die übrigen Bestimmungen dieses Gesellschaftsvertrags davon nicht berührt. Das gleiche gilt, wenn sich herausstellen sollte, dass der Gesellschaftsvertrag eine Regelungslücke enthält. An die Stelle der unwirksamen oder undurchführbaren Bestimmung oder zur Schließung einer Regelungslücke tritt eine angemessene Bestimmung, die, soweit rechtlich möglich, dem am nächsten kommt, was die Parteien beabsichtigt haben oder nach dem Sinn und Zweck des Gesellschaftsvertrags beabsichtigt hätten, wenn die Parteien dies bei Abschluss des Gesellschaftsvertrags oder bei einer späteren Aufnahme einer Bestimmung bedacht hätten.

/s/ A. Veith

/s/ Oliver Passavant

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**Articles of Association**

of TaconicArtemis GmbH

**I.**

**NAME, REGISTERED OFFICE AND FINANCIAL YEAR**

1. The name of the Company shall be

TaconicArtemis GmbH

2. The Company shall have its registered office in Cologne (*Köln*).

3. The financial year of the Company shall be the calendar year.

**II.**

**PURPOSE OF THE COMPANY**

1. The purpose of the Company is to develop and use various genetic engineering techniques to generate genetically modified mice and rats for commercialization and use by biomedical researchers. This includes, but is not limited to, the research, development and commercialization of genetically engineered ES cells and genetically engineered mouse models as genetic model systems for use at various stages of the drug discovery process or academic research.
2. Moreover, the Company may be involved in any business suitable to promote its above purpose. The Company may establish other companies and branch offices and participate in other companies.

**III.**

**NOTIFICATIONS**

Any notifications by the Company shall be published exclusively in the electronic official federal gazette (*Bundesanzeiger*), or in the publication replacing it, if any.

**IV.**

**REGISTERED CAPITAL**

The Company's registered capital shall amount to DM 787.400,00.

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**V.  
DISPOSAL OF SHARES**

The transfer of shares, in whole or in part, all other disposals or encumbrances and the conclusion of trust arrangements with respect to the shares in the Company require the approval of the shareholders' meeting, which may be granted with a simple majority. For the avoidance of doubt, this shall also apply with respect to the treasury shares held by the Company.

**VI.  
CANCELLATION OF SHARES**

1. The cancellation of shares requires a resolution of the shareholders' meeting and is only permissible with the approval of the affected shareholder. The approval of the affected shareholder shall not be required and the affected shareholder shall have no voting right with respect to the resolution on the cancellation of its shares, if
  - (a) insolvency proceedings are instituted over the assets of the shareholder or if the institution of insolvency proceedings has been dismissed due to insufficient assets, or, in case of a shareholder being subject to US law, if the shareholder has commenced a bankruptcy, insolvency or reorganization case, or a bankruptcy, insolvency or reorganization case has been commenced against the shareholder that (i) results in the entry of an order for relief and (ii) is not dismissed or discharged within 60 days;
  - (b) the shares of the shareholder have been seized and the seizure has not been cancelled within one month or the creditor pursues the realization of the seized shares;
  - (c) the shareholder raises a legal claim for dissolution (*Auflösung*) of the Company; or
  - (d) any other important reasons exists, including circumstances in the person of the shareholder, which would entitle the other shareholders to expel the respective shareholder pursuant to Sec. 140 of the German Commercial Code (*Handelsgesetzbuch* – HGB).
2. The cancellation shall be made against compensation. The compensation is determined by the ordinary value of the shares, which shall be determined according to the fiscal regulations in their respective valid form for the valuation of shares, whereas the value cannot be derived from sales of shares. The situation on the last

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balance sheet date of the Company shall be decisive, however, each of the shareholders may request, at his own cost, an adjustment of the valuation to and as of the redemption effective date. In case of dispute and upon the request of any shareholder, the value of the shares shall be determined in a legally binding way by an arbitrator, who shall be nominated by the Chamber of Industry and Commerce at the registered office of the Company and who must be an auditor. Real property and buildings, if any, shall be valued at their expertly appraised fair market value.

3. To the extent a cancellation of shares is permitted, the shareholders' meeting may resolve to request that the affected shares shall be wholly or partially transferred to any third party (including shareholders of the Company) to be nominated by such shareholders' resolution. The affected shareholder shall have no voting right in such shareholders' resolution. In case the shareholders' meeting resolved to request a transfer of the affected share a third party, Section 1 above shall apply accordingly, provided that the compensation shall be paid by the third party.
4. The affected shareholder shall cease to be a shareholder of the Company upon the resolution of the shareholders' meeting to cancel its shares or to request a transfer of its shares to a third party.

