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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2000

OR

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

For the transition period from _____to _____

Commission file number 0-30235

EXELIXIS, INC.

(Exact name of Registrant as specified in its Charter)

Delaware	**04-3257395**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

170 Harbor Way
P.O. Box 511
South San Francisco, California 94083
(Address of Principal Executive Offices, including Zip Code)

(650) 837-7000
(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

As of July 31, 2000 there were 44,948,329 shares of the Registrant's Common Stock outstanding.

EXELIXIS, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXELIXIS, INC.
CONDENSED BALANCE SHEETS
(in thousands)

	JUNE 30, 2000	DECEMBER 31, 1999(1)
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$51,418	$5,400
Short-term investments	74,621	1,504
Other receivables	936	185
Other current assets	1,916	943
Total current assets	128,891	8,032
Property and equipment, net	16,247	9,498
Related party receivables	459	619
Other assets	1,290	752

Total assets	$146,887	$18,901
LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$6,633	$3,648
Current portion of capital lease obligations	554	735
Current portion of notes payable	1,624	1,554
Deferred revenue	4,979	2,767
Total current liabilities	13,790	8,704
Capital lease obligations	24	229
Notes payable	2,496	3,299
Convertible promissory note	7,500	7,500
Other long-term liability	104	104
Deferred revenue	9,841	1,890
Total liabilities	33,755	21,726
Mandatorily redeemable convertible preferred stock	--	46,780
Stockholders' equity (deficit):		
Common stock	45	6
Additional paid-in-capital	204,249	19,523
Notes receivable from stockholders	(2,184)	(240)
Deferred stock compensation	(16,063)	(14,167)
Accumulated other comprehensive income	72	--
Accumulated deficit	(72,987)	(54,727)
Total stockholders' equity (deficit)	113,132	(49,605)
Total liabilities, mandatorily redeemable convertible preferred stock and stockholders' equity (deficit)	$146,887	$18,901

(1) The balance sheet at December 31, 1999 has been derived from the audited financial statement at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Revenues:				
License	$932	$302	$1,864	$437
Contract	4,684	2,075	9,703	3,138
Total revenues	5,616	2,377	11,567	3,575
Operating expenses:				
Research and development (1)	13,365	3,972	22,299	7,284
General and administrative (2)	4,921	1,978	9,216	3,412
Total operating expenses	18,286	5,950	31,515	10,696
Loss from operations	(12,670)	(3,573)	(19,948)	(7,121)
Interest income	1,866	209	2,014	305
Interest expense	(168)	(120)	(326)	(239)

Net loss	($10,972)	($3,484)	($18,260)	($7,055)
Net loss per share, basic and diluted	($0.32)	($0.84)	($0.90)	($2.04)
Shares used in computing net loss per share, basic and diluted	34,622	4,132	20,263	3,460

(1) Includes stock compensation expense of $3,998 and $412 in the quarters ended June 30, 2000 and 1999, respectively, and $6,002 and $660 in the six month periods ended June 30, 2000 and 1999, respectively.
(2) Includes stock compensation expense of $1,297 and $108 in the quarters ended June 30, 2000 and 1999, respectively, and $2,556 and $182 in the six month periods ended June 30, 2000 and 1999, respectively.

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

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

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
Cash flows from operating activities:		
Net loss	($18,260)	($7,055)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,749	863
Amortization of deferred stock compensation	8,558	842
Changes in assets and liabilities:		
Other receivables	(751)	(270)
Other current assets	(973)	109
Other assets	(20)	(336)
Related party receivables	160	(119)
Accounts payable and accrued expenses	2,800	558
Deferred revenue	10,163	3,650
Net cash provided by (used in) operating activi	3,426	(1,758)
Cash flows used in investing activities:		
Purchases of property and equipment	(8,498)	(1,476)
Maturities (purchases) of short-term investments, net	(73,045)	(3,742)
Net cash used in investing activities	(81,543)	(5,218)
Cash flows from financing activities:		
Proceeds from issuance of mandatorily redeemable convertible preferred stock, net	--	8,642
Proceeds from initial public offering, net	124,709	--
Proceeds from exercise of stock options and warrants	545	43
Principal payments on capital lease obligations	(386)	(481)
Proceeds from issuance of notes payable	--	8,201
Principal payments on note payable	(733)	(297)
Net cash provided by financing activities	124,135	16,108
Net increase in cash and cash equivalents	46,018	9,132
Cash and cash equivalents, at beginning of period	5,400	2,058
Cash and cash equivalents, at end of period	$51,418	$11,190

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

EXELIXIS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
June 30, 2000
(unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Exelixis, Inc. ("Exelixis" or the "Company"), formerly Exelixis Pharmaceuticals, Inc., is a model system genetics and comparative genomics company that uses model systems to identify critical genes in disease pathways and to determine functional relationships of genes and functionality of potential targets for the pharmaceutical and agriculture industries. The Company operates in one business segment in the United States.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000, or for any future period. These financial statements and notes should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 1999 included in the Company's Registration Statement on Form S-1, as amended (No. 333-96335), which was declared effective by the Securities and Exchange Commission on April 10, 2000.

Net Loss per Share

The Company computes net loss per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" and SEC Staff Accounting Bulletin No. 98. 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 if their effect is antidilutive. Potential common stock consists of common stock subject to repurchase, incremental common shares issuable upon the exercise of stock options and warrants and shares issuable upon conversion of the preferred stock and convertible promissory note.

Comprehensive Income

The only component of other comprehensive income is unrealized gains and losses on available-for-sale securities. For the three and six month periods ended June 30, 2000, total comprehensive loss amounted to $10.9 million and $18.2 million, respectively. For the three and six month periods ended June 30, 1999, there were no differences between comprehensive loss and net loss.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133". SFAS No. 137 deferred the effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. To date, the Company has not engaged in derivative or hedging activities.

In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB 25" which is effective July 1, 2000. The Company does not expect FASB Interpretation No. 44 to have any material impact on its financial statements.

Note 2. Initial Public Offering

On April 14, 2000, the Company completed an initial public offering in which it sold 9,100,000 shares of common stock at $13.00 per share for net proceeds of approximately $108.2 million, net of underwriting discounts, commissions and other offering costs. Upon the closing of the offering, all the Company's mandatorily redeemable convertible preferred stock converted into 22,877,656 shares of common stock. After the offering, the Company's authorized capital consisted of 100,000,000 shares of common stock, $0.001 par value, and 10,000,000 shares of preferred stock, $0.001 par value. On May 1, 2000, the underwriters exercised an over-allotment option to purchase an additional 1,365,000 shares, resulting in net proceeds of approximately $16.5 million.

Note 3. Deferred Stock-Based Compensation

Deferred stock compensation for options granted to employees is the difference between the deemed value for financial reporting purposes of the Company's common stock on the date such options were granted and their exercise price. Deferred stock compensation for options granted to consultants has been determined in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and is periodically remeasured as the underlying options vest in accordance with Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with, Selling Goods or Services" ("EITF 96-18").

As of June 30, 2000, the Company has recorded a cumulative $28.4 million of deferred stock compensation related to stock options granted to consultants and employees. Stock compensation expense is being recognized in accordance with FASB Interpretation No. 28 over the vesting periods of the related options, generally four years. The Company recognized stock compensation expense of $5.3 million and $8.6 million for the three and six month periods ended June 30, 2000, respectively, and $0.5 million and $0.8 million for the three and six month periods ended June 30, 1999, respectively.

Note 4. Commitments

On March 29, 2000, the Company entered into an amendment to an existing lease agreement to additionally lease a second building consisting of approximately 49,000 square feet of research and development and general office space in South San Francisco, California. Future noncancelable lease payments under this amended agreement for the second building total approximately $32.0 million. Payments are expected to begin in the second quarter of 2001 and will continue through the remaining term of the lease. In connection with the amended agreement, the Company issued warrants to purchase 78,750 shares of common stock at an exercise price of $13.00. The Company determined the fair value of these warrants using the Black-Scholes option pricing model using the following assumptions: expected life of five years; a weighted average risk-free rate of 6.38%; expected dividend yield of zero; volatility of 70% and a deemed value of the common stock of $11.00 per share. The fair value of the warrants of $518,000 will be capitalized and amortized as rent expense over the term of the lease.

Note 5. Convertible Promissory Note

In February 1999, the Company issued a $7.5 million convertible promissory note to Pharmacia Corporation, formerly Pharmacia & Upjohn, ("Pharmacia") in connection with a collaboration agreement. The note was to convert into shares of the Company's common stock at a price per share equal to 120% of the price of common stock sold in the initial public offering, the time of such conversion to be determined by Pharmacia. During July 2000, Pharmacia converted the note into 480,769 shares of common stock at a conversion price of $15.60 per share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the 1999 audited financial statements and notes thereto included in our Registration Statement on Form S-1, as amended (No. 333-96335) ("Form S-1"), and Form 8-K filed April 24, 2000. Operating results are not necessarily indicative of results that may occur in future periods.

The following discussion also contains forward-looking statements that are based upon current expectations. Forward-looking statements involve risks and uncertainties. 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, but are not limited to, those discussed in "Risk Factors" as well as those discussed elsewhere in this document and those discussed in our Form S-1.

Overview

Exelixis was founded in November 1994 and began operations in January 1995. Since that time, we have made significant investments in developing our capabilities in comparative genomics and model system genetics. Our proprietary technologies provide a rapid, efficient and cost-effective way to move beyond DNA sequence data to understand the function of genes and the proteins that they encode. We believe that our technologies are commercially applicable to all industries whose products can be enhanced by an understanding of DNA or proteins. To date, we have recognized revenues from research collaborations with large pharmaceutical and agrochemical companies. Our current collaborations are with Bayer, Pharmacia, Bristol-Myers Squibb and Dow AgroSciences.

