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 31, 2005

Or

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

For the transition period from _____ to _____

Commission File Number: 0-30235

Exelixis, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**04-3257395**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

170 Harbor Way
P.O. Box 511
South San Francisco, CA 94083
(Address of principal executive offices, including zip code)

(650) 837-7000
(Registrant's telephone number, including area code)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

On April 29, 2005, there were 76,305,762 shares of common stock, par value $.001 per share, of Exelixis, Inc. outstanding.

EXELIXIS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

INDEX

ITEM 1. FINANCIAL STATEMENTS

EXELIXIS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2005 (unaudited)	December 31, 2004 [1]
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61,384	$ 78,105
Short-term investments	62,189	77,078
Other receivables	13,142	4,424
Prepaid expense and other current assets	5,248	4,350
Total current assets	141,963	163,957
Restricted cash and investments	15,480	16,040
Property and equipment, net	36,065	35,463
Related-party receivables	24	51
Goodwill	67,364	67,364
Other intangibles, net	4,240	4,512
Other assets	4,617	3,953
Total assets	$ 269,753	$ 291,340
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,204	$ 5,931
Other accrued expenses	9,460	12,012
Accrued compensation and benefits	4,950	6,297
Current portion of capital lease obligations	1,357	1,931
Current portion of notes payable and bank obligations	8,016	8,928
Deferred revenue	41,994	28,697
Total current liabilities	67,981	63,796
Capital lease obligations	8	98
Notes payable and bank obligations	18,633	21,398
Convertible promissory note and loan	115,000	115,000
Other long-term liabilities	9,788	7,995
Deferred revenue	25,235	32,382
Total liabilities	236,645	240,669
Commitments		
Stockholders' equity:		
Common stock	76	75
Additional paid-in-capital	579,284	569,345
Accumulated other comprehensive income	532	624
Accumulated deficit	(546,784)	(519,373)
Total stockholders' equity	33,108	50,671
Total liabilities and stockholders' equity	$ 269,753	$ 291,340

[1] The condensed consolidated balance sheet at December 31, 2004 has been derived from the audited financial statement at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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

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

	Three Months Ended March 31,	
	2005	2004
Revenues:		
Contract	$ 10,090	$ 8,764
License	2,784	3,128
Total revenues	12,874	11,892
Operating expenses:		
Research and development	33,321	34,224
General and administrative	6,242	5,576
Restructuring charge	—	537
Amortization of intangibles	272	166
Total operating expenses	39,835	40,503
Loss from operations	(26,961)	(28,611)
Other income (expense):		
Interest income	928	916
Interest expense	(1,552)	(1,233)
Other income (expense), net	174	85
Total other income (expense)	(450)	(232)
Net loss	$ (27,411)	$ (28,843)
Net loss per share, basic and diluted	$ (0.36)	$ (0.40)
Shares used in computing basic and diluted net loss per share	75,918	71,512

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

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

	Three Months Ended March 31,	
	2005	2004
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (27,411)	$ (28,843)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,178	4,478
Stock compensation expense (reversals)	(16)	33
Non-cash portion of restructuring charge	—	(150)
Amortization of intangibles	272	166
Gain on the sale of equipment	(122)	—
Other	117	562
Changes in assets and liabilities:		
Other receivables	(8,400)	792
Prepaid expense and other current assets	(925)	(446)
Related-party receivables	27	—
Other assets	(1,089)	(315)
Accounts payable and other accrued expenses	(6,789)	(2,613)
Other long-term liabilities	1,612	550
Deferred revenue	6,261	(3,228)
Net cash used in operating activities	(32,285)	(29,014)
Cash flows from investing activities:		
Purchases of property and equipment	(3,986)	(3,062)
Proceeds on sale of equipment	152	—
Change in restricted cash and investments	560	(299)
Proceeds from maturities of short-term investments	35,512	29,307
Purchases of short-term investments	(21,285)	(25,874)
Net cash provided by investing activities	10,953	72
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	8,854	721
Proceeds from exercise of stock options, net of repurchases	54	—
Repayment of notes from stockholders	—	53
Payments on capital lease obligations	(664)	(1,736)
Principal payments on notes payable and bank obligations	(3,678)	(1,553)
Net cash provided by (used in) financing activities	4,566	(2,515)
Effect of foreign exchange rates on cash and cash equivalents	45	(48)
Net decrease in cash and cash equivalents	(16,721)	(31,505)
Cash and cash equivalents, at beginning of period	78,105	111,828
Cash and cash equivalents, at end of period	$ 61,384	$ 80,323