## VII.

### MANAGEMENT AND REPRESENTATION

1. The Company shall have one or more managing directors. If only one Managing Director has been appointed, he shall represent the Company alone. If more than one managing director has been appointed, the Company shall be represented jointly by two managing directors or one managing director acting together with a person holding a special statutory authority (*Prokurist*). The shareholders' meeting may resolve to grant power of sole representation and/or exemptions from the provisions of Sec. 181 of the German Civil Code (*Bürgerliches Gesetzbuch – BGB*) to individual or all managing directors.
2. The managing director Prof. Dr. Peter Stadler shall be exempted from the provisions of Sec. 181 BGB.
3. The managing directors shall comply with the law, the provisions of this articles of association, the instructions of the shareholders' meeting and the shareholders' committee, and any rules of procedure drawn up by the shareholders' committee. Sec. 90 of the German Stock Corporation Act (*Aktiengesetz – AktG*) shall apply accordingly with respect to the shareholders' committee.

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**VIII.**  
**SHAREHOLDERS' MEETINGS**

1. Shareholders' meetings shall be convened in writing, via fax, by telegram, or by e-mail with at least two weeks prior notice whereby the invitation has to be sent to the last known address of each shareholder. In calculating the notice period, the day of the mailing of the invitation and the day of the shareholders' meeting shall not be taken into consideration.  
The invitation shall include the agenda for the shareholders' meeting whereby each of the items of the agenda shall be explained to the extent necessary in order to enable the shareholders to prepare themselves for the shareholders' meeting.
2. The quorum for a shareholders' meeting is met if at least 85% of the voting share capital is represented. If the quorum is not met, a further shareholders' meeting with the same agenda has to be convened at a date not less than one week and not more than two weeks after the date of the shareholders' meeting failing to meet the quorum. The quorum at such shareholders' meeting shall be deemed to be met regardless of the amount of the share capital represented at such meeting.
3. The shareholders' meetings shall take place at a location as may from time to time be agreed upon by the shareholders.
4. The discussions and decisions in the shareholders' meetings shall be recorded in minutes which shall be signed by the chairman of the shareholders' meeting and provided to all shareholders.

**IX.**  
**SHAREHOLDER RESOLUTIONS**

1. Shareholder resolutions are passed during shareholders' meetings. They may also be passed in writing, via fax, by telegram, by e-mail, by telephone or videoconference if all shareholders agree with such method of passing the resolution.
2. Shareholder resolutions are passed with a simple majority of the votes cast unless the law or the Articles of Association require a different majority. The following resolutions of the shareholders' meeting require the affirmative vote of 85% of the votes cast:
  - (a) change of Articles of Association (including capital increases or decreases);

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- (b) change of the corporate form, merger, splits or any other measures under the German Reorganization Act (*Umwandlungsgesetz* – UmwG);
- (c) change of rules of procedure of the shareholders' committee.
- (d) dissolution of the Company.

**X.**  
**SHAREHOLDERS' COMMITTEE**

1. The Company shall have a shareholders' committee.
2. The shareholders' committee shall advise and assist the management of the Company in all matters of the Company. Furthermore, the shareholders' committee shall have the exclusive authority to resolve upon:
  - (a) appointment of managing directors;
  - (b) revocation of managing directors;
  - (c) rules of procedure of the managing directors;
  - (d) approvals to actions by the managing directors requiring the approval of the shareholders' committee according to the rules of procedure of the managing directors;
  - (e) conclusion, termination and amendment of employment agreements with managing directors;
  - (f) issuance of directions to the managing directors;
  - (g) exoneration (*Entlastung*) of the managing directors;
  - (h) election of auditors;
  - (i) approval (*Feststellung*) of the annual financial statements and changes of the annual financial statements, if any;
  - (j) appropriation of profits.
3. Resolutions of the shareholders' committee shall be passed with a simple majority of the votes cast to the extent not otherwise provided in the Articles of Association. The resolution of the shareholders' committee set forth in Sec. (d) lit. X and 1 above shall require an unanimous vote. The resolution of the shareholders'

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committee set forth in Sec. (d) lit. (a) and (c) above shall require a unanimous vote with respect to any action of the managing directors which requires the unanimous approval of the shareholders' committee pursuant to the rules of procedure of the management board.