Our sources of potential revenue for the next several years are likely to include upfront license and other fees, funded research payments under existing and possible future collaborative arrangements, milestone payments and royalties from our collaborators based on revenues received from any products commercialized under those agreements.

We have a history of operating losses resulting principally from costs associated with research and development activities, investment in core technologies and general and administrative functions. As a result of planned expenditures for future research and development activities, we expect to incur additional operating losses for the forseeable future.

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 relevant periods specified in the agreements, generally the research term. We recognize contract research revenues as services are performed in accordance with the terms of the agreements. Any amounts received in advance of performance are recorded as deferred revenue.

Results of Operations

Revenues

Total revenues were $5.6 million and $11.6 million for the three and six month periods ended June 30, 2000, respectively, compared to $2.4 million and $3.6 million, respectively, for the comparable periods in 1999. The increase for both periods was due primarily to additional license and contract revenues earned from the existing collaborations with Bayer, Pharmacia and Bristol-Myers Squibb.

Research and Development Expenses

Research and development expenses consist primarily of salaries and other personnel-related expenses, facility costs, supplies and depreciation of facilities and laboratory equipment. Research and development expenses were $13.4 million and $22.3 million for the three and six month periods ended June 30, 2000, respectively, compared to $4.0 million and $7.3 million, respectively, for the comparable periods in 1999. The increase for both periods was primarily due to increased staffing and other personnel-related costs incurred to support new collaborative arrangements and our internal self- funded research efforts, and an increase in non-cash stock compensation expense as described below. We expect to continue to devote substantial resources to research and development, and we expect that research and development expenses will continue to increase in absolute dollar amounts in the future.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel and other related costs to support our activities, facility costs and professional expenses, such as legal fees. General and administrative expenses were $4.9 million and $9.2 million for the three and six month periods ended June 30, 2000, respectively, compared to $2.0 million and $3.4 million, respectively, for the comparable periods in 1999. The increase for both periods was primarily related to increased recruiting expenses, non-cash stock compensation expense (as described below), rent for facilities and expenses associated with our new corporate headquarters. General and administrative expenses further increased in the three months ended June 30, 2000 due to the additional costs related to becoming a public company, including costs associated with directors' and officers' insurance and investor relations travel and programs. We expect that our general and administrative expenses will increase in absolute dollar amounts in the future as we expand our administrative staff and add infrastructure to support our growing research and development efforts.

Stock Compensation Expense

Deferred stock compensation for options granted to employees is the difference between the deemed value for financial reporting purposes of our common stock on the date such options were granted and their exercise price. Deferred stock compensation for options granted to consultants has been determined in accordance with SFAS No. 123 and is periodically remeasured as the underlying options vest in accordance with Emerging Issues Task Force No. 96-18.

In connection with the grant of stock options to employees and consultants, we recorded deferred stock compensation of approximately $2.2 million and $10.4 million for the three and six month periods ended June 30, 2000, respectively, compared to $1.3 million and $1.7 million, respectively, for the comparable periods in 1999. These amounts were recorded as a component of stockholders' equity (deficit) and are being amortized as charges to operations over the vesting periods of the options. We recorded stock compensation expense of approximately $5.3 million and $8.6 million for the three and six month periods ended June 30, 2000, respectively, compared to $0.5 million and $0.8 million, respectively, for the comparable periods in 1999.

Net Interest Income), Net

Net interest income consists of income earned on cash, cash equivalents and short-term investments, partially offset by interest expense incurred on notes payable and capital lease obligations. Net interest income was $1.7 million for the three and six month periods ended June 30, 2000, compared to $0.1 million for the comparable periods in 1999. The increase year over year primarily relates to interest income earned on the proceeds from our initial public offering.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through private placements of preferred stock, loans, equipment lease financings and other loan facilities and payments from collaborators. In addition, during the second quarter of 2000, we completed our initial public offering raising $124.7 million in net proceeds to the Company. We intend to use the proceeds for research and

development activities, capital expenditures, working capital and other general corporate purposes. As of June 30, 2000, we had approximately $126.0 million in cash, cash equivalents and short-term investments.

Our operating activities provided cash of $3.4 million for the six months ended June 30, 2000, and used cash of $1.8 million for the six months ended June 30, 1999. Cash provided by operating activities in 2000 related primarily to an increase in deferred revenue received from collaborators, substantially offset by the funding of net operating losses. Cash used in operating activities in 1999 related primarily to the funding of net operating losses, partially offset by an increase in deferred revenue received from collaborators.

Our investing activities used cash of $81.5 million for the six months ended June 30, 2000, compared to $5.2 million for the corresponding period in 1999. Cash used in investing activities increased year-over-year due to increased purchases of short-term investments, net, and capital expenditures. We expect to continue to make significant investments in research and development and our administrative infrastructure, including the purchase of property and equipment to support our expanding operations.

Our financing activities provided cash of $124.1 million for the six months ended June 30, 2000, compared to $16.1 million for the corresponding period in 1999. The 2000 activity consisted primarily of net proceeds from our initial public offering and exercise of stock options and warrants, slightly reduced by payments on notes payable and capital lease obligations. The 1999 activity consisted primarily of proceeds from sales of preferred stock and proceeds from the issuance of notes payable, slightly offset by payments on notes payable and capital lease obligations.

We believe that our current cash and cash equivalents, short- term investments and funding to be received from collaborators, will be sufficient to satisfy our anticipated cash needs for at least the next two years. However, it is possible that we will seek additional financing within this timeframe. We may raise additional funds through public or private financing, collaborative relationships or other arrangements. We cannot assure you that additional funding, if sought, will be available or, even if available, will be available on terms favorable to us. Further, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Our failure to raise capital when needed may harm our business and operating results.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133". SFAS No. 137 deferred the effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. To date, the Company has not engaged in derivative or hedging activities.

In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB 25" which is effective July 1, 2000. The Company does not expect FASB Interpretation No. 44 to have any material impact on its financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position, operating results or cash flows due to changes in interest rates in the United States. This exposure is directly related to our normal operating activities. Our cash, cash equivalents and short-term investments are invested with high quality issuers and are generally of a short-term nature. Interest rates payable on our notes and lease obligations are generally fixed. As a result, we do not believe that near-term changes in interest rates will have a material effect on our future results of operations.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

a. Not applicable

b. Not applicable

c. During the quarter ended June 30, 2000, we issued three warrants to purchase an aggregate 78,750 shares of common stock to three purchasers at an exercise price of $13.00. The issuance of these restricted securities was deemed to be exempt from registration under the Securities Act of 1933, as amended ("the Act") in reliance upon Section 4(2) of the Act and Rule 701 promulgated under Section 3(b) of the Act.

d. On April 14, 2000, we completed our initial public offering of 9,100,000 shares of our common stock at an initial public offering price of $13.00 per share for aggregate proceeds of approximately $118.3 million. The managing underwriters in the offering were Goldman, Sachs & Co., Credit Suisse First Boston Corporation and SG Cowen Securities Corporation. The shares of common stock sold in the offering were registered under the Act in a Registration Statement on Form S-1, as

amended (No. 333-96335). The Securities and Exchange Commission declared the Registration Statement effective on April 10, 2000.

In connection with the offering, we paid a total of approximately $8.3 million in underwriting discounts and commissions and $1.8 million in other offering costs and expenses. After deducting the underwriting discounts and commissions and the offering costs and expenses, our net proceeds from the offering were approximately $108.2 million. Furthermore, on May 1, 2000, the underwriters exercised their over-allotment option for an additional 1,365,000 shares of common stock, resulting in additional net proceeds to us of approximately $16.5 million.

We intend to use the net proceeds for research and development activities, capital expenditures, working capital and other general corporate purposes. The net proceeds were primarily invested in short-term marketable securities at July 31, 2000.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders held on July 27, 2000, the stockholders were asked to vote on the election of three Class I directors to serve for a three year term until the 2003 annual meeting of stockholders.

The results of the election, based on a record number of 44,402,988 shares, were as follows:

Nominee	Votes For	Votes Withheld	Abstentions	Broker Non-Votes
Charles Cohen	30,277,138	402,249	399,100	N/A
Jurgen Drews	30,676,138	3,249	100	N/A
Geoffrey Duyk	30,669,938	9,949	6,300	N/A

Item 5. Other Information - Risk Factors

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 each year since our inception, including a net loss of approximately $18.3 million for the six months ended June 30, 2000. As of that date, we had an accumulated deficit of approximately $73.0 million. We expect these losses to continue and anticipate negative cash flow for the foreseeable future. The size of these net losses will depend, in part, on the rate of growth, if any, in our license and contract revenues and on the level of our expenses. Our research and development expenditures and general and administrative costs have exceeded our revenues to date, and we expect to spend significant additional amounts to fund research and development in order to enhance our core technologies and undertake product development. As a result, we expect that our operating expenses will increase significantly in the near term and, consequently, we will need to generate significant additional revenues to achieve profitability. Even if we do increase our revenues and achieve profitability, we may not be able to sustain or increase profitability.

We will need additional capital in the future, which may not be available to us.

Our future capital requirements will be substantial, and will depend on many factors including:

- payments received under collaborative agreements;
- the progress and scope of our collaborative and independent research and development projects;
- our need to develop manufacturing and marketing capabilities to commercialize products; and
- the filing, prosecution and enforcement of patent claims.

We anticipate that our current cash and cash equivalents, short-term investments and funding to be received from collaborators, together with the proceeds from our initial public offering in April 2000 and interest earned thereon, will enable us to maintain our currently planned operations for at least the next two years. Changes to our current operating plan may require us to consume available capital resources significantly sooner than we expect. We may be unable to raise sufficient additional capital when we need it, on favorable terms, or at all. If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. The sale of equity or convertible debt securities in the future may be dilutive to our stockholders, and debt financing arrangements may require us to pledge certain assets and enter into covenants that would restrict our ability to incur further indebtedness. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

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

We have experienced a period of rapid and substantial growth that has placed, and our anticipated growth in the future will continue to place, a strain on our administrative and operational infrastructure. As our operations expand, we expect that we will need to manage additional relationships with various collaborative partners, suppliers and other third parties. Our ability to manage our operations and growth effectively requires us to continue to improve our operational, financial and management controls, reporting

systems and procedures. We may not be able to successfully implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls.

