

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 30, 2018

or

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



EXELIXIS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-3257395

(I.R.S. Employer Identification Number)

**210 East Grand Ave.
South San Francisco, CA 94080
(650) 837-7000**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of April 23, 2018, there were 296,866,380 shares of the registrant's common stock outstanding.

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

Item 1. Financial Statements

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

	March 31, 2018	December 31, 2017*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 232,331	\$ 183,164
Short-term investments	194,589	204,607
Short-term restricted cash and investments	504	504
Trade and other receivables, net	91,999	81,192
Inventory, net	7,563	6,657
Unbilled collaboration revenue	31,844	—
Prepaid expenses and other current assets	6,850	8,750
Total current assets	565,680	484,874
Long-term investments	96,710	64,255
Long-term restricted cash and investments	1,500	4,646
Property and equipment, net	45,412	25,743
Goodwill	63,684	63,684
Other long-term assets	1,929	12,092
Total assets	\$ 774,915	\$ 655,294
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,078	\$ 9,575
Accrued compensation and benefits	20,756	21,073
Accrued clinical trial liabilities	15,351	19,849
Accrued collaboration liabilities	7,974	8,974
Rebates and fees due to customers	11,989	7,565
Current portion of deferred revenue	—	31,984
Other current liabilities	17,711	16,150
Total current liabilities	84,859	115,170
Long-term portion of deferred revenue	3,177	238,520
Other long-term liabilities	17,113	16,643
Total liabilities	105,149	370,333
Commitments (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized and no shares issued	—	—
Common stock, \$0.001 par value; 400,000,000 shares authorized; issued and outstanding: 296,694,330 and 296,209,426 at March 31, 2018 and December 31, 2017, respectively	297	296
Additional paid-in capital	2,125,166	2,114,184
Accumulated other comprehensive loss	(887)	(347)
Accumulated deficit	(1,454,810)	(1,829,172)
Total stockholders' equity	669,766	284,961
Total liabilities and stockholders' equity	\$ 774,915	\$ 655,294

* The Condensed Consolidated Balance Sheet as of December 31, 2017 has been derived from the audited financial statements as of that date.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Net product revenues	\$ 134,272	\$ 68,877
Collaboration revenues	78,074	12,010
Total revenues	212,346	80,887
Operating expenses:		
Cost of goods sold	5,639	3,203
Research and development	37,757	23,210
Selling, general and administrative	52,643	34,288
Total operating expenses	96,039	60,701
Income from operations	116,307	20,186
Other income (expense), net:		
Interest income	1,895	1,113
Interest expense	—	(4,420)
Other, net	169	(45)
Total other income (expense), net	2,064	(3,352)
Income before income taxes	118,371	16,834
Provision for income taxes	2,514	134
Net income	\$ 115,857	\$ 16,700
Net income per share, basic	\$ 0.39	\$ 0.06
Net income per share, diluted	\$ 0.37	\$ 0.05
Shares used in computing net income per share, basic	296,421	290,870
Shares used in computing net income per share, diluted	313,691	309,535

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 115,857	\$ 16,700
Other comprehensive (loss) income ⁽¹⁾	(540)	90
Comprehensive income	\$ 115,317	\$ 16,790

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

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 115,857	\$ 16,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	371	281
Stock-based compensation	9,305	4,713
Amortization of debt discounts and debt issuance costs	—	89
Interest paid in kind	—	2,068
Gain on other equity investments	(209)	—
Other	1,722	680
Changes in assets and liabilities:		
Trade and other receivables, net	(10,755)	6,541
Inventory, net	(906)	34
Unbilled collaboration revenue	(38,014)	—
Prepaid expenses and other current assets	1,900	(881)
Other long-term assets	(346)	(19)
Accounts payable	(183)	(1,916)
Accrued compensation and benefits	(317)	(5,844)
Accrued clinical trial liabilities	(4,498)	347
Accrued collaboration liabilities	(1,000)	—
Deferred revenue	(2,652)	35,139
Other current and long-term liabilities	1,533	10,926
Net cash provided by operating activities	<u>71,808</u>	<u>68,858</u>
Cash flows from investing activities:		
Purchases of property and equipment and other, net	(2,947)	(804)
Purchases of investments	(116,537)	(124,494)
Proceeds from maturities of investments	87,504	122,507
Proceeds from sale of investments	6,238	37,294
Proceeds from other equity investments	209	—
Net cash (used in) provided by investing activities	<u>(25,533)</u>	<u>34,503</u>
Cash flows from financing activities:		
Principal repayments of debt	—	(80,000)
Proceeds from exercise of stock options	1,875	9,675
Taxes paid related to net share settlement of equity awards	(2,129)	(1,543)
Net cash used in financing activities	<u>(254)</u>	<u>(71,868)</u>
Net increase in cash, cash equivalents and restricted cash	46,021	31,493
Cash, cash equivalents and restricted cash at beginning of period	188,314	155,836
Cash, cash equivalents and restricted cash at end of period	<u>\$ 234,335</u>	<u>\$ 187,329</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Organization**

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

Basis of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of Exelixis and those of our wholly-owned subsidiaries. These entities' functional currency is the U.S. dollar. All intercompany balances and transactions have been eliminated.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and pursuant to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the results of operations and cash flows for the periods presented have been included.

We have adopted a 52- or 53-week fiscal year policy that generally ends on the Friday closest to December 31st. Fiscal year 2018 will end on December 28, 2018 and fiscal year 2017 ended on December 29, 2017. For convenience, references in this report as of and for the fiscal periods ended March 30, 2018 and March 31, 2017, and as of and for the fiscal years ended December 28, 2018 and December 29, 2017, are indicated as being as of and for the periods ended March 31, 2018 and March 31, 2017, and the years ended December 31, 2018 and December 31, 2017, respectively. Similarly, references in this report to the first day of the fiscal year ended December 28, 2018 are indicated as being as of January 1, 2018.

Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any future period. These Condensed Consolidated Financial Statements and Notes thereto should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the SEC on February 26, 2018.

Segment Information

We operate in one business segment which focuses on discovery, development and commercialization of new medicines to improve care and outcomes for people with cancer. Our Chief Executive Officer, as the chief operating decision-maker, manages and allocates resources to our operations on a total consolidated basis. Consistent with this decision-making process, our Chief Executive Officer uses consolidated, single-segment financial information for purposes of evaluating performance, forecasting future period financial results, allocating resources and setting incentive targets.

All of our long-lived assets are located in the U.S. See "Note 2. Revenues" for enterprise-wide disclosures about product sales, revenues from major customers and by geographic region.

Use of Estimates

The preparation of the accompanying Condensed Consolidated Financial Statements conforms to accounting principles generally accepted in the U.S. which requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, equity, revenues and expenses, and related disclosures. On an ongoing basis, management evaluates its estimates including, but not limited to: those related to revenue recognition, including determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price of performance obligations, and variable consideration such as rebates, chargebacks, sales returns and sales allowances as well as milestones included in collaboration arrangements; the amounts of revenues and expenses under our profit and loss sharing agreement; recoverability of inventory; the accrual for certain liabilities including accrued clinical trial liability; and valuations of awards used to determine stock-based compensation. We base our estimates on historical experience and on various other market-specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

Reclassifications

Certain prior period amounts on the accompanying Condensed Consolidated Financial Statements have been reclassified to conform to current period presentation.

Restricted Cash

In January 2018, we adopted Accounting Standards Update (“ASU”) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 was adopted using the retrospective transition method in the accompanying Condensed Consolidated Financial Statements.

As a result of the adoption of ASU 2016-18, we no longer include purchases of restricted cash and proceeds from maturities of restricted cash in our cash flows from investing activities. The adoption of ASU 2016-18 did not impact the Net cash provided by investing activities for the three months ended March 31, 2017.

See “Note 4. Cash and Investments - Cash, Cash Equivalents and Restricted Cash” for a reconciliation of cash and cash equivalents presented in our previously published Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and Cash, cash equivalents and restricted cash reported in the accompanying Condensed Consolidated Statements of Cash Flows for the same period.

Revenue

Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Accounting Standards Codification Topic 606)* (“Topic 606”) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for the three months ended March 31, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under previous revenue recognition guidance, Accounting Standards Codification Topic 605: Revenue Recognition (“Topic 605”).

The adoption of Topic 606 did not have an impact on our recognition of revenue from product sales. We recorded a net reduction of \$258.5 million to opening accumulated deficit as of January 1, 2018, due to the cumulative impact of adopting Topic 606, with the impact primarily relating to a change in the recognition of upfront and non-substantive milestone payments received related to our collaboration arrangements with Ipsen Pharma SAS (“Ipsen”) and Takeda Pharmaceutical Company Ltd. (“Takeda”). The impact of the adoption of Topic 606 on contract assets, contract liabilities and accumulated deficit balances as of January 1, 2018 was as follows (in thousands):

	December 31, 2017	Adjustments Due to the Adoption of Topic 606	January 1, 2018
Contract assets: unbilled collaboration revenue, gross:			
Current portion	\$ —	\$ 9,588	\$ 9,588
Long-term portion	\$ —	\$ 12,247	\$ 12,247
Contract liabilities: deferred revenue, gross:			
Current portion	\$ 31,984	\$ (23,591)	\$ 8,393
Long-term portion	\$ 238,520	\$ (213,079)	\$ 25,441
Accumulated deficit	\$ (1,829,172)	\$ 258,505	\$ (1,570,667)

The adjustments due to the adoption of Topic 606 primarily related to a reduction in deferred revenue driven by the allocation of the transaction price to our license performance obligations in the Ipsen and Takeda collaborations, which were determined to be functional intellectual property that was transferred at a point in time and as a result, revenue was recorded at a point in time. Previously under Topic 605, revenue related to the upfront payments and one non-substantive milestone payment earned 2016 had been deferred over the estimated period of performance pursuant to the terms of the contract. Contract assets as of January 1, 2018 primarily related to estimated revenue for reimbursements for our continuing research and development services and the \$10.0 million milestone from Ipsen’s filing with the European Medicines Agency (“EMA”) for cabozantinib, as a treatment for patients with previously treated advanced hepatocellular carcinoma (“HCC”), that was deemed probable under Topic 606 prior to January 1, 2018. Deferred revenue as of January 1, 2018 is related to the up-front, nonrefundable, fees and milestones earned that were allocated to our research and development services performance obligation which had not been satisfied as of that date. Contract assets and liabilities are netted by collaboration agreement on our Condensed Consolidated Balance Sheets; however, for illustration purposes the above amounts are shown prior to netting.

The impact of the adoption of Topic 606 on our Condensed Consolidated Balance Sheet and Statement of Operations as of and for the period ended March 31, 2018 was as follows (in thousands):

	March 31, 2018		
	As Reported	Balances Without the Adoption of Topic 606	Effect of Adoption Higher / (Lower)
Unbilled collaboration revenue	\$ 31,844	\$ —	\$ 31,844
Current portion of deferred revenue	\$ —	\$ 30,288	\$ (30,288)
Other current liabilities	\$ 17,711	\$ 16,820	\$ 891
Long-term portion of deferred revenue	\$ 3,177	\$ 230,948	\$ (227,771)
Accumulated deficit	\$ (1,454,810)	\$ (1,743,822)	\$ 289,012

	Three Months Ended March 31, 2018		
	As Reported	Balances Without the Adoption of Topic 606	Effect of Adoption Higher / (Lower)
Collaboration revenues	\$ 78,074	\$ 46,676	\$ 31,398
Total revenues	\$ 212,346	\$ 180,948	\$ 31,398
Income before income taxes	\$ 118,371	\$ 86,973	\$ 31,398
Provision for income taxes	\$ 2,514	\$ 1,623	\$ 891
Net income	\$ 115,857	\$ 85,350	\$ 30,507
Net income per share, basic	\$ 0.39	\$ 0.29	\$ 0.10
Net income per share, diluted	\$ 0.37	\$ 0.27	\$ 0.10

Collaboration revenues recognized for the three months ended March 31, 2018 in accordance with Topic 606 included \$45.8 million in revenue relating to a \$50.0 million milestone from Ipsen for the approval of cabozantinib for the first-line treatment of advanced RCC that would not have been recognized under Topic 605. If we had not adopted Topic 606, we would have recognized a \$10.0 million milestone during the three months ended March 31, 2018 upon the validation of Ipsen's filing with the EMA for cabozantinib as a treatment for patients with previously treated advanced HCC that was not recognized under Topic 606. The adoption of Topic 606 also resulted in a reduction of previously deferred revenue that was recorded as part of our adoption transition adjustment as of January 1, 2018.

Topic 606 supersedes all previous revenue recognition requirements in accordance with generally accepted accounting principles. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Under Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration to which the entity is entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that we determine are within the scope of Topic 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. We only apply the five-step model to contracts when it is probable that we will collect the consideration it is entitled to in exchange for the goods or services we transfer to the customer.

Net Product Revenues

We sell our products principally to specialty distributors and specialty pharmacy providers, or collectively, our Customers. These Customers subsequently resell our products to health care providers and patients. In addition to distribution agreements with Customers, we enter into arrangements with health care providers and payors that provide for government-mandated and/or privately-negotiated rebates, chargebacks and discounts with respect to the purchase of our products. Revenues from product sales are recognized when the Customer obtains control of our product, which occurs at a point in time, typically upon delivery to the Customer.

Product Sales Discounts and Allowances

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established and which result from discounts, chargebacks, rebates, co-pay assistance, returns and other allowances that are offered within contracts between us and our Customers, health care providers, payors and other indirect customers relating to the sales of our products. These reserves are based on the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable (if the amount is payable to the Customer) or a current liability (if the amount is payable to a party other than a Customer). Where appropriate, these estimates take into consideration a range of possible outcomes that are probability-weighted for relevant factors such as our historical experience, current contractual and statutory requirements, specific known market events and trends, industry data and forecast customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the contract. The amount of variable consideration that is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we will adjust these estimates, which would affect net product revenues and earnings in the period such variances become known.

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

Discounts for Prompt Payment: Our Customers in the U.S. receive a discount of 2% for prompt payment. We expect our Customers will earn 100% of their prompt payment discounts and, therefore, we deduct the full amount of these discounts from total product sales when revenues are recognized.

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

Allowances for rebates also include the Medicare Part D Coverage Gap. In the U.S., the Medicare Part D prescription drug benefit mandates manufacturers to fund 50% of the Medicare Part D insurance coverage gap for prescription drugs sold to eligible patients. Our estimates for expected Medicare Part D coverage gap are based on customer and payer data received from specialty pharmacies and distributors and historical utilization rates. Funding of the coverage gap is invoiced and paid in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarters' shipments to patients, plus an accrual balance for known prior quarter's unpaid claims. If actual future funding varies from estimates, we may need to adjust our accruals, which would affect net product revenues in the period of adjustment.

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

Other Customer Credits: We pay fees to our Customers for account management, data management and other administrative services. To the extent the services received are distinct from the sale of products to the Customer, these payments are classified in Selling, general and administrative expenses in our Condensed Consolidated Statements of Operations.

Collaboration Revenues

We enter into collaboration arrangements, under which we license certain rights to our intellectual property to third parties. The terms of these arrangements typically include payment to us for one or more of the following: non-refundable, up-front license fees; development, regulatory and commercial milestone payments; payments for product supply; development cost reimbursements; profit sharing arrangements; and royalties on net sales of licensed products. Except for profit sharing arrangements, each of these payment types are within the scope of Topic 606. As part of the accounting for these arrangements, we must develop assumptions that require judgment to determine the standalone selling price for each performance obligation identified in the contract. These key assumptions may include forecast revenues, clinical development timelines and costs, reimbursement rates for personnel costs, discount rates and probabilities of technical and regulatory success.

Up-front License Fees: If the license to our intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, we recognize revenues from nonrefundable, up-front fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, we utilize judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-

front fees. We evaluate the measure of progress each reporting period and, if necessary, adjust the measure of performance and related revenue recognition.

Milestone Payments: At the inception of each arrangement that includes development milestone payments, we evaluate whether the milestones are considered probable of being reached and estimate the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within our or the licensee's control, such as regulatory approvals, are not considered probable of being earned until uncertainty associated with the approvals has been resolved. The transaction price is then allocated to each performance obligation, on a relative standalone selling price basis, for which we recognize revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, we re-evaluate the probability of earning such development milestones and any related constraint, and if necessary, adjust our estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect Collaboration revenues and earnings in the period of adjustment.

Product Supply Services: Arrangements that include a promise for future supply of drug product for either clinical development or commercial supply at the licensee's discretion are generally considered as options. We assess if these options provide a material right to the licensee and if so, they are accounted for as separate performance obligations.

Development Cost Reimbursements: Our Ipsen and Takeda arrangements include promises of future clinical development and drug safety services, as well as participation on certain joint committees. We have determined that these services collectively are distinct from the license provided to each partner and as such, these promises are accounted for as a separate performance obligation recorded over time. We record revenue for these services as the performance obligations are satisfied, which we estimate using internal development costs incurred and projections through the term of the arrangements.

Profit Sharing Arrangements: Under the terms of our collaboration agreement with Genentech for cobimetinib, we are entitled to a share of U.S. profits and losses received in connection with commercialization of cobimetinib. We are also entitled to low double-digit royalties on ex-U.S. net sales. We account for such arrangements in accordance with Accounting Standards Codification Topic 808, *Collaborative Arrangements* ("Topic 808"). We have determined that we are an agent under the agreement and therefore revenues are recorded net of costs incurred. We record U.S. profits and losses under the collaboration agreement in the period earned based on our estimate of those amounts. Historically, we have not recognized a profit for any annual period from the commercialization of cobimetinib in the U.S. Until we recognize or expect to recognize an annual profit under the agreement, losses are recognized as Selling, general and administrative expenses on the accompanying Condensed Consolidated Statements of Operations.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, the license is deemed to be the predominant item to which the royalties relate and we recognize revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)*, ("ASU 2016-02"). Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. ASU 2016-02 will require a right-of-use asset to be recognized on the balance sheet for both types of leases. ASU 2016-02 also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-02 must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We currently expect to early adopt this standard in the second quarter of 2018. Based on our initial evaluation of the impact of ASU 2016-02 on our build-to-suit lease of office and research facilities located in Alameda, California, we expect that the amount we have capitalized as Property and equipment related to the building shells, will be derecognized upon the adoption of ASU 2016-02. Upon adoption of ASU 2016-02 we will also be required to recognize a right-of-use asset and lease liability related to this lease. The adoption of ASU 2016-02 could also

change the nature of future expenses related to the build-to-suit lease, reducing future depreciation and interest expense, which would be offset by an increase in lease expense. We are continuing to assess the impact of ASU No. 2016-02 on our consolidated financial statements.

In January 2018, the FASB issued the exposure document Proposed Accounting Standards Update—Leases (Topic 842): Targeted Improvements. In issuing this exposure draft, the FASB proposes allowing another transition method for ASU 2016-02, which would allow the transition to the new lease standard by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This Proposed Accounting Standards Update, if issued as a final ASU by the FASB, could impact our method of adoption of ASU 2016-02.

NOTE 2. REVENUES

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

	Three Months Ended March 31,	
	2018	2017
Product revenues:		
Gross product revenues	\$ 159,436	\$ 77,959
Discounts and allowances	(25,164)	(9,082)
Net product revenues	134,272	68,877
Collaboration revenues:		
License revenues (1)	69,030	11,214
Research and development services revenues (2)	10,099	1,132
Product supply revenues, net	(1,055)	(336)
Total collaboration revenues	78,074	12,010
Total revenues	\$ 212,346	\$ 80,887

- (1) License revenues for the three months ended March 31, 2018 included revenues related to the portion of two milestones that were allocated to the transfer of intellectual property licenses and were fully recognized in the current period and royalty revenue from Ipsen and Genentech. License revenues for the three months ended March 31, 2017 included the recognition of deferred revenues from upfront payments and a non-substantive milestone that were being amortized over various periods, royalty revenues from Ipsen and Genentech and one milestone. Upon the adoption of Topic 606, the allocation of proceeds from our collaboration partners between licenses and research and development services as well as the timing of recognition has changed. Therefore, among other changes, as of January 1, 2018, the portion of proceeds allocated to intellectual property licenses for our Ipsen and Takeda collaboration agreements are recognized immediately and license revenues no longer includes revenues related to the amortization of deferred revenue.
- (2) Research and development services revenues for three months ended March 31, 2018 included the recognition of deferred revenue for the portion of the upfront payments and milestones that were allocated to the research and development services which are being amortized through early 2030, as well as development cost reimbursements earned on our collaboration agreements. As described above, we did not allocate any of our upfront payments or milestones to research and development services prior to the adoption of Topic 606 and therefore research and development services revenues for the three months ended March 31, 2017 included only development cost reimbursements earned on our collaboration agreements.

During the three months ended March 31, 2018, net product revenues and license revenues related to goods transferred at a point in time and research and development services revenues related to services performed over time. Product supply revenues, net, which include the royalty payable to GlaxoSmithKline (“GSK”) on net sales by Ipsen, were recorded in accordance with Topic 808 for all periods presented. Our remaining revenues were recorded in accordance with Topic 606 during 2018 and Topic 605 in prior periods.

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

	Three Months Ended March 31,	
	2018	2017
CABOMETYX	\$ 128,934	\$ 62,359
COMETRIQ	5,338	6,518
Net product revenues	\$ 134,272	\$ 68,877

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

	Three Months Ended March 31,			
	2018		2017	
	Dollars	Percent of total	Dollars	Percent of total
Ipsen	\$ 53,809	25%	\$ 4,530	6%
Caremark L.L.C.	\$ 26,388	12%	\$ 13,819	17%
Affiliates of McKesson Corporation	\$ 21,331	10%	\$ 11,278	14%
Diplomat Specialty Pharmacy	\$ 20,147	9%	\$ 19,850	25%
Accredo Health, Incorporated	\$ 18,286	9%	\$ 9,440	12%

Total revenues disaggregated by geographic region were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
U.S.	\$ 135,620	\$ 73,675
Europe	\$ 53,809	\$ 4,530
Rest of the world	\$ 22,917	\$ 2,682

Net product revenues are attributed to regions based on the ship-to location. Collaboration revenues are attributed to regions based on the location of our collaboration partners' headquarters.

Product Sales Discounts and Allowances

The activities and ending reserve balances for each significant category of discounts and allowances (which constitute variable consideration) were as follows (in thousands):

	Chargebacks and Discounts for Prompt Payment	Other Customer Credits/Fees and Co-pay Assistance	Rebates	Returns	Total
Balance at December 31, 2017	\$ 1,928	\$ 1,795	\$ 5,770	\$ —	\$ 9,493
Provision related to sales made in:					
Current period	14,475	4,197	6,625	—	25,297
Prior periods	(331)	—	199	—	(132)
Payments and customer credits issued	(13,556)	(3,294)	(3,303)	—	(20,153)
Balance at March 31, 2018	\$ 2,516	\$ 2,698	\$ 9,291	\$ —	\$ 14,505

Chargebacks and discounts for prompt payment are recorded as a reduction of trade receivables and the remaining reserve balances are classified as Other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

Contract Assets and Liabilities

We receive payments from our licensees based on billing schedules established in each contract. Amounts are recorded as accounts receivable when our right to consideration is unconditional. Upfront and milestone payments may require deferral of revenue recognition to a future period until we perform our obligations under these arrangements and are recorded as deferred revenue upon receipt or when due. We may also recognize revenue in advance of the contractual billing schedule and such amounts are recorded as unbilled collaboration revenue when recognized. Changes in our contract assets and liabilities under Topic 606 were as follows (in thousands):

	Contract Assets: Unbilled Collaboration Revenue		Contract Liabilities: Deferred Revenue	
	Current Portion	Long-term Portion	Current Portion	Long-term Portion
Balance at December 31, 2017	\$ —	\$ —	\$ 31,984	\$ 238,520
Adoption of Topic 606	9,588	12,247	(23,591)	(213,079)
Balance at January 1, 2018	9,588	12,247	8,393	25,441
Increases as a result of a change in transaction price and recognition of revenues as services are performed	46,006	1,166	—	—
Transfer to receivables from contract assets recognized at the beginning of the period	(9,159)	—	—	—
Increases as a result of the deferral of milestones earned in period, excluding amounts recognized as revenue	—	—	173	666
Revenue recognized that was included in the contract liability balance at the beginning of the period	—	—	(3,492)	—
Other adjustments (1)	(14,591)	(13,413)	(5,074)	(22,930)
Balance at March 31, 2018	\$ 31,844	\$ —	\$ —	\$ 3,177

(1) Includes reclassification of deferred revenue from long-term to current and adjustments made due to netting of contract assets and liabilities by collaboration agreement.

During the three months ended March 31, 2018, we recognized \$71.3 million in revenues under Topic 606 for performance obligations satisfied in previous periods. Such revenues primarily related to milestone and royalty payments allocated to our license performance obligations of our collaborations with Ipsen and Daiichi Sankyo Company, Limited (“Daiichi Sankyo”).

NOTE 3. COLLABORATION AGREEMENTS

From time to time, we enter into collaborative arrangements for the development, manufacture and/or commercialization of products and/or product candidates. These collaborations generally provide for non-refundable up-front license fees, development and commercial performance milestone payments, payments for product supply, development cost reimbursements, royalty payments and/or profit sharing. See “Note 2. Revenues” for information on collaboration revenues recognized during the three months ended March 31, 2018 and 2017.