4. To the extent legally permissible, Sec. 52 of the German Act on Limited Liability Companies (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG*) shall not apply. The shareholders' meeting may resolve on rules of procedure of the shareholders' committee.

## **XI. ANNUAL FINANCIAL STATEMENTS**

The managing director(s) shall prepare the annual financial statements and if required, the status report (Lagebericht), within the statutory period of time and submit these for examination to the auditor, insofar as an examination is legally required, and without undue delay following the audit by the auditors (if any) to the shareholders' meeting and the shareholders' committee.

## **XII. APPROPRIATION OF PROFITS**

1. The shareholders' committee resolves on the appropriation of profits.
2. The balance sheet profit shall be fully carried forward if the shareholders' committee does not resolve otherwise.

## **XIII. TAG-ALONG RIGHT, PRE-EMPTION RIGHT, DRAG-ALONG RIGHT**

1. If Taconic Farms, Inc. ("**Taconic**") intends to sell or transfer its shares in the Company, Taconic shall inform Exelixis, Inc. ("**Exelixis**") in writing with respect to (i) the person to which Taconic intends to sell or transfer its shares ("**Purchaser**") and (ii) the purchase price and all other terms and conditions under which it intends to sell its shares ("**Offer Letter**"). Exelixis shall give notice to Taconic in writing whether it wishes to co-sell its shares in the Company under the terms and conditions set forth in the Offer Letter within thirty days following receipt of the Offer Letter ("**Acceptance Period**"). If Exelixis notifies Taconic that it wishes to co-sell its shares in the Company under the terms and conditions set forth in the Offer Letter within the Acceptance Period, Taconic shall procure that (i) the Purchaser purchases all the shares of the Company owned by Exelixis together with the shares of the Company

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owned by Taconic under terms and conditions, which are not less favorable to Exelixis as those set forth in the Offer Letter and that (ii) any guarantees to be provided by Exelixis in the share purchase agreement with the Purchaser are limited to its free and clear title to its shares in the Company.

2. If the purchase price set forth in the Offer Letter is less than a certain threshold to be agreed upon between Taconic and Exelixis from time to time, Taconic shall grant to Exelixis a right of first refusal. In this case, Exelixis shall give notice to Taconic in writing whether it wishes to purchase the shares of the Company owned by Taconic under the terms and conditions set forth in the Offer Letter within the Acceptance Period. If Exelixis notifies Taconic that it wishes to purchase the shares of the Company owned by Taconic under the terms and conditions set forth in the Offer Letter within the Acceptance Period, the Parties shall enter into a respective share purchase agreement.
3. If (i) Exelixis notifies Taconic that it does not wish to co-sell its shares in the Company to the Purchaser and that it does not wish to purchase the shares of the Company owned by Taconic, or if (ii) Exelixis notifies Taconic that it wishes to purchase the shares of the Company owned by Taconic and if the Parties negotiate a share purchase agreement in good faith but cannot agree on final documentation within 90 days following the receipt of the notification by Taconic, or if (iii) Exelixis does not give notice to Taconic within the Acceptance Period, Taconic shall be entitled to sell and transfer its shares in the Company to the Purchaser under the terms and conditions (including the purchase price) set forth in the Offer Letter within six months following the expiration of the Acceptance Period, provided, however, that Taconic shall procure that the Purchaser replaces Taconic as a Party to any shareholders' agreement then in place between Exelixis and Taconic.
4. Notwithstanding the provisions of Sections 1 and 2 above, if Taconic intends to sell the shares it owns in the Company to a third party, Taconic may request Exelixis to sell and transfer its shares to such third party ("**Drag Along Right**") under equivalent terms and conditions, provided that (i) Exelixis shall not be obliged to grant any guarantees to the third party except for free and clear title to its shares in the Company, (ii) Taconic may not exercise its Drag Along Right within a period of one year following the date hereof, and (iii) the purchase price for the shares of the Company owned by Exelixis shall be the greater of (A) the purchase price calculated in accordance with a market value formula to be agreed upon between Taconic and Exelixis from time to time, provided that the relevant point in time shall be the notification of Taconic to Exelixis of the exercise of its Drag Along Right and (B) a

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certain threshold to be agreed upon between Taconic and Exelixis from time to time. In case Taconic is entitled to exercise its Drag Along Right in accordance with the provisions of this Section 4, any approval by Exelixis of the sale and transfer of the shares of the Company owned by Taconic to the third party shall be deemed to be granted.