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

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

We currently have collaborative research agreements with Bayer, Pharmacia (formerly Pharmacia and Upjohn), Bristol-Myers Squibb and Dow AgroSciences. Our current collaborative agreement with Bayer is scheduled to expire in 2008, after which it will automatically be extended for one-year terms unless terminated by either party upon 12-month written notice. Our agreement permits Bayer to terminate our collaborative activities prior to 2008 upon the occurrence of specified conditions, such as the failure to agree on key strategic issues after a period of years or the acquisition of Exelixis by certain specified third parties. Similarly, our collaborative agreement with Pharmacia allows either party to terminate our research collaboration at the conclusion of its third year in 2002, at the conclusion of its fifth year in 2004, or any subsequent year. The Pharmacia agreement may also be terminated in the event of a conflict over material third-party intellectual property rights. Our collaborative agreement with Bristol-Myers Squibb expires in September 2002. Our collaborative agreement with Dow AgroSciences is scheduled to expire in July 2003, after which Dow AgroSciences has the option to renew on an annual basis. In addition, both our agreements with Bayer and Pharmacia are subject to termination at an earlier date if certain specified individuals are no longer employed by us and we are unable to find replacements acceptable to Bayer or Pharmacia, as the case may be. In the case of Pharmacia, the right is triggered if either of two specified individuals directly involved in the research program cease to be employed by us. In the case of Bayer, the right is triggered if two or more of our Chief Executive Officer, Chief Scientific Officer, Agricultural Biotechnology Program Leader and Chief Information Officer cease to have a relationship with us within six months of each other.

If these existing agreements are not renewed or if we are unable to enter into new collaborative agreements on commercially acceptable terms, our revenues and product development efforts may be adversely affected.

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

We intend to conduct proprietary research programs in specific disease and agricultural product areas that are not covered by our collaborative agreements. Our pursuit of opportunities in agricultural and pharmaceutical markets could, however, result in conflicts with our collaborators in the event that any of our collaborators takes the position that our internal activities overlap with those areas that are exclusive to our collaborative agreements, and we should be precluded from such internal activities. Moreover, disagreements with our collaborators could develop over rights to our intellectual property. In addition, our collaborative agreements may have provisions that give rise to disputes regarding the rights and obligations of the parties. Any conflict with our collaborators could lead to the termination of our collaborative agreements, delay collaborative activities, reduce our ability to renew agreements or obtain future collaboration agreements or result in litigation or arbitration and would negatively impact our relationship with existing collaborators.

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

We are deploying unproven technologies, and we may not be able to develop commercially successful products.

You must evaluate us in light of the uncertainties and complexities affecting a biotechnology company. Our technologies are still in the early stages of development. Our research and operations thus far have allowed us to identify a number of product targets for use by our collaborators and our own internal development programs. We are not certain, however, of the commercial value of any of our current or future targets, and we may not be successful in expanding the scope of our research into new fields of pharmaceutical or pesticide research, or other agricultural applications such as enhancing plant traits to produce superior crop yields, disease resistance or increased nutritional content. Significant research and development, financial resources and personnel will be required to capitalize on our technology, develop commercially viable products and obtain regulatory approval for such products.

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

Initially, we will rely on our collaborators to develop and commercialize products based on our research and development efforts. We have no experience in using the targets that we identify to develop our own proprietary products. In order for us to commercialize products, we would need to significantly enhance our capabilities with respect to product development, and establish manufacturing and marketing capabilities, either directly or through outsourcing or licensing arrangements. We may not be able to enter into such outsourcing or licensing agreements on commercially reasonable terms, or at all.

Since our technologies have many potential applications and we have limited resources, our focus on a particular area may result in our failure to capitalize on more profitable areas.

We have limited financial and managerial resources. This requires us to focus on product candidates in specific industries and forego opportunities with regard to other products and industries. For example, depending on our ability to allocate resources, a decision to concentrate on a particular agricultural program may mean that we will not have resources available to apply the same technology to a pharmaceutical project. While our technologies may permit us to work in both areas, resource commitments may require trade-offs resulting in delays in the development of certain programs or research areas, which may place us at a competitive disadvantage. Our decisions impacting resource allocation may not lead to the development of viable commercial products and may divert resources from more profitable market opportunities.

Our competitors may develop products and technologies that make ours obsolete.

The biotechnology industry is highly fragmented and is characterized by rapid technological change. In particular, the area of gene research is a rapidly evolving field. We face, and will continue to face, intense competition from large biotechnology and pharmaceutical companies, as well as academic research institutions, clinical reference laboratories and government agencies that are pursuing research activities similar to ours. Some of our competitors have entered into collaborations with leading companies within our target markets, including some of our existing collaborators. Our future success will depend on our ability to maintain a competitive position with respect to technological advances.

Any products that are developed through our technologies will compete in highly competitive markets. Further, our competitors may be more effective at using their technologies to develop commercial products. Many of the organizations competing with us have greater capital resources, larger research and development staffs and facilities, more experience in obtaining regulatory approvals and more extensive product manufacturing and marketing capabilities. As a result, our competitors may be able to more easily develop technologies and products that would render our technologies and products, and those of our collaborators, obsolete and noncompetitive.

If we are unable to adequately protect our intellectual property, third parties may be able to use our technology, which could adversely affect our ability to compete in the market.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of the intellectual property related to our technologies and products. The patent positions of biotechnology companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the U.S., and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. We will apply for patents covering our technologies and products as and when we deem appropriate. However, these applications may be challenged or may fail to result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patents. In addition, our patents may be challenged, invalidated or fail to provide us with any competitive advantages.

We rely on trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information and trade secrets, but these measures may not provide adequate protection. While we seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants, we cannot assure you that our proprietary information will not be disclosed, or that we can meaningfully protect our trade secrets. In addition, our competitors may independently develop substantially equivalent proprietary information or may otherwise gain access to our trade secrets.

Litigation or third party claims of intellectual property infringement could require us to spend substantial time and money and adversely affect our ability to develop and commercialize products.

Our commercial success depends in part on our ability to avoid infringing patents and proprietary rights of third parties, and not breaching any licenses that we have entered into with regard to our technologies. Other parties have filed, and in the future are likely to file, patent applications covering genes and gene fragments, techniques and methodologies relating to model systems, and products and technologies that we have developed or intend to develop. If patents covering technologies required by our operations are issued to others, we may have to rely on licenses from third parties, which may not be available on commercially reasonable terms, or at all.

Third parties may accuse us of employing their proprietary technology without authorization. In addition, third parties may obtain patents that relate to our technologies and claim that use of such technologies infringes these patents. Regardless of their merit, such claims could require us to incur substantial costs, including the diversion of management and technical personnel, in defending ourselves against any such claims or enforcing our patents. In the event that a successful claim of infringement is

brought against us, we may be required to pay damages and obtain one or more licenses from third parties. We may not be able to obtain these licenses at a reasonable cost, or at all. Defense of any lawsuit or failure to obtain any of these licenses could adversely affect our ability to develop and commercialize products.

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

We are highly dependent on the principal members of our management and scientific staff, the loss of whose services might adversely impact the achievement of our objectives and the continuation of existing collaborations. In addition, recruiting and retaining qualified scientific personnel to perform future research and development work will be critical to our success. We do not currently have sufficient executive management and technical personnel to fully execute our business plan. There is currently a shortage of skilled executives and employees with technical expertise, and this shortage is likely to continue. As a result, competition for skilled personnel is intense and turnover rates are high. Although we believe we will be successful in attracting and retaining qualified personnel, competition for experienced scientists from numerous companies, academic and other research institutions may limit our ability to do so.

Our business operations will require additional expertise in specific industries and areas applicable to products identified and developed through our technologies. These activities will require the addition of new personnel, including management and technical personnel and the development of additional expertise by existing employees. The inability to attract such personnel or to develop this expertise could prevent us from expanding our operations in a timely manner, or at all.

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

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

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

The Food and Drug Administration, or FDA, must approve any drug or biologic product before it can be marketed in the U.S. Any products resulting from our research and development efforts must also be approved by the regulatory agencies of foreign governments before the product can be sold outside the U.S. Before a new drug application or biologics license application can be filed with the FDA, the product candidate must undergo extensive clinical trials, which can take many years and may require substantial expenditures. The regulatory process also requires preclinical testing. Data obtained from preclinical and clinical activities are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in regulatory policy for product approval during the period of product development and regulatory agency review. The clinical development and regulatory approval process is expensive and time consuming. Any failure to obtain regulatory approval could delay or prevent us from commercializing products.

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

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

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

The subject of genetically modified organisms has received negative publicity, which has aroused public debate. For example, certain countries in Europe are considering regulations that may ban products or require express labeling of products that contain genetic modifications or are "genetically modified." Adverse publicity has resulted in greater regulation internationally and trade restrictions on imports of genetically altered products. If similar action is taken in the U.S., genetic research and genetically engineered products could be subject to greater domestic regulation, including stricter labeling requirements. To date, our business has not been hampered by these activities. However, such publicity in the future may prevent any products resulting from our research from gaining market acceptance and reduce demand for our products.

Laws and regulations may reduce our ability to sell genetically engineered products that we or our collaborators develop in the future.

We or our collaborators may develop genetically engineered agricultural and animal products. The field testing, production and marketing of genetically engineered products are subject to regulation by federal, state, local and foreign governments. Regulatory agencies administering existing or future regulations or legislation may prevent us from producing and marketing genetically engineered products in a timely manner or under technically or commercially feasible conditions. In addition, regulatory action or private litigation could result in expenses, delays or other impediments to our product development programs and the commercialization of products.