Ipsen Collaboration

In February 2016, we entered into a collaboration and license agreement with Ipsen for the commercialization and further development of cabozantinib. Pursuant to the terms of the collaboration agreement, Ipsen received exclusive commercialization rights for current and potential future cabozantinib indications outside of the U.S., Canada and Japan. The collaboration agreement was subsequently amended in December 2016 to include commercialization rights in Canada. We have also agreed to collaborate with Ipsen on the development of cabozantinib for current and potential future indications. The parties’ efforts are governed through a joint steering committee and appropriate subcommittees established to guide and oversee the collaboration’s operation and strategic direction; provided, however, that we retain final decision-making authority with respect to cabozantinib’s ongoing development.

In consideration for the exclusive license and other rights contained in the collaboration agreement, including commercialization rights in Canada, Ipsen paid us aggregate upfront payments of \$210.0 million. As of December 31, 2017 we had earned various milestones totaling \$125.0 million. During the three months ended March 31, 2018 we earned an additional \$10.0 million milestone upon Ipsen's filing with the EMA for cabozantinib as a treatment for patients with previously treated advanced HCC.

We are also eligible to receive future development and regulatory milestone payments, totaling up to an additional \$199.0 million, including a \$40.0 million milestone upon the EMA's approval of cabozantinib as a treatment for patients with previously treated advanced HCC, a \$50.0 million milestone upon the EMA's approval of cabozantinib as a first-line treatment of advanced RCC and additional milestone payments for other future indications and/or jurisdictions. The collaboration agreement also provides that we will be eligible to receive contingent payments of up to \$545.5 million associated with the achievement of specified levels of Ipsen sales to end users. We will also receive royalties on net sales of cabozantinib by Ipsen outside of the U.S. and Japan. Excluding Ipsen sales in Canada, we received a 2% royalty on the initial \$50.0 million of net sales, which was achieved in the fourth quarter of 2017, and are entitled to receive a 12% royalty on the next \$100.0 million of net sales, and following this initial \$150.0 million of net sales, we are then entitled to receive a tiered royalty of 22% to 26% on annual net sales. These tiers will reset each calendar year. In Canada, we are entitled to receive a tiered royalty of 22% on the first Can\$30.0 million of annual net sales and a tiered royalty thereafter, up to 26% on annual net sales; these tiers will also reset each calendar year.

We are primarily responsible for funding cabozantinib-related development costs for those trials in existence at the time we entered into the collaboration agreement with Ipsen; global development costs for additional trials are shared between the parties, with Ipsen reimbursing us for 35% of such costs, provided Ipsen chooses to opt into such trials. In accordance with the collaboration agreement, Ipsen has opted into and is co-funding: CheckMate 9ER, the phase 3 pivotal trial evaluating the combination of cabozantinib with nivolumab versus sunitinib in patients with previously untreated, advanced or metastatic RCC being conducted in collaboration with Bristol-Myers Squibb Company ("BMS"); CheckMate 040, the phase 1/2 study evaluating the combination of cabozantinib with nivolumab in patients with both previously treated and previously untreated advanced HCC being conducted in collaboration with BMS (though Ipsen will not be co-funding the triplet arm of the study evaluating cabozantinib with nivolumab and ipilimumab); and the phase 1b trial evaluating cabozantinib in combination with atezolizumab in locally advanced or metastatic solid tumors being conducted in collaboration with the Roche Group.

We remain responsible for the manufacture and supply of cabozantinib for all development and commercialization activities under the collaboration agreement. In connection with the collaboration agreement, we entered into a supply agreement with Ipsen to supply finished, labeled drug product to Ipsen for distribution in the territories outside of the U.S. and Japan for the term of the collaboration agreement. The product will be supplied at our cost, as defined in the agreement, which excludes the 3% royalty we are required to pay GSK on Ipsen's net sales of any product incorporating cabozantinib.

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

We identified the following performance obligations under the collaboration agreement with Ipsen: (1) an exclusive license for the commercialization and further development of cabozantinib, as described above; and (2) research and

development services which includes certain committed studies for the development of cabozantinib, pharmacovigilance services and participation on the joint steering and development committees (as defined in the collaboration agreement).

We evaluated the collaboration agreement with Ipsen under Topic 606 as of January 1, 2018. Based on the evaluation as of that date, the up-front, nonrefundable fees, the milestones earned and royalties earned as of December 31, 2017, the \$10.0 million milestone we expected to earn in the first quarter of 2018 upon Ipsen's filing with the EMA for cabozantinib as a treatment for patients with previously treated advanced HCC, and the estimated reimbursements for our research and development services performance obligation constituted the amount of the consideration to be included in the transaction price. The transaction price was allocated to the performance obligations identified based on our best estimate of the relative standalone selling price. Other than the \$10.0 million HCC filing milestone discussed above, variable consideration related to regulatory and development milestones not previously recognized was constrained due to the fact that it was not probable that a significant reversal of cumulative revenue would not occur, given the inherent uncertainty of success with these milestones. Any variable consideration related to sales based milestones, including royalties, will be recognized when the related sales occur as these amounts have been determined to relate predominantly to the license transferred to Ipsen and therefore is recognized at the later of when the performance obligation is satisfied or the related sales occur. We will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

Revenues for our research and development services performance obligation are being recognized using the inputs method based on our internal development projected cost estimates through early 2030, which is the current estimated patent expiration of cabozantinib in the European Union. Revenues related to our license performance obligation are recorded immediately as our license represents functional intellectual property that was transferred at a point in time, upon execution of the collaboration agreement. As of March 31, 2018, \$54.0 million of the transaction price allocated to our research and development services performance obligation had not been satisfied.

As of March 31, 2018, we determined that we expect to earn a \$50.0 million milestone in the second quarter of 2018 for the approval of cabozantinib for the first-line treatment of advanced RCC by the European Commission ("EC"). The determination was made following the Committee for Medicinal Products for Human Use's ("CHMP") positive opinion of cabozantinib for the first-line treatment of advanced RCC. The positive CHMP opinion is being reviewed by the EC as part of their approval process. Our determination that we expect to earn that \$50.0 million milestone resulted in a change in the overall transaction price of the collaboration agreement, as it was probable that a significant reversal of cumulative revenue would not occur, triggering recognition of \$45.8 million in additional collaboration revenues during the three months ended March 31, 2018 which was recorded as Unbilled collaboration revenue as of March 31, 2018. The remaining portion of the milestone will be recorded as we continue to satisfy our research and development services performance obligation and once we have an unconditional right to payment, upon approval of cabozantinib for the first-line treatment of advanced RCC by the EC.

As of March 31, 2018, the net contract asset for the collaboration agreement with Ipsen was \$31.8 million, which was included in current Unbilled collaboration revenue on the accompanying Condensed Consolidated Balance Sheets.

Collaboration revenues under the collaboration agreement with Ipsen were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Ipsen collaboration revenues	\$ 53,809	\$ 4,530

Takeda Collaboration

In January 2017, we entered into a collaboration and license agreement with Takeda for the commercialization and further clinical development of cabozantinib in Japan. Pursuant to the terms of the collaboration agreement, Takeda has exclusive commercialization rights for current and potential future cabozantinib indications in Japan. The parties have also agreed to collaborate on the future clinical development of cabozantinib in Japan. The operation and strategic direction of the parties' collaboration is governed through a joint executive committee and appropriate subcommittees.

In consideration for the exclusive license and other rights contained in the collaboration agreement, we received a \$50.0 million upfront nonrefundable payment from Takeda.

We are eligible to receive development, regulatory and first-sale milestone payments of up to \$95.0 million related to second-line RCC, first-line RCC and second-line HCC, as well as additional development, regulatory and first-sale

milestones payments for potential future indications. The collaboration agreement also provides that we are eligible to receive pre-specified payments of up to \$83.0 million associated with potential sales milestones. We consider the contingent payments due to us upon the achievement of specified sales volumes to be similar to royalty payments. We will also receive royalties on net sales of cabozantinib in Japan. We are entitled to receive a tiered royalty of 15% to 24% on the initial \$300.0 million of net sales, and after the initial \$300.0 million of net sales, we are then entitled to receive a tiered royalty of 20% to 30% on annual net sales. These tiers will reset each calendar year.

Takeda is responsible for 20% of the costs associated with the global cabozantinib development plan's current and future trials, provided Takeda opts into such trials, and 100% of costs associated with the cabozantinib development activities that are exclusively for the benefit of Japan. In accordance with the collaboration agreement, Takeda has opted into and is co-funding CheckMate 9ER, the phase 3 pivotal trial evaluating the combination of cabozantinib with nivolumab versus sunitinib in patients with previously untreated, advanced or metastatic RCC being conducted in collaboration with BMS.

Pursuant to the terms of the collaboration agreement, we are responsible for the manufacture and supply of cabozantinib for all development and commercialization activities under the collaboration, and consequently, we entered into a clinical supply agreement covering the manufacture and supply of cabozantinib to Takeda, as well as a quality agreement setting forth, in detail, the quality assurance arrangements and procedures for our manufacture of cabozantinib. We will record reimbursements for development costs as revenue as the development services represent a part of our ongoing major or central operations.

Unless earlier terminated, the collaboration agreement has a term that continues, on a product-by-product basis, until the earlier of (i) two years after first generic entry with respect to such product in Japan or (ii) the later of (A) the expiration of patent claims related to cabozantinib and (B) the expiration of regulatory exclusivity covering cabozantinib in Japan. The collaboration agreement may be terminated for cause by either party based on uncured material breach by the other party, bankruptcy of the other party or for safety reasons. For clarity, Takeda's failure to achieve specified levels of commercial performance, based upon sales volume and/or promotional effort, during the first six years of the collaboration shall constitute a material breach of the collaboration agreement. We may terminate the agreement if Takeda challenges or opposes any patent covered by the collaboration agreement. At any time prior to August 1, 2023, the parties may mutually agree to terminate the collaboration agreement if Japan's Pharmaceuticals and Medical Devices Agency is unlikely to grant any approval of the marketing authorization application in any cancer indication in Japan. After the commercial launch of cabozantinib in Japan, Takeda may terminate the collaboration agreement upon twelve months' prior written notice following the third anniversary of the first commercial sale of cabozantinib in Japan. Upon termination by either party, all licenses granted by us to Takeda will automatically terminate, and the licenses granted by Takeda to us shall survive such termination and shall automatically become worldwide.

We identified the following performance obligations under the collaboration agreement with Takeda: (1) an exclusive license for the commercialization and further development of cabozantinib, as described above; and (2) research and development services which includes certain committed studies for the development of cabozantinib, pharmacovigilance services and participation on the joint executive and development committees (as defined in the collaboration agreement).

We evaluated the collaboration agreement with Takeda under Topic 606 as of January 1, 2018. Based on the evaluation as of that date, the up-front, nonrefundable fees and the estimated reimbursements for our research and development services performance obligation constituted the amount of the consideration to be included in the transaction price. The transaction price was allocated to the performance obligations identified based on our best estimate of the relative standalone selling price. Variable consideration related to regulatory and development milestones not previously recognized was constrained due to the fact that it was not probable that a significant reversal of cumulative revenue would not occur, given the inherent uncertainty of success with these milestones. Any variable consideration related to sales based milestones, including royalties, will be recognized when the related sales occur as these amounts have been determined to relate predominantly to the license transferred to Takeda and therefore is recognized at the later of when the performance obligation is satisfied or the related sales occur. We will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

Revenues for our research and development services performance obligation are being recognized using the inputs method based on our internal development projected cost estimates through early 2030, which is the current estimated patent expiration of cabozantinib in Japan. Revenues related to our license performance obligation are recorded immediately as our license represents functional intellectual property that was transferred at a point in time, upon

execution of the collaboration agreement. As of March 31, 2018, \$28.7 million of the transaction price allocated to our research and development services performance obligation had not been satisfied.

As of March 31, 2018, the net contract liability for the collaboration agreement with Takeda was \$3.2 million, which was included in Long-term deferred revenue on the accompanying Condensed Consolidated Balance Sheets.

Collaboration revenues under the collaboration agreement with Takeda were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Takeda collaboration revenues	\$ 2,917	\$ 2,682

Genentech Collaboration

Royalty revenues on ex-U.S. sales and our share of the profits and losses recognized in connection with COTELLIC's commercialization in the U.S. were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Royalty revenues on ex-U.S. sales	\$ 1,349	\$ 2,298
Profits and losses on U.S. commercialization	\$ 1,373	\$ (626)

The royalty revenues on ex-U.S. sales were included in Collaboration revenues. Royalty revenues from the collaboration agreement with Genentech are based on amounts reported to us by our collaboration partner and are recorded when such information becomes available to us; beginning in the first quarter of 2017 such information became available in the current quarter and for 2016 such information was not available until the following quarter, meaning that through December 31, 2016 we recorded royalty revenues on a one quarter lag. As a result of this change, royalty revenues for the three months ended March 31, 2017 included \$1.1 million in royalty revenues for sales in the fourth quarter of 2016 and \$1.2 million in royalty revenues for sales in the first quarter of 2017.

Profits and losses on the U.S. commercialization of COTELLIC were included in Selling, general and administrative expenses in our Condensed Consolidated Statements of Operations; we are including the profit for the three months ended March 31, 2018 in Selling, general and administrative expenses as we are expecting an overall loss for the year ended December 31, 2018.

GlaxoSmithKline Collaboration

Royalties accruing to GSK in connection with the sales of COMETRIQ and CABOMETYX are included in Cost of goods sold for net sales by us and as a reduction of Collaboration revenues for net sales by Ipsen on the accompanying Condensed Consolidated Statements of Operations. Such royalties were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Royalties accruing to GSK	\$ 5,125	\$ 2,737

StemSynergy Collaboration

In January 2018, we entered into an exclusive collaboration and license agreement with StemSynergy Therapeutics, Inc. ("StemSynergy") for the discovery and development of novel oncology compounds targeting Casein Kinase 1 alpha ("CK1 α ") a component of the Wnt signaling pathway implicated in key oncogenic processes. Under the terms of the agreement, we will partner with StemSynergy to conduct preclinical and clinical studies with compounds targeting CK1 α . We paid StemSynergy an upfront payment of \$3.0 million for initial research and development funding and StemSynergy is eligible to receive up to an additional \$3.5 million of such funding. The \$3.0 million payment we made during the three months ended March 31, 2018 is included in Research and development expenses in our Condensed Consolidated Statements of Operations. StemSynergy will also be eligible for up to \$56.5 million in milestones for the first product to emerge from the collaboration, including preclinical and clinical development and regulatory milestone payments, commercial milestones, as well as single-digit royalties on worldwide sales. We will be solely responsible for the commercialization of products that arise from the collaboration.

Other Collaborations

For a description of our other existing collaboration agreements, see “Note 2. Collaboration Agreements” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 26, 2018.

We have determined that each of our other existing collaboration agreements have one performance obligation, the delivery of an intellectual property license to each collaboration partner, which was satisfied for all such agreements prior to the adoption of Topic 606. As a result, any consideration earned and received from these collaborations will be recognized immediately as the licenses we provided represent functional intellectual property that was transferred at a point in time prior to the adoption of Topic 606, when the agreements were executed. Potential variable consideration for these collaborations related to regulatory and development milestones was constrained due to the fact that it was not probable that a significant reversal of cumulative revenue would not occur, given the inherent uncertainty of success with these milestones. Any variable consideration related to sales based milestones, including royalties, will be recognized when the related sales occur as these amounts have been determined to relate predominantly to the licenses transferred and therefore are recognized at the later of when the performance obligation is satisfied or the related sales occur.

In February 2018 we earned a \$20.0 million milestone, which is included in Collaboration revenues during the three months ended March 31, 2018, upon Daiichi Sankyo’s submission of a regulatory application to the Japanese Pharmaceutical and Medical Devices Agency for esaxerenone as a treatment for patients with essential hypertension.

NOTE 4. CASH AND INVESTMENTS

Cash, Cash Equivalents and Restricted Cash

A reconciliation of Cash, cash equivalents, and restricted cash reported within the Condensed Consolidated Balance Sheets to the amount reported within the Condensed Consolidated Statements of Cash Flows was as follows (in thousands):

	March 31, 2018	December 31, 2017	March 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 232,331	\$ 183,164	\$ 183,179	\$ 151,686
Restricted cash included in short-term restricted cash and investments	504	504	—	—
Restricted cash included in long-term restricted cash and investments	1,500	4,646	4,150	4,150
Cash, cash equivalents, and restricted cash as reported within the Condensed Consolidated Statements of Cash Flows	<u>\$ 234,335</u>	<u>\$ 188,314</u>	<u>\$ 187,329</u>	<u>\$ 155,836</u>

Restricted cash includes certificates of deposit used to collateralize letters of credit and, in prior periods, a purchasing card program. See “Note 11. Commitments” for a description of the collateral requirements for our letters of credit and the purchasing card program.

Investments Available-for-sale

Investments by security type were as follows; the amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 55,241	\$ —	\$ —	\$ 55,241
Commercial paper	237,067	—	—	237,067
Corporate bonds	191,361	13	(843)	190,531
U.S. Treasury and government sponsored enterprises	21,490	—	(57)	21,433
Total	<u>\$ 505,159</u>	<u>\$ 13</u>	<u>\$ (900)</u>	<u>\$ 504,272</u>

December 31, 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 45,478	\$ —	\$ —	\$ 45,478
Commercial paper	199,647	—	—	199,647
Corporate bonds	179,336	18	(332)	179,022
U.S. Treasury and government sponsored enterprises	16,295	—	(32)	16,263
Total	\$ 440,756	\$ 18	\$ (364)	\$ 440,410

Gains and losses on the sales of investments available-for-sale were nominal during both the three months ended March 31, 2018 and 2017.

The fair value of and gross unrealized losses on investments available-for-sale in an unrealized loss position were as follows (in thousands):

March 31, 2018

	In an Unrealized Loss Position Less than 12 Months		In an Unrealized Loss Position 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds	\$ 167,459	\$ (822)	\$ 9,077	\$ (21)	\$ 176,536	\$ (843)
U.S. Treasury and government sponsored enterprises	17,000	(52)	2,655	(5)	19,655	(57)
Total	\$ 184,459	\$ (874)	\$ 11,732	\$ (26)	\$ 196,191	\$ (900)

December 31, 2017

	In an Unrealized Loss Position Less than 12 Months		In an Unrealized Loss Position 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds	\$ 140,746	\$ (296)	\$ 20,047	\$ (36)	\$ 160,793	\$ (332)
U.S. Treasury and government sponsored enterprises	13,611	(23)	2,651	(9)	16,262	(32)
Total	\$ 154,357	\$ (319)	\$ 22,698	\$ (45)	\$ 177,055	\$ (364)

There were 150 and 134 investments in an unrealized loss position as of March 31, 2018 and December 31, 2017, respectively. During the three months ended March 31, 2018 and 2017 we did not record any other-than-temporary impairment charges on our available-for-sale securities. Based upon our quarterly impairment review, we determined that the unrealized losses were not attributed to credit risk, but were primarily associated with changes in interest rates. Based on the scheduled maturities of our investments and our determination that it was more likely than not that we will hold these investments for a period of time sufficient for a recovery of our cost basis, we concluded that the unrealized losses in our investment securities were not other-than-temporary.

The fair value of cash equivalents and investments by contractual maturity were as follows (in thousands):

	December 31,	
	2018	2017
Maturing in one year or less	\$ 410,062	\$ 377,155
Maturing after one year through five years	94,210	63,255
Total	\$ 504,272	\$ 440,410

NOTE 5. INVENTORY

Inventory consisted of the following (in thousands):

	March 31, 2018	December 31, 2017
Raw materials	\$ 1,937	\$ 498
Work in process	3,726	3,997
Finished goods	2,977	2,854
Total	<u>\$ 8,640</u>	<u>\$ 7,349</u>
<i>Balance Sheet classification:</i>		
Inventory	\$ 7,563	\$ 6,657
Other long-term assets	1,077	692
Total	<u>\$ 8,640</u>	<u>\$ 7,349</u>

A portion of the manufacturing costs for inventory was incurred prior to regulatory approval of CABOMETYX and COMETRIQ and therefore was expensed as research and development costs when those costs were incurred, rather than capitalized as inventory. As of both March 31, 2018 and December 31, 2017 our inventory includes \$0.4 million of materials that were previously expensed.

Write-downs related to excess and expiring inventory are charged to either Cost of goods sold or the cost of supplied product included in Collaboration revenues. Such write-downs were \$0.5 million for the three months ended March 31, 2017. There were no such write-downs for the three months ended March 31, 2018.

Inventory expected to be used or sold in periods more than 12 months from the date presented is classified as Other long-term assets on the accompanying Condensed Consolidated Balance Sheets. As of both March 31, 2018 and December 31, 2017, the non-current portion of inventory consisted of finished goods.

NOTE 6. PROPERTY AND EQUIPMENT

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

	March 31, 2018	December 31, 2017
Computer equipment and software	\$ 14,772	\$ 14,146
Laboratory equipment	5,959	5,959
Leasehold improvements	4,715	4,715
Furniture and fixtures	1,609	1,609
Construction in progress	41,528	22,114
	68,583	48,543
Less: accumulated depreciation and amortization	(23,171)	(22,800)
Property and equipment, net	<u>\$ 45,412</u>	<u>\$ 25,743</u>

Depreciation expense was \$0.4 million and \$0.3 million for the three months ended March 31, 2018 and 2017, respectively.

Build-to-Suit Lease

On May 2, 2017, we entered into a Lease Agreement (the "Lease") with Ascentris 105, LLC ("Ascentris"), to lease 110,783 square feet of space in office and research facilities located at 1851, 1801, and 1751 Harbor Bay Parkway, Alameda, California (the "Premises"). On October 16, 2017, we executed an amendment to the Lease for 19,778 square feet of additional space located at the Premises with terms consistent with the original Lease. For a description of the Lease, see "Note 12. Commitments" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 26, 2018.

In connection with the Lease, we received a tenant improvement allowance of \$7.7 million from Ascentris, for the costs associated with the design, development and construction of tenant improvements for the Premises. We are obligated to fund all costs incurred in excess of the tenant improvement allowance and to certain indemnification obligations related to the construction activities. We evaluated our involvement during the construction period and determined the scope of the tenant improvements on portions of the Premises, including the building shells, did not qualify as “normal tenant improvements” under Accounting Standards Codification Topic 840, *Leases*. Accordingly, for accounting purposes, we are deemed to be the owner of such portions of the Premises during the construction period. As such, we will capitalize the construction costs as a build-to-suit property within Property and equipment, net, including the estimated fair value of the building shells that we are deemed to own at the lease inception date, as determined using a third-party appraisal. The capitalized construction costs also include the estimated tenant improvements incurred by Ascentris. Accordingly, we capitalized \$14.5 million of costs related to the Lease in construction in progress as of May 2, 2017, with a corresponding build-to-suit lease obligation in Other long-term liabilities. As of March 31, 2018, we have capitalized an additional \$26.8 million of construction in progress for tenant improvements related to the Premises. As of March 31, 2018 and December 31, 2017, we had also prepaid an additional \$0.6 million and \$11.1 million, respectively, for future constructions costs which is included in Other long-term assets on the accompanying Condensed Consolidated Balance Sheets.

NOTE 7. STOCK-BASED COMPENSATION

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

	Three Months Ended March 31,	
	2018	2017
Research and development	\$ 3,033	\$ 1,478
Selling, general and administrative	6,272	3,235
Total stock-based compensation	\$ 9,305	\$ 4,713

We have several equity incentive plans under which we have granted stock options and restricted stock units (“RSUs”) to employees, directors and consultants. At March 31, 2018, 19,972,317 shares were available for grant under our equity incentive plans.

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

	Three Months Ended March 31,	
	2018	2017
Stock options	\$ 11.52	\$ 9.92
ESPP	\$ 7.39	\$ 3.71

The grant-date fair value of employee stock option grants and ESPP purchases was estimated using the following assumptions:

	Three Months Ended March 31,	
	2018	2017
Stock options:		
Risk-free interest rate	2.40%	1.62%
Dividend yield	—%	—%
Volatility	54%	64%
Expected life	4.0 years	4.0 years
ESPP:		
Risk-free interest rate	1.53%	0.62%
Dividend yield	—%	—%
Volatility	53%	68%
Expected life	6 months	6 months

We considered our implied volatility and our historical volatility in developing our estimates of expected volatility. The assumptions for the expected life of stock options were based on historical exercise patterns and post-vesting termination behavior.

The fair value of RSUs was based on the closing price of the underlying common stock on the date of grant.

Stock option activity for the three months ended March 31, 2018 was as follows (dollars in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2017	22,208,446	\$ 6.83		
Granted	293,580	\$ 25.72		
Exercised	(288,196)	\$ 6.69		
Forfeited	(18,484)	\$ 12.04		
Options outstanding at March 31, 2018	22,195,346	\$ 7.08	3.86 years	\$ 339,631
Exercisable at March 31, 2018	16,497,014	\$ 4.66	3.30 years	\$ 288,535

As of March 31, 2018, \$38.8 million of unrecognized compensation expense related to unvested stock options will be recognized over a weighted-average period of 2.47 years.