5. The provisions of this Part XIII do not apply in the event of a sale and transfer of the shares of the Company by Taconic to any shareholders of Taconic, any relatives within the meaning of Sec. 15 of the German Tax Code (*Abgabenordnung – AO*) to any of the shareholders of Taconic, and any affiliated persons within the meaning of Sec. 15 et seq. of the German Stock Corporation Act (*Aktiengesetz – AktG*), including affiliated trusts and/or foundations to (i) Taconic, (ii) the shareholders of Taconic, or (iii) any relative within the meaning of Sec. 15 of the German Tax Code (*Abgabenordnung – AO*) to a shareholder of Taconic (in each case an “**Affiliated Person**”). In the aforementioned event, the Affiliated Person shall, however, assume the rights and obligations of Taconic under this Part XIII.
6. Any notification required under this Part XIII shall be deemed to be received by the respective other party on the third business day following the posting of the respective notification.

#### **XIV. SEVERABILITY**

If provisions of these Articles of Association or a provision thereof included at some later time be entirely or partially legally ineffective or unenforceable or should provisions later lose their legal effectiveness or enforceability, the validity of the remaining provisions of these Articles of Association shall not be affected. The same applies if it becomes apparent that the Articles of Association contain an omission. In place of the ineffective or unenforceable provision, or, to fill such omission, a reasonable provision shall apply which to the extent legally possible comes as close as possible to what the parties intended or would have intended according to the purpose of the Articles of Association, if the parties had considered the issue at the time of conclusion of these Articles of Association or at a later inclusion of a provision.

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**RULES OF PROCEDURE OF THE MANAGING DIRECTORS OF  
TACONICARTEMIS GMBH**

[·], 2007

**I.**

**Actions requiring Unanimous Vote by the Shareholders' Committee**

The following actions by the managing directors of TaconicArtemis GmbH (hereinafter referred to as "**Artemis**") require the prior approval by a unanimous vote of the shareholders' committee:

1. Acquisition, sale and encumbrance of real estate.
2. The sale, lease, abandonment, transfer or other disposition by Artemis of any of its assets having a value in excess of 10% of the value of the assets of Artemis as stated in the last audited financial statements of Artemis, other than licensing of IP in the ordinary course of business.
3. Any increase or reduction of participations in other enterprises and any corporate actions including entering into or termination of joint ventures, partnerships, collaboration agreements or other strategic co-operations or the establishment of any subsidiary.
4. Incurring, assuming or granting any loan or lease obligations in an amount of more than 10% of the assets of Artemis as stated in the last audited financial statements of Artemis and granting of pledges or other securities over the assets of Artemis (except for the grant of securities within the ordinary course of business in connection with the purchase of lease of assets) for such purposes.
5. Granting of warranties or guarantees for obligations of third parties.
6. Entering into any agreement or transaction (i) which materially limits the freedom of Artemis to operate, (ii) which fundamentally changes or otherwise affects the strategic plan of Artemis, or (iii) which conflicts with Section X (Preferred Technology Access) of the Shareholders' Agreement between Taconic Farms, Inc. and Exelixis, Inc. dated November 20, 2007 or any agreement entered into by Artemis with respect to the technology access or that otherwise prevents Exelixis from receiving benefits under such agreements.

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7. Any CAPEX investments exceeding in each individual case 10% of the value of the assets of Artemis as stated in the last audited financial statements of Artemis.
8. Conclusion, amendment or termination of contracts according to Section 291 et seq. of the German Stock Corporation Act (*Aktiengesetz – AktG*).
9. Initiation of litigation against third parties or settlement of litigations or claims by third parties involving amounts of more than 25% of the value of the assets of Artemis as stated in the last audited financial statements of Artemis.
10. Any agreements by Artemis with (i) shareholders of Artemis or persons affiliated to shareholders within the meaning of Sec. 15 et seq. of the German Stock Corporation Act (*Aktiengesetz – AktG*) except for purchase orders or mice generation contracts in the ordinary course of business not exceeding an annual aggregate value of 10% of revenues as stated in the last audited financial statements of Artemis or (ii) relatives of managing directors of Artemis within the meaning of Sec. 15 of the German Tax Act (*Abgabenordnung – AO*).
11. Conclusion of any agreements under which Artemis grants exclusivity to a third party with respect to a gene model or any technology.

## II.

### Actions requiring Majority Vote by the Shareholders' Committee

Any action by the managing directors of Artemis requiring the consent of the shareholders' committee under the Articles of Association of Artemis not specifically set forth in Part I above requires the prior approval by a majority vote of the shareholders' committee.