The FDA has released a policy statement stating that it will apply the same regulatory standards to foods developed through genetic engineering as it applies to foods developed through traditional plant breeding. Genetically engineered food products will be subject to premarket review, however, if these products raise safety questions or are deemed to be food additives. Our products may be subject to lengthy FDA reviews and unfavorable FDA determinations if they raise questions regarding safety or our products are deemed to be food additives.

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

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

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

In addition, our collaborators may use hazardous materials in connection with our collaborative efforts. To our knowledge, their work is performed in accordance with applicable biosafety regulations. In the event of a lawsuit or investigation, however, we could be held responsible for any injury caused to persons or property by exposure to, or release of, these hazardous materials use 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.

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

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

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

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

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

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

- recognition of upfront licensing or other fees;
- payments of non-refundable upfront or licensing fees to third parties;
- acceptance of our technologies and platforms;

- the success rate of our discovery efforts leading to milestones and royalties;
- the introduction of new technologies or products by our competitors;
- the timing and willingness of collaborators to commercialize our products;
- our ability to enter into new collaborative relationships;
- the termination or non-renewal of existing collaborations; and
- general and industry-specific economic conditions that may affect our collaborators' research and development expenditures.

A large portion of our expenses, including expenses for facilities, equipment and personnel, are relatively fixed in the short term. In addition, we expect operating expenses to increase significantly during the remainder of 2000. Accordingly, if our revenues decline or do not grow as anticipated due to the expiration of existing contracts, our failure to obtain new contracts, our inability to meet milestones or other factors, we may not be able to correspondingly reduce our operating expenses. Failure to achieve anticipated levels of revenues could therefore significantly harm our operating results for a particular fiscal period.

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

Our stock price may be extremely volatile.

Our common stock began to publicly trade on April 11, 2000. We believe the trading price of our common stock will remain highly volatile and may fluctuate substantially due to factors such as the following:

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

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

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

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

If our stockholders sell substantial amounts of our common stock (including shares issued upon the exercise of outstanding options and warrants) in the public market, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity or equity- related securities in the future at a time and price that we deemed appropriate. On October 8, 2000, a significant number of shares of our common stock held by existing shareholders will be freely tradable, subject in some instances to the volume and other limitations of Rule 144. Sales of these shares and other shares of common stock held by existing stockholders could cause the market price of our common stock to decline.

Some of our existing stockholders can exert control over us, and may not make decisions that are in the best interests of all stockholders.

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

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

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

b. Reports on Form 8-K

On April 24, 2000, the Company filed a voluntary Item 5 Current Report on Form 8-K with revised audited financial statements and notes thereto for the year ended December 31, 1999.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 14, 2000

Exelixis, Inc.

/s/ Glen Y. Sato

Glen Y. Sato
Chief Financial Officer, Vice President of Legal Affairs and Secretary
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	**Description of Document**
3.1(1)	Amended and Restated Certificate of Incorporation
3.2(1)	Amended and Restated Bylaws
4.1(1)	Specimen Common Stock Certificate
4.2(2)	Warrant, dated April 1, 2000, to Purchase 70,875 shares of common stock in favor of Slough Estates USA, Inc.
4.3(2)	Warrant, dated April 1, 2000, to Purchase 6,300 shares of common stock in favor of Bristow Investments, L.P.
4.4(2)	Warrant, dated April 1, 2000, to Purchase 1,575 shares of common stock in favor of Laurence and Magdalena Shushan Family Trust
10.21*	Mechanism of Action Collaboration Agreement, dated July 11, 2000 between Registrant and Dow AgroSciences LLC
27.1	Financial Data Schedule

(1) Filed with Exelixis' Registration Statement on Form S-1, as amended, (No. 333-96335), declared effective by the Securities and Exchange Commission on April 10, 2000, and incorporated herein by reference.

(2) Filed with Exelixis' Registration Statement on Form 10-Q, for the quarter ended March 31, 2000 and incorporated herein by reference.

* Confidential treatment requested for certain portions of this exhibit.

Exhibit 10.21

EXELIXIS INC. - DOW AGROSCIENCES LLC

AGREEMENT

This Agreement, effective upon the date of the last signature hereto (hereafter "**Effective Date**"), is between **Exelixis, Inc.** (hereafter "**EXEL**"), which has an office located at 170 Harbor Way, P.O. Box 511, South San Francisco, CA 94083-0511, and **Dow AgroSciences llc** (hereafter "DAS"), which has an office located at 9330 Zionsville Road, Indianapolis, IN 46268.

Whereas, EXEL has expertise in the field of functional genomics and model genetic systems;

Whereas, DAS has expertise in the field of fungicides and herbicides and will provide EXEL with DAS Historical Compounds (hereinafter defined);

Whereas, EXEL and DAS desire to use their respective expertise together in a Research Project (hereafter "RP") to identify genes encoding Cognate Target (as hereafter defined) sites or High Quality Molecular Target Sites (as hereafter defined), and then develop Research Milestones (as hereafter defined) based on these Cognate Target sites or High Quality Molecular Target Sites, and then use these Research Milestones to identify fungicides and herbicides that interact with these Cognate Target sites and High Quality Molecular Target Sites; and

Whereas, DAS will provide EXEL access to DAS Historical Compounds for screening for biological activity related to human therapeutic, diagnostic or vaccine products;

Now Therefore, EXEL and DAS (hereafter "**Party**" if singular or "**Parties**" if plural) agree as follows:

I.

DEFINITIONS

1. **"Active Ingredient"** (hereafter "AI" if singular and "AIs" if plural) shall mean a compound that can be used as a fungicide or herbicide.

2. **"Adjustment Factor"** or "AF" shall mean **[*]** in a Combination Product (as hereafter defined).

3. **"Affiliate"** shall mean an enterprise or entity, directly or indirectly, owned or controlled by a Party, under common ownership or control with a Party, or which, directly or indirectly, owns or controls a Party. Ownership means at least a fifty (50) percent ownership interest, and control means the right to exercise management control. For purposes of this Section 1.3, the word "control" (including the correlative meanings "controlled by" or "under the common control with") shall mean the actual power, either directly or indirectly, through one or more intermediaries, to direct or cause the direction of the management and policies of such enterprise or entity, whether by the ownership of at least fifty (50) percent of the voting stock of such enterprise or entity, or by contract or otherwise.

4. **"Approved FH"** shall mean a Fungicide/Herbicide (as hereafter defined) that DAS has received approval to sell in a Major Country (as hereafter defined) from the appropriate government authority in that Major Country.

5. **"Candidate Target"** shall mean a **[*]** that confers resistance or hypersensitivity to a compound when its activity in the organism has been altered (i.e. suppressed or overexpressed).

6. **"Cognate Target"** shall mean a **[*]** such as, for example, **[*]** which has been demonstrated by **[*]** that are agreed upon by the Joint Management Team (as hereafter defined), to encode a molecular target site of a fungicide or herbicide provided by DAS to EXEL during the course of the collaboration under this Agreement.

7. **"Cognate Target Assay"** shall mean an assay, or an expression system, developed utilizing a Cognate Target that (i) **[*]** in the course of the collaboration under this Agreement, (ii) **[*]**, and (iii) **[*]**

8. **"Combination Product"** shall mean a product that contains **[*]** AIs, where at least one of such AIs is a Fungicide/Herbicide.

9. **"DAS's Field"** shall mean fungicides and herbicides useful for the agricultural industry including, but not limited to, **[*]**, and shall include activities within this field related to these fungicides and herbicides, such as, for example, making, using, selling, and importing these fungicides and herbicides.

10. **"DAS Historical Compound"** (hereafter "DAS HC" if singular and "DAS HCs" if plural) shall mean **[*]** (which includes **[*]**) or **[*]** collection.

11. **"Development"** shall mean the **[*]** stage of commercialization and is initiated at the successful completion and preliminary analysis of the **[*]** and the commitment **[*]**.

12. **"EXEL's Field"** shall mean **[*]** generated under the Research Project including, but not limited to, **[*]** subject to Section 13.2.

13. **"EXEL's Human Use Field"** shall mean **[*]** and shall include **[*]**

14. **"Fungicide/Herbicide"** (hereafter "FH" if singular and "FHs" if plural) shall mean a fungicide or herbicide identified using a Research Milestone.

15. **"High Quality Molecular Target Site"** or "HQMT Site" shall mean a molecular target site that:

    a. is at least as sensitive as molecular target sites recognized as being industry state of the art;

    b. is present in **[*]** that cause damage in major crop markets;

    c. is present **[*]** that cause damage in major crop markets;

    d. is not present in **[*]** or is sufficiently **[*]** as to represent an opportunity to achieve commercial levels of selectivity; and

    e. has an **[*]** that causes damage in a major crop market that is functionally equivalent.

16. **"Independent Research"** shall mean **[*]** either independently or pursuant to an agreement with a third party, and specifically includes **[*]**

17. **"Major Country"** shall mean **[*]**

18. **"Net Sales"** shall mean the total amount received by DAS, its Affiliates, and its licensees, during a calendar year (January 1-December 31), from sales of Stand-Alone Product (as hereafter defined) to independent, unrelated third parties, in bona fide arms- length transactions, less the following standard deductions actually paid or allowed, and not subject to refund:

    i. sales tax, excise tax, value added tax, and other taxes and duties imposed on the sale, use, or distribution of Stand-Alone Product;

    ii. normal and customary cash, trade, and quantity discounts;

    iii. amounts paid or credited by reason of rejection or return of goods, defects, rebates, or bona fide retroactive price reductions; and

    iv. expenses for freight, insurance and the like paid in connection with the distribution or sale of Stand-Alone Product.

    v. If non-cash consideration, with a cash value greater than **[*]** U.S. Dollars **[*]** as reasonably estimated by DAS, is received in a bona fide arms-length transaction for commercial value, for any Stand-Alone Product or Combination Product sold or otherwise transferred to an independent third party not an Affiliate of the seller or transferor, the fair market value of such non-cash consideration on the date of the transfer, shall be included in the calculation of Net Sales, **[*]** or the Adjusted Net Sales **[*]**

When calculating the Net Sales, the amount of such sales in foreign currencies shall be converted into U.S. Dollars at the average rate of exchange at the time for the applicable calendar year in accordance with DAS's then current standard practices.