RSU activity for the three months ended March 31, 2018 was as follows (dollars in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
RSUs outstanding at December 31, 2017	3,762,990	\$ 17.76		
Awarded	146,790	\$ 25.72		
Vested and released	(197,884)	\$ 6.30		
Forfeited	(24,494)	\$ 17.89		
RSUs outstanding at March 31, 2018	3,687,402	\$ 18.69	1.83 years	\$ 81,676

As of March 31, 2018, \$60.0 million of unrecognized compensation expense related to unvested RSUs will be recognized over a weighted-average period of 3.05 years.

NOTE 8. INCOME TAXES

Provision for income taxes was as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Provision for income taxes	\$ 2,514	\$ 134

Provision for income taxes for the three months ended March 31, 2018 and 2017 primarily relates to state taxes for which we do not have net operating loss carry-forwards due to a limited operating history. Our historical losses are sufficient to fully offset our federal taxable income.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. The Tax Cuts and Jobs Act contained significant changes to corporate taxation, included among other items, a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%. Further guidance may be forthcoming from the FASB and the SEC, as well as regulations, interpretations and rulings from federal and state tax agencies, which could result in additional impacts. The Provision for income taxes for the three months ended March 31, 2018 did not reflect any adjustment to the impact of the Tax Cuts and Jobs Act enactment that we recorded during the year ended December 31, 2017.

NOTE 9. NET INCOME PER SHARE

The computation of basic and diluted net income per share was as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2018	2017
Numerator:		
Net income	\$ 115,857	\$ 16,700
Net income allocated to participating securities	—	(57)
Net income allocable to common stock for basic net income per share	115,857	16,643
Adjustment to net income allocated to participating securities	—	3
Net income allocable to common stock for diluted net income per share	\$ 115,857	\$ 16,646
Denominator:		
Weighted-average shares of common stock outstanding used in computing basic net income per share	296,421	290,870
Dilutive securities:		
Outstanding stock options, unvested RSUs and ESPP contributions	17,270	18,665
Weighted-average shares of common stock outstanding and dilutive securities used in computing diluted net income per share	313,691	309,535
Net income per share, basic	\$ 0.39	\$ 0.06
Net income per share, diluted	\$ 0.37	\$ 0.05

The two-year warrants to purchase an aggregate of 1,000,000 shares of our common stock issued in January 2014 (“2014 Warrants”) were participating securities. The warrant holders did not have a contractual obligation to share in our losses. The 2014 Warrants were fully exercised in September 2017. For a description of the 2014 Warrants, see “Note 7. Common Stock and Warrants” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 26, 2018.

Potentially dilutive shares of common stock not included in the computation of diluted net income per share because to do so would be anti-dilutive were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Outstanding stock options, unvested RSUs and ESPP contributions	1,907	1,396
Secured Convertible Notes due 2018 (“Deerfield Notes”)	—	33,890
Total potentially dilutive shares	1,907	35,286

The Deerfield Notes were repaid in June 2017.

NOTE 10. FAIR VALUE MEASUREMENTS

The classification of our financial assets within the fair value hierarchy that were measured and recorded at fair value on a recurring basis was as follows; the amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	March 31, 2018		
	Level 1	Level 2	Total
Money market funds	\$ 55,241	\$ —	\$ 55,241
Commercial paper	—	237,067	237,067
Corporate bonds	—	190,531	190,531
U.S. Treasury and government sponsored enterprises	—	21,433	21,433
Total financial assets	\$ 55,241	\$ 449,031	\$ 504,272

	December 31, 2017		
	Level 1	Level 2	Total
Money market funds	\$ 45,478	\$ —	\$ 45,478
Commercial paper	—	199,647	199,647
Corporate bonds	—	179,022	179,022
U.S. Treasury and government sponsored enterprises	—	16,263	16,263
Total financial assets	\$ 45,478	\$ 394,932	\$ 440,410

We did not have any financial liabilities measured and recorded at fair value on a recurring basis as of those dates. We did not have any financial assets or liabilities classified as Level 3 in the fair value hierarchy as of March 31, 2018 or December 31, 2017 and there were no transfers of financial assets or liabilities classified as Level 3 during the three months ended March 31, 2018 or 2017.

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

Our remaining financial assets and liabilities include Cash, Trade and other receivables, Unbilled collaboration revenue, Accounts payable, Accrued compensation and benefits, Accrued clinical trial liabilities, Accrued collaboration liabilities, Rebates and fees due to customers, and other current and long-term liabilities. Those financial assets and liabilities are carried at cost which approximates their fair values.

NOTE 11. COMMITMENTS

Letters of Credit

We obtained a standby letter of credit related to our South San Francisco lease with a credit limit of \$0.5 million at both March 31, 2018 and December 31, 2017. We obtained standby letters of credit related to workers compensation insurance policies with a combined credit limit of \$0.5 million at March 31, 2018 and \$0.6 million at December 31, 2017. We obtained two standby letters of credit related to the Lease with Ascentris for a combined credit limit of \$1.0 million at both March 31, 2018 and December 31, 2017. All of the letters of credit were fully collateralized by certificates of deposit. As of March 31, 2018, none of our letters of credit have been drawn upon.

As part of a purchasing card program, we were required to provide collateral in the form of certificates of deposit. The collateral requirement at December 31, 2017 was \$3.0 million. During the three months ended March 31, 2018 we were notified that we had been released from this collateral requirement.

As of both March 31, 2018 and December 31, 2017, the certificate of deposit used to collateralize the standby letter of credit related to our South San Francisco lease was included in short-term restricted cash and investments and the certificates of deposit used to collateralize all other letters of credit and the purchase card program were included in long-term restricted cash and investments.

NOTE 12. SUBSEQUENT EVENT

On May 2, 2018, we entered into a license and collaboration agreement with Invenra, Inc. ("Invenra"), a privately-held company. Under the terms of the collaboration agreement, the parties will collaborate to discover and develop multispecific antibodies through the use of Invenra's B-Body™ technology platform. Invenra will be responsible for antibody lead discovery and generation. We will lead Investigational New Drug enabling studies, manufacturing, clinical development in single-agent and combination therapy regimens, as well as future regulatory and commercialization activities. Also under the collaboration agreement, we will receive an exclusive, worldwide license to one preclinical asset (the "lead preclinical asset"), and pursue up to six additional discovery projects directed to three total discovery programs.

In consideration for the exclusive worldwide license and other rights contained in the collaboration agreement, we will pay Invenra an upfront payment of \$2.0 million. Invenra is eligible to receive payments of up to \$131.5 million based on the achievement of specific development and regulatory milestones for a product containing the lead preclinical asset in the first indication. Upon successful commercialization of a product, Invenra is eligible to receive global milestone payments up to \$325.0 million if certain sales thresholds are achieved as well as single digit tiered royalties on net sales of the approved product. We also have the right to initiate six additional discovery projects for development subject to an upfront payment of \$2.0 million for each project as well as additional global milestone payments and royalties for any products that arise from these discovery efforts.

Unless earlier terminated, the collaboration agreement has a term that continues, on a product-by-product and country-by-country basis, until the later of (i) ten years after the first commercial sale of such product in such country or (ii) expiration of patent claims covering the product in such country. We may terminate the collaboration agreement in its entirety or on a project-by-project basis at any time prior to commercialization, for any or no reason, upon thirty days' written notice to Invenra. The collaboration agreement also may be terminated by either party for a material breach by the other, subject to notice and cure provisions.

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

The following discussion and analysis contains forward-looking statements. These statements are based on Exelixis, Inc.'s ("Exelixis," "we," "our" or "us") current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as "expect," "potential," "will," "goal," "would," "intend," "continues," "objective," "anticipate," "initiate," "believe," "could," "plan," "trend," or the negative of such terms or other similar expressions identify forward-looking statements. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in Part II, Item 1A of this Form 10-Q, as well as those discussed elsewhere in this report.

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the financial statements and accompanying notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission, or SEC, on February 26, 2018. Operating results are not necessarily indicative of results that may occur in future periods. We undertake no obligation to update any forward-looking statement to reflect events after the date of this report.

Overview

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

CABOMETYX was approved by the U.S. Food & Drug Administration, or FDA, for previously treated patients with advanced RCC in April 2016, and then on December 19, 2017, approximately two months ahead of the assigned Prescription Drug User Fee Act action date, the FDA expanded CABOMETYX's approval in this indication to include previously untreated patients with advanced RCC. We continue to be highly focused on optimizing the execution of this commercial launch in the U.S. through our commercial and medical affairs organizations and established distribution network.

To develop and commercialize CABOMETYX and COMETRIQ outside the U.S., we have entered into license agreements with Ipsen Pharma SAS, or Ipsen, and Takeda Pharmaceutical Company Ltd., or Takeda. Ipsen has been granted rights to cabozantinib outside of the U.S. and Japan, and Takeda has been granted rights to cabozantinib in Japan. Ipsen and Takeda also contribute financially and operationally to the further global development and commercialization of cabozantinib in other potential indications, and we are working closely with them on these activities.

Beyond our currently approved indications for advanced RCC and for MTC, we are pursuing other indications that have the potential to expand the number of cancer patients who could benefit from cabozantinib. Furthest advanced is our evaluation of CABOMETYX as a treatment for patients with previously treated advanced hepatocellular carcinoma, or HCC. On March 15, 2018, we submitted a supplemental New Drug Application, or sNDA, for cabozantinib in this indication to the FDA. The data in support of this filing are derived from CELESTIAL, our company-sponsored, global phase 3 trial comparing cabozantinib to placebo in patients with advanced HCC who had previously progressed on or were intolerant to sorafenib and up to one additional therapy. On October 16, 2017, we announced that at the time of the second planned interim analysis, the study's independent data monitoring committee had recommended that CELESTIAL be stopped because it had met its primary endpoint, with cabozantinib providing a statistically significant and clinically meaningful improvement in overall survival compared to placebo. Safety data from the study were consistent with the established profile of cabozantinib. We believe that the available clinical data demonstrate that cabozantinib has the potential to be broadly active in cancer indications beyond those for which it is already approved. Accordingly, we are currently evaluating cabozantinib, both as a single agent and in combination with immune checkpoint inhibitors or other compounds, in a broad development program comprising over 70 ongoing or planned clinical trials across multiple indications. We, along with our clinical and commercial collaboration partners, sponsor some of the trials, and independent clinicians conduct the remaining trials through our Cooperative Research and Development Agreement, or CRADA, with the National Cancer Institute's Cancer Therapy Evaluation Program, or NCI-CTEP, or our investigator sponsored trial, or IST, program.

We are particularly interested in examining cabozantinib's potential in combination with immune checkpoint inhibitors to determine if such combinations further improve outcomes for patients. Building on preclinical and clinical observations that cabozantinib may promote a more immune-permissive tumor environment potentially resulting in the cooperative activity of cabozantinib in combination with these products, we are evaluating cabozantinib in combination with a variety of immune checkpoint inhibitors in multiple clinical trials. The most advanced of these combination studies includes a phase 3 pivotal trial evaluating cabozantinib in combination with nivolumab in previously untreated, advanced or metastatic RCC and a phase 1/2 trial evaluating cabozantinib in combination with nivolumab and in combination with both nivolumab and ipilimumab in patients with both previously treated and previously untreated advanced HCC. Both trials are in collaboration with Bristol-Myers Squibb Company, or BMS. As a further part of our clinical collaboration with BMS, we also plan to evaluate cabozantinib and nivolumab with or without ipilimumab in various other tumor types, including in bladder cancer. Diversifying our exploration of immunotherapy combinations, we have also initiated a phase 1b dose escalation study evaluating the safety and tolerability of cabozantinib in combination with The Roche Group's, or Roche's, atezolizumab in patients with locally advanced or metastatic solid tumors. Following the completion of the dose escalation portion of the study in the first quarter of 2018, the study began to enroll patients into tumor expansion cohorts including different therapeutic settings of RCC, urothelial cancer, or UC, non-small cell lung cancer, or NSCLC, and castration-resistant prostate cancer, or CRPC.

Genentech also continues to make significant progress with respect to the phase 3 clinical development program for our second approved cancer agent, cobimetinib. In December 2006, we licensed cobimetinib to Genentech and Genentech has been, and is, solely responsible for the product's clinical development.

Genentech is now conducting three phase 3 pivotal trials exploring the combination of cobimetinib with atezolizumab in colorectal carcinoma, or CRC, (IMblaze370), and BRAF wild type melanoma population (IMspire170), and the combination of cobimetinib with atezolizumab and vemurafenib in BRAF V600 mutant melanoma (IMspire150). Enrollment for IMblaze370 was completed in the first quarter of 2017, and Genentech has announced that top line results for the trial are expected during the first half of 2018. Additionally, the first patient for IMspire170 was enrolled in December 2017. Enrollment for IMspire150 was completed in April 2018. Should these trials prove positive and Genentech obtain regulatory approvals based on such positive results, we believe that cobimetinib could provide us with another meaningful source of revenue.

As we continue to work to maximize the clinical, therapeutic and commercial potential of cabozantinib and cobimetinib, we remain committed to building our product pipeline by discovering and developing new cancer therapies for patients. In this regard, we have resumed internal drug discovery efforts with the goal of identifying new product candidates to advance into clinical trials. Notably, these efforts are led by some of the same experienced scientists responsible for the discovery of cabozantinib and cobimetinib, which have been approved for commercialization by regulatory authorities, as well as other promising Exelixis compounds, many of which are in earlier stages of clinical and regulatory development pursuant to our collaborations with Daiichi Sankyo Company, Limited, or Daiichi Sankyo, Merck (known as MSD outside of the U.S. and Canada), BMS and Sanofi.

We are also focused on augmenting our product pipeline by in-licensing attractive, early-stage oncology assets and then further developing them utilizing our established clinical development infrastructure. In furtherance of this strategy, in January 2018, we entered into an exclusive global collaboration and license agreement with StemSynergy Therapeutics, Inc., or StemSynergy, for the discovery and development of novel oncology compounds aimed to inhibit tumor growth by targeting Casein Kinase 1 alpha, or CK1 α , a component of the Wnt signaling pathway implicated in key oncogenic processes. Under the terms of this agreement, we will partner with StemSynergy to conduct preclinical and clinical studies with compounds targeting CK1 α . Additionally, in May 2018, we entered into a global collaboration and license agreement with Invenra, Inc., or Invenra, to discover and develop multispecific antibodies through the use of Invenra's B-Body™ technology platform. Under the terms of this agreement, Invenra will be responsible for antibody lead discovery and generation, while we will lead Investigational New Drug enabling studies, manufacturing, clinical development and future regulatory and commercialization activities. The agreement also provides that we will receive an exclusive, worldwide license to one preclinical asset and pursue up to six additional discovery projects directed to three total discovery programs.

First Quarter 2018 Business Updates and Financial Highlights

During the first quarter of 2018, we continued to execute on our commercial, development and financial objectives, generating significant revenue from operations and positioning the business to be able to maximize the clinical and commercial potential of CABOMETYX, COMETRIQ and COTELLIC and to expand the product pipeline. Significant business updates and financial highlights for the quarter and subsequent to quarter end include:

Business Updates

- In January 2018, we announced an amendment to the protocol for the phase 1b trial of cabozantinib in combination with atezolizumab in patients with locally advanced or metastatic solid tumors. The amendment added four new expansion cohorts to the trial, which now includes patients with NSCLC and CRPC, in addition to previously included patients with RCC and UC.
- In January 2018, we entered into an exclusive collaboration and license agreement with StemSynergy for the discovery and development of novel oncology compounds aimed to inhibit tumor growth by targeting CK1 α .
- In February 2018, we announced updated results from the NCI-CTEP-sponsored phase 1 trial of cabozantinib in combination with nivolumab, with or without ipilimumab, in patients with refractory genitourinary tumors. The updated results demonstrated an acceptable tolerability profile and high rates of durable responses in the previously treated metastatic UC and metastatic RCC cohorts.
- In February 2018, updated data from a phase 2 IST of cabozantinib in patients with previously untreated radioiodine-refractory differentiated thyroid carcinoma, or DTC, were presented at the 2018 Multidisciplinary Head and Neck Cancers Symposium. Based on the encouraging efficacy results and manageable safety profile in this phase 2 trial and other prior phase 2 trials in previously treated DTC, we plan to initiate a phase 3 pivotal trial evaluating cabozantinib as a treatment for patients with advanced DTC in 2018.
- In February 2018, we announced that our partner Daiichi Sankyo submitted its regulatory application for esaxerenone for an essential hypertension indication to the Japanese Pharmaceutical and Medical Devices Agency. The submission was based on the positive top-line results from ESAX-HTN, a phase 3 pivotal trial of esaxerenone, a product of the companies' prior research collaboration, in patients with essential hypertension in Japan, which achieved its primary endpoint in September 2017. As a result of the submission, we received a \$20.0 million milestone payment in March 2018 per the two companies' collaboration agreement.
- In March 2018, we completed the submission of an sNDA with the FDA for cabozantinib as a treatment for patients with previously treated advanced HCC.
- In March 2018, Ipsen received a positive opinion from the Committee for Medicinal Products for Human Use, or CHMP, for CABOMETYX in adult patients with previously untreated, intermediate- or poor-risk advanced RCC.
- In March 2018, Ipsen received validation from the European Medicines Agency, or EMA, for the application for variation to the CABOMETYX marketing authorization for the addition of a new indication in previously treated advanced HCC.
- In April 2018, Maria C. Freire, Ph.D. was elected to our Board of Directors. Dr. Freire currently serves as President and Executive Director and as a member of the board of directors of the Foundation for the National Institutes of Health, an independent 501(c)(3) charitable organization established by Congress to support the National Institutes of Health by raising private funds for biomedical research and fostering partnerships and alliances around the world.
- In April 2018, Roche confirmed that IMspire150, its phase 3 pivotal trial evaluating the combination of cobimetinib, atezolizumab and vemurafenib in patients with first-line BRAF V600 mutation-positive metastatic or unresectable locally advanced melanoma, completed enrollment.
- In May 2018, we entered into a collaboration and license agreement with Invenra to discover and develop multispecific antibodies for the treatment of cancer.

Financial Highlights

- Net income for the first quarter of 2018 was \$115.9 million, or \$0.39 per share, basic and \$0.37 per share, diluted, compared to \$16.7 million, or \$0.06 per share, basic and \$0.05 per share, diluted, for the first quarter of 2017.
- Total revenues for the first quarter of 2018 increased to \$212.3 million, compared to \$80.9 million for the first quarter of 2017.
- Net product revenues for the first quarter of 2018 increased to \$134.3 million, compared to \$68.9 million for the first quarter of 2017.
- Research and development expenses for the first quarter of 2018 increased to \$37.8 million, compared to \$23.2 million for the first quarter of 2017.
- Selling, general and administrative expenses for the first quarter of 2018 increased to \$52.6 million, compared to \$34.3 million for the first quarter of 2017.
- Cash and investments increased to \$525.6 million at March 31, 2018, compared to \$457.2 million at December 31, 2017.

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

Although we reported net income of \$115.9 million and \$154.2 million for the three months ended March 31, 2018 and the year ended December 31, 2017, respectively, we may not be able to maintain or increase profitability on a quarterly or annual basis and we are unable to accurately predict the extent of long-range future profits or losses. We expect to continue to spend significant additional amounts to fund further development of cabozantinib for additional indications and the commercialization of our approved products. In addition, we will continue to expand our product pipeline through our drug discovery efforts and the evaluation and execution of potential additional in-licensing and acquisition opportunities that align with our oncology drug development expertise, efforts which could involve substantial costs. To offset these costs, we will need to generate substantial revenues. As a result, we are unable to predict the extent of any future profits or losses.

Challenges and Risks

We anticipate that we will continue to face a number of challenges and risks to our business that may impact our ability to execute on our 2018 business objectives. In particular, we anticipate that for the foreseeable future our ability to generate meaningful unrestricted cash to fund our commercial operations and our development and discovery programs is dependent upon the successful commercialization of CABOMETYX for the treatment of advanced RCC in territories where it has been or may soon be approved and in potential other indications for which we are in late-stage development or intend to seek regulatory review. The commercial opportunity for CABOMETYX as a treatment for advanced RCC remains subject to a variety of factors, most importantly, CABOMETYX's perceived benefit/risk profile as compared to the benefit/risk profiles of other treatments available or currently in development for the treatment of advanced RCC. Our ability to generate meaningful product revenues from CABOMETYX is also affected by a number of other factors, including the highly competitive markets for which we intend to pursue regulatory approval of cabozantinib and the prospect for new competitive therapies and generic competition, and the extent to which coverage and reimbursement for CABOMETYX is available from government and other third-party payers. Obtaining and maintaining appropriate coverage and reimbursement for CABOMETYX are increasingly challenging due to, among other things, the attention being paid to healthcare cost containment and other potential austerity measures being discussed in the U.S. and worldwide, as well as increasing policy interest in the U.S. with respect to pharmaceutical drug pricing practices. Our ability to fulfill the commercial potential of cabozantinib also depends on whether data generated by our clinical development activities will support regulatory approval of cabozantinib in additional indications. Achievement of our 2018 business objectives will also depend on our ability to adapt our development and commercialization strategy to navigate increased competition, including that from, but not limited to, immunotherapy agents, as well as the use of combination therapy to treat cancer. Furthermore, our research and development objectives may be impeded as we work to scale our organization to meet the demands of expanded drug development and discovery activities. In connection with efforts to expand our product pipeline, we may be unsuccessful in discovering new drug candidates or we may not be able to successfully identify appropriate candidates for in-licensing or acquisition.

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

Fiscal Year Convention

We have adopted a 52- or 53-week fiscal year policy that generally ends on the Friday closest to December 31st. Fiscal year 2018 will end on December 28, 2018 and fiscal year 2017 ended on December 29, 2017. For convenience, references in this report as of and for the fiscal periods ended March 30, 2018 and March 31, 2017, and as of and for the fiscal years ended December 28, 2018 and December 29, 2017, are indicated as being as of and for the periods ended March 31, 2018 and March 31, 2017, and the years ended December 31, 2018 and December 31, 2017, respectively. Similarly, references in this report to the first day of the fiscal year ended December 28, 2018 are indicated as being as of January 1, 2018.

Results of Operations

Revenues

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

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
Net product revenues	\$ 134,272	\$ 68,877	95%
Collaboration revenues	78,074	12,010	550%
Total revenues	\$ 212,346	\$ 80,887	163%

Total revenues for the three months ended March 31, 2018 were impacted by our adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Accounting Standards Codification Topic 606)*, or Topic 606. For additional information on our adoption of Topic 606, see "Note 1. Organization and Summary of Significant Accounting Policies - Revenue", "Note 2. Revenues" and "Note 3. Collaboration Agreements" in the "Notes to Condensed Consolidated Financial Statements" contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Net Product Revenues

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

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
CABOMETYX	\$ 128,934	\$ 62,359	107 %
COMETRIQ	5,338	6,518	(18)%
Net product revenues	\$ 134,272	\$ 68,877	95 %

The increase in net product revenues for CABOMETYX was primarily due to a 95% increase in the number of units of CABOMETYX sold, and to a lesser extent, an increase in the average selling price of the product. The increase in CABOMETYX sales volume reflects the growth of our second and later-line advanced RCC business and the impact of additional sales following the FDA's approval in December 2017 of the expanded indication for CABOMETYX to include

advanced first-line RCC, which now encompass all patients with advanced RCC. The decrease in net product revenues for COMETRIQ was due to a 20% decline in the number of units of COMETRIQ sold. COMETRIQ sales volume has been decreasing since the launch of CABOMETYX in April 2016. The adoption of Topic 606 did not impact our net product revenues.

We recognize product revenues net of discounts and allowances that are described in “Note 1. Organization and Summary of Significant Accounting Policies” to our “Notes to Consolidated Condensed Financial Statements” contained in contained in Part I, Item 1 of this Quarterly Report on Form 10-Q. The total reserve balance for discounts and allowances was \$14.5 million and \$9.5 million as of March 31, 2018 and December 31, 2017, respectively. The increase in the reserve balance at March 31, 2018 was the result of an increase in product sales volume, which was offset by payments, the issuance of customer credits and the prior period adjustments for chargebacks and certain rebates. We expect our discounts and allowances as a percentage of gross product revenues to increase during the remainder of 2018 as our business evolves and the number of patients participating in government programs increases, the discounts and rebates to government payers increase, and as a result of the engagement in commercial contracting which may result in additional discounts or rebates.

Collaboration Revenues

Collaboration revenues were as follows (dollars in thousands):

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
Collaboration revenues:			
License revenues (1)	\$ 69,030	\$ 11,214	516%
Research and development services revenues (2)	10,099	1,132	792%
Product supply revenues, net	(1,055)	(336)	214%
Total collaboration revenues	\$ 78,074	\$ 12,010	550%

(1) License revenues for the three months ended March 31, 2018 included revenues related to the portion of two milestones that were allocated to the transfer of intellectual property licenses and were fully recognized in the current period and royalty revenues from Ipsen and Genentech. License revenues for the three months ended March 31, 2017 included the recognition of deferred revenue from upfront payments and a non-substantive milestone that were being amortized over various periods, royalty revenues from Ipsen and Genentech and one milestone. Upon the adoption of Topic 606, the allocation of proceeds from our collaboration partners between licenses and research and development services as well as the timing of recognition has changed. Therefore, among other changes, as of January 1, 2018, the portion of proceeds allocated to intellectual property licenses for our Ipsen and Takeda collaboration agreements are recognized immediately and license revenues no longer includes revenues related to the amortization of deferred revenue.