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

EXELIXIS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005
(unaudited)

NOTE 1 Organization and Summary of Significant Accounting Policies

Organization

Exelixis, Inc. ("Exelixis," "we," "our," or "us") is a biotechnology company whose primary mission is to leverage its biological expertise and integrated drug discovery capabilities to develop high-quality, differentiated pharmaceutical products in the treatment of cancer, metabolic disorders, cardiovascular disease and other serious diseases. We use comparative genomics and model system genetics to find new drug targets and compounds that we believe would be difficult or impossible to uncover using other experimental approaches. Our research is designed to identify novel genes and proteins expressed by those genes that, when changed, either decrease or increase the activity in a specific disease pathway in a therapeutically relevant manner. These genes and proteins represent either potential product targets or drugs that may treat disease or prevent disease initiation or progression. Our most advanced pharmaceutical programs focus on drug discovery and development of small molecules in cancer, metabolic disorders, cardiovascular disease and other serious diseases. We believe that our proprietary technologies are also valuable to other industries whose products can be enhanced by an understanding of DNA or proteins, including the agrochemical, agricultural and diagnostic industries.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 statement of the results of operations and cash flows for the periods presented have been included. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005 or for any future period. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2004 included in our Annual Report on Form 10-K filed with the SEC on March 15, 2005.

Net Loss Per Share

Basic and diluted net loss per share are computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period, adjusted for shares that are subject to repurchase. The calculation of diluted net loss per share excludes potential common stock because its effect is antidilutive. Potential common stock consists of incremental common shares issuable upon the exercise of stock options and warrants and shares issuable upon conversion of the convertible promissory note and loans.

Stock-Based Compensation

We recognize employee stock-based compensation under the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. Accordingly, no compensation expense is recognized in our financial statements for the stock options granted to employees, which had an exercise price equal to the fair value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123" ("SFAS 148") (in thousands, except per share amounts):

		Three Months Ended March 31,	
		2005	2004
Net loss:			
As reported		$(27,411)	$(28,843)
Add:	Stock-based employee compensation expense (reversal) included in reported net loss	(16)	33
Deduct:	Total stock-based employee compensation expense determined under fair value method for all awards	(4,421)	(5,581)
Pro forma net loss		$(31,848)	$(34,391)
Net loss per share (basic and diluted):			
As reported		$ (0.36)	$ (0.40)
Pro forma		$ (0.42)	$ (0.48)

Since options vest over several years and additional option grants are expected to be made in future years, the pro forma impact on the results of operations for the three-month period ended March 31, 2005 and 2004 is not necessarily representative of the pro forma effects on the results of operations for future periods.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The effective date of SFAS 123R is the first reporting period beginning after June 15, 2005. However, on April 14, 2005, the Securities and Exchange Commission (SEC) announced the adoption of a new rule that amends the compliance date of SFAS 123R. The SEC's new rule allows calendar year companies to implement SFAS 123R at the beginning of 2006, which makes SFAS 123R effective for Exelixis in the first quarter of 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. We are evaluating the requirements of SFAS 123R and expect that the adoption of SFAS 123R will have a material impact on our consolidated results of operations and earnings per share. We have not yet determined the method of adoption or the effect of adopting SFAS 123R, and we have not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

NOTE 2 Comprehensive Income (Loss)

Comprehensive income (loss) represents net income (loss) plus the results of certain stockholders' equity changes, which are comprised of unrealized gains and losses on available-for-sale securities and cumulative translation adjustments, not reflected in the consolidated statements of operations. Comprehensive income (loss) for the three-month periods ended March 31, 2005 and 2004 were as follows (in thousands):

	Three Months Ended March 31,	
	2005	2004
Net loss	$(27,411)	$(28,843)
Increase (decrease) in unrealized gains on available-for-sale securities	(236)	175
Increase (decrease) in cumulative translation adjustment	144	(31)
Reclassification of cumulative translation adjustment to income	—	(228)
Comprehensive loss	$(27,503)	$(28,927)