1. **"Adjusted Net Sales"** shall mean the total amount obtained by adjusting the amount received by DAS, its Affiliates, and its licensees, during a calendar year (January 1-December 31), from sales of Combination Product to independent, unrelated third parties, in bona fide arms- length transactions, less the following standard deductions:

    i. sales tax, excise tax, value added tax, and other taxes and duties imposed on the sale, use, or distribution of Combination Product;

    ii. normal and customary cash, trade, and quantity discounts actually allowed;

iii. amounts paid or credited by reason of rejection or return of goods, defects, rebates, or bona fide retroactive price reductions; and

iv. expenses for freight, insurance and the like paid in connection with the distribution or sale of Combination Product;

where such adjusting is determined in accordance with Exhibits A1, A2, A3, and A4.

2. **"Country Adjusted Net Sales"** or "CANS" shall mean that portion of Adjusted Net Sales that took place in a certain country.

3. **"Country Net Sales"** or "CNS" shall mean that portion of Net Sales that took place in a certain country.

4. **"Country Total Net Sales"** or "CTNS" shall mean that portion of Total Net Sales (as hereafter defined) that took place in a certain country, which is equal to the CNS of Stand-Alone Products (if any) containing a certain Fungicide/Herbicide plus the sum of CANS of those Combination Products (if any) containing the same Fungicide/Herbicide in the country in question.

5. **"Total Net Sales"** or "TNS" shall mean the Net Sales of Stand-Alone Products (if any) containing a certain FH plus the sum of Adjusted Net Sales of Combination Products (if any) containing the same FH.

19. **"Patent"** shall mean a document, representing an intellectual property right, made by a government or sovereign of a country that can be used to exclude others from practicing the invention claimed in the document.

20. **"Predevelopment"** shall mean the **[*]** stage of commercialization of a Product (as hereafter defined) and is characterized by initiation of **[*]**.

21. **"Product"** shall mean a Stand-Alone Product or Combination Product or both.

22. **"Related Compound"** shall mean a Homolog, Isomer, Analog, or First Order Derivative of a DAS HC.

1. **"Analog"** shall mean **[*]** thereof by an analogous element.

2. **"First Order Derivative"** shall mean **[*]**.

3. **"Homolog"** shall mean **[*]** that does not affect the essential relationship of the functional groups in the DAS HC.

4. **"Isomer"** shall mean **[*]**.

23. **"Research Milestone"** shall mean:

i. a Cognate Target Assay; or

ii. a biochemical activity assay, or expression system, for a HQMT Site **[*]**;

which is accepted by the Joint Management Team.

24. **"Stand-Alone Product"** shall mean a product that contains one FH and no other AI.

II.

"OBJECTIVES OF THE RP"

1. It is an objective of this RP for DAS to supply EXEL with a steady state of up to **[*]** compounds, where such compounds have fungicidal or herbicidal activity or both (hereafter "DAS Supplied Compounds"). DAS will provide EXEL any necessary information regarding the compounds relating to safe handling procedures.

2. It is an objective of this RP for EXEL to apply its expertise in functional genomics and model genetic systems to **[*]**. EXEL and DAS shall **[*]** the DAS Supplied Compounds using **[*]** and using **[*]**. EXEL shall evaluate the **[*]** compounds in **[*]** Candidate Target sites (hereafter "CT Site") and **[*]**; and **[*]** the herbicidal or fungicidal molecular target site of the DAS Supplied Compound as a Cognate Target. EXEL and DAS shall **[*]** according to the criteria as set forth in Section 1.15. Attached Exhibit B outlines the scope of the workplan defined under this Agreement.

3. It is an objective of this RP for DAS to identify FHs by using its expertise in conjunction with a Research Milestone.

4. Both parties agree that the RP shall be a **[*]** program, many aspects of which are **[*]** in nature. Therefore, decisions about how to proceed within the workplan in Exhibit B are dependent upon and shall be adjusted **[*]**.

III.

"RP MANAGEMENT"

1. The management of the RP shall be the responsibility of two committees: the Joint Management Team (hereafter "JMT"); and the Joint Research Team (hereafter "JRT").

2. The JMT shall be composed of up to three (3), with a minimum of two (2), members from each Party. Each Party shall have one (1) vote. The JMT shall meet at least two (2) times a year. The JMT shall consist of senior members from each Party authorized to make decisions with respect to matters including, but not limited to, setting research goals, allocating staff to specific programs, determining program expansions, determining and granting milestones, resolving disputes, and making strategic decisions. The JMT shall also have responsibility for establishing and monitoring the intellectual property strategy and portfolio developed by the collaboration. Dispute resolution shall be determined pursuant to Section 19.1.

3. The JRT shall be composed of up to three (3) members, with a minimum of two, (2) scientists from each Party who are responsible in their respective organizations for day to day management of the RP. Each Party shall have one (1) vote. The JRT shall meet at least quarterly to review the results and help direct the RP. Dispute resolution shall be determined pursuant to Section 19.1.

4. The JRT shall report to the JMT and at least one (1) member from each Party shall be a member of both the JMT and the JRT.

5. The members of the JMT and members of the JRT shall communicate with each other as often as necessary. Communications may be by telephone or televideo conferences or both, monthly, or on some occasions more often than monthly. Each Party shall be responsible for its own expenses in conducting its activities under this Agreement.

6. Minutes shall be prepared for all meetings of the JMT and JRT. The Parties shall approve JMT and JRT minutes. Minutes of these meetings shall be reviewed, revised, if necessary, and approved by both Parties within ten (10) business days of receipt of the first draft.

7. An Intellectual Property Committee (hereafter "IPC") shall be formed with representation from each Party. The IPC shall make reports to the JMT. Responsibilities of the IPC will include, but not be limited to, review of materials for publication that arise during or from the RP. The IPC shall review requests and make recommendations to the JMT as to whether any information may be published. The recommendation shall be consistent with the protection of the intellectual property generated under this Agreement. The IPC shall have at least one representative familiar with intellectual property in the area of the RP, preferably at least one (1) patent attorney, from each Party.

IV.

"RP RESOURCES"

1. EXEL shall provide a core group of **[*]** Full-Time Equivalent (hereafter "FTE") scientists to work directly on the RP. DAS shall provide funding for this core group at the rate of **[** * **]** U.S. Dollars **[** * **]** per FTE for the **[** * **]** year, **[** * **]** U.S. Dollars **[*]** per FTE for the **[** * **]** year, and **[** * **]** U.S. Dollars **[*]** per FTE for the **[** * **]** year. EXEL shall ensure that this core group shall be supported by staff with expertise in required areas. DAS shall make each year's FTE funding payments in four (4) quarterly installments. However, a first quarterly payment of **[** * **]** U.S. Dollars **[*]** shall be made within **[*]** days of the Effective Date; this payment shall be a credit against the FTE's expended during the first quarter of this Agreement and any overpayment by DAS shall be a credit for the second quarter payment. EXEL shall inform DAS of any such overpayment with the second quarter invoice; the remaining quarterly payments will be due within **[*]** days of receiving an invoice from EXEL reasonably detailing the number of FTEs used in that quarter. DAS shall provide funding for a minimum of **[*]** months. Thereafter, DAS shall provide EXEL **[*]** months' notice should DAS decide that this Agreement should be terminated based on a lack of advancement of the RP as set forth in the workplan in Exhibit B. Other than for reasons of lack of advancement of the RP or unremedied material breach, DAS shall have no right to terminate this Agreement prior to the end of the three (3) year term.

2. Upon written notice to EXEL, DAS shall have the right to increase total FTEs from **[*]** to **[*]** in the **[** * **]** years, subject to DAS determining that there are additional goals DAS wishes to accomplish during those years that could not be accomplished with **[*]** FTEs. This increase would be at **[** * **]** following the JRT and JMT review of the **[** * **]** year's accomplishments. However, **[** * **]**, the minimum **[*]** FTE commitment shall remain in effect until such time that this Agreement terminates or expires.

3. Nothing in this Agreement shall require DAS to provide funding for support of the RP in excess of the guaranteed funding that is set forth in this Article IV, unless DAS agrees to do so in a separate written document.

V.

"RESEARCH MILESTONES"

1. EXEL shall deliver Research Milestones. The JMT in collaboration with the JRT will be responsible for defining a research plan using available biological and molecular data to assess the quality of a molecular target site relative to the definition in Section 1.15. EXEL and DAS will jointly have the responsibility to answer questions pertaining to quality in advancing Cognate Targets to HQMT site as outlined in Exhibit B. The specifications for each Research Milestone will be set by the JMT.

2. DAS shall use Research Milestones to identify fungicides and herbicides that interact with the Cognate Target Site or High Quality Molecular Target Site.

3. Within **[*]** year of EXEL delivering a Research Milestone, DAS shall inform EXEL whether it desires to pursue further research utilizing this Research Milestone in DAS's Field. During this **[*]** year period, EXEL shall not grant any third party any rights to the Cognate Target or HQMT Site associated with that Research Milestone, without first allowing DAS an opportunity to obtain exclusive rights in DAS's Field under the terms and conditions in this Agreement.

    1. If DAS does not desire to pursue further work with this Research Milestone on an exclusive basis, the Cognate Target or HQMT Site associated with this Research Milestone shall be deemed a Non-Exclusive Target Site (hereafter "NET"). If DAS desires to pursue further work with this Research Milestone on an exclusive basis, the Cognate Target or HQMT Site associated with this Research Milestone shall be deemed a Limited-Exclusive Target Site (hereafter "LET").