(2) Research and development services revenues for three months ended March 31, 2018 included the recognition of deferred revenue for the portion of the upfront payments and milestones that were allocated to the research and development services which are being amortized through early 2030, as well as development cost reimbursements earned on our collaboration agreements. As described in (1) above, we did not allocate any of our upfront payments or milestones to research and development services prior to the adoption of Topic 606 and therefore research and development services revenues for the three months ended March 31, 2017 included only development cost reimbursements earned on our collaboration agreements.

Collaboration revenues increased to \$78.1 million for the three months ended March 31, 2018, as compared to \$12.0 million for the comparable period in 2017. The increase in collaboration revenues was primarily the result of the recognition of two milestones during the three months ended March 31, 2018 as well as increases in royalties under our collaboration agreement with Ipsen and development cost reimbursement revenues; those increases were partially offset by a decrease in the recognition of deferred revenue due to the adoption of Topic 606, a decrease in royalties under our collaboration agreement with Genentech and an increase in losses under our product supply agreement with Ipsen.

During the three months ended March 31, 2018, we recorded \$45.8 million in revenue relating to a \$50.0 million milestone from Ipsen we expect to earn in the second quarter of 2018 for the approval of cabozantinib for the first-line treatment of advanced RCC by the European Commission, or the EC. The determination to recognize the \$45.8 million in revenue was made following the CHMP’s positive opinion of cabozantinib for the first-line treatment of advanced RCC. The \$45.8 million in revenue we recognized during the three months ended March 31, 2018 represents the portion of the milestone that was allocated to the previously satisfied performance obligations for intellectual property and research and

development services; the remainder was allocated to research and development services to be delivered in future periods through early 2030.

During the three months ended March 31, 2018, we also earned and recognized a \$20.0 million milestone upon Daiichi Sankyo's submission to the Japanese Pharmaceutical and Medical Devices Agency of a regulatory application for esaxerenone as a treatment for patients with essential hypertension. We have determined that we previously satisfied our performance obligation to transfer an intellectual property license under the Daiichi Sankyo collaboration agreement and therefore, in accordance with Topic 606, the revenue for this milestone was fully recognized during the three months ended March 31, 2018. Collaboration revenues for the comparable period in 2017 reflect recognition of a \$2.5 million milestone earned from the ROR collaboration agreement with BMS.

Royalties on net sales of cabozantinib by Ipsen outside of the U.S. and Japan increased to \$4.4 million for the three months ended March 31, 2018, as compared to \$0.2 million for the comparable period in 2017. Ipsen's net sales of cabozantinib have continued to grow since their first commercial sale of the product in December 2016.

Development cost reimbursements in connection with our collaboration arrangements with Ipsen and Takeda increased to \$5.7 million for the three months ended March 31, 2018, as compared to \$1.1 million for the comparable period in 2017 primarily as a result of their participation in the CheckMate 9ER study.

During the three months ended March 31, 2018, we recognized \$1.8 million in revenues from the amortization of deferred revenue, including the upfront payments received in 2016 and 2017 in connection with our collaboration arrangements with Ipsen and Takeda, as compared to \$6.2 million of such revenues during the comparable period in 2017. The decrease in such revenues was a result of the adoption of Topic 606. As a result of that adoption, on January 1, 2018 we recorded a \$258.5 million net reduction to opening accumulated deficit, which included a \$236.7 million reduction of the unrecognized upfront and non-substantive milestone payments previously received from our collaboration partners that had been included in deferred revenue at December 31, 2017.

Royalties on ex-U.S. net sales of COTELLIC under our collaboration agreement with Genentech decreased to \$1.3 million for the three months ended March 31, 2018, as compared to \$2.3 million for the comparable period in 2017. As a result of a change in the timing of when we receive sales information from Genentech in the first quarter of 2017, royalty revenues for the three months ended March 31, 2017 included both \$1.1 million in royalty revenues for sales in the fourth quarter of 2016 and \$1.2 million in royalty revenues for sales in the first quarter of 2017. Following a commercial review, commencing in January 2018 we and Genentech scaled back the personal promotion of COTELLIC as a treatment for patients with BRAF V600E or V600K mutation-positive advanced melanoma in the U.S. This decision is not indicative of any change in our intention to promote COTELLIC for other therapeutic indications for which it may be approved in the future.

The losses for Product supply revenues, net increased to \$1.1 million for the three months ended March 31, 2018, as compared to \$0.3 million for the comparable period in 2017. As part of the collaboration agreement with Ipsen, we entered into a supply agreement pursuant to which we supply finished, labeled product to Ipsen at our cost, as defined in the agreement, which excludes the 3% royalty we are required to pay GlaxoSmithKline, or GSK, on Ipsen's Net Sales of any product incorporating cabozantinib. As a result, as royalty generating sales of cabozantinib by Ipsen have increased, as described above, our losses on the related product supply agreement also increased.

Cost of Goods Sold

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

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
Cost of goods sold	\$ 5,639	\$ 3,203	76%
Gross margin	96%	95%	

Cost of goods sold is related to our product revenues and consists primarily of a 3% royalty payable to GSK on net sales of any product incorporating cabozantinib, indirect labor costs, the cost of manufacturing, write-downs related to expiring and excess inventory, and other third party logistics costs. Portions of the manufacturing costs for inventory were incurred prior to the regulatory approval of CABOMETYX and COMETRIQ and, therefore, were expensed as research and development costs when incurred, rather than capitalized as inventory. The sale of products containing previously expensed materials resulted in a 1% reduction in the Cost of goods sold during the three months ended March 31, 2018 as compared

to a 10% reduction during the comparable period in 2017. As of both March 31, 2018 and December 31, 2017 our inventory includes \$0.4 million of materials that were previously expensed, are not capitalized, and will not be charged to Costs of goods sold in future periods. Write-downs related to excess and expiring inventory were \$0.4 million for the three months ended March 31, 2017. There were no such write-downs for the three months ended March 31, 2018.

The increase in Cost of goods sold was primarily related to the growth in sales of CABOMETYX and was partially offset by the decrease in write-downs to excess and expiring inventory.

The increase in gross margin was primarily related to the decrease in write-downs to excess and expiring inventory as compared to the comparable period in 2017. We do not expect our gross margin to change significantly during the remainder of 2018.

Research and Development Expenses

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

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
Research and development expenses	\$ 37,757	\$ 23,210	63%

Research and development expenses consist primarily of personnel expenses, clinical trial costs, licenses and royalties, stock-based compensation, consulting and outside services and the allocation of general corporate costs.

The increase in research and development expenses for the three months ended March 31, 2018, as compared to the comparable period in 2017, was primarily related to increases in personnel expenses, clinical trial costs, licenses and royalties and stock-based compensation. Personnel expenses increased \$4.3 million for the three months ended March 31, 2018, as compared to the comparable period in 2017, primarily due to increases in headcount support of our development and discovery efforts. The increase in clinical trial costs, which includes services performed by third-party contract research organizations and other vendors who support our clinical trials, was \$3.4 million for the three months ended March 31, 2018, as compared to the comparable period in 2017. The increase in clinical trial costs was primarily due to start-up costs associated with CheckMate 9ER, a phase 3 pivotal trial of cabozantinib plus immunotherapy in patients with previously untreated RCC that is being conducted with BMS, and start-up costs associated with our phase 1b trial of cabozantinib and atezolizumab in locally advanced or metastatic solid tumors; those increases were partially offset by decreases in costs related to METEOR, our completed phase 3 pivotal trial comparing CABOMETYX to everolimus in patients with advanced RCC. Research and development expenses for the three months ended March 31, 2018 also reflect a \$3.0 million upfront payment for our exclusive collaboration and license agreement with StemSynergy. Stock-based compensation increased \$1.6 million for the three months ended March 31, 2018, as compared to the comparable period in 2017, primarily due to increases in headcount and an increase in the value of grants made in the previous 12 months as a result of the increase in the value of our stock.

We do not track fully-burdened research and development expenses on a project-by-project basis. We group our research and development expenses into three categories: development, drug discovery and other. Our development group leads the development and implementation of our clinical and regulatory strategies and prioritizes disease indications in which our compounds may be studied in clinical trials. Our drug discovery group utilizes a variety of technologies to enable the rapid discovery, optimization and extensive characterization of lead compounds such that we are able to select development candidates with the best potential for further evaluation and advancement into clinical development. Research and development expenses by category were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Research and development expenses:		
Development:		
Clinical trial costs	\$ 11,196	\$ 7,808
Personnel expenses	10,658	7,164
Consulting and outside services	1,945	1,805
Other development costs	3,388	2,733
Total development	27,187	19,510
Drug discovery (1)	5,990	798
Other (2)	4,580	2,902
Total research and development expenses	\$ 37,757	\$ 23,210

(1) Primarily includes a \$3.0 million upfront payment for our exclusive collaboration and license agreement with StemSynergy, personnel expenses, consulting and outside services, and laboratory supplies.

(2) Includes stock-based compensation and the allocation of general corporate costs to research and development.

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

We are focusing our development and commercialization efforts primarily on cabozantinib to maximize the therapeutic and commercial potential of this compound, and as a result, we expect our near-term research and development expenses to primarily relate to the clinical development of cabozantinib. We expect to continue to incur significant development costs for cabozantinib in future periods as we evaluate its potential in a broad development program comprising over 70 ongoing or planned clinical trials across multiple indications. Notable studies of this program include CheckMate 9ER and CheckMate 040, each in collaboration with BMS, as well as the phase 1b trial evaluating cabozantinib in combination with atezolizumab in locally advanced or metastatic solid tumors being conducted in collaboration with Roche. In addition, post-marketing commitments in connection with the approval of COMETRIQ in progressive, metastatic MTC dictate that we conduct an additional study in that indication.

As a result, we expect our research and development expenses to increase in 2018 as we continue to expand the cabozantinib development program and our product pipeline.

The length of time required for clinical development of a particular product candidate and our development costs for that product candidate may be impacted by the scope and timing of enrollment in clinical trials for the product candidate, our decisions to develop a product candidate for additional indications, and whether we pursue development of the product candidate or a particular indication with a collaborator or independently. For example, cabozantinib is being developed in multiple indications, and we do not yet know how many of those indications we will ultimately pursue regulatory approval for. In this regard, our decisions to pursue regulatory approval of cabozantinib for additional indications depend on several variables outside of our control, including the strength of the data generated in our prior, ongoing and potential future clinical trials. Furthermore, the scope and number of clinical trials required to obtain regulatory approval for each pursued indication is subject to the input of the applicable regulatory authorities, and we have not yet sought such input for all potential indications that we may elect to pursue, and even after having given such input, applicable regulatory

authorities may subsequently require additional clinical studies prior to granting regulatory approval based on new data generated by us or other companies, or for other reasons outside of our control. As a condition to any regulatory approval, we may also be subject to post-marketing development commitments, including additional clinical trial requirements. As a result of the uncertainties discussed above, we are unable to determine the duration of or complete costs associated with the development of cabozantinib or any of our other research and development projects.

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

Selling, General and Administrative Expenses

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

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
Selling, general and administrative expenses	\$ 52,643	\$ 34,288	54%

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

The increase in Selling, general and administrative expenses for the three months ended March 31, 2018, as compared to 2017, was primarily related to increases in corporate giving, personnel expenses, consulting and outside services and stock-based compensation. Corporate giving, consisting predominantly of donations to independent patient support foundations, increased \$6.9 million for the three months ended March 31, 2018 as compared to the comparable period in 2017. Personnel expenses increased \$4.6 million for the three months ended March 31, 2018, as compared to the comparable period in 2017, primarily due to an increase in general and administrative headcount to support our commercial and research and development organizations. Consulting and outside services increased \$3.7 million for the three months ended March 31, 2018, as compared to the comparable period in 2017, primarily due to increases in marketing activities. Stock-based compensation increased \$3.0 million for the three months ended March 31, 2018, as compared to the comparable period in 2017, primarily due to increases in headcount and an increase in the value of grants made in the previous 12 months as a result of the increase in the value of our stock.

Other Income (Expenses), Net

Other income (expenses), net, were as follows (dollars in thousands):

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
Interest income	\$ 1,895	\$ 1,113	70 %
Interest expense	—	(4,420)	(100)%
Other, net	169	(45)	476 %
Total other income (expenses), net	\$ 2,064	\$ (3,352)	(162)%

The increase in interest income during the three months ended March 31, 2018, as compared to 2017, was a result of both an increase in our investment balances and an increase in the yield earned on those investments.

The decrease in interest expense during the three months ended March 31, 2018, as compared to 2017, was due to the June 2017 repayment of our Secured Convertible Notes due 2018 and the March 2017 repayment of our term loan with Silicon Valley Bank. For more information on the repayment of these debt instruments, see "Note 6. Debt" in our "Notes to Consolidated Financial Statements" contained in Part II, Item 8 of our Annual Report on Form 10-K filed with the SEC on February 26, 2018.

Provision for Income Taxes

Provision for income taxes was as follows (in thousands):

	Three Months Ended March 31,		Percentage Change - 2018 v. 2017
	2018	2017	
Provision for income taxes	\$ 2,514	\$ 134	1,776%

Provision for income taxes for the three months ended March 31, 2018 and 2017 primarily relates to state taxes for which we do not have net operating loss carry-forwards due to a limited operating history. Our historical losses are sufficient to fully offset our federal taxable income.

Liquidity and Capital Resources

Although we reported net income of \$115.9 million and \$154.2 million for the three months ended March 31, 2018 and the year ended December 31, 2017, respectively, we may not be able to maintain or increase profitability on a quarterly or annual basis, and we are unable to accurately predict the extent of long-range future profits or losses. The amount of our net profits or losses will depend, in part, on: the level of sales of CABOMETYX and COMETRIQ in the U.S.; achievement of clinical, regulatory and commercial milestones and the amount of royalties, if any, from sales of CABOMETYX and COMETRIQ outside of the U.S. under our collaboration agreements with Ipsen and Takeda; our share of the net profits and losses for the commercialization of COTELLIC in the U.S. under our collaboration with Genentech; the amount of royalties from COTELLIC sales outside the U.S. under our collaboration with Genentech; other license and contract revenues; and the level of our expenses, including development and commercialization activities for cabozantinib and any pipeline expansion efforts. We have limited commercialization experience and expect to continue to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. In addition, we will continue to expand our product pipeline through our drug discovery efforts and the evaluation of in-licensing and acquisition opportunities that align with our oncology drug expertise, which efforts could involve substantial costs.

As of March 31, 2018, we had \$525.6 million in cash and investments, which included \$523.6 million available for operations, as compared to \$457.2 million in cash and investments, which included \$452.0 million available for operations, as of December 31, 2017. We anticipate that the aggregate of our current cash and cash equivalents, short-term investments available for operations, product revenues and collaboration revenues will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. The sufficiency of our cash resources depends on numerous assumptions, including assumptions related to product sales and operating expenses, as well as the other factors set forth in "Risk Factors" under the headings "Risks Related to our Capital Requirements and Financial Results," in Part II, Item 1A of this Quarterly Report on Form 10-Q. Our assumptions may prove to be wrong or other factors may adversely affect our sources of cash, and as a result we may not have the cash resources to fund our operations as currently planned, which would have a material adverse effect on our business. In addition, we may choose to raise additional funds through the issuance of equity or debt due to market conditions or strategic considerations, even if we believe we have sufficient funds for our current and future operating plans. For example, we may choose to raise additional capital to fund in-licensing or product acquisition opportunities.

Sources and Uses of Cash

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

	Three Months Ended March 31,	
	2018	2017
Net cash provided by operating activities:		
Net income	\$ 115,857	\$ 16,700
Adjustments to reconcile net income to net cash provided by operating activities	11,189	7,831
Changes in operating assets and liabilities	(55,238)	44,327
Net cash provided by operating activities	71,808	68,858
Net cash (used in) provided by investing activities	(25,533)	34,503
Net cash used in financing activities	(254)	(71,868)
Net increase in cash, cash equivalents and restricted cash	46,021	31,493
Cash, cash equivalents and restricted cash at beginning of period	188,314	155,836
Cash, cash equivalents and restricted cash at end of period	\$ 234,335	\$ 187,329

Operating Activities

Our operating activities provided cash of \$71.8 million for three months ended March 31, 2018, compared to \$68.9 million of cash provided in 2017. Cash flows provided by operating activities represent the cash receipts and disbursements related to all of our activities other than investing and financing activities. Cash provided by operating activities is derived by adjusting our net income for: non-cash operating items such as depreciation and amortization and share-based compensation charges; and changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in our Condensed Consolidated Results of Operations. The most significant of those timing differences are related to our collaboration revenues; during the three months ended March 31, 2018, we recognized \$45.8 million in contact revenue related to a milestone from Ipsen we expect will be earned in the second quarter of 2018 for the EC's approval of cabozantinib as a treatment for first-line treatment of advanced RCC that will be paid in a future period.

The most significant factor that contributed to the increase in cash provided by operating activities for the three months ended March 31, 2018, as compared to 2017, was a \$65.4 million increase in net product revenues. This was partially offset by the impact of the upfront nonrefundable payment of \$50.0 million received from Takeda in 2017 in consideration for the exclusive license and other rights contained in our collaboration agreement with Takeda along with a \$35.3 million increase in operating expenses for the three months ended March 31, 2018, as compared to 2017.

Investing Activities

Our investing activities used cash of \$25.5 million for the three months ended March 31, 2018, as compared to \$34.5 million of cash provided during the same period in 2017.

Cash used in investing activities for the three months ended March 31, 2018 was primarily due to investment purchases of \$116.5 million, less cash provided by the maturity and sale of investments of \$87.5 million and \$6.2 million, respectively.

Cash provided by investing activities for the three months ended March 31, 2017 was primarily due to cash provided by the maturity of investments of \$122.5 million and the sale of investments of \$37.3 million, less cash used for investment purchases of \$124.5 million.

Financing Activities

Cash used in financing activities was \$0.3 million for the three months ended March 31, 2018, as compared to \$71.9 million during the same period in 2017.

Cash used in financing activities for the three months ended March 31, 2018 was the result of \$2.1 million taxes paid related to net share settlements, partially offset by \$1.9 million in proceeds from the issuance of common stock under our equity incentive plans.

Cash used in financing activities for the three months ended March 31, 2017 was primarily a result of the full repayment of the \$80.0 million outstanding under our term loan with Silicon Valley Bank, partially offset by \$9.7 million in proceeds from the exercise of stock options.

Contractual Obligations

Except as follows, there were no material changes outside of the ordinary course of business in our contractual obligations from those as of December 31, 2017.

In January 2018, we entered into an exclusive collaboration and license agreement with StemSynergy. We may be required to pay StemSynergy up to \$3.5 million in research and development funding. StemSynergy will be eligible for up to \$56.5 million in milestones for the first product to emerge from the collaboration, including preclinical and clinical development and regulatory milestone payments, commercial milestones, as well as single-digit royalties on worldwide sales. For more information on the license and collaboration agreement with StemSynergy, see "Note 3. Collaboration Agreements" in the "Notes to Condensed Consolidated Financial Statements" contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of March 31, 2018, we did not have any material off-balance-sheet arrangements, as defined by applicable SEC regulations.

Critical Accounting Estimates

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

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

Revenue Recognition - Collaboration Revenues

We enter into collaboration arrangements, under which we license certain rights to our intellectual property to third parties. The terms of these arrangements typically include payment to us for one or more of the following: non-refundable, up-front license fees; development, regulatory and commercial milestone payments; payments for product supply; development cost reimbursements; profit sharing arrangements; and royalties on net sales of licensed products. As part of the accounting for these arrangements, we must develop assumptions that require judgment to determine the standalone selling price for each performance obligation identified in the contract. We use key assumptions to determine the standalone selling price, which may include forecast revenues, clinical development timelines and costs, reimbursement rates for personnel costs, discount rates and probabilities of technical and regulatory success. At the inception of each arrangement that includes development milestone payments, we evaluate whether the milestones are considered probable of being reached and estimate the amount to be included in the transaction price using the most likely amount method. At the end of each subsequent reporting period, we re-evaluate the probability of earning of such development milestones and any related constraint, and if necessary, adjust our estimate of the overall transaction price. In addition, in recording revenues for our research and development services performance obligation, we use internal development projected cost

estimates to determine the amount of revenue to record as we satisfy this performance obligation, known as the inputs method.

We record royalty revenues and U.S. profits and losses under the collaboration agreement with Genentech based on estimates of the sales that occurred during the period. The relevant period estimates of sales are based on interim data provided by licensees and analysis of historical activity, adjusted for any changes in facts and circumstances, as appropriate. We base our estimates on the best information available at the time provided to us by our collaboration partners. However, additional information may subsequently become available to us, which may allow us to make a more accurate estimate in future periods. In this event, we are required to record adjustments in future periods when the actual level of activity becomes more certain. Such increases or decreases are generally considered to be changes in estimates and will be reflected in our Condensed Consolidated Statements of Operations in the period they become known.

There have been no other significant changes in our critical accounting policies and estimates during the three months ended March 31, 2018, as compared to the critical accounting policies and estimates disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 26, 2018.

Recent Accounting Pronouncements

For a description of the expected impact of recent accounting pronouncements, see "Note 1. Organization and Summary of Significant Accounting Policies" in the "Notes to Condensed Consolidated Financial Statements" included in this Quarterly Report on Form 10-Q and "Note 1. Organization and Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" included in our Annual Report on Form 10-K filed with the SEC on February 26, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at March 31, 2018 have not changed significantly from those discussed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 26, 2018.

Our exposure to market risk for changes in interest rates relates to our investment portfolio. As of March 31, 2018, an increase in the interest rates of one percentage point would have had a net adverse change in the fair value of interest rate sensitive assets of \$2.1 million as compared to \$1.6 million as of December 31, 2017.

Item 4. Controls and Procedures.

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

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

Changes in internal control over financial reporting. During the quarter ended March 31, 2018, we implemented certain internal controls in connection with our adoption of Topic 606. There were no other changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings. We may from time to time become a party or subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. Some of these proceedings have involved, and may involve in the future, claims that are subject to substantial uncertainties and unascertainable damages.

Item 1A. Risk Factors

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

We have marked with an asterisk (*) those risk factors below that reflect substantive changes in risks facing us from the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2017 filed with the SEC on February 26, 2018.

Risks Related to Our Business and Industry

Our future prospects are critically dependent upon the commercial success of CABOMETYX in its approved indications and the further clinical development, regulatory approval and commercial success of cabozantinib in additional indications.

Our mission is to maximize the clinical and commercial potential of cabozantinib and cobimetinib, and to position us for future growth through our discovery efforts and expansion of our development pipeline. We anticipate that for the foreseeable future our ability to generate meaningful unrestricted cash flow to fund our commercial operations and our development and discovery programs is dependent upon the successful commercialization of CABOMETYX for the treatment of advanced RCC in territories where it has been or may soon be approved and in potential other indications for which we are in late-stage development or for which we have sought regulatory review. The commercial opportunity for CABOMETYX as a treatment for advanced RCC remains subject to a variety of factors, most importantly, CABOMETYX's perceived benefit/risk profile as compared to the benefit/risk profiles of other treatments available or currently in development for the treatment of advanced RCC. If revenue from CABOMETYX decreases or remains flat, or if we fail to achieve anticipated product royalties and collaboration milestones, we may need to reduce our operating expenses, access other sources of cash or otherwise modify our business plan, which may have a material adverse effect on our business and financial condition, results of operations and growth prospects. Furthermore, as a consequence of our collaboration agreements with Ipsen and Takeda, we rely heavily upon their regulatory, commercial, medical affairs, and other expertise and resources for commercialization of CABOMETYX in territories outside of the U.S. If our collaborators are unable to, or do not invest the resources necessary to successfully commercialize CABOMETYX in the European Union, or EU, and other international territories where it may be approved, this could reduce the amount of revenue we are due to receive under these collaboration agreements, thus resulting in harm to our business and operations.

Even following the approval of CABOMETYX for the treatment of advanced RCC in the U.S. and EU, our success remains contingent upon, among other things, successful clinical development, regulatory approval and market acceptance of cabozantinib, the active ingredient in CABOMETYX, in potential additional indications, such as advanced HCC. We cannot be certain that the clinical trials we and our collaboration partners are currently conducting, or may conduct in the future, will demonstrate adequate safety and efficacy in clinical testing to receive regulatory approval. Should we prove unsuccessful in advancing the further clinical development and commercialization of cabozantinib beyond its approved indications, we may be unable to execute our business plan and our financial results and condition could be materially adversely affected. Even if we and our partners receive the required regulatory approvals to market cabozantinib for any additional indications or in additional jurisdictions, we and our partners may not be able to effectively commercialize CABOMETYX. Our ability to grow CABOMETYX product sales in future periods is also dependent on price increases and we periodically increase the price of CABOMETYX. Price increases for CABOMETYX and negative publicity regarding drug pricing and price increases generally, whether for CABOMETYX or products distributed by other pharmaceutical companies, could

negatively affect market acceptance of, and sales of, CABOMETYX. In any event, we cannot assure that price increases we have taken or may take in the future will not negatively affect CABOMETYX sales.

The commercial success of CABOMETYX will depend upon the degree of market acceptance among physicians, patients, health care payers, and the medical community.

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

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

Our competitors may develop products and technologies that impair the relative value of our marketed products and any future product candidates.