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**RULES OF PROCEDURE OF THE SHAREHOLDERS' COMMITTEE  
OF TACONICARTEMIS GMBH**

1. The shareholders' committee shall have up to five members. Four members of the shareholders' committee shall be appointed by Taconic and one member shall be appointed by Exelixis. One member of the shareholders' committee to be appointed by Taconic shall be a managing director of Artemis. Such member shall be excluded from such negotiations of the shareholders' committee, and shall have no vote in such resolutions of the shareholders' committee, that concern their role as managing directors of Artemis.
2. Each shareholder shall have the right to revoke the appointment of the members of the shareholders' committee appointed by such shareholder at any time without indicating the reason for such revocation. In case of a revocation the respective shareholder shall simultaneously with the revocation appoint a new member of the shareholders' committee. Every member of the shareholders' committee may resign from his office at any time without indicating the reason for such resignation.
3. The shareholders' committee in its first meeting shall elect by a simple majority of votes a chairman and a deputy chairman of the shareholders' committee. The chairman and the deputy chairman must not be representatives of the same shareholder. In case of resignation or revocation of such chairman or deputy chairman the shareholders' committee shall elect a new chairman or deputy chairman without undue delay.
4. The shareholders' committee shall be convened by the chairman of the shareholders' committee. Meetings of the shareholders' committee shall be convened in writing, via fax, by telegram, or by e-mail with at least two weeks prior notice whereby the invitation has to be sent to the last known address of each member of the shareholders' committee. In calculating the notice period, the day of the mailing of the invitation and the day of the meeting of the shareholders' committee shall not be taken into consideration.

The invitation shall include the agenda for the meeting of the shareholders' committee whereby each of the items of the agenda shall be explained to the extent necessary in order to enable the members of the shareholders' committee to prepare themselves for the meeting of the shareholders' committee.

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Upon request of a shareholder, a managing director or a member of the shareholders' committee, the chairman of the shareholders' committee shall convene a meeting of the shareholders' committee within ten days from the receipt of such request. If the chairman of the shareholders' committee fails to comply with such request, the requesting person shall be entitled to convene the meeting of the shareholders' committee.

5. The shareholders' committee shall meet at least twice per calendar year. To the extent invited, the managing directors and other executives of TaconicArtemis GmbH shall participate in the meetings of the shareholders' committee. The managing directors and executives shall have no vote in the resolutions of the shareholders' committee unless a managing director serves on the shareholders' committee.
6. Resolutions of the shareholders' committee are passed in the meetings of the shareholders' committee. They may also be passed in writing, via fax, by telegram, by e-mail, by telephone or videoconference if all members of the shareholders' committee agree on such voting procedure.
7. The quorum for a shareholders' committee meeting is met if two representatives of Taconic and one representative of Exelixis are present. If the quorum is not met, a further shareholders' committee meeting with the same agenda has to be convened at a date not less than one week and not more than two weeks after the date of the shareholders' committee meeting failing to meet the quorum. The quorum at such second shareholders' committee meeting shall be deemed to be met regardless of the number of representatives being present at such meeting.
8. The discussions and decisions in the shareholders' committee meeting shall be recorded in minutes, which shall be signed by the chairman of the shareholders' committee and provided to all members of the shareholders' committee.
9. The members of the shareholders' committee shall not receive any remuneration by TaconicArtemis GmbH, except for compensation of ordinary travel and other expenses caused by their engagement as members of the shareholders' committee to the extent they are directors, officers or employees of Taconic Farms, Inc., Exelixis, Inc., or Taconic Farms GmbH. The shareholders' meeting may resolve to grant reasonable remuneration to any other members of the shareholders' committee.

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

EBITDA of Artemis

- (1) In case of the application of the total cost accounting method (*Gesamtkostenverfahren*) in the relevant financial statements of Artemis, the EBITDA of Artemis shall be calculated taking into account the following positions:
- profit (Section 275 para. 2 no. 20 HGB);
  - plus other taxes (Section 275 para. 2 no. 19 HGB);
  - plus taxes on income (Section 275 para. 2 no. 18 HGB);
  - minus extraordinary income (Section 275 para. 2 no. 15 HGB);
  - plus interest (Section 275 para. 2 no. 13 HGB);
  - plus depreciation on financial assets and securities of the current assets (Section 275 para. 3 no. 12 HGB);
  - minus other interest received and similar income (Section 275 para. 2 no. 11 HGB);
  - minus/plus income from securities and long-term financial assets/losses from securities and long-term financial assets (Section 275 para. 2 no. 10 HGB);
  - minus/plus income from investments/losses from investments (Section 275 para. 2 no. 9 HGB);
  - plus other depreciation (Section 275 para. 3 no. 7 HGB);
  - plus any depreciation according to Section 309 HGB (if applicable);

as set forth in the relevant financial statements of Artemis. For the avoidance of doubt, if the Parties are in disagreement with respect to any issues related to the approved financial statements of Artemis, the decision of the Expert as set forth in Part XI of the Shareholders' Agreement (if any) shall be taken into consideration.