    2. If DAS, after further work on a LET, decides that it does not desire to perform any additional work on such LET on such exclusive basis, such LET shall be reclassified as a NET.

4. DAS shall have a period of **[*]** years from the date in which DAS determines that the Cognate Target or HQMT Site associated with a Research Milestone is a LET where EXEL shall not perform, **[*]** any work **[*]** for such Cognate Target or HQMT Site, for any third party. However, EXEL **[*]** to a third party provided such **[*]** arose from Independent Research performed on behalf of such third party by EXEL.

5. DAS shall pay EXEL **[*]** U.S. Dollars **[*]** within **[*]** days of a Research Milestone being deemed a LET, which shall be the sole consideration for the **[*]** period of limited exclusivity for each LET. DAS shall provide EXEL with written annual updates concerning its diligence with each LET.

6. DAS shall have the right to have a maximum of **[*]** LETs during the first **[*]** of this Agreement. DAS can have these LETs running concurrently. If a Research Milestone is deemed a LET more than **[*]** year after the Effective Date but less than **[*]** after the Effective Date, the **[*]** period of limited exclusivity shall run past the end of the first **[*]** years of this Agreement without further compensation to EXEL besides the payment in Section 5.5. After the first **[*]** years of this Agreement the number of LETs and the amount of the payment for the **[*]** period of limited exclusivity for each of these LETs, shall have to be negotiated.

VI.

"MILESTONE PAYMENTS"

1. DAS shall pay **[*]** U.S. Dollars **[*]** to EXEL within **[*]** days of delivery of each Research Milestone. Only one (1) Research Milestone payment is due for any one molecular target site.

2. DAS shall pay to EXEL the following amounts for achievement of milestones:

    1. For each FH, which was identified using a Research Milestone, and which DAS decides to enter into Predevelopment, DAS shall pay EXEL **[*]** U.S. Dollars **[*]** within **[*]** days of the decision to enter into Predevelopment, which decision DAS shall provide by written notice to EXEL;

    2. For each FH, which was identified using a Research Milestone, and which DAS decides to enter into Development, DAS shall pay EXEL **[*]** U.S. Dollars **[*]** within **[*]** days of the decision to enter into Development, which decision DAS shall provide by written notice to EXEL;

    3. For each FH, which was identified using a Research Milestone, and which becomes an Approved FH, DAS shall pay EXEL **[*]** U.S. Dollars **[*]** within **[*]** days of the first Major Country approval which DAS shall confirm by written notice to EXEL.

3. DAS shall provide EXEL with a progress report, on a **[*]** basis, outlining the status of each Research Milestone or each FH, which was identified using a Research Milestone, including anticipation of entering Predevelopment, Development, and/or Approved FH.

VII.

"ROYALTY PAYMENTS"

1. For each FH, DAS shall pay EXEL a royalty based on TNS as follows:

    1. in a country where the composition of a certain FH or the use of the FH as a fungicide or herbicide is protected by a Patent derived from work conducted on the RP, and the TNS for such FH is greater than **[** * **]** U.S. Dollars **[*]** but less than, or equal to, **[** * **]** U.S. Dollars **[*]** per calendar year, the royalty for such FH, sold in that country, shall be **[*]** percent of CTNS for such country;

    2. in a country where the composition of a certain FH or the use of the FH as a fungicide or herbicide is protected by a Patent derived from work conducted on the RP, and the TNS for such FH is greater than **[** * **]** U.S. Dollars **[*]** but less than, or equal to, **[** * **]** U.S. Dollars **[*]** per calendar year, the royalty for such FH, sold in that country, shall be **[*]** percent of CTNS for such country;

    3. in a country where the composition of a certain FH or the use of the FH as a fungicide or herbicide is protected by a Patent derived from work conducted on the RP, and the TNS for such FH is greater than **[** * **]** U.S. Dollars **[*]** per calendar year, the royalty for such FH, sold in that country, shall be **[*]** percent of CTNS for such country;

    4. in a country where the composition of a certain FH or the use of the FH as a fungicide or herbicide is not protected by a Patent, and the TNS for such FH is greater than **[** * **]** U.S. Dollars **[*]** but less than, or equal to, **[** * **]** U.S. Dollars **[*]** per calendar year, the royalty for such FH, sold in that country, shall be **[*]** percent of CTNS for such country;

    5. in a country where the composition of a certain FH or the use of the FH as a fungicide or herbicide is not protected by a Patent, and the TNS for such FH is greater than **[** * **]** U.S. Dollars **[*]** but less than, or equal to, **[** * **]** U.S. Dollars **[*]** per calendar year, the royalty for such FH, sold in that country, shall be **[*]** percent of CTNS for such country;

    6. in a country where the composition of a certain FH or the use of the FH as a fungicide or herbicide is not protected by a Patent, and the TNS for such FH is greater than **[** * **]** U.S. Dollars **[*]** per calendar year, the royalty for such FH, sold in that country shall be **[*]** percent of CTNS for such country.

    7. DAS shall pay the royalty set forth in Sections 7.1.1- 7.1.6 for a period of **[*]** years from the date DAS receives an Approved FH, or for the life of any Patents that cover the **[** * **]**, whichever is longer. After all Patents that cover the **[** * **]** become unenforceable in a country, for any reason, any additional royalty due (because the time period that DAS paid a royalty under Sections 7.1.1-7.1.3 in that country was less than **[** * **]** years), in that country, shall be calculated in accordance with Sections 7.1.4-7.1.6 (and this royalty shall be paid until the time period that DAS paid a royalty under Section 7.1.1-7.1.6 equals **[*]** years.

2. If one (1), or more, third parties contribute to DAS's identification of a FH prior to Predevelopment, the royalties due under Section 7.1 shall be divided equally among EXEL and such third parties. In any case, only a maximum of **[*]** additional third parties shall share in such royalties. In the event DAS decides to enter into an additional third party business relationship under which such third party would collaborate with DAS in the areas of combinatorial chemistry or structure-based design, then **[** * **]**.

3. Prior to the identification of a Cognate Target Assay or HQMT Site, DAS may attempt to use **[** * **]** provided by EXEL to discover fungicides and herbicides. If DAS uses **[** * **]**, any patentable fungicides or herbicides identified by DAS shall be considered to be FHs for purposes of section 6.2 milestone payments and shall be considered to be FHs for royalty payments under 7.1, however, all such royalty payments will be reduced **[*]** percent. **[** * **]**, all such royalty payments, thereafter, shall be at **[*]** percent, as provided for in Section 7.1 and in addition EXEL shall be paid the milestone payment in accordance with Section 6.1 for such Research Milestone.

4. DAS shall pay only one (1) royalty for each FH sold and that royalty is calculated using Section 7.1, and such royalty is then subject to modification in accordance with Section 7.2 or 7.3 if required.

5. All royalties due under this Article 7 shall be paid **[** * **]**, on a country-by-country basis, within **[*]** days of the end of the relevant **[** * **]**.

6. Each royalty payment shall be accompanied by a statement stating the number, description, and CTNS in each country of each Product sold during the relevant **[** * **]**.

7. All payments due under this Agreement to EXEL shall be made by bank wire transfer in immediately available funds to an account designated by EXEL. All payments hereunder shall be made in U.S. Dollars.

8. EXEL shall pay any and all taxes levied on account of all payments it receives under this Agreement. If laws or regulations require that taxes be withheld, DAS will (i) deduct those taxes from the remittable payment, (ii) pay

the taxes to the proper taxing authority, and (iii) send evidence of the obligation together with proof of tax payment to EXEL within **[*]** days following that tax payment.

9. DAS shall keep complete, true and accurate books of account and records for the purpose of determining the payments to be made under this Agreement. Such books and records shall be kept for at least three (3) years following the end of the calendar year to which they pertain. Such records will be open for inspection during such three year period by independent accountants, jointly agreed to by DAS and EXEL, solely for the purpose of verifying payment statements hereunder. Such inspections shall be made no more than once each calendar year, at reasonable times and on reasonable notice. Inspections conducted under this Section 7.9 shall be at the expense of EXEL, unless a variation or error producing the greater of (i) an increase exceeding five (5) percent of the royalty amount or (ii) **[*]** U.S. Dollars **[*]**, stated for the period covered by the inspection, is established in the course of such inspection, whereupon all costs relating to the inspection for such period and any unpaid amounts (plus interest) that are discovered will be paid promptly by DAS.

10. If a FH is sold in a country where there is no Patent that protects the composition of the FH, or there is no Patent that protects the use of the FH as a fungicide or herbicide, and if subsequent to these sales of such FH a Patent issues that does protect the composition of the FH, or a Patent issues that does protect the use of the FH as a fungicide or herbicide, then DAS shall recalculate the royalties paid to EXEL on such sales before such Patent issued and shall pay EXEL for such sales as if the Patent issued before such sales, taking into account any payments already made to EXEL for such sales.

VIII.

"DISCLOSED INFORMATION"

1. All materials and information, not generated under this Agreement, that is or has been disclosed by one Party (the "Disclosing Party") (hereafter "Disclosed Information") shall be treated by the other Party (the "Receiving Party") as confidential. The Receiving Party shall hold in confidence and not publish, disclose, or allow any third party access to, nor use for any purpose other than that authorized herein, any Disclosed Information without the Disclosing Party's prior written consent. This obligation of confidentiality shall remain in effect throughout the term of this Agreement and for five (5) years from the date of termination or expiration of this Agreement or the termination or expiration of any extension hereof. However, this obligation shall not apply to:

    1. Disclosed Information that the Receiving Party can show was in its possession prior to disclosure hereunder and which was not received from Disclosing Party under obligation of secrecy;

    2. Disclosed Information that the Receiving Party can show was available to the public, provided it is available to the public through no fault of the Receiving Party;

    3. Disclosed Information that the Receiving Party can show was received from a third party unrelated to the Disclosing Party which had a right to disclose same; and

    4. Disclosed Information that is required to be disclosed by operation of law, governmental regulation, or court order, provided the Receiving Party gives the Disclosing Party notice of such disclosure prior to making such disclosure, and Receiving Party uses all reasonable efforts to secure confidential protection for such Disclosed Information.