The pharmaceutical, biopharmaceutical and biotechnology industries are competitive, highly diversified and are characterized by rapid technological change, particularly in the area of novel oncology therapies. Many of the organizations competing with us have greater capital resources, larger research and development staff and facilities, more experience in obtaining regulatory approvals and more extensive product manufacturing and commercial capabilities than we do, which may allow them to have a competitive advantage. Further, our competitors may be more effective at using their technologies to develop commercial products. As a result, our competitors may be able to more easily develop technologies and products that would render our technologies and products, and those of our collaborators, obsolete and noncompetitive. There may also be drug candidates that we are not aware of at an earlier stage of development that may compete with our marketed products and product candidates. We face, and will continue to face, intense competition from biotechnology, biopharmaceutical and pharmaceutical companies, as well as academic research institutions, clinical reference laboratories and government agencies that are pursuing research activities similar to ours. Delays in the development of cabozantinib or cobimetinib for the treatment of additional tumor types, for example, could allow our competitors to bring products to market before us.

Specifically, the advanced RCC indications for which CABOMETYX is approved are highly competitive, and several novel therapies and combinations of therapies are in advanced stages of clinical development or under expedited regulatory review in these indications, and are expected to compete with CABOMETYX. We believe our future success will depend upon our ability to maintain a competitive position with respect to technological advances and the shifting landscape of therapeutic strategy following the advent of immunotherapy. CABOMETYX in particular may become less marketable if we are unable to successfully adapt our development strategy to address the fact that this recent approach to treating cancer with immune checkpoint inhibitors has and will continue to become more prevalent in indications for which our products are approved, most notably advanced RCC, and in additional indications where we intend to seek regulatory approval, such as previously treated advanced HCC. Furthermore, the complexities of such a strategy has and may continue to require collaboration with some of our competitors.

We also may in the future face competition from manufacturers of generic versions of our marketed products. In this regard, in February 2018, the FDA published draft guidance containing product-specific bioequivalence

recommendations for drug products containing cabozantinib, the active ingredient in CABOMETYX and COMETRIQ. The FDA regularly issues product specific bioequivalence guidance for products following their approval. The February 2018 draft guidance for drug products containing cabozantinib could have been issued by the FDA as a matter of its own standard practice; it could also indicate that a generic drug manufacturer is investigating whether to submit an Abbreviated New Drug Application, or ANDA, for cabozantinib. The ANDA process is discussed in more detail under "Item I. Business—Government Regulation—The Hatch-Waxman Act" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 26, 2018. Generic competition often results in decreases in the prices at which branded products can be sold.

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

Maintaining our sales, marketing, market access, medical affairs and product distribution capabilities requires significant resources, and there are numerous risks involved with managing such a commercial organization, including our potential inability to successfully recruit, train, retain and incentivize adequate numbers of qualified and effective sales and marketing personnel. We are competing for talent with numerous commercial-stage oncology-focused biotech companies seeking to build out their commercial organizations, as well as other large pharmaceutical organizations that have extensive, well-funded, and more experienced sales and marketing operations, and we may be unable to maintain or adequately scale our commercial organization as a result of such competition. If we cannot maintain effective sales, marketing, market access, medical affairs and product distribution capabilities, we may be unable to maximize the commercial potential of CABOMETYX and COMETRIQ in their approved indications. Also, to the extent that the commercial opportunities for CABOMETYX grow over time, we may not properly judge the requisite size and experience of the commercialization teams or the scale of distribution necessary to market and sell CABOMETYX successfully. If we are unable to maintain or scale our organization appropriately, we may not be able to maximize product revenues and our business, financial condition, results of operations and prospects may be adversely affected.

Our ability to successfully commercialize CABOMETYX and COMETRIQ will depend, in part, on the extent to which we are able to adequately distribute the products to eligible patients. We currently rely on third-party providers to handle storage and distribution for our commercial supply of both CABOMETYX and COMETRIQ in the U.S. Furthermore, we rely on our collaboration partners for the commercialization and distribution of CABOMETYX and COMETRIQ in territories outside of the U.S., as well as for access and distribution activities for the approved products under named patient use programs (or similar programs) with the effect of introducing earlier patient access to COMETRIQ and CABOMETYX.

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

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

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

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

anything of value, including for example, gifts, discounts, coupons, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payments, ownership interests and providing anything at less than its fair market value;

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

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

costly, time-consuming and may require significant financial and personnel resources. Therefore, even if we are successful in defending against any such actions that may be brought against us, our business may be impaired.

The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increasing amount of focus on privacy and data protection issues with the potential to affect our business, including state security breach notification laws, state health information privacy laws and federal and state consumer protection laws, that govern the collection, use and disclosure of personal information. In addition, most healthcare providers who are expected to prescribe our products and from whom we obtain patient health information are subject to privacy and security requirements under HIPAA. Although we are not directly subject to HIPAA, we could be subject to criminal penalties if we knowingly obtain individually identifiable health information from a HIPAA-covered entity in a manner that is not authorized or permitted by HIPAA. Other countries also have, or are developing, laws governing the collection, use and transmission of personal information. For example, the EU Data Privacy Directive (95/46/EC) and implementing legislation in the various national Member States of the EU, which will be replaced on May 25, 2018 by the more restrictive General Data Protection Regulation (Regulation (EU) 2016/679), or GDPR, and the Swiss Federal Act on Data Protection, regulate the processing of personal data within the EU and between countries in the EU and countries outside of the EU, including the U.S. We are currently reviewing all privacy and other regulations in connection with these new laws to assess whether additional procedural safeguards are warranted, including compliance with the EU-U.S. Privacy Shield framework, which will replace the previous safe harbor mechanism. Failure to provide adequate privacy protections and maintain compliance with these laws and regulations could jeopardize business transactions across borders, create liability for us, including the imposition of sanctions or other penalties, and/or could increase our cost of doing business.

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

Our ability to commercialize CABOMETYX or COMETRIQ successfully is highly dependent on the extent to which coverage and reimbursement is, and will be, available from third-party payers, including governmental payers, such as Medicare and Medicaid, and private health insurers. Patients may not be capable of paying for CABOMETYX or COMETRIQ themselves and may rely on third-party payers to pay for, or subsidize, the costs of their medications, among other medical costs. If third-party payers do not provide coverage or reimbursement for CABOMETYX or COMETRIQ, our revenues and prospects for profitability will suffer. In addition, even if third-party payers provide some coverage or reimbursement for CABOMETYX or COMETRIQ, the availability of such coverage or reimbursement for prescription drugs under private health insurance and managed care plans, which often varies based on the type of contract or plan purchased, may not be sufficient for patients to afford CABOMETYX or COMETRIQ. Third-party payers continue to scrutinize and manage the prices charged for pharmaceutical products and services and many also limit reimbursement for newly-approved products and indications.

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

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

Since its enactment, there have been judicial and Congressional challenges to numerous provisions of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or the PPACA, as well as recent efforts by the Trump administration and Congress to repeal or replace certain aspects of the PPACA. Since January 2017, President Trump has signed two Executive Orders as well as other directives designed to delay the implementation of certain provisions of the PPACA or otherwise circumvent some of the requirements for health insurance mandated by the PPACA. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the PPACA. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the PPACA have been enacted. The Tax Cuts and Jobs Act of 2017 includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the PPACA on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate". Additionally, on January 23, 2018, President Trump signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain PPACA-mandated fees, including the so-called "Cadillac" tax on certain high cost employer-

sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. Further, the Bipartisan Budget Act of 2018, or the BBA, among other things, amends the PPACA, effective January 1, 2019, to increase from 50 percent to 70 percent the point-of-sale discount that is owed by pharmaceutical manufacturers who participate in Medicare Part D and to close the coverage gap in most Medicare drug plans, commonly referred to as the “donut hole.” It is expected that Congress will continue to consider legislation to repeal and replace other elements of the PPACA. Moreover, certain politicians, including the President, have announced plans to regulate the prices of pharmaceutical products. Congress has also signaled an intent to address pharmaceutical pricing, with Senate hearings to examine the cost of prescription drugs, which were held on June 13 and October 17, 2017. Federal legislators previously proposed legislation that would require pharmaceutical manufacturers to report price increases and provide a public justification for increases that exceed given benchmarks and authorize the U.S. Department of Health and Human Services to negotiate the price of Part D prescription drugs. At the state level, legislatures have increasingly passed legislation and implemented regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, to encourage importation from other countries and bulk purchasing, including the National Medicaid Pooling Initiative. We cannot know what form any such measures may take or the market’s perception of how such proposals and provisions would affect us. Any reduction in reimbursement from government programs may result in a similar reduction in payments from private payers. The implementation of cost containment measures or other healthcare reforms may limit our ability to generate revenue or commercialize our current products and/or those for which we may receive regulatory approval in the future.

In August 2017, President Trump signed the FDA Reauthorization Act of 2017, which will reauthorize the FDA user fee programs for prescription drugs, generic drugs, medical devices, and biosimilars, under which manufacturers of such products partially pay for the FDA’s pre-market review of their product candidates. The legislation includes, *inter alia*, measures to expedite the development and approval of generic products, where generic competition is lacking even in the absence of exclusivities or listed patents. The FDA has also released a Drug Competition Action Plan, which proposes actions to broaden access to generic drugs and lower consumers’ health care costs by, among other things, improving the efficiency of the generic drug approval process and supporting the development of complex generic drugs. In January 2018, the FDA took steps to implement the Drug Competition Action Plan and released guidance to streamline aspects of the submission and review of ANDAs for generic drugs. We cannot currently predict the specific outcome or impact on our business of such regulatory actions.

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

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

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

Specifically, there have been several recent U.S. Congressional inquiries and proposed and enacted federal legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the price of drugs under Medicare, reform government program

reimbursement methodologies for drugs, and facilitate value-based arrangements between manufacturers and payers. For example, the Trump Administration's budget proposal for fiscal year 2019 contains drug price control measures that could be enacted during the 2019 budget process or in other future legislation, including measures to permit Medicare Part D plans to negotiate the price of certain drugs under Medicare Part B, to allow some states to negotiate drug prices under Medicaid, and to eliminate cost sharing for generic drugs for low-income patients. While any proposed measures will require authorization through additional legislation to become effective, both Congress and the Trump Administration have indicated that it will continue to seek new legislative and/or administrative measures to control drug costs.

State and local governments continue to consider prescription drug pricing transparency proposals. In October 2017, California Governor Jerry Brown signed legislation requiring pharmaceutical manufacturers to disclose and provide justification for certain price increases; however, the regulations under which we will be required to operate have not yet been promulgated, and the legislation is currently being challenged in court. While we have taken and will continue to take appropriate actions to ensure compliance with this new law, without knowing the final regulations applicable to us or the outcome of the court case, we cannot comprehensively assess the potential impact on our business. Additionally, in March 2018, Oregon Governor Kate Brown signed legislation requiring manufacturers to report an increase in the wholesale acquisition cost of a drug if the wholesale acquisition cost is \$100 or more for a one-month supply, or for a course of treatment lasting less than one month and there is a net increase of 10 percent or more in the wholesale acquisition cost of the drug over the course of the previous calendar year. We cannot predict the outcome of any future proposals, the market's perception of them or their potential impact on us. If future legislation were to impose direct governmental price controls and access restrictions, it could have a significant adverse impact on our business and financial results.

Further, in some foreign countries, particularly in the EU, the pricing of prescription pharmaceuticals is subject to governmental control under the respective national health system. In these countries, price negotiations with governmental authorities or payers can take six to twelve months or longer after marketing authorization is granted for a product, which has the potential to substantially delay broad availability of the product in some of those countries. To obtain reimbursement and/or pricing approval in some countries, our collaboration partner, Ipsen, may be required to conduct a study that seeks to establish the cost effectiveness of CABOMETYX compared with other available established therapies to support health technology appraisal. The conduct of such a study could result in delays in the commercialization of CABOMETYX. Additionally, cost-control initiatives could decrease the price we and our collaboration partner, Ipsen, might establish for CABOMETYX, which would result in lower license revenues to us.

We are heavily dependent on our partner, Genentech, for the successful development, regulatory approval and commercialization of cobimetinib, marketed as COTELLIC.

The terms of our collaboration agreement with Genentech provide Genentech with exclusive authority over the global development and commercialization plans for cobimetinib and the execution of those plans. We have limited effective influence over those plans and are heavily dependent on Genentech's decision making. Any significant changes to Genentech's business strategy and priorities, over which we have no control, could adversely affect Genentech's willingness or ability to complete their obligations under our collaboration agreement and result in harm to our business and operations. Subject to contractual diligence obligations, Genentech has complete control over and financial responsibility for cobimetinib's development program, as well as over regulatory and commercial strategy and execution, and we are not able to control the amount or timing of resources that Genentech will devote to the product. Of particular significance are Genentech's development efforts with respect to the combination of cobimetinib with immune checkpoint inhibitors, a competitive area of clinical research. Regardless of Genentech's efforts and expenditures for the further development of cobimetinib, the results of such additional clinical investigation may not prove positive and may not produce label expansions or approval in additional indications, which could have a material adverse impact on our long-term revenue prospects. For instance, top-line results from IMblaze370, Genentech's phase 3 pivotal trial evaluating the combination of cobimetinib and atezolizumab or atezolizumab alone versus regorafenib, in unresectable locally advanced or metastatic CRC patients who have received at least two lines of prior cytotoxic chemotherapy, are expected in the first half of 2018; should Genentech obtain negative or inconclusive results in this trial, cobimetinib's prospects, and its ability to contribute meaningfully to our business, will be substantially impaired.

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

Under the FDCA, the FDA can approve an ANDA for a generic version of a branded drug without the applicant undertaking the human clinical testing necessary to obtain approval to market a new drug. In this regard, in February 2018, the FDA published draft guidance containing product-specific bioequivalence recommendations for drug products

containing cabozantinib, the active ingredient in CABOMETYX and COMETRIQ. The FDA regularly issues product specific bioequivalence guidance for products following their approval. The February 2018 draft guidance for drug products containing cabozantinib could have been issued by the FDA as a matter of its own standard practice; it could also indicate that a generic drug manufacturer is investigating whether to submit an ANDA for cabozantinib. The FDA can also approve a 505(b)(2) New Drug Application, or NDA, that relies on the agency's findings of safety and/or effectiveness for a previously approved drug. In either case, we will have to engage in litigation with a potential generic competitor to protect our patent rights, which would require us to incur significant expense and result in distraction for our management team, and could also have an adverse impact on our stock price. Moreover, if any such ANDAs or 505(b)(2) NDAs were to be approved, and if our patents covering cabozantinib were held to be invalid (or if any such competing generic versions of cabozantinib were found not to infringe our patents), the resulting generic competition would negatively affect our business, financial condition and results of operations. In this regard, generic equivalents, which must meet the same quality standards as the branded drugs, would be significantly less costly than ours to bring to market. Companies that produce generic equivalents are generally able to offer their products at lower prices. Thus, regardless of the regulatory approval pathway, the introduction of a generic version of any of our marketed products could result in a significant decrease in the sales of these marketed products and materially harm our business and financial condition.

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

Clinical trials are inherently risky and may reveal that a product candidate, even if it is approved for other indications, is ineffective or has an unacceptable safety profile that may significantly decrease the likelihood of regulatory approval in a new indication. The results of preliminary studies do not necessarily predict clinical or commercial success, and later-stage clinical trials may fail to confirm the results observed in earlier-stage trials or preliminary studies. Although we have established timelines for manufacturing and clinical development of our product candidates based on existing knowledge of our compounds in development and industry metrics, we may not be able to meet those timelines.

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

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

If we were to have significant delays in or termination of our clinical testing of our product candidates as a result of any of the events described above or otherwise, our expenses could increase and our ability to generate revenues could be impaired, either of which could adversely impact our financial results. Furthermore, we rely on our clinical and commercial collaboration partners to fund a significant portion of the clinical development of cabozantinib and our product candidates. Should one or all of our collaboration partners decline to support future planned clinical trials, we will be entirely responsible for the financial obligations associated with the further development of such product candidates, and as a result, we may be unable to execute our business plan, and our financial results could be materially adversely affected.

We may not be able to rapidly or effectively continue the further development of our product candidates or meet current or future requirements of the FDA or regulatory authorities in other jurisdictions, including those identified based

on our discussions with the FDA or such other regulatory authorities. Our planned clinical trials may not begin on time, or at all, may not be completed on schedule, or at all, may not be sufficient for registration of our product candidates or may not result in an approvable product.

Completion of clinical trials may take several years or more, but the length of time generally varies substantially according to the type, complexity, novelty and intended use of the product candidate. The duration and the cost of clinical trials may vary significantly over the life of a project as a result of factors relating to the clinical trial, including, among others:

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

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

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

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

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

In addition, delays or rejections may be encountered based upon changes in regulatory policy for product approval during the period of product development and regulatory agency review, which may cause delays in the approval or rejection of an application for our product candidates.

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

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

Our business is focused on the discovery, development and commercialization of new medicines for difficult-to-treat cancers. In this regard, we are pursuing internal drug discovery efforts with the goal of identifying new product candidates to advance into clinical trials. Internal discovery efforts to identify new product candidates require substantial technical, financial and human resources. These internal discovery efforts may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for a number of reasons, including where the research methodology used may not be successful in identifying potential product candidates, or where potential product candidates may, on further study, be shown to have inadequate efficacy, harmful side effects, suboptimal pharmaceutical profile or other characteristics suggesting that they are unlikely to be effective products.

Apart from our internal discovery efforts, our strategy to expand our development pipeline is also dependent on our ability to successfully identify and acquire or in-license relevant product candidates. However, the in-licensing and acquisition of product candidates is a competitive area, and many other companies are pursuing the same or similar product candidates to those that we may consider attractive. Established companies, in particular, may have a competitive advantage over us due to their size, financial resources and more extensive clinical development and commercialization capabilities. Furthermore, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. We may also be unable to in-license or acquire additional relevant product candidates on acceptable terms that would allow us to realize an appropriate return on our investment. If we are unable to develop suitable product candidates through internal discovery effort or if we are unable to successfully obtain rights to suitable product candidates, our business, financial condition and prospects for growth could suffer. Even if we succeed in our efforts to obtain rights to suitable product candidates, the competitive business environment may result in higher acquisition or licensing costs, and our investment in these potential products will remain subject to the inherent risks associated with the development and commercialization of new medicines. In certain circumstances, we may also be reliant on the licensor for the continued development of the in-licensed technology and their efforts to safeguard their underlying intellectual property.

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

Increasing use of social media could give rise to liability and result in harm to our business.

We and our employees are increasingly utilizing social media tools and our website as a means of communication. Despite our efforts to monitor evolving social media communication guidelines and comply with applicable rules, there is risk that the unauthorized use of social media by us or our employees to communicate about our products or business may cause us to be found in violation of applicable laws and regulations, which may give rise to liability and result in harm to our business. In addition, there is also risk of inappropriate disclosure of sensitive information, which could result in significant legal and financial exposure and reputational damages that could potentially have an adverse effect on our business. Furthermore, negative posts or comments about us or our products in social media could seriously damage our reputation, brand image, and goodwill.

Risks Related to Our Capital Requirements and Financial Results***We may be unable to maintain or increase profitability.****

Although we reported net income of \$115.9 million and \$154.2 million for the three months ended March 31, 2018 and the year ended December 31, 2017, respectively, we may not be able to maintain or increase profitability on a quarterly or annual basis, and we are unable to accurately predict the extent of long-range future profits or losses. The amount of our net profits or losses will depend, in part, on: the level of sales of CABOMETYX and COMETRIQ in the U.S.; achievement of clinical, regulatory and commercial milestones and the amount of royalties, if any, from sales of CABOMETYX and COMETRIQ outside of the U.S. under our collaboration agreements with Ipsen and Takeda; our share of the net profits and losses for the commercialization of COTELLIC in the U.S. under our collaboration with Genentech; the amount of royalties from COTELLIC sales outside the U.S. under our collaboration with Genentech; other license and contract revenues; and the level of our expenses, including development and commercialization activities for cabozantinib and any pipeline expansion efforts. We expect to continue to spend significant additional amounts to fund the continued development of cabozantinib

for additional indications and the commercialization of our approved products. In addition, we will continue to expand our product pipeline through our drug discovery efforts and the evaluation and execution of potential additional in-licensing and acquisition opportunities that align with our oncology drug development expertise, which efforts could involve substantial costs. To offset these costs, we will need to generate substantial revenues. If these costs exceed our expectations, or we fail to achieve anticipated revenue targets, the market value of our common stock may decline.

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

As of March 31, 2018, we had \$525.6 million in cash and investments, which included \$523.6 million available for operations, as compared to \$457.2 million in cash and investments, which included \$452.0 million available for operations, as of December 31, 2017. Our business operations grew substantially during 2017 and experienced further development during the three months ended March 31, 2018. In order to maintain business growth and maximize the clinical and commercial opportunities for cabozantinib, we plan to continue to execute on the U.S. commercialization plans for CABOMETYX, while reinvesting in our product pipeline through the continued development of cabozantinib, both alone and in combination with other therapies, research and development activities, as well as through in-licensing and acquisition efforts. Our ability to execute on these business objectives will depend on many factors including but not limited to:

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

Our commitment of cash resources to CABOMETYX and the reinvestment in our product pipeline through the continued development of cabozantinib, increasing drug discovery activities as well as through in-licensing and acquisition efforts, could require us to obtain additional capital. We may seek such additional capital through some or all of the following methods: corporate collaborations, licensing arrangements, and public or private debt or equity financings. Our ability to obtain additional capital may depend on prevailing economic conditions and financial, business and other factors beyond our control. Disruptions in the U.S. and global financial markets may adversely impact the availability and cost of credit, as well as our ability to raise money in the capital markets. Economic conditions have been, and continue to be, volatile. Continued instability in these market conditions may limit our ability to access the capital necessary to fund and grow our business. Accordingly, we do not know whether additional capital will be available when needed, or that, if available, we will obtain additional capital on terms favorable to us or our stockholders. If we are unable to raise additional funds when we need them, we may be required to limit the expansion of our product development programs or commercialization efforts, which could have a material adverse effect on our business and growth prospects.

Our financial results are impacted by management's selection of accounting methods, certain assumptions and estimates and future changes in accounting standards.*

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

Certain accounting policies are critical to the presentation of our financial condition and results of operations. The preparation of our financial statements requires us to make significant estimates, assumptions and judgments that affect the amounts of assets, liabilities, revenues and expenses and related disclosures. We believe our critical accounting policies relating to revenue recognition, clinical trial accruals, inventory and share based compensation reflect the more significant estimates and judgments used in the preparation of our Condensed Consolidated Financial Statements. Although we base our estimates and judgments on historical experience, our interpretation of existing accounting literature and on various other assumptions that we believe to be reasonable under the circumstances, if our assumptions prove to be materially incorrect, actual results may differ materially from these estimates.

In addition, future changes in financial accounting standards may cause adverse, unexpected revenue fluctuations and affect our financial position or results of operations, particularly those relating to the way we account for revenues and costs. New pronouncements and varying interpretations of pronouncements have occurred with frequency in the past and are expected to occur again in the future and as a result we may be required to make changes in our accounting policies. Those changes could adversely affect our reported revenues and expenses our ability to maintain profitability or our current financial position. For example, on January 1, 2018, we adopted Topic 606 which has replaced prior revenue recognition guidance in U.S. generally accepted accounting principles when it became effective for us in the first quarter of fiscal year 2018. For a detailed description of the impact that Topic 606 has had and other new accounting standards could have on our reported results, see "Note 1. Organization and Summary of Significant Accounting Policies" to our "Notes to Condensed Consolidated Financial Statements" contained in Part I, Item I of this Quarterly Report on Form 10-Q.

Risks Related to Our Relationships with Third Parties

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

We have established collaborations with leading pharmaceutical and biotechnology companies, including, Ipsen, Takeda, Genentech, Daiichi Sankyo, Merck, BMS and Sanofi for the development and ultimate commercialization of certain compounds generated from our research and development efforts. Our dependence on our relationships with collaborators for the development and commercialization of compounds subjects us to, a number of risks, including:

- we are not able to control the amount and timing of resources that our collaborators or potential future collaborators will devote to the development or commercialization of drug candidates or to their marketing and distribution;
- we are not able to control the U.S. commercial resourcing decisions made and resulting costs incurred by Genentech for cobimetinib, which costs we are obligated to share, in part, under our collaboration agreement with Genentech;
- collaborators may delay clinical trials, fail to supply us on a timely basis with the product required for a combination trial, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a drug candidate, repeat or conduct new clinical trials or require a new formulation of a drug candidate for clinical testing;
- disputes may arise between us and our collaborators that result in the delay or termination of the research, development or commercialization of our drug candidates, or that diminish or delay receipt of the economic benefits we are entitled to receive under the collaboration, or that result in costly litigation or arbitration that diverts management's attention and resources;
- collaborators may experience financial difficulties;
- collaborators may not be successful in their efforts to obtain regulatory approvals in a timely manner, or at all;

- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our proprietary information or expose us to potential litigation;
- collaborators may not comply with applicable healthcare regulatory laws;
- business combinations or significant changes in a collaborator's business strategy may adversely affect a collaborator's willingness or ability to complete its obligations under any arrangement;
- a collaborator could independently move forward with a competing drug candidate developed either independently or in collaboration with others, including our competitors;
- we may be precluded from entering into additional collaboration arrangements with other parties in an area or field of exclusivity;
- future collaborators may require us to relinquish some important rights, such as marketing and distribution rights; and
- collaborations may be terminated or allowed to expire, which would delay, and may increase the cost of development of our drug candidates.