- (2) In case of the application of the cost of sales method (*Umsatzkostenverfahren*) in the relevant financial statements of Artemis, the EBITDA of Artemis shall be calculated taking into account the following positions:
- profit (Section 275 para. 3 no. 19 HGB);
  - plus other taxes (Section 275 para. 3 no. 18 HGB);
  - plus taxes on income (Section 275 para. 3 no. 17 HGB);
  - plus extraordinary expenses (Section 275 para. 3 no. 15 HGB);
  - minus extraordinary income (Section 275 para. 3 no. 14 HGB);

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- plus interest (Section 275 para. 3 no. 12 HGB);
- plus depreciation (Section 275 para. 3 no. 11 HGB);
- minus other interest received and similar income (Section 275 para. 3 no. 10 HGB);
- minus/plus income from securities and long-term financial assets/losses from securities and long-term assets (Section 275 para. 3 no. 9 HGB);
- minus/plus income from investments/losses from investments (Section 275 para. 3 no. 8 HGB);
- plus depreciation on fixed assets (excluding financial assets) as set forth in the asset history sheet (Sec. 268 para. 2 HGB);
- plus any depreciation according to Section 309 HGB (if applicable);

as set forth in the relevant financial statements of Artemis. For the avoidance of doubt, if the Parties are in disagreement with respect to any issues related to the approved financial statements of Artemis, the decision of the Expert as set forth in Part XI of the Shareholders' Agreement (if any) shall be taken into consideration.

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

**SUBSIDIARIES OF EXELIXIS, INC.**

Exelixis Plant Sciences, Inc., a Delaware corporation

X-Ceptor Therapeutics, Inc., a Delaware corporation

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-124536, 333-113472, 333-102770, 333-82724, 333-82722, 333-57026, 333-54868, 333-52434, 333-35862, 333-133237 and 333-147063) pertaining to the Exelixis, Inc. 401(k) Plan, the 2000 Equity Incentive Plan, the 2000 Employee Stock Purchase Plan and the 2000 Non-Employee Directors' Stock Option Plan of Exelixis, Inc. and the Registration Statements on Form S-3 (Nos. 333-66134, 333-119984 and 333-122079, 333-145965), of our reports dated February 13, 2008 with respect to the consolidated financial statements of Exelixis, Inc. and the effectiveness of internal control over financial reporting of Exelixis, Inc., included in this Annual Report (Form 10-K) for the year ended December 28, 2007.

/s/ Ernst & Young LLP

Palo Alto, California  
February 19, 2008

## CERTIFICATION

I, George A. Scangos, Ph.D., Chief Executive Officer of Exelixis, Inc., certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

/s/ GEORGE A. SCANGOS

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George A. Scangos  
President and Chief Executive Officer

Date: February 25, 2008

## CERTIFICATION

I, Frank Karbe, Chief Financial Officer of Exelixis, Inc., certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

/s/ FRANK KARBE

Frank Karbe

Chief Financial Officer

Date: February 25, 2008

**CERTIFICATION**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18, George A. Scangos, Ph.D., the Chief Executive Officer of Exelixis, Inc. (the "Company"), and Frank Karbe, the Chief Financial Officer of the Company, each hereby certifies that, to their knowledge:

1. The Company's Annual Report on Form 10-K for the period ended December 28, 2007, to which this Certification is attached as Exhibit 32.1 (the "Annual Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition of the Company at the end of the periods covered by the Annual Report and the results of operations of the Company for the periods covered by the Annual Report.

In Witness Whereof, the undersigned have set their hands hereto as of the 25th day of February 2008.

/s/ GEORGE A. SCANGOS, PH.D.

George A. Scangos, Ph.D.

Chief Executive Officer

(Principal Executive Officer)

/s/ FRANK KARBE

Frank Karbe

Chief Financial Officer

(Principal Financial Officer)