2. Upon termination of this Agreement, or otherwise upon request from the Disclosing Party, the Receiving Party shall promptly return to the Disclosing Party all Disclosed Information and additionally shall permanently delete all electronically, or otherwise stored, Disclosed Information from all of the Receiving Party's systems containing same, except one hard copy may be maintained by the Receiving Party in order to determine its responsibilities under this Agreement.

3. Either Party may make known the existence of this Agreement, however, neither Party shall disclose any details of this Agreement or the RP, subject to Section 10.1.

IX.

"CONFIDENTIALITY"

1. All information generated by either Party pursuant to this Agreement shall be "Confidential Information" (hereafter "Generated Information"). A Party receiving Generated Information of the other Party will (i) maintain in confidence such Generated Information to the same extent such Party maintains its own proprietary information, (ii) not disclose such Generated Information in DAS's Field to any third party without prior written consent of the other Party, and (iii) not use such Generated Information for any purpose except those permitted by this Agreement. This obligation of confidentiality shall remain in effect for five (5) years from the date of termination or expiration of this Agreement or the termination or expiration of any extension hereof. This Section does not apply to the submission or prosecution of patent applications. However, this obligation shall not apply to:

1. Generated Information that a Party can show was in its possession prior to generation hereunder and which was not received from a third party under obligation of secrecy;

2. Generated Information that a Party can show was available to the public, provided it is available to the public through no fault of such Party;

3. Generated Information that a Party can show was received from a third party unrelated to that Party which had a right to disclose same; and

4. Generated Information that is required to be disclosed by operation of law, governmental regulation, or court order, provided the disclosing Party gives the other Party notice of such disclosure prior to making such disclosure, and the disclosing Party uses all reasonable efforts to secure confidential protection for such Generated Information.

5. Generated Information in DAS's Field that is generated as a result of the work performed by EXEL under the RP shall be co-owned by DAS and EXEL.

X.

"PUBLICITY"

1. The Parties agree that the public announcement of the execution of this Agreement shall be substantially in the form of the press release attached as Exhibit C. Any other publication, news release or other public announcement relating to this Agreement or to the performance hereunder, shall first be reviewed and approved by both Parties; provided, however, that any disclosure which is required by law as advised by the disclosing Party's counsel may be made by making prompt notice of such legally required disclosure and to the extent practicable shall provide the other Party an opportunity to comment on the proposed disclosure.

XI.

"PUBLICATIONS"

1. Neither Party shall publish or present the results of studies carried out under this Agreement without the opportunity for prior review and approval by the other Party, such approval not to be unreasonably withheld. Subject to Section 10.1, each Party agrees to provide the other Party the opportunity to review any proposed abstracts, manuscripts or presentations (including verbal presentations) which relate to any Cognate Target or HQMT Site at least thirty (30) days prior to its intended submission for publication and agrees, upon request, not to submit any such abstract or manuscript for publication until the other Party is given a reasonable period to secure patent protection for any material in such publication which such Party believes to be patentable. Any disputes between the Parties regarding delaying a publication or presentation to permit filing of a patent application shall be referred to the JMT. This section does not apply to the submission or prosecution of patent applications.

XII.

"INTELLECTUAL PROPERTY"

1. Each Party shall own the entire right, title and interest in and to any and all of its Pre-Existing Technologies (which shall mean any technologies existing before the Effective Date) or Sole Inventions, and Patents covering such Pre-Existing Technologies or Sole Inventions. Each Party shall retain control over and bear all expenses associated with the filing, prosecution and maintenance of all Patents claiming Pre-existing Technologies or Sole Inventions.

2. The JRT shall prepare a written report in conjunction with the IPC within **[*]** days of the end of each quarter describing any Sole Inventions, Joint Inventions, and Generated Information arising during the prior quarter. Such reports shall be submitted to the JMT not less than once every six (6) months. The IPC, in consultation with the JMT, shall decide whether to file a patent application for a Joint Invention.

3. Under the direction of the JMT, the IPC shall supervise and direct the filing, prosecution and maintenance of all patent applications and Patents covering Joint Inventions. DAS shall bear the expenses associated with the filing, prosecution (including any interferences, reissue proceedings and reexaminations) and maintenance of all patent applications and Patents on Joint Inventions relating to DAS's Field. **[** * **]** shall bear the expenses associated with the filing, prosecution (including any interferences, reissue proceedings and reexaminations) and maintenance of all patent applications and Patents on Joint Inventions relating to EXEL's Field and EXEL's Human Use Field. A Party electing not to pay any such costs and expenses with respect to a patent application or Patent covering a Joint Invention must provide the other Party with not less than **[*]** months notification before any relevant deadline. If the other Party assumes the expenses associated with the patent application or Patent, such Party will thereby become the sole owner of the Joint Invention and the patent application or Patents claiming such Joint Invention and any license rights regarding such intellectual property shall be terminated.

4. Each Party shall have the sole right, but not the obligation, to institute, prosecute or control any action or proceeding with respect to infringement by a third party of one or more Patents covering the Party's Pre-Existing Technologies or Sole Inventions.

5. Either Party not wishing to file a patent application arising from the RP, when the other Party wishes to file an application, shall cooperate with the Party that wishes to file an application by providing the necessary information for the application and executing necessary documents for the application to the extent that it pertains to the filing Party's Field or Fields.

6. Subject to rights of exclusivity provided for under Sections 5.3 and 5.4, EXEL shall have the exclusive right to use Generated Information outside DAS's Field.

XIII.

"LICENSES"

1. Subject to the terms and conditions of this Agreement, EXEL hereby grants, and agrees to grant, a non-exclusive, worldwide, royalty-bearing (as determined in accordance with Article 7) license under any intellectual property rights relating to DAS's Field that EXEL now owns , or hereafter acquires, for DAS, its Affiliates and licensees, to use any of the Generated Information in DAS's Field and to make, use, import or sell any FH. DAS covenants that it will not use a CT Site or Cognate Target or HQMT Site for performing independent research in the field of **[*]**. In any event, DAS acknowledges and agrees that EXEL has the right to a CT Site or Cognate Target or HQMT Site for use in EXEL's Field.

2. During the term of the RP, EXEL grants to DAS a right to negotiate a **[** * **]** license to **[** * **]** during the course of the collaboration under the RP, under terms and conditions to be negotiated. In the event EXEL wants to grant an **[** * **]** license to **[** * **]** during the course of the collaboration under the RP, EXEL shall notify DAS in writing of its intent to grant an **[** * **]** license and shall provide DAS with all relevant information concerning such **[** * **]** and DAS shall have **[*]** days to notify EXEL of its interest in pursuing a business relationship concerning this **[** * **]** and an additional **[*]** days after DAS gives notice to EXEL for DAS and EXEL to come to an agreement concerning further development of such **[** * **]** by DAS.

3. DAS hereby grants, and agrees to grant, EXEL a fully paid-up, nonexclusive license, under any intellectual property rights now owned, or acquired during the term of this Agreement, for EXEL to conduct its research obligations under this Agreement in a manner consistent with Article 14.

XIV.

"DAS's HISTORICAL COMPOUNDS"

1. DAS shall provide EXEL with information regarding DAS HCs, on reasonable conditions specified by DAS. DAS shall allow EXEL to use the DAS HCs to screen for **[** * **]**. EXEL shall have the right to receive up to **[** * **]** U.S. Dollars in value (the cumulative value as calculated as follows) of DAS HCs. The cost of compounds from DAS's Historical Compound collection that are not from third parties shall be **[*]** per mg. The cost of compounds from DAS's combinatorial chemistry compound collection shall be **[*]** per mg. The cost of compounds from DAS's Historical Compound collection that are from third parties shall be **[*]** per mg. Each compound sent to EXEL shall have **[*]** added to the cost to cover handling. DAS will supply EXEL with between **[*]** mg of each compound requested. However, in any case, EXEL shall have access to up to **[*]** compounds during the first **[*]** years of this Agreement; and access to more than **[*]** compounds shall have to be negotiated. Subject to their availability, EXEL shall have the right to purchase additional quantities of selected compounds, in the range of **[*]** mg, at the **[** * **]** price per mg and cost of handling, for confirmatory tests and secondary biological and biological assays. DAS will make reasonable efforts to supply EXEL with chemical information (e.g., original source of the compound, method of synthesis, physical properties, etc.) for DAS HCs that may be required for EXEL to follow-up on biological activity discovered in EXEL assays.

2. If EXEL desires to commercialize **[*]** such commercialization shall be subject to an agreement for world-wide rights between EXEL and DAS which will be negotiated in good faith.

XV.

"TERM"

1. Unless this Agreement is terminated earlier in accordance with the provisions of this Agreement, the RP and the Parties' collaboration under this Agreement shall be for a minimum term of three (3) years and DAS shall have an option to renew **[** * **]** thereafter. If DAS elects to exercise its option to renew, DAS shall provide EXEL with written notice of its election at least **[*]** days prior to the expiration of the initial three (3) year term, or extended **[*]** year term.

2. The rights and obligations set forth in this Agreement in Articles 5, 6, 7, 8, 9, 10, 11, 12 and 13 shall survive expiration or termination of this Agreement.

3. Any amendment to this Agreement shall be in writing and signed by the Parties.

4. Should EXEL fail to meet the material objectives of this RP, and **[*]**, then DAS upon reasonable written notice of such intention to EXEL, shall have the right to terminate this Agreement upon **[*]** business days prior written notice; subject to the condition set forth in Section 4.1 that DAS shall provide funding for at least **[*]** months after the Effective Date and shall thereafter provide **[*]** months notice if DAS wants to terminate this Agreement.