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

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

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

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

We do not own or operate manufacturing or distribution facilities for clinical or commercial production and distribution of CABOMETRYX and COMETRIQ. Instead, we have multiple contractual agreements in place with third-party contract manufacturing organizations that, on our behalf, manufacture clinical and commercial supplies of CABOMETRYX and COMETRIQ. We expect that this will continue for the foreseeable future for both our current and future commercial products. To establish and manage this supply chain requires a significant financial commitment, the creation of numerous third-party contractual relationships and continued oversight of these third parties to ensure compliance with applicable regulatory requirements. Although we maintain significant resources to directly oversee the activities and relationships with the companies in our supply chain effectively, we do not have direct control over their operations. Our third-party contract manufacturers may not be able to produce material on a timely basis or manufacture material with the required quality standards, or in the quantity required to meet our development and commercial needs and applicable regulatory requirements. If our third-party contract manufacturers and suppliers do not continue to supply us with our products or product candidates in a timely fashion and in compliance with applicable quality and regulatory requirements, or otherwise fail or refuse to comply with their obligations to us under our supply and manufacturing arrangements, we may not have adequate remedies for any breach, and their failure to supply us could impair or preclude our ability to meet our commercial supply requirements, or our supply needs for clinical trials, including those being conducted in collaboration with our partners, which could delay our product development efforts and our business, operating results and financial

condition could be adversely affected. Additionally, as part of our collaboration agreements with Ipsen and Takeda, we are responsible for the manufacturing and supply of cabozantinib products for global development and commercial purposes. Failure to meet our supply obligations under these collaboration agreements could impair our collaborators' ability to successfully develop and commercialize cabozantinib and generate revenues to which we are entitled under the collaborations.

Our collaborations with outside scientific advisors and collaborators may be subject to restriction and change.

We work with scientific and clinical advisors and collaborators at academic and other institutions that assist us in our research and development efforts. These advisors and collaborators are not our employees and may have other commitments that limit their availability to us. Although these advisors and collaborators generally agree not to do competing work, if a conflict of interest between their work for us and their work for another entity arises, we may lose their services. In such a circumstance, we may lose work performed by them, and our development efforts with respect to the matters on which they were working may be significantly delayed or otherwise adversely affected. In addition, although our advisors and collaborators sign agreements not to disclose our confidential information, it is possible that valuable proprietary knowledge may become publicly known through them.

Risks Related to Our Intellectual Property

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

In the ordinary course of our business, we collect, maintain and transmit sensitive data on our networks and systems, including our intellectual property and proprietary or confidential business information (such as research data and personal information) and confidential information with respect to our customers, clinical trial patients and our business partners. We have also outsourced significant elements of our information technology infrastructure and, as a result, third parties may or could have access to our confidential information. The secure maintenance of this information is critical to our business and reputation, and while we have enhanced our cyber-security efforts commensurate with the growth and complexity of our business, our systems and those of third-party service providers may be vulnerable to a cyber-attack. We believe that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. In fact, although the aggregate impact on our operations and financial condition has not been material to date, we have been the target of threats of this nature and expect them to continue. These threats can come from a variety of sources, ranging in sophistication from an individual hacker to a state-sponsored attack and motive (including corporate espionage). Cyber threats may be generic, or they may be custom-crafted against our information systems. Cyber-attacks continue to become more prevalent and much harder to detect and defend against. Our network and storage applications and those of our contract manufacturing organizations, contract research organizations or vendors may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents. These data breaches and any unauthorized access or disclosure of our information or intellectual property could compromise our intellectual property and expose sensitive business information. A data security breach could also lead to public exposure of personal information of our clinical trial patients, employees and others. Any such event that leads to unauthorized access, use or disclosure of personal information, including personal information regarding our patients or employees, could harm our reputation and business, compel us to comply with federal and/or state breach notification laws and foreign law equivalents (including the GDPR), subject us to mandatory corrective action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information, which could disrupt our business, result in increased costs or loss of revenue, and/or result in significant legal and financial exposure. Cyber-attacks could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. Our network security and data recovery measures and those of our vendors may not be adequate to protect against such security breaches and disruptions. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

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

Our success will depend in part upon our ability to obtain patents and maintain adequate protection of the intellectual property related to our technologies and products. The patent positions of biopharmaceutical companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to

protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We will continue to apply for patents covering our technologies and products as, where and when we deem lawful and appropriate. However, these applications may be challenged or may fail to result in issued patents. Our issued patents have been and may in the future be challenged by third parties as invalid or unenforceable under U.S. or foreign laws, or they may be infringed by third parties, and we are from time to time involved in the defense and enforcement of our patents or other intellectual property rights in a court of law, U.S. Patent and Trademark Office inter partes review or reexamination proceeding, foreign opposition proceeding or related legal and administrative proceeding in the U.S. and elsewhere. The costs of defending our patents or enforcing our proprietary rights in post-issuance administrative proceedings and litigation can be substantial and the outcome can be uncertain. An adverse outcome may allow third parties to use our intellectual property without a license and/or allow third parties to introduce generic and other competing products, any of which would negatively impact our business. Third parties may also attempt to invalidate or design around our patents, or assert that they are invalid or otherwise unenforceable, and seek to introduce generic versions of cabozantinib. In addition, should any third parties receive FDA approval of an ANDA for a generic version of cabozantinib or an 505(b)(2) NDA with respect to cabozantinib, and if our patents covering cabozantinib were held to be invalid (or if such competing generic versions of cabozantinib were found to not infringe our patents), then they could introduce generic versions of cabozantinib or other such 505(b)(2) products before our patents expire, and the resulting generic competition would negatively affect our business, financial condition and results of operations.

In addition, because patent applications can take many years to issue, third parties may have pending applications, unknown to us, which may later result in issued patents that cover the production, manufacture, commercialization or use of our product candidates. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patents. In addition, our patents may be challenged or invalidated or may fail to provide us with any competitive advantages, if, for example, others were the first to invent or to file patent applications for closely related inventions.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the U.S., and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties (for example, the patent owner has failed to “work” the invention in that country or the third party has patented improvements). In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. Initiatives seeking compulsory licensing of life-saving drugs are also becoming increasingly prevalent in developing countries either through direct legislation or international initiatives. Governments in those developing countries could require that we grant compulsory licenses to allow competitors to manufacture and sell their own versions of our products or product candidates, thereby reducing our product sales. Moreover, the legal systems of certain countries, particularly certain developing countries, do not favor the aggressive enforcement of patent and other intellectual property protection, which makes it difficult to stop infringement. We rely on trade secret protection for some of our confidential and proprietary information. We have taken security measures to protect our proprietary information and trade secrets, but these measures may not provide adequate protection. While we seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants, we cannot assure you that our proprietary information will not be disclosed, or that we can meaningfully protect our trade secrets. In addition, our competitors may independently develop substantially equivalent proprietary information or may otherwise gain access to our trade secrets.

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

Our commercial success depends in part upon our ability to avoid infringing patents and proprietary rights of third parties and not to breach any licenses that we have entered into with regard to our technologies and the technologies of third parties. Other parties have filed, and in the future are likely to file, patent applications covering products and technologies that we have developed or intend to develop. If patents covering technologies required by our operations are issued to others, we may have to obtain licenses from third parties, which may not be available on commercially reasonable terms, or at all, and may require us to pay substantial royalties, grant a cross-license to some of our patents to another patent holder or redesign the formulation of a product candidate so that we do not infringe third-party patents, which may be impossible to accomplish or could require substantial time and expense.

In addition, third parties may obtain patents that relate to our technologies and claim that use of such technologies infringes on their patents or otherwise employs their proprietary technology without authorization. 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 own 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 these third parties, subjecting us to substantial royalty payment obligations. We may not be able to obtain these licenses on commercially reasonable terms, or at all. Defense of any lawsuit or failure to obtain any of these licenses could adversely affect our ability to develop and commercialize products.

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

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

Risks Related to Employees and Location

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

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

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

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

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

We are highly dependent upon the principal members of our management, as well as clinical, commercial and scientific staff, the loss of whose services might adversely impact the achievement of our objectives. Also, we may not have sufficient personnel to execute our business plan. Retaining and, where necessary, recruiting qualified clinical, commercial and scientific personnel will be critical to support activities related to advancing the development program for cabozantinib and our other compounds, successfully executing upon our commercialization plan for cabozantinib and our internal proprietary research and development efforts. Competition is intense for experienced clinical, commercial and scientific personnel, and we may be unable to retain or recruit such personnel with the expertise or experience necessary to allow us

to successfully develop and commercialize our products. Further, all of our employees are employed “at will” and, therefore, may leave our employment at any time.

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

Our current headquarters in South San Francisco and the planned headquarters in Alameda are located in the San Francisco Bay Area, California and, therefore our facilities are vulnerable to damage from earthquakes. We have limited earthquake insurance, which may not cover all of the damage we may suffer in the event of an earthquake. We are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures, terrorism and similar events since any insurance we may maintain may not be adequate to cover our losses. If any disaster were to occur, our ability to operate our business at our facilities could be seriously, or potentially completely, impaired. In addition, the unique nature of our research activities could cause significant delays in our programs and make it difficult for us to recover from a disaster. Accordingly, an earthquake or other disaster could materially and adversely harm our ability to conduct business.

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

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

Risks Related to Environmental and Product Liability

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

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

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

We face potential product liability exposure far in excess of our limited insurance coverage.

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

Risks Related to Our Common Stock

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

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

- the commercial success of both CABOMETYX and COMETRIQ and the revenues we generate from those approved products;
- customer ordering patterns for CABOMETYX and COMETRIQ, which may vary significantly from period to period;
- the overall level of demand for CABOMETYX and COMETRIQ, including the impact of any competitive products and the duration of therapy for patients receiving CABOMETYX or COMETRIQ;
- the commercial success of COTELLIC and the revenues generated through our share of related profits and losses for the commercialization of COTELLIC in the U.S. and royalties from COTELLIC sales outside the U.S. under our collaboration with Genentech;
- changes in the amount of deductions from gross sales, including changes to the discount percentage of rebates and chargebacks mandated by the government programs in which we participate, including increases in the government discount percentage resulting from price increases we have taken or may take in the future, or due to different levels of utilization by entities entitled to government rebates and chargebacks and changes in patient demographics;
- costs associated with maintaining our sales, marketing, medical affairs and distribution capabilities for CABOMETYX, COMETRIQ and COTELLIC;
- our ability to obtain regulatory approval for cabozantinib as a treatment for patients with previously treated advanced HCC;
- the achievement of stated regulatory and commercial milestones, under our collaboration agreements;
- the progress and scope of other development and commercialization activities for cabozantinib and our other compounds;
- future clinical trial results;
- our future investments in the expansion of our pipeline through drug discovery and business development activities;
- the inability to obtain adequate product supply for any approved drug product or inability to do so at acceptable prices;
- recognition of upfront licensing or other fees or revenues;
- payments of non-refundable upfront or licensing fees, or payment for cost-sharing expenses, to third parties;
- the introduction of new technologies or products by our competitors;
- the timing and willingness of collaborators to further develop or, if approved, commercialize our product candidates out-licensed to them;
- the termination or non-renewal of existing collaborations or third-party vendor relationships;
- regulatory actions with respect to our product candidates and any approved products or our competitors' products;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- the timing and amount of expenses incurred for clinical development and manufacturing of cabozantinib;
- adjustments to expenses accrued in prior periods based on management's estimates after the actual level of activity relating to such expenses becomes more certain;
- the impairment of acquired goodwill and other assets;
- additions and departures of key personnel;
- significant fluctuations in interest rates or foreign currency exchange rates;

- general and industry-specific economic conditions that may affect our or our collaborators' research and development expenditures; and
- other factors described in this "Risk Factors" section.

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

Our stock price has been and may in the future be highly volatile.*

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

- adverse or inconclusive results or announcements in our or our collaborators' clinical trials or delays in those clinical trials;
- the announcement of FDA approval or non-approval, or delays in the FDA review process with respect to cabozantinib, our collaborators' product candidates being developed in combination with cabozantinib, or our competitors' product candidates;
- the commercial success of both CABOMETYX and COMETRIQ and the revenues we generate from those approved products;
- the timing of achievement of our clinical, regulatory, partnering and other milestones, such as the commencement of clinical development, the completion of a clinical trial, the filing for regulatory approval or the establishment of collaborative arrangements for cabozantinib or any of our other programs or compounds;
- actions taken by regulatory agencies, both in the U.S. and abroad, with respect to cabozantinib or our clinical trials for cabozantinib;
- unanticipated regulatory actions taken by the FDA as a result of changing FDA standards and practices concerning the review of product candidates at earlier stages of clinical development or with lesser developed data sets and the speed with which the FDA is conducting regulatory reviews;
- the announcement of new products by our competitors;
- the announcement of regulatory applications seeking a path to U.S. approval of generic versions of our marketed products;
- quarterly variations in our or our competitors' results of operations;
- developments in our relationships with our collaborators, including the termination or modification of our agreements;
- the announcement of an in-licensed product candidate or strategic acquisition;
- conflicts or litigation with our collaborators;
- litigation, including intellectual property infringement and product liability lawsuits, involving us;
- failure to achieve operating results projected by securities analysts;
- changes in earnings estimates or recommendations by securities analysts;
- the entry into new financing arrangements;
- developments in the biotechnology, biopharmaceutical or pharmaceutical industry;
- sales of large blocks of our common stock or sales of our common stock by our executive officers, directors and significant stockholders;
- departures of key personnel or board members;
- the extent to which coverage and reimbursement is available for both CABOMETYX and COMETRIQ from government and health administration authorities, private health insurers, managed care programs and other third-party payers;
- disposition of any of our technologies or compounds; and
- general market, economic and political conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

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

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

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

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

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

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

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

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

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017 that significantly reforms the Internal Revenue Code of 1986, as amended, or the Code. The Tax Cuts and Jobs Act, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction of future net operating losses to 80% of current year taxable income and elimination of net operating loss carry-backs, one-time taxation of offshore earnings at reduced rates regardless of whether

they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new capital investments instead of deductions for depreciation expense over time, and modifying, reducing or repealing many business deductions and credits (including reducing the business tax credit for certain clinical trial expenses incurred in the testing of certain drugs for rare diseases or conditions). Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Cuts and Jobs Act is uncertain and our business and financial condition could be adversely affected. The Tax Cuts and Jobs Act could be amended or subject to technical correction, which could change the financial impacts that were recorded at December 31, 2017 and March 31, 2018, or are expected to be recorded in future periods. Additionally, further guidance may be forthcoming from the FASB and SEC, as well as regulations, interpretations and rulings from federal and state tax agencies, which could result in additional impacts. The impact of this tax reform on holders of our common stock is also uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

Our effective tax rate may fluctuate, and we may incur obligations in tax jurisdictions in excess of accrued amounts.

We are subject to taxation in numerous U.S. states and territories. As a result, our effective tax rate is derived from a combination of applicable tax rates in the various places that we operate. In preparing our financial statements, we estimate the amount of tax that will become payable in each of such places. Our effective tax rate, however, may be different than experienced in the past due to numerous factors, including the passage of the Tax Cuts and Jobs Act, changes in the mix of our profitability from state to state, the results of examinations and audits of our tax filings, our inability to secure or sustain acceptable agreements with tax authorities, our utilization of federal and state net operating losses, changes in accounting for income taxes and changes in tax laws. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations and may result in tax obligations in excess of amounts accrued in our financial statements.

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

As of December 31, 2017, we had federal and state net operating loss carry-forwards of approximately \$1,529 million. The federal and state net operating loss carry-forwards will begin to expire, if not utilized, beginning in 2024 for federal income tax purposes and 2028 for California state income tax purposes. These net operating loss carry-forwards could expire unused and be unavailable to offset future income tax liabilities. While the Tax Cuts and Jobs Act allows for federal net operating losses incurred in 2018 and in future years to be carried forward indefinitely, the deductibility of such federal net operating losses incurred in 2018 and in future years will be limited. In addition, under the Code and similar state provisions, certain substantial changes in our ownership could result in an annual limitation on the amount of net operating loss carry-forwards that can be utilized in future years to offset future taxable income. The annual limitation may result in the expiration of net operating losses and credit carry-forwards before utilization. Based on our review and analysis, we concluded, as of December 31, 2017, that an ownership change, as defined under Section 382, had not occurred. However, if there is an ownership change under Section 382 of the Code in the future, we may not be able to utilize a material portion of our net operating losses. Furthermore, our ability to utilize our net operating losses other than the net operating losses expected to be utilized to offset income in 2017, is conditioned upon our maintaining profitability and generating U.S. federal taxable income. We do not know whether or when we will generate the U.S. federal taxable income necessary to utilize our remaining net operating losses. A full valuation allowance has been provided for the entire amount of our remaining net operating losses.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	File Number	Exhibit/Appendix Reference	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Exelixis, Inc.	10-K	000-30235	3.1	3/10/2010	
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Exelixis, Inc.	10-K	000-30235	3.2	3/10/2010	
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Exelixis, Inc.	8-K	000-30235	3.1	5/25/2012	
3.4	Certificate of Change of Registered Agent and/or Registered Office of Exelixis, Inc.	8-K	000-30235	3.1	10/15/2014	
3.5	Certificate of Ownership and Merger Merging X-CEPTOR Therapeutics, Inc. with and into Exelixis, Inc.	8-K	000-30235	3.2	10/15/2014	
3.6	Amended and Restated Bylaws of Exelixis, Inc.	8-K	000-30235	3.1	12/5/2011	
4.1	Specimen Common Stock Certificate	S-1, as amended	333-96335	4.1	4/7/2000	
10.1	Non-Employee Director Equity Compensation Policy	10-K	000-30235	10.25	2/26/2018	
10.2	Cash Compensation Information for Non-Employee Directors	10-K	000-30235	10.35	2/26/2018	
10.3	Compensation Information for Named Executive Officers (2017 Bonus Payments and 2018 Base Salaries and Target Bonus Percentages)	8-K	000-30235	Item 5.02 disclosure	2/16/2018	
10.4	Annual Cash Bonus Compensation Plan for Executives	8-K	000-30235	10.1	2/16/2018	
10.5	Exelixis, Inc. Change in Control and Severance Benefit Plan, as amended and restated					X
12.1	Statement Re Computation of Earnings to Fixed Charges					X
31.1	Certification of Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and Rule 15d-14(a)					X
31.2	Certification of Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and Rule 15d-14(a)					X
32.1†	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X

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

* Confidential treatment granted for certain portions of this exhibit.

** Confidential treatment requested for certain portions of this exhibit.

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

SIGNATURES

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

EXELIXIS, INC.

May 2, 2018
Date

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

EXELIXIS, INC.

CHANGE IN CONTROL AND SEVERANCE BENEFIT PLAN

SECTION 1. Introduction.

The Exelixis, Inc. Change in Control and Severance Benefit Plan (the "**Plan**"), established on December 9, 2005, and amended and restated effective December 23, 2008 and December 1, 2010, is hereby further amended and restated effective September 6, 2017 (the "**Effective Date**"). The purpose of the Plan is to provide for the payment of severance benefits to certain eligible employees of Exelixis, Inc. and its wholly owned subsidiaries in the event that such employees are subject to qualifying employment terminations and additional benefits if such qualifying employment termination occurs in connection with a Change in Control. This Plan shall supersede any severance benefit plan, contract, agreement, policy or practice maintained by the Company on the Effective Date; provided, however, that if any provision relating to stock options or other awards contained in any equity incentive plan adopted by the Company (the "**Equity Incentive Plan**"), or a stock option agreement or other agreement under the Equity Incentive Plan, is more favorable to an employee than the corresponding provision or the absence of such corresponding provision in the Plan, then such more favorable provision in the Equity Incentive Plan or such agreement shall govern, but the remainder of the Plan and such agreement shall continue in full force and effect. This document also is the Summary Plan Description for the Plan.

SECTION 2. Definitions.

For purposes of the Plan, except as otherwise provided in the applicable Participation Notice, the following terms are defined as follows:

(a) "**Base Salary**" means the Participant's annual base pay (excluding incentive pay, premium pay, commissions, overtime, bonuses and other forms of variable compensation), at the higher of (i) the rate in effect during the last regularly scheduled payroll period immediately preceding the date of the Participant's Covered Termination, or (ii) in the event of a Covered Termination that is a Constructive Termination based on a reduction of the Participant's base salary, the rate in effect during the last regularly scheduled payroll period immediately preceding the date of such reduction, in each case divided by twelve (12).

(b) "**Board**" means the Board of Directors of Exelixis, Inc.

(c) "**Bonus**" means the Participant's target bonus established by the Company's Compensation Committee for the year in which the Covered Termination occurs divided by twelve (12).

(d) "**Change in Control**" means one of the following events or a series of more than one of the following events: (i) when a person, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) acquires beneficial ownership of the Company's capital stock equal to 50% or more of either (x) the then-outstanding shares of the Company's common stock or (y) the combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of directors; (ii) upon the consummation by the Company of (x) a reorganization, merger or consolidation, provided that, in each case, the persons who were the Company's stockholders immediately prior to the reorganization, merger or consolidation do not, immediately after, own more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or (y) a liquidation or dissolution of the Company or the sale of all or substantially all of the Company's assets; or (iii) when the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the Board of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (x) who was a member of the Board on the date of the initial adoption of this Plan by the Board or (y) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such

nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board, is excluded from clause (iii)(y) above. For the purposes of this definition, (i) prior to a Change in Control, "Company" shall mean only Exelixis, Inc. or its successor and shall not include (A) its wholly owned subsidiaries or (B) the surviving or controlling entity resulting from a Change in Control or the entity to which the Company's assets were transferred in the case of an asset sale constituting a Change in Control and (ii) following a Change in Control, "Company" shall mean only Exelixis, Inc. (or its successor) and any surviving or controlling entity resulting from such Change in Control or the entity to which the Company's assets were transferred in the case of an asset sale constituting such a Change in Control and shall not include any wholly owned subsidiaries.

(e) **"Change in Control Termination"** means a Covered Termination which occurs within one (1) month prior to, as of, or within thirteen (13) months following the effective date of a Change in Control.

(f) **"Change in Control Termination Date"** means the later of (i) the effective date of the Participant's Change in Control Termination or (ii) the effective date of the applicable Change in Control.

(g) **"COBRA Period"** means (i) in the case of a Change in Control Termination, the applicable number of months set forth in Section 4(a)(iii) and (ii) in the case of a Covered Termination that is not a Change in Control Termination, (x) in the case of an Executive Participant, twelve (12) months and (y) in the case of a Participant who is not an Executive Participant, six (6) months.

(h) **"Code"** means the Internal Revenue Code of 1986, as amended.

(i) **"Company"** means Exelixis, Inc., its wholly owned subsidiaries, any successor to Exelixis, Inc. and, following a Change in Control, the surviving or controlling entity resulting from such a Change in Control or the entity to which the Company's assets were transferred in the case where the Change in Control is an asset sale.

(j) **"Constructive Termination"** means a voluntary termination of employment with the Company resulting in a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h) (without regard to any permissible alternative definition of "termination of employment" thereunder) by a Participant after one of the following is undertaken without the Participant's written consent: (i) reduction of such Participant's base salary by more than ten percent (10%) as in effect immediately prior to the time such reduction occurs; (ii) the occurrence of a material diminution in the package of welfare benefit plans, taken as a whole, in which such Participant is entitled to participate immediately prior to the time such material diminution occurs (except that such Participant's contributions may be raised to the extent of any cost increases imposed by third parties); provided, however, that a separation from service based on such material diminution qualifies as an "involuntary separation from service" as provided under Treasury Regulation Section 1.409A-1(n)(2)(i) or (ii); (iii) a change in such Participant's responsibilities, authority or offices that, taken as a whole, result in a material diminution of position; provided, however, that a change in the Participant's title or reporting relationships shall not by itself constitute a Constructive Termination; (iv) a request that such Participant relocate to a worksite that is more than thirty-five (35) miles from such Participant's prior worksite, unless such Participant accepts such relocation opportunity; (v) a material reduction in duties; (vi) a failure or refusal of any successor company to assume the obligations of the Company under an agreement with such Participant; or (vii) a material breach by the Company of any of the material provisions of an agreement with such Participant, including, without limitation, a breach of the terms of any agreement or program providing for the payment of bonus compensation. Notwithstanding any provision of this definition of "Constructive Termination" to the contrary, (i) an event or action by the Company shall not give the Participant grounds to voluntarily terminate employment as a Constructive Termination unless the Participant gives the Company written notice within thirty (30) days of the initial existence of such event or action that the event or action by the Company would give the Participant such grounds to so terminate employment and such event or action is not reversed, remedied or cured, as the case may be, by the Company as soon as possible but in no event later than within thirty (30) days of receiving such written notice from the Participant and (ii) in order to constitute a Constructive Termination, the Participant must terminate employment with the Company within thirty (30) days following the end of the period within which the Company was entitled to

reverse, remedy or cure such event or action but failed to do so. For the avoidance of doubt, the cessation of employment followed by the immediate commencement of services as an independent contractor for the Company, which does not result in a "separation from service" with the Company within the meaning of Treasury Regulation Section 1.409A-1(h), shall not constitute a Constructive Termination.