5. Should DAS fail to meet its payment obligations under this Agreement, and if reasonable efforts by the Parties under Section 19.1 fail to resolve the issues in regards to such payments, then EXEL upon reasonable written notice of such intention to DAS, shall have the right to terminate this Agreement upon ten (10) business days prior written notice.

XVI.

"SEVERABILITY, INTEGRATION, AND ALTERATION"

1. In the event any provision of this Agreement should be held invalid, the Parties agree to use reasonable efforts to achieve a mutually acceptable provision which is in accordance with the commercial spirit and intent of this Agreement, so that same becomes valid and the remaining part of this Agreement shall not be materially affected thereby.

2. This Agreement constitutes the entire agreement between the Parties on the subject matter hereof, and all prior negotiations, agreements, understandings, and the (i) Letter of Intent entered into March 13, 2000 and (ii) Mutual Non-Disclosure Agreement entered into on August 20, 1998, and Amendments thereto entered into on July 7, 1999, and December 10, 1999, are expressly superseded and terminated hereby.

3. Neither Party may assign or transfer this Agreement or any rights or obligations herein without the prior written consent of the other, except that a Party may make an assignment of this Agreement without the other Party's consent, to an Affiliate or to a successor to all or substantially all of the agriculture business of such Party, whether in a merger, sale of stock, sale of assets or other similar transaction, provided that any such permitted successor or assignee of rights and/or obligations herein shall first, either by operation of law or in writing to the other Party, expressly assume performance of such rights and/or obligations. Any permitted assignment shall be binding on the successors of the assigning Party. Any assignment or attempted assignment by either Party in violation of the terms of this Section 16.3 shall be null and void and of no legal effect.

XVII.

"NOTICES"

1. Any notices required or permitted hereunder shall be given to the appropriate Party at the address specified below or at such other address as the Party shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or sent by certified or registered mail, three (3) days after the date of mailing.

For EXEL Senior Vice President, Business Development

Exelixis, Inc.

170 Harbor Way

P.O. Box 511

South San Francisco, CA 94083-0511

With a copy to: Vice President, Legal Affairs

Exelixis, Inc.

170 Harbor Way

P.O. Box 511

South San Francisco, CA 94083-0511

For DAS: Vice President, Research and Development

Dow AgroSciences LLC

9330 Zionsville Road

Indianapolis, IN 46268

With a copy to: General Patent Counsel

Dow AgroSciences LLC

9330 Zionsville Road

Indianapolis, IN 46268

For invoices please send to: Dow AgroSciences LLC

9330 Zionsville Road

Indianapolis, IN 46268

ATTN Accounts Payable

XVIII.

"GOVERNING LAW"

1. Resolution of all disputes arising out of or related to this Agreement or the performance, enforcement, breach or termination of this Agreement and any remedies relating thereto, shall be governed by and construed under the substantive laws of the State of Delaware, as applied to agreements executed and performed entirely in the State of Delaware by residents of the State of Delaware, without regard to conflicts of law rules.

XIX.

"DISPUTE RESOLUTION"

1. In the event of any controversy or claim arising out of, relating to or in connection with any provision of this Agreement, the Parties shall try to settle their differences amicably between themselves first by referring the disputed matter to the respective heads of research of each Party, and if not resolved by the research heads, by referring the disputed matter to the respective Chief Executive Officers of each Party. Either Party may initiate such informal dispute resolution by sending written notice of the dispute to the other Party, and within twenty (20) days after such notice, such representatives of the Parties shall meet for attempted resolution by good faith negotiations. If such personnel are unable to resolve such dispute within thirty (30) days of their first meeting of such negotiations, either Party may seek to have such dispute resolved in any United States federal court of competent jurisdiction and appropriate venue. The Parties hereby consent to jurisdiction in the United States federal courts. If, notwithstanding such consent, United States federal courts would not have proper jurisdiction over a dispute, then such dispute may be submitted to a state court in the United States with proper jurisdiction and venue. The Parties agree that, except as provided in Section 12, any dispute under this Agreement shall be submitted exclusively to a state or federal court in the United States.

The Parties hereby execute this Agreement by their respective duly authorized representatives as of the date shown below.

Exelixis Inc. Dow AgroSciences LLC

By: /s/ Lloyd Kunimoto By: /s/ Charles Fischer

Title: Sr. Vice President, Business Development Title: President / CEO Dow Agro

Date: July 11, 2000 Date: July 10, 2000

EXHIBIT A1

Exhibit A1 - To determine the Adjusted Net Sales for a Combination Product when the Combination Product contains a FH and another AI where the FH is sold as a Stand-Alone Product and the other AI is sold as a stand-alone product, the formula for calculating Adjusted Net Sales is as follows:

[*]

For example,

- FH sold as a Stand-Alone Product at a use rate of X for $15.

- The other AI is sold as a stand alone product at use rate Y for $10.
- FH (at use rate X) and the other AI (at use rate Y) are sold in a Combination Product for $30.
- **[*]**

EXHIBIT A2

Exhibit A2 - To determine the Adjusted Net Sales of a Combination Product when the Combination Product contains a FH and another AI where the FH is not sold as a Stand-Alone Product, but the other AI is sold as a stand alone product at the same use rate as in the Combination Product, the formula for calculating Adjusted Net Sales is as follows:

[*]

For example,

- FH sold as a Combination Product with another AI at use rate X.
- The other AI at use rate X as a stand alone product sells for $5 in same market as the Combination Product.
- Combination Product sells for $15.
- **[*]**

EXHIBIT A3

Exhibit A3 - To determine the Adjusted Net Sales for a Combination Product when the Combination Product contains a FH and another AI where the FH is not sold as a Stand-Alone Product, but the other AI is sold as a stand alone product at twice the use rate as in the Combination Product, the formula for calculating Adjusted Net Sales is as follows:

[*]

For example,

- FH sold as a Combination Product with another AI at use rate X.
- The other AI at use rate **[*]** as a stand alone product sells for $10 in same market as the Combination Product.
- Combination Product sells for $15.
- **[*]**

EXHIBIT A4

Exhibit A4 - To determine the Adjusted Net Sales for a Combination Product when the Combination Product contains a FH and another AI and the FH is not sold as a Stand-Alone Product nor is the other AI sold as a stand alone product, the formula for calculating Adjusted Net Sales is as follows:

[*]

For example,

- FH sold in combination with another AI for $15
- **[*]**

EXHIBIT C

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Garry Hamlin

Dow AgroSciences

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DOW AGROSCIENCES AND EXELIXIS ANNOUNCE

CROP PROTECTION COLLABORATION

SOUTH SAN FRANCISCO, Calif. and INDIANAPOLIS, Indiana - **July XX, 2000** -- Exelixis and Dow AgroSciences today announced they have entered into a three-year collaboration to develop novel fungicides and herbicides for crop protection. As a result, Dow AgroSciences should be able to more rapidly develop certain new classes of fungicides and herbicides.

Under the terms of the agreement, Exelixis will identify and validate targets and format screening assays that will be used by Dow AgroSciences to develop new classes of fungicides and herbicides. Dow AgroSciences will receive a non-exclusive license with respect to these targets. Dow AgroSciences will provide research funding, in addition to milestone payments and royalties on the sales of products resulting from the collaboration. In addition, Exelixis will utilize a collection of proprietary compounds from Dow AgroSciences that may be useful in Exelixis' internal drug discovery programs. Financial terms were not disclosed.

"Farmers spend billions of dollars each year to minimize crop yield losses due to weeds and fungal diseases. Dow AgroSciences is committed to developing the safest and most effective products to control such pests. Our collaboration with Exelixis will enable us to efficiently identify high quality targets which will enable us to speed the discovery and development of new fungicides and herbicides of value to agriculture," said Len Smith, Vice President of Ag Chem and Urban Pest R&D for Dow AgroSciences.

"Our agreement with Dow AgroSciences leverages our technology platform in an area where we have significant expertise," said George A. Scangos, Ph.D., president and chief executive officer of Exelixis. "As a life sciences company, we are focused on the improvement of human health through better pharmaceuticals and better agriculture."

Dow AgroSciences LLC, based in Indianapolis, Ind., USA, is a global leader in providing pest management and biotechnology products that improve the quality and quantity of the earth's food supply and contribute to the safety, health and quality of live of the world's growing population. Dow AgroSciences has approximately 6000 people in over 50 countries dedicated to its business, and has worldwide sales of more than US $2 billion. Dow AgroSciences is a wholly-owned subsidiary of The Dow Chemical Company.

Exelixis, Inc. is a leading biotechnology company focused on the life sciences industries through its expertise in comparative genomics and model system genetics. These technologies provide a rapid, efficient and cost- effective way to move from DNA sequence data to knowledge about the function of genes and the proteins that they encode. The company's technology is broadly applicable to all life science industries including pharmaceutical, diagnostic, agricultural biotechnology and animal health. Exelixis has partnerships with Bayer, Pharmacia Corporation and Bristol-Myers Squibb and is leveraging these relationships to fund its internal development program in the area of oncology. For more information, please visit the company's web site at www.exelixis.com.

The forward looking statements contained in this press release involve risks and uncertainties that may affect the respective company's operations, markets, products, services, prices and other factors as more fully discussed elsewhere and in each of their filings with the U.S. Securities and Exchange Commission. These risks and uncertainties include, but are not limited to the ability of the parties to identify novel targets and develop novel herbicides or fungicides in a rapid manner, if at all. For Exelixis, in particular, there can be no assurance that the collaboration will result in any milestone or royalty payments. For Dow AgroSciences, there is no assurance that the company's expectations will be realized.

# # #

Exhibit B

[*]

5
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000.

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DEC-31-2000
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JUN-30-2000
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