(k) **"Covered Termination"** means (x) an Involuntary Termination Without Cause or (y) a Constructive Termination if such Constructive Termination occurs any time after the date that is one (1) month prior to the effective date of the first Change in Control that occurs after the Participant commences participation in the Plan. Termination of employment of a Participant due to death or disability shall not constitute a Covered Termination unless a voluntary termination of employment by the Participant immediately prior to the Participant's death or disability would have qualified as a Constructive Termination.

(l) **"Covered Termination Date"** means (i) in the case of a Covered Termination that is an Involuntary Termination Without Cause, the effective date of the Participant's Involuntary Termination Without Cause, or (ii) in the case of a Covered Termination that is a Constructive Termination that occurs any time after the date that is one (1) month prior to the effective date of the first Change in Control that occurs after the Participant commences participation in the Plan, the later of (x) the effective date of the Participant's Constructive Termination or (y) the effective date of such Change in Control.

(m) **"Equity Incentive Plan"** means any equity incentive plan adopted by the Company.

(n) **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended.

(o) **"Involuntary Termination Without Cause"** means a Participant's involuntary termination of employment by the Company resulting in a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h) (without regard to any permissible alternative definition of "termination of employment" thereunder) for a reason other than Cause. "Cause" means the occurrence of any one or more of the following: (i) the Participant's conviction of, or plea of no contest with respect to, any crime involving fraud, dishonesty or moral turpitude; (ii) the Participant's attempted commission of or participation in a fraud or act of dishonesty against the Company that results in (or might have reasonably resulted in) material harm to the business of the Company; (iii) the Participant's intentional, material violation of any contract or agreement between the Participant and the Company, any statutory duty the Participant owes to the Company, or any material Company policy; or (iv) the Participant's conduct that constitutes gross misconduct, insubordination, incompetence or habitual neglect of duties and that results in (or might have reasonably resulted in) material harm to the business of the Company; provided, however, that the conduct described under clause (iii) or (iv) above will only constitute Cause if such conduct is not cured within fifteen (15) days after the Participant's receipt of written notice from the Company or the Board specifying the particulars of the conduct that may constitute Cause. The determination that a termination of a Participant's employment is for Cause shall not be made unless and until there shall have been delivered to such Participant a copy of a resolution duly adopted by the affirmative vote of at least a majority of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to such Participant and an opportunity for such Participant, together with such Participant's counsel, to be heard before the Board), finding that in the good faith opinion of the Board, such Participant was guilty of the conduct constituting "Cause" and specifying the particulars. For the avoidance of doubt, if, in connection with a Change in Control, an employee is terminated and offered "immediate reemployment" by the surviving or controlling entity resulting from a Change in Control or the entity to which the Company's assets were transferred in the case of an asset sale constituting a Change in Control, then such termination shall not constitute an Involuntary Termination Without Cause. For purposes of the foregoing, "immediate reemployment" shall mean that the employee's employment with the surviving or controlling entity resulting from a Change in Control or the entity to which the Company's assets were transferred in the case of an asset sale constituting a Change in Control, results in uninterrupted employment such that the employee does not suffer a lapse in pay as a result of the Change in Control and the terms of such reemployment, taken as a whole, are not less favorable than the terms of employment with the Company immediately prior to such employee's termination of employment. For the avoidance of doubt, the cessation of employment followed by the immediate commencement of services as an independent contractor for the Company, which does not result in a "separation from service" with the Company within the meaning of Treasury Regulation Section 1.409A-1(h), shall not constitute an Involuntary Termination Without Cause.

(p) **"Participant"** means an individual (i) who is employed by the Company as its Chief Executive Officer, President, executive vice president, senior vice president, vice president or any other officer with a rank of vice president or above and (ii) who has received a Participation Notice from and executed and returned such Participation Notice to the Company. The determination of whether an employee is a Participant shall be made by the Plan Administrator, in its sole discretion, and such determination shall be binding and conclusive on all persons. **"Executive Participant"** means a Participant who has been designated as an Executive Participant on the Participant's Participation Notice. For purposes of determining any benefits under the Plan, the position or level of any individual (as the Chief Executive Officer, an Executive Participant, or a Participant who is not an Executive Participant) will be the higher of (i) such individual's position or level on the effective date of his or her Covered Termination, or (ii) in the event of a Covered Termination that is a Constructive Termination based on a material diminution of such individual's position, such individual's position or level immediately preceding the date of such diminution.

(q) **"Participation Notice"** means the latest notice delivered by the Company to a Participant informing the employee that the employee is a Participant in the Plan, substantially in the form of **Exhibit A** hereto.

(r) **"Plan Administrator"** means the Board or any committee duly authorized by the Board to administer the Plan. The Plan Administrator may, but is not required to be, the Compensation Committee of the Board. The Board may at any time administer the Plan, in whole or in part, notwithstanding that the Board has previously appointed a committee to act as the Plan Administrator.

SECTION 3. Eligibility For Benefits.

(a) **General Rules.** Subject to the provisions set forth in this Section and Section 7, in the event of a Covered Termination, the Company will provide the severance benefits described in Section 4 of the Plan to the affected Participant.

(b) **Exceptions to Benefit Entitlement.** An employee, including an employee who otherwise is a Participant, will not receive benefits under the Plan (or will receive reduced benefits under the Plan) in the following circumstances, as determined by the Company in its sole discretion:

(i) The employee has executed an individually negotiated employment contract or agreement with the Company relating to severance or change in control benefits that is in effect on his or her termination date, in which case such employee's severance benefit, if any, shall be governed by the terms of such individually negotiated employment contract or agreement.

(ii) The employee voluntarily terminates employment with the Company in order to accept employment with another entity that is controlled (directly or indirectly) by the Company or is otherwise an affiliate of the Company.

(iii) The employee does not confirm in writing that he or she shall be subject to the Company's Employee Proprietary Information and Inventions Agreement.

(c) **Termination of Benefits.** A Participant's right to receive the payment of benefits under this Plan shall terminate immediately if, at any time prior to or during the period for which the Participant is receiving benefits hereunder, the Participant, without the prior written approval of the Company:

(i) willfully breaches a material provision of the Participant's Employee Proprietary Information and Inventions Agreement with the Company, as referenced in Section 3(b)(iii); or

(ii) willfully encourages or solicits any of the Company's then current employees to leave the Company's employ.

SECTION 4. Amount of Benefits.

(a) Cash Severance Benefits. Except as provided in the applicable Participation Notice:

(i) Each Participant who incurs a Covered Termination that is not also a Change in Control Termination shall be entitled to receive a cash severance benefit equal to (x) twelve (12) months of Base Salary in the case of an Executive Participant and (y) six (6) months of Base Salary in the case of a Participant who is not an Executive Participant. Any cash severance benefits provided under this Section 4(a)(i) shall be paid pursuant to the provisions of Section 5.

(ii) Each Participant who incurs a Change in Control Termination shall be entitled to receive a cash severance benefit equal to the sum of the Participant's Base Salary plus Bonus for the applicable number of months set forth in Section 4(a)(iii). If a Participant serves in two or more positions set forth in the table below, such cash severance benefit shall be for the position with the greatest number of months of cash severance, with no additional cash severance for the other position(s). Any cash severance benefits provided under this Section 4(a)(ii) shall be paid pursuant to the provisions of Section 5.

(iii) For the purposes of determining (x) the number of months of severance benefits in the event of a Change in Control Termination pursuant to Section 4(a)(ii) and (y) the COBRA Period in the event of a Change in Control Termination, the following periods shall be used.

Position or Level	Months
Chief Executive Officer	24 months
Executive Participants other than the Chief Executive Officer	18 months
Participants who are not Executive Participants	12 months

(b) Accelerated Stock Award Vesting and Extended Exercisability of Stock Options. If a Participant incurs a Change in Control Termination, then effective as of the later of the Participant's Change in Control Termination Date or, if applicable, the effective date of the release described in Section 7(a), (i) the vesting and exercisability of all outstanding options to purchase the Company's common stock (or stock appreciation rights or similar rights or other rights with respect to stock of the Company issued pursuant to the Equity Incentive Plan) that are held by the Participant on the effective date of such Change in Control Termination shall be accelerated in full, and (ii) any reacquisition or repurchase rights held by the Company in respect of common stock issued or issuable (or in respect of similar rights or other rights with respect to stock of the Company issued or issuable pursuant to the Equity Incentive Plan) pursuant to any other stock award granted to the Participant by the Company shall lapse. In order to give effect to the intent of this provision, in the event of a Participant's Change in Control Termination, notwithstanding anything to the contrary set forth in the Equity Incentive Plan or an option or other stock award agreement under the Equity Incentive Plan, in no event will any portion of the Participant's option or other stock award be forfeited or terminate prior to the later of the Participant's Change in Control Termination Date or, if applicable, the effective date of the release described in Section 7(a).

In addition, if a Participant incurs a Change in Control Termination, the post-termination of employment exercise period of any outstanding option (or stock appreciation right or similar right or other rights with respect to stock of the Company issued pursuant to the Equity Incentive Plan) held by the Participant on the date of his or her Change in Control Termination shall be extended, if necessary, such that the post-termination of employment exercise period shall not terminate prior to the later of (i) the date twelve (12) months after the Change in Control Termination Date or (ii) the post-termination exercise period provided for in such option or other stock award; provided, however, that such stock right shall not be exercisable after the expiration of its maximum term. Notwithstanding the foregoing,

stock rights granted prior to the Effective Date shall not be exercisable after the later of (A) the 15th day of the third month following the date at which, or (B) December 31 of the calendar year in which, the stock right would otherwise have expired if the stock right had not been extended.

Notwithstanding the provisions of this Section 4(b), in the event that the provisions of this Section 4(b) regarding acceleration of vesting of an option or other stock award or extended exercisability of an option or other stock award would adversely affect a Participant's option or other stock award (including, without limitation, its status as an incentive stock option under Section 422 of the Code) that is outstanding on the date the Participant commences participation in the Plan, such acceleration of vesting and/or extended exercisability shall be deemed null and void as to such option or other stock award unless the affected Participant consents in writing to such acceleration of vesting or extended exercisability as to such option or other stock award within thirty (30) days after becoming a Participant in the Plan.

(c) Continued Medical Benefits. If a Participant incurs a Covered Termination and the Participant was enrolled in a health, dental, or vision plan sponsored by the Company immediately prior to such Covered Termination, the Participant may be eligible to continue coverage under such health, dental, or vision plan (or to convert to an individual policy), at the time of the Participant's termination of employment, under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("**COBRA**"). The Company will notify the Participant of any such right to continue such coverage at the time of termination pursuant to COBRA. No provision of this Plan will affect the continuation coverage rules under COBRA, except that the Company's payment, if any, of applicable insurance premiums will be credited as payment by the Participant for purposes of the Participant's payment required under COBRA. Therefore, the period during which a Participant may elect to continue the Company's health, dental, or vision plan coverage at his or her own expense under COBRA, the length of time during which COBRA coverage will be made available to the Participant, and all other rights and obligations of the Participant under COBRA (except the obligation to pay insurance premiums that the Company pays, if any) will be applied in the same manner that such rules would apply in the absence of this Plan.

If a Participant timely elects continued coverage under COBRA, the Company shall pay the full amount of the Participant's COBRA premiums on behalf of the Participant for the Participant's continued coverage under the Company's health, dental and vision plans, including coverage for the Participant's eligible dependents, during the number of months equal to the COBRA Period; provided, however, that if the COBRA Period exceeds the length of time that the Participant is entitled to coverage under COBRA (including any additional period under analogous provisions of state law), the Company or any resulting or acquiring entity or transferee entity (in the case of an asset sale) involved in a Change in Control, as applicable, shall be required to provide health, dental and vision insurance coverage for the Participant and his or her eligible dependents for any portion of the COBRA Period that exceeds the length of time that the Participant is entitled to coverage under COBRA (including any additional period under analogous provisions of state law), at a level of coverage that is substantially similar to the continued coverage that the Participant and his or her eligible dependents received under the Company's health, dental and vision plans; provided further, however, that no such premium payments (or any other payments for medical, dental or vision coverage by the Company) shall be made following the Participant's death or the effective date of the Participant's coverage by a medical, dental or vision insurance plan of a subsequent employer. Each Participant shall be required to notify the Company immediately if the Participant becomes covered by a medical, dental or vision insurance plan of a subsequent employer. Upon the conclusion of the COBRA Period (or such shorter period during which the Company is obligated to pay premiums pursuant to this Section 4(c)), the Participant will be responsible for the entire payment of premiums required under COBRA.

For purposes of this Section 4(c), (i) references to COBRA shall be deemed to refer also to analogous provisions of state law and (ii) any applicable insurance premiums that are paid by the Company shall not include any amounts payable by the Participant under an Internal Revenue Code Section 125 health care reimbursement plan, which amounts, if any, are the sole responsibility of the Participant.

Notwithstanding the foregoing, if the Company, in its sole discretion, determines that it cannot provide the foregoing subsidy of COBRA coverage without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company instead shall provide to the Participant a taxable monthly payment in an amount equal to the monthly COBRA premium that the Participant would be required to pay to continue

the group health coverage in effect on the date of the Covered Termination (which amount shall be based on the premium for the first month of COBRA coverage), which payments shall be made regardless of whether the Participant elects COBRA continuation coverage, shall commence on the later of (i) the first day of the month following the month in which the Covered Termination Date or Change in Control Termination Date, as applicable, occurs, (ii) the effective date of the release described in Section 7(a), if applicable, and (iii) the effective date of the Company's determination of violation of applicable law, and shall end on the earliest of (x) the Participant's death, (y) the effective date on which the Participant becomes covered by a medical, dental or vision insurance plan of a subsequent employer, and (z) the last day of the COBRA Period.

(d) Outplacement Services. If a Participant incurs a Change in Control Termination, the Company shall pay, on behalf of the Participant, for outplacement services with an outplacement service provider selected by the Company for the applicable time period specified below; provided, however, that the payments made by the Company for such outplacement services shall not exceed the applicable maximum amount set forth below; provided further, however, that such payments qualify for the exception provided by Treasury Regulation Sections 1.409A-1(b)(9)(v)(A) and (C).

Position or Level	Time Period	Maximum Amount
Chief Executive Officer	24 months	\$50,000
Executive Participants other than the Chief Executive Officer	18 months	\$30,000
Participants who are not Executive Participants	12 months	\$20,000

(e) Other Employee Benefits. All other benefits (such as life insurance, disability coverage, and 401(k) plan coverage) shall terminate as of the Participant's termination date (except to the extent that a conversion privilege may be available thereunder).

(f) Additional Benefits. Notwithstanding the foregoing, the Company may, in its sole discretion, provide additional or enhanced benefits to those benefits provided for pursuant to Sections 4(a), 4(b), 4(c) and 4(d) to Participants or employees who are not Participants ("**Non-Participants**") chosen by the Company, in its sole discretion, and the provision of any such benefits to a Participant or a Non-Participant shall in no way obligate the Company to provide such benefits to any other Participant or to any other Non-Participant, even if similarly situated. If benefits under the Plan are provided to a Non-Participant, references in the Plan to "Participant" (with the exception of Sections 4(a), 4(b), 4(c) and 4(d)) shall be deemed to refer to such Non-Participants.

SECTION 5. Time and Form Of Severance Payments.

(a) General Rules. Subject to Section 5(b), any cash severance benefit provided under Section 4(a) shall be paid in installments, pursuant to the Company's regularly scheduled payroll periods, commencing on the first regularly scheduled payroll period following the later of (i) the Participant's Covered Termination Date or Change in Control Termination Date, as applicable, or (ii) the effective date of the release described in Section 7(a), if applicable, and shall be subject to all applicable withholding for federal, state and local taxes. In the event of a Participant's death prior to receiving all installment payments of his or her cash severance benefit under Section 4(a), any remaining installment payments shall be made to the Participant's estate on the same payment schedule as would have occurred absent the Participant's death. In no event shall payment of any Plan benefit be made prior to the Participant's Covered Termination Date or Change in Control Termination Date, as applicable, or prior to the effective date of the release described in Section 7(a), if applicable.

(b) Application of Section 409A.

(2). (i) All payments provided under this Plan are intended to constitute separate payments for purposes of Treasury Regulation Section 1.409A-2(b)

(ii) If a Participant is a "specified employee" of the Company or any affiliate thereof (or any successor entity thereto) within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of a Covered Termination, then any cash severance payments pursuant to Section 4(a) and any other benefits payable under the Plan (collectively, the "**Severance Payments**") shall be delayed until the date that is six (6) months after the date of the Covered Termination (such date, the "**Delayed Payment Date**"), and the Company (or the successor entity thereto, as applicable) shall (A) pay to Participant a lump sum amount equal to the sum of the Severance Payments that otherwise would have been paid to Participant on or before the Delayed Payment Date, without any adjustment on account of such delay, and (B) continue the Severance Payments in accordance with any applicable payment schedules set forth for the balance of the period specified herein. Notwithstanding the foregoing, (i) Severance Payments scheduled to be paid from the date of a Covered Termination through March 15th of the calendar year following such termination shall be paid to the maximum extent permitted pursuant to the "short-term deferral" rule set forth in Treasury Regulation Section 1.409A-1(b)(4); (ii) Severance Payments scheduled to be paid that are not paid pursuant to the preceding clause (i) shall be paid as scheduled to the maximum extent permitted pursuant to an "involuntary separation from service" as permitted by Treasury Regulation Section 1.409A-1(b)(9)(iii), but in no event later than the last day of the second taxable year following the taxable year of the Covered Termination; and (iii) any Severance Payments that are not paid pursuant to either the preceding clause (i) or the preceding clause (ii) shall be subject to delay, if necessary to avoid the imposition of the adverse personal tax consequences under Section 409A of the Code, as provided in the previous sentence. Except to the extent that payments may be delayed until the Delayed Payment Date, on the first regularly scheduled payroll period following the later of (x) the Participant's Covered Termination Date or Change in Control Termination Date, as applicable, or (y) the effective date of the release described in Section 7(a), if applicable, the Company will pay the Participant the cash severance payments pursuant to Section 4(a) the Participant would otherwise have received under the Plan on or prior to such date but for the delay in payment related to the effectiveness of the release described in Section 7(a), if any, with the balance of such payments being paid as otherwise provided herein.

(iii) If the Company determines that any benefit payable under the Plan constitutes "deferred compensation" under Section 409A of the Code and the Participant's Covered Termination occurs at a time during the calendar year when the release described in Section 7(a) could become effective in the calendar year following the calendar year in which such Covered Termination occurs, then for purposes of such benefit, such release will not be deemed effective any earlier than the latest permitted effective date set forth therein (which date, in all cases, will be in the subsequent calendar year).

(iv) Benefits provided under Section 4(b) are intended to be provided pursuant to the exception provided by Treasury Regulation Sections 1.409A-1(b)(5)(v)(C)(1) and 1.409A-1(b)(5)(v)(E), to the extent applicable. Amounts paid under Section 4(c) are not intended to be delayed pursuant to Section 409A(a)(2)(B)(i) of the Code and are intended to be paid pursuant to the exception provided by Treasury Regulation Section 1.409A-1(b)(9)(v)(B), to the extent applicable. Amounts paid under Section 4(d) are intended to qualify for the exception provided under Treasury Regulation Sections 1.409A-1(b)(9)(v)(A) and (C).

SECTION 6. REEMPLOYMENT.

In the event of a Participant's reemployment by the Company during the period of time in respect of which severance benefits pursuant to Section 4(a) or Section 4(f) have been paid, the Company, in its sole and absolute discretion, may require such Participant to repay to the Company all or a portion of such severance benefits as a condition of reemployment.

SECTION 7. Limitations on Benefits.

(a) **Release.** In order to be eligible to receive benefits under the Plan and if requested by the Company, a Participant also must execute, in connection with the Participant's Covered Termination or Change in Control Termination, a general waiver and release in substantially the form attached hereto as **Exhibit B**, **Exhibit C** or **Exhibit D**, as appropriate, and such release must become effective in accordance with its terms; provided, however, (i) no such release shall require the Participant to forego any unpaid salary, any accrued but unpaid vacation pay or any benefits payable pursuant to this Plan, and (ii) cash severance benefits pursuant to Section 4(a) shall commence to be paid on the first regularly scheduled payroll period following the later of (x) the Participant's Covered Termination Date or Change in Control Termination Date, as applicable, or (y) the effective date of such general waiver and release (the "**Release Effective Date**"), in accordance with and subject to Section 5, and any installment payments that, in the absence of the requirement of a general waiver and release, would have been paid between the Participant's Covered Termination Date or Change in Control Termination Date, as applicable and the Release Effective Date shall be made together with the first installment payment that occurs following the Release Effective Date such that the duration of payments will not be affected by the timing of the Release Effective Date. With respect to any outstanding option or other stock award held by the Participant, no provision set forth in this Plan granting the Participant any accelerated vesting or additional rights to exercise the option or other stock award will be effective unless and until the release, if requested, becomes effective. The Company, in its sole discretion, may modify the form of the required release to comply with applicable law and shall determine the form of the required release, which may be incorporated into a termination agreement or other agreement with the Participant.

(b) **Certain Reductions.** The Company, in its sole discretion, shall have the authority to reduce a Participant's severance benefits, in whole or in part, by any other severance benefits, pay in lieu of notice, or other similar benefits payable to the Participant by the Company that become payable in connection with the Participant's termination of employment pursuant to (i) any applicable legal requirement, including, without limitation, the Worker Adjustment and Retraining Notification Act (the "**WARN Act**"), (ii) a written employment or severance agreement with the Company, or (iii) any Company policy or practice providing for the Participant to remain on the payroll for a limited period of time after being given notice of the termination of the Participant's employment. The benefits provided under this Plan are intended to satisfy, in whole or in part, any and all statutory obligations and other contractual obligations of the Company that may arise out of a Participant's termination of employment, and the Plan Administrator shall so construe and implement the terms of the Plan. The Company's decision to apply such reductions to the severance benefits of one Participant and the amount of such reductions shall in no way obligate the Company to apply the same reductions in the same amounts to the severance benefits of any other Participant, even if similarly situated. In the Company's sole discretion, such reductions may be applied on a retroactive basis, with severance benefits previously paid being recharacterized as payments pursuant to the Company's statutory or other contractual obligations.

(c) **Mitigation.** Except as otherwise specifically provided herein, a Participant shall not be required to mitigate damages or the amount of any payment provided under this Plan by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Plan be reduced by any compensation earned by a Participant as a result of employment by another employer or any retirement benefits received by such Participant after the date of the Participant's termination of employment with the Company.

(d) **Non-Duplication of Benefits.** Except as otherwise specifically provided for herein, no Participant is eligible to receive benefits under this Plan or pursuant to other contractual obligations more than one time. This Plan is designed to provide certain severance pay and change in control benefits to Participants pursuant to the terms and conditions set forth in this Plan. The payments pursuant to this Plan are in addition to, and not in lieu of, any unpaid salary, bonuses or benefits (other than severance or change in control benefits) to which a Participant may be entitled for the period ending with the Participant's Covered Termination.

(e) **Indebtedness of Participants.** If a Participant is indebted to the Company on the effective date of his or her Covered Termination, the Company reserves the right to offset any severance payments under the Plan by the amount of such indebtedness.

(f) Parachute Payments. Except as otherwise provided in an agreement between a Participant and the Company, if any payment or benefit the Participant would receive in connection with a Change in Control from the Company or otherwise ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then such Payment shall be equal to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax, or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Participant's receipt of the greatest economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction shall occur in a manner (the "**Reduction Method**") necessary to provide the Participant with the greatest economic benefit. If more than one manner of reduction of payments or benefits necessary to arrive at the Reduced Amount yields the greatest economic benefit, the payments and benefits shall be reduced *pro rata* (the "**Pro Rata Reduction Method**").

Notwithstanding any provision of the foregoing paragraph to the contrary, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A of the Code that would not otherwise be subject to taxes pursuant to Section 409A of the Code, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, will be modified so as to avoid the imposition of taxes pursuant to Section 409A of the Code as follows: (A) as a first priority, the modification will preserve to the greatest extent possible, the greatest economic benefit for the Participant as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without Cause), will be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A of the Code will be reduced (or eliminated) before Payments that are not "deferred compensation" within the meaning of Section 409A of the Code.

If a Participant receives a Payment for which the Reduced Amount was determined pursuant to clause (x) of the first paragraph of this Section 7(f) and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, the Participant agrees to promptly return to the Company a sufficient amount of the Payment (after reduction pursuant to clause (x) of the first paragraph of this Section 7(f)) so that no portion of the remaining Payment is subject to the Excise Tax. For the avoidance of doubt, if the Reduced Amount was determined pursuant to clause (y) of the first paragraph of this Section 7(f), the Participant will have no obligation to return any portion of the Payment pursuant to the preceding sentence.

SECTION 8. Right To Interpret Plan; Amendment and Termination.

(a) Exclusive Discretion. The Plan Administrator shall have the exclusive discretion and authority to establish rules, forms, and procedures for the administration of the Plan and to construe and interpret the Plan and to decide any and all questions of fact, interpretation, definition, computation or administration arising in connection with the operation of the Plan, including, but not limited to, the eligibility to participate in the Plan and amount of benefits paid under the Plan. The rules, interpretations, computations and other actions of the Plan Administrator shall be binding and conclusive on all persons.

(b) Amendment or Termination. The Company reserves the right to amend or terminate this Plan, any Participation Notice issued pursuant to the Plan or the benefits provided hereunder at any time; provided, however, that (i) no such amendment or termination shall reduce or otherwise adversely affect the severance benefits provided in Sections 4(a)(i) or 4(c) to a Participant in connection with a Covered Termination that is not a Change in Control Termination, unless such Participant consents in writing to such amendment or termination and (ii) no such amendment or termination shall occur following the date one (1) month prior to a Change in Control as to any Participant who would be adversely affected by such amendment or termination unless such Participant consents in writing to such amendment or termination. Any action amending or terminating the Plan or any Participation Notice shall be in writing and executed by a duly authorized officer of the Company. Unless otherwise required by law, no approval of the shareholders of the Company shall be required for any amendment or termination including any amendment that increases the benefits provided under any option or other stock award.

SECTION 9. No Implied Employment Contract.

The Plan shall not be deemed (i) to give any employee or other person any right to be retained in the employ of the Company or (ii) to interfere with the right of the Company to discharge any employee or other person at any time, with or without cause, which right is hereby reserved.

SECTION 10. Legal Construction.

This Plan shall be governed by and construed under the laws of the State of California (without regard to principles of conflict of laws), except to the extent preempted by ERISA.

SECTION 11. Claims, Inquiries And Appeals.

(a) Applications for Benefits and Inquiries. Any application for benefits, inquiries about the Plan or inquiries about present or future rights under the Plan must be submitted to the Plan Administrator in writing by an applicant (or his or her authorized representative). The Plan Administrator is:

Exelixis, Inc.
Attn: Corporate Secretary
210 East Grand Avenue
South San Francisco, CA 94080

(b) Denial of Claims. In the event that any application for benefits is denied in whole or in part, the Plan Administrator must provide the applicant with written or electronic notice of the denial of the application, and of the applicant's right to review the denial. Any electronic notice will comply with the regulations of the U.S. Department of Labor. The notice of denial will be set forth in a manner designed to be understood by the applicant and will include the following:

- (1) the specific reason or reasons for the denial;
- (2) references to the specific Plan provisions upon which the denial is based;
- (3) a description of any additional information or material that the Plan Administrator needs to complete the review and an explanation of why such information or material is necessary; and
- (4) an explanation of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the applicant's right to bring a civil action under Section 502(a) of ERISA following a denial on review of the claim, as described in Section 11(d) below.

This notice of denial will be given to the applicant within ninety (90) days after the Plan Administrator receives the application, unless special circumstances require an extension of time, in which case, the Plan Administrator has up to an additional ninety (90) days for processing the application. If an extension of time for processing is required, written notice of the extension will be furnished to the applicant before the end of the initial ninety (90) day period.

This notice of extension will describe the special circumstances necessitating the additional time and the date by which the Plan Administrator is to render its decision on the application.

(c) Request for a Review. Any person (or that person's authorized representative) for whom an application for benefits is denied, in whole or in part, may appeal the denial by submitting a request for a review to the Plan Administrator within sixty (60) days after the application is denied. A request for a review shall be in writing and shall be addressed to:

A request for review must set forth all of the grounds on which it is based, all facts in support of the request and any other matters that the applicant feels are pertinent. The applicant (or his or her representative) shall have the opportunity to submit (or the Plan Administrator may require the applicant to submit) written comments, documents, records, and other information relating to his or her claim. The applicant (or his or her representative) shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to his or her claim. The review shall take into account all comments, documents, records and other information submitted by the applicant (or his or her representative) relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

(d) Decision on Review. The Plan Administrator will act on each request for review within sixty (60) days after receipt of the request, unless special circumstances require an extension of time (not to exceed an additional sixty (60) days), for processing the request for a review. If an extension for review is required, written notice of the extension will be furnished to the applicant within the initial sixty (60) day period. This notice of extension will describe the special circumstances necessitating the additional time and the date by which the Plan Administrator is to render its decision on the review. The Plan Administrator will give prompt, written or electronic notice of its decision to the applicant. Any electronic notice will comply with the regulations of the U.S. Department of Labor. In the event that the Plan Administrator confirms the denial of the application for benefits in whole or in part, the notice will set forth, in a manner designed to be understood by the applicant, the following:

- (1) the specific reason or reasons for the denial;
- (2) references to the specific Plan provisions upon which the denial is based;
- (3) a statement that the applicant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to his or her claim; and
- (4) a statement of the applicant's right to bring a civil action under Section 502(a) of ERISA.

(e) Rules and Procedures. The Plan Administrator will establish rules and procedures, consistent with the Plan and with ERISA, as necessary and appropriate in carrying out its responsibilities in reviewing benefit claims. The Plan Administrator may require an applicant who wishes to submit additional information in connection with an appeal from the denial of benefits to do so at the applicant's own expense.

(f) Exhaustion of Remedies. No legal action for benefits under the Plan may be brought until the applicant (i) has submitted a written application for benefits in accordance with the procedures described by Section 11(a) above, (ii) has been notified by the Plan Administrator that the application is denied, (iii) has filed a written request for a review of the application in accordance with the appeal procedure described in Section 11(c) above, and (iv) has been notified that the Plan Administrator has denied the appeal. Notwithstanding the foregoing, if the Plan Administrator does not respond to an applicant's claim or appeal within the relevant time limits specified in this Section 11, the applicant may bring legal action for benefits under the Plan pursuant to Section 502(a) of ERISA.

SECTION 12. Basis Of Payments To And From Plan.

All benefits under the Plan shall be paid by the Company. The Plan shall be unfunded, and benefits hereunder shall be paid only from the general assets of the Company.

SECTION 13. Other Plan Information.

(a) **Employer and Plan Identification Numbers.** The Employer Identification Number assigned to the Company (which is the "Plan Sponsor" as that term is used in ERISA) by the Internal Revenue Service is 04-3257395. The Plan Number assigned to the Plan by the Plan Sponsor pursuant to the instructions of the Internal Revenue Service is 507.

(b) **Ending Date for Plan's Fiscal Year.** The date of the end of the fiscal year for the purpose of maintaining the Plan's records is December 31.

(c) **Agent for the Service of Legal Process.** The agent for the service of legal process with respect to the Plan is:

Exelixis, Inc.
Attn: Corporate Secretary
210 East Grand Avenue
South San Francisco, CA 94080

(d) **Plan Sponsor and Administrator.** The "Plan Sponsor" and the "Plan Administrator" of the Plan is:

Exelixis, Inc.
Attn: Corporate Secretary
210 East Grand Avenue
South San Francisco, CA 94080

The Plan Sponsor's and Plan Administrator's telephone number is (650) 837-7000. The Plan Administrator is the named fiduciary charged with the responsibility for administering the Plan.

SECTION 14. Statement Of ERISA Rights.

Participants in this Plan (which is a welfare benefit plan sponsored by Exelixis, Inc.) are entitled to certain rights and protections under ERISA. If you are a Participant, you are considered a participant in the Plan for the purposes of this Section 14 and, under ERISA, you are entitled to:

Receive Information About Your Plan and Benefits

(a) Examine, without charge, at the Plan Administrator's office and at other specified locations, such as worksites, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series), if applicable, filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration;

(b) Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and copies of the latest annual report (Form 5500 Series), if applicable, and an updated (as necessary) Summary Plan Description. The Administrator may make a reasonable charge for the copies; and

(c) Receive a summary of the Plan's annual financial report, if applicable. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

Prudent Actions By Plan Fiduciaries

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries. No one, including

your employer, your union or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a Plan benefit or exercising your rights under ERISA.

Enforce Your Rights

If your claim for a Plan benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Plan documents or the latest annual report from the Plan, if applicable, and do not receive them within thirty (30) days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator.

If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or Federal court.

If you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

Assistance With Your Questions

If you have any questions about the Plan, you should contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

SECTION 15. General Provisions.

(a) Notices. Any notice, demand or request required or permitted to be given by either the Company or a Participant pursuant to the terms of this Plan shall be in writing and shall be deemed given when delivered personally or deposited in the U.S. mail, First Class with postage prepaid, and addressed to the parties, in the case of the Company, at the address set forth in Section 11(a) and, in the case of a Participant, at the address as set forth in the Company's employment file maintained for the Participant as previously furnished by the Participant or such other address as a party may request by notifying the other in writing.

(b) Transfer and Assignment. The rights and obligations of a Participant under this Plan may not be transferred or assigned without the prior written consent of the Company. This Plan shall be binding upon any surviving entity resulting from a Change in Control and upon any other person who is a successor by merger, acquisition, consolidation or otherwise to the business formerly carried on by the Company without regard to whether or not such person or entity actively assumes the obligations hereunder.

(c) Waiver and Costs of Enforcement. Any party's failure to enforce any provision or provisions of this Plan shall not in any way be construed as a waiver of any such provision or provisions, nor prevent any party from thereafter enforcing each and every other provision of this Plan. The rights granted to the parties herein are cumulative and shall not constitute a waiver of any party's right to assert all other legal remedies available to it under the circumstances. All out-of-pocket costs and expenses reasonably incurred by a Participant (including attorneys' fees) in connection with enforcing the Participant's rights under the Plan (including the costs and expenses of complying

with the provisions of Section 11) shall be paid by the Company if such rights relate to a Covered Termination that occurs any time after the date that is one (1) month prior to the effective date of the first Change in Control that occurs after the Participant commences participation in the Plan. Notwithstanding the foregoing, if the Participant initiates any claim or action and the claim or action is totally without merit or frivolous, the Participant shall be responsible for the Participant's own costs and expenses.

(d) Severability. Should any provision of this Plan be declared or determined to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

(e) Section Headings. Section headings in this Plan are included for convenience of reference only and shall not be considered part of this Plan for any other purpose.

SECTION 16. Execution.

To record the adoption of the Plan as set forth herein, Exelixis, Inc. has caused its duly authorized officer to execute the same as of the Effective Date.

EXELIXIS, INC.

By: /s/ JENNIFER DRIMMER

Title: Vice President, Corporate Legal Affairs & Secretary

EXHIBIT A

EXELIXIS, INC.

CHANGE IN CONTROL AND SEVERANCE BENEFIT PLAN

PARTICIPATION NOTICE

To: _____

Date: _____

Exelixis, Inc. has adopted the Exelixis, Inc. Change in Control and Severance Benefit Plan (the "**Plan**") and is providing you with this Participation Notice to inform you that you have been designated as a Participant in the Plan. A copy of the Plan document is attached to this Participation Notice. The terms and conditions of your participation in the Plan are as set forth in the Plan and this Participation Notice, which together also constitute a summary plan description of the Plan.

For the purposes of the Plan you are an Executive Participant are not an Executive Participant.

Except as provided in the Plan, the Plan supersedes any and all severance or change in control benefits payable to you as set forth in any agreement, including offer letters, with the Company (as defined in the Plan) entered into prior to the date hereof.

Notwithstanding the terms of the Plan:

[_____
_____]

Please return to Exelixis, Inc.'s Corporate Secretary a copy of this Participation Notice signed by you and retain a copy of this Participation Notice, along with the Plan document, for your records.

EXELIXIS, INC.

By: _____

Its: _____

ACKNOWLEDGEMENT

The undersigned Participant hereby acknowledges receipt of the foregoing Participation Notice. In the event the undersigned holds outstanding stock options or other stock awards as of the date of this Participation Notice, the undersigned hereby:*

- accepts all of the benefits of Section 4(b) of the Plan regardless of any potential adverse effects on any outstanding option or other stock award
- accepts the benefits of Section 4(b) of the Plan that have no adverse effect on outstanding options or other stock awards and rejects the benefits of Section 4(b) of the Plan as to those outstanding options and other stock awards that would have potential adverse effects
- other (please describe): _____

The undersigned acknowledges that the undersigned has been advised to obtain tax and financial advice regarding the consequences of this election including the effect, if any, on the status of the stock options for tax purposes under Section 422 of the Internal Revenue Code.

Print name

* Please check one box; failure to check a box will be deemed the selection of the second alternative (i.e., accepting the benefits of Section 4(b) of the Plan that have no adverse effect on outstanding options or other stock awards and rejecting the benefits of Section 4(b) of the Plan as to those outstanding options and other stock awards that would have potential adverse effects).

EXHIBIT B

RELEASE AGREEMENT

I have reviewed, I understand and I agree completely to the terms set forth in the Exelixis, Inc. Change in Control and Severance Benefit Plan (the "Plan").

I understand that this Release, together with the Plan, constitutes the complete, final and exclusive embodiment of the entire agreement between the Company, affiliates of the Company and me with regard to the subject matter hereof. I am not relying on any promise or representation by the Company or an affiliate of the Company that is not expressly stated therein. Certain capitalized terms used in this Release are defined in the Plan.

I hereby acknowledge and reaffirm my continuing obligations under the Company's and its affiliates' Employee Proprietary Information and Inventions Agreement.

Except as otherwise set forth in this Release, I hereby generally and completely release the Company and its affiliates, and their parents, subsidiaries, successors, predecessors and affiliates, and its and their current and former partners, members, directors, officers, employees, stockholders, shareholders, agents, attorneys, predecessors, insurers, affiliates and assigns (collectively, the "**Released Parties**"), from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to or on the date I sign this Release (collectively, the "**Released Claims**"). The Released Claims include but are not limited to: (a) all claims arising out of or in any way related to my employment with the Company and its affiliates, or their affiliates, or the termination of that employment; (b) all claims related to compensation or benefits from the Company and its affiliates, or their affiliates, including salary, bonuses, commissions, vacation, paid time off, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership, equity or profits interests in the Company and its affiliates, or their affiliates; (c) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (d) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (e) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964, the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (the "**ADEA**"), the federal Employee Retirement Income Security Act of 1974, the California Labor Code, and the California Fair Employment and Housing Act.

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA, and that the consideration given under the Plan for the waiver and release in this Release is in addition to anything of value to which I am already entitled. I further acknowledge that I have been advised, as required by the ADEA, that: (a) my waiver and release do not apply to any rights or claims that may arise after the date that I sign this Release; (b) I should consult with an attorney prior to signing this Release (although I may choose voluntarily not to do so); (c) I have twenty-one (21) days to consider this Release (although I may choose voluntarily to sign this Release earlier); (d) I have seven (7) days following the date I sign this Release to revoke it by providing written notice of my revocation to an officer of the Company; and (e) this Release shall not be effective until the date upon which the revocation period has expired, which shall be the eighth (8th) day after the date that I sign this Release provided that I do not revoke it.

In giving the releases set forth in this Release, which include claims which may be unknown to me at present, I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of any claims hereunder, including but not limited to the release of unknown and unsuspected claims.

Notwithstanding the foregoing, I understand that the following are not included in the Released Claims (the "**Excluded Claims**"): (a) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company or its affiliate to which I am a party or under applicable law; (b) any rights which cannot be waived as a matter of law; (c) any rights I have to file or pursue a claim for workers' compensation or unemployment insurance; and (d) any claims for breach of the Plan arising after the date that I sign this Release. **In addition, nothing in this Release shall prevent me from filing, cooperating with or participating in any proceeding before any federal, state or other government agency, except that I acknowledge and agree and hereby waive my right to any monetary benefits in connection with any such claim, charge or proceeding before the Equal Employment Opportunity Commission, the Department of Labor, or any analogous federal, state or other government agency with regard to any claim released herein.** I hereby represent that, other than the Excluded Claims, I am not aware of any claims I have or might have against any of the Released Parties that are not included in the Released Claims.

I hereby represent that I have been paid all compensation owed and for all time worked; I have received all the leave and leave benefits and protections for which I am eligible pursuant to the federal Family and Medical Leave Act, the California Family Rights Act, any applicable law or policy of the Company and its affiliates; and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I acknowledge that to become effective, I must sign and return this Release to the Company so that it is received not later than twenty-one (21) days following the date it is provided to me (which date must be no later than 15 days following the termination of my employment with the Company or any of its affiliates), and I must not subsequently revoke the Release.

PARTICIPANT:

(Signature)

Printed Name: _____

Date: _____

EXHIBIT C

RELEASE AGREEMENT

I have reviewed, I understand and I agree completely to the terms set forth in the Exelixis, Inc. Change in Control and Severance Benefit Plan (the "**Plan**").

I understand that this Release, together with the Plan, constitutes the complete, final and exclusive embodiment of the entire agreement between the Company, affiliates of the Company and me with regard to the subject matter hereof. I am not relying on any promise or representation by the Company or an affiliate of the Company that is not expressly stated therein. Certain capitalized terms used in this Release are defined in the Plan.

I hereby acknowledge and reaffirm my continuing obligations under the Company's and its affiliates' Employee Proprietary Information and Inventions Agreement.

Except as otherwise set forth in this Release, I hereby generally and completely release the Company and its affiliates, and their parents, subsidiaries, successors, predecessors and affiliates, and their current and former partners, members, directors, officers, employees, stockholders, shareholders, agents, attorneys, predecessors, insurers, affiliates and assigns (collectively, the "**Released Parties**"), from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to or on the date I sign this Release (collectively, the "**Released Claims**"). The Released Claims include but are not limited to: (a) all claims arising out of or in any way related to my employment with the Company and its affiliates, or their affiliates, or the termination of that employment; (b) all claims related to compensation or benefits from the Company and its affiliates, or their affiliates, including salary, bonuses, commissions, vacation, paid time off, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership, equity or profits interests in the Company and its affiliates, or their affiliates; (c) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (d) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (e) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964, the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (the "**ADEA**"), the federal Employee Retirement Income Security Act of 1974, the California Labor Code, and the California Fair Employment and Housing Act.

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA, and that the consideration given under the Plan for the waiver and release in this Release is in addition to anything of value to which I am already entitled. I further acknowledge that I have been advised, as required by the ADEA, that: (a) my waiver and release do not apply to any rights or claims that may arise after the date that I sign this Release; (b) I should consult with an attorney prior to signing this Release (although I may choose voluntarily not to do so); (c) I have forty-five (45) days to consider this Release (although I may choose voluntarily to sign this Release earlier); (d) I have seven (7) days following the date I sign this Release to revoke it by providing written notice of my revocation to an officer of the Company; and (e) this Release shall not be effective until the date upon which the revocation period has expired, which shall be the eighth (8th) day after the date that I sign this Release provided that I do not revoke it. **I hereby further acknowledge that the Company has provided me with ADEA disclosure information (under 29 U.S.C. § 626(f)(1)(H)).**

In giving the releases set forth in this Release, which include claims which may be unknown to me at present, I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of any claims hereunder, including but not limited to the release of unknown and unsuspected claims.

Notwithstanding the foregoing, I understand that the following are not included in the Released Claims (the "**Excluded Claims**"): (a) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company or its affiliate to which I am a party or under applicable law; (b) any rights which cannot be waived as a matter of law; (c) any rights I have to file or pursue a claim for workers' compensation or unemployment insurance; and (d) any claims for breach of the Plan arising after the date that I sign this Release. **In addition, nothing in this Release shall prevent me from filing, cooperating with or participating in any proceeding before any federal, state or other government agency, except that I acknowledge and agree and hereby waive my right to any monetary benefits in connection with any such claim, charge or proceeding before the Equal Employment Opportunity Commission, the Department of Labor, or any analogous federal, state or other government agency with regard to any claim released herein.** I hereby represent that, other than the Excluded Claims, I am not aware of any claims I have or might have against any of the Released Parties that are not included in the Released Claims.

I hereby represent that I have been paid all compensation owed and for all time worked; I have received all the leave and leave benefits and protections for which I am eligible pursuant to the federal Family and Medical Leave Act, the California Family Rights Act, any applicable law or policy of the Company and its affiliates; and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I acknowledge that to become effective, I must sign and return this Release to the Company so that it is received not later than forty-five (45) days following the date it is provided to me (which date must be no later than 15 days following the termination of my employment with the Company or any of its affiliates), and I must not subsequently revoke the Release.

PARTICIPANT:

(Signature)

Printed Name: _____

Date: _____

EXHIBIT D

RELEASE AGREEMENT

I have reviewed, I understand and I agree completely to the terms set forth in the Exelixis, Inc. Change in Control and Severance Benefit Plan (the "*Plan*").

I understand that this Release, together with the Plan, constitutes the complete, final and exclusive embodiment of the entire agreement between the Company, affiliates of the Company and me with regard to the subject matter hereof. I am not relying on any promise or representation by the Company or an affiliate of the Company that is not expressly stated therein. Certain capitalized terms used in this Release are defined in the Plan.

I hereby acknowledge and reaffirm my continuing obligations under the Company's and its affiliates' Employee Proprietary Information and Inventions Agreement.

Except as otherwise set forth in this Release, I hereby generally and completely release the Company and its affiliates, and their parents, subsidiaries, successors, predecessors and affiliates, and their current and former partners, members, directors, officers, employees, stockholders, shareholders, agents, attorneys, predecessors, insurers, affiliates and assigns (collectively, the "**Released Parties**"), from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to or on the date I sign this Release (collectively, the "**Released Claims**"). The Released Claims include but are not limited to: (a) all claims arising out of or in any way related to my employment with the Company and its affiliates, or their affiliates, or the termination of that employment; (b) all claims related to compensation or benefits from the Company and its affiliates, or their affiliates, including salary, bonuses, commissions, vacation, paid time off, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership, equity or profits interests in the Company and its affiliates, or their affiliates; (c) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (d) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (e) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964, the federal Americans with Disabilities Act of 1990, the federal Employee Retirement Income Security Act of 1974, the California Labor Code, and the California Fair Employment and Housing Act.

In giving the releases set forth in this Release, which include claims which may be unknown to me at present, I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of any claims hereunder, including but not limited to the release of unknown and unsuspected claims.

Notwithstanding the foregoing, I understand that the following are not included in the Released Claims (the "**Excluded Claims**"): (a) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company or its affiliate to which I am a party or under applicable law; (b) any rights which cannot be waived as a matter of law; (c) any rights I have to file or pursue a claim for workers' compensation or unemployment insurance; and (d) any claims for breach of the Plan arising after the date that I sign this Release. **In addition, nothing in this Release shall prevent me from filing, cooperating with or participating in any proceeding before any federal, state or other government agency, except that I acknowledge and agree and hereby waive my right to any monetary benefits in connection with any such claim, charge or proceeding before the Equal Employment Opportunity Commission, the Department of Labor, or any analogous federal, state or other government agency with regard to any claim released herein.** I hereby represent that, other than the Excluded Claims, I am not aware of any claims I have or might have against any of the Released Parties that are not included in the Released Claims.

I hereby represent that I have been paid all compensation owed and for all time worked; I have received all the leave and leave benefits and protections for which I am eligible pursuant to the federal Family and Medical Leave Act, the California Family Rights Act, any applicable law or policy of the Company and its affiliates; and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I acknowledge that to become effective, I must sign and return this Release to the Company so that it is received not later than fourteen (14) days following the date it is provided to me (which date must be no later than 15 days following the termination of my employment with the Company or any of its affiliates).

PARTICIPANT:

(Signature)

Printed Name: _____

Date: _____

EXELIXIS, INC.
STATEMENT RE COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands)

Our earnings were insufficient to cover fixed charges for the periods presented except for the three months ended March 31, 2018 and the year ended December 31, 2017. The following table sets forth our ratio of earnings to fixed charges for the three months ended March 31, 2018 and the year ended December 31, 2017, and our deficiency of earnings to cover fixed charges for the other periods presented.

	Three Months Ended March 31, 2018	Year Ended December 31,			
		2017	2016	2015	2014
Fixed charges:					
Interest expense	\$ —	\$ 8,679	\$ 33,060	\$ 40,680	\$ 41,362
Interest portion of rental expense	140	592	721	755	886
Total fixed charges	<u>\$ 140</u>	<u>\$ 9,271</u>	<u>\$ 33,781</u>	<u>\$ 41,435</u>	<u>\$ 42,248</u>
Earnings available for fixed charges:					
Net income (loss) before income taxes	\$ 118,371	\$ 158,577	\$ (70,222)	\$ (161,744)	\$ (261,297)
Fixed charges per above	140	9,271	33,781	41,435	42,248
Total earnings available for fixed charges	<u>\$ 118,511</u>	<u>\$ 167,848</u>	<u>\$ (36,441)</u>	<u>\$ (120,309)</u>	<u>\$ (219,049)</u>
Ratio of earnings to fixed charges	846.51	18.10	N/A	N/A	N/A
Deficiency of earnings available to cover fixed charges	N/A	N/A	\$ (70,222)	\$ (161,744)	\$ (261,297)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) and 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael M. Morrissey, Ph.D., certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

/s/ MICHAEL M. MORRISSEY

Michael M. Morrissey, Ph.D.

President and Chief Executive Officer
(Principal Executive Officer)

Date: May 2, 2018

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) and 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher J. Senner, certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

/s/ CHRISTOPHER J. SENNER

Christopher J. Senner

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: May 2, 2018

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Michael M. Morrissey, Ph.D., the President and Chief Executive Officer of Exelixis, Inc. (the "Company"), and Christopher J. Senner, the Executive Vice President and Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended March 30, 2018, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 2nd day of May 2018.

/s/ MICHAEL M. MORRISSEY

Michael M. Morrissey, Ph.D.

President and Chief Executive Officer
(Principal Executive Officer)

/s/ CHRISTOPHER J. SENNER

Christopher J. Senner

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)