NOTE 3 Restructurings

2004 Restructuring Charges

During the second quarter of 2004, we implemented a restructuring and consolidation of our research and discovery organizations designed to optimize our ability to generate multiple new, high-quality investigational new drug applications per year and rapidly advance these new drug candidates through clinical development. We accounted for the restructuring activity in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). The restructuring included a reduction in force of 62 employees, the majority of which were research personnel located in South San Francisco, California. We recorded a restructuring charge of $1.7 million during the second quarter of 2004 comprised primarily of involuntary termination benefits. As of March 31, 2005, all amounts under this restructuring liability had been fully paid. The restructuring liabilities as of December 31, 2004 were included under the caption "Other Accrued Expenses" on the balance sheet and are summarized in the following table (in thousands):

	Restructuring Liability at December 31, 2004	Cash Payments	Restructuring Liability at March 31, 2005
Severance and benefits	$ 59	$ (59)	$ —
Legal and other fees	48	(48)	—
	$ 107	$ (107)	$ —

2003 Restructuring Charges

During the third quarter of 2003, we implemented a worldwide restructuring of our research and development organization designed to reallocate resources and enhance the efficiency of our operations. The restructuring included a reduction in force of 61 research personnel located in South San Francisco, California and Tübingen, Germany, closure of our Tübingen location and relocation of certain research activities and employees from Tübingen to South San Francisco. We recorded a cumulative charge of approximately $1.5 million to date in accordance with SFAS 146, of which approximately $0.5 million and $1.0 million was recorded during the years ended December 31, 2004 and 2003, respectively. The restructuring plan was substantially complete as of March 31, 2004. This charge primarily consists of severance payments, retention bonuses, relocation costs, lease buyout costs and legal and outplacement services fees. As of March 31, 2005, the remaining restructuring liabilities are included under the caption "Other Accrued Expenses" on the balance sheet and are summarized in the following table (in thousands):

	Restructuring Liability at December 31, 2004	Cash Payments	Restructuring Liability at March 31, 2005
Severance and benefits	$ 31	$ (31)	$ —
Legal and other fees	45	(14)	31
Lease buyout costs	66	(63)	3
	$ 142	$ (108)	$ 34

NOTE 4 GlaxoSmithKline Collaboration

In October 2002, Exelixis and SmithKlineBeecham Corporation, which does business as GlaxoSmithKline established a collaboration to discover and develop novel therapeutics in the areas of vascular biology, inflammatory disease and oncology. The collaboration involved three agreements: (a) a Product Development and Commercialization Agreement ("PDA"); (b) a Stock Purchase and Stock Issuance Agreement ("SPA") and (c) a Loan and Security Agreement.

In January 2005, we amended the terms of our collaboration with GlaxoSmithKline. Under the original PDA, an option period commenced in October 2004 during which GlaxoSmithKline was required to elect a pre-defined limited or expanded program option. The terms of the amended PDA reflect GlaxoSmithKline's decision to select a modified program election that is neither the limited nor the expanded option envisioned in the original PDA. If GlaxoSmithKline had elected the limited program option, then GlaxoSmithKline would have been able to select up to 12 targets, along with the respective compounds directed against those targets, which would have narrowed the focus of further work under the collaboration. If GlaxoSmithKline had elected the expanded program

option, there would not be a narrowing of focus, and all of the collaboration targets, and their respective compounds, would have remained in the collaboration. Under the amended PDA, GlaxoSmithKline selected a modified program election through which the focus of the collaboration is shifted to 12 internal programs at various stages of development (XL784, XL647, XL999, XL880, XL184, XL820, XL844 and five earlier stage oncology programs). Each program centers on compounds that are directed against one or more targets identified in the collaboration. Under the modified program, GlaxoSmithKline has the right to select from these programs up to two compounds at proof-of-concept (completion of Phase 2a clinical trial) or three compounds if GlaxoSmithKline extends the collaboration. If GlaxoSmithKline selects three compounds we could receive up to $275.0 million in acceptance milestones. Additionally, GlaxoSmithKline retains exclusivity rights to the approximately 32 specified targets that are encompassed by the 12 programs. However, we retain rights to all compounds not encompassed by the 12 programs selected by GlaxoSmithKline and may work on any targets with the exception of the approximately 32 targets subject to the exclusivity.

Under the amended PDA, GlaxoSmithKline will be required to pay us a new $30.0 million milestone upon (i) the filing of investigational new drug applications (INDs) for three out of four compounds (XL880, XL184, XL820 and XL844) prior to the end of 2005 or (ii) the successful completion in 2005 of a Phase 1 clinical trial for one of these four compounds. In return for the new $30.0 million milestone, if paid to us, GlaxoSmithKline will receive a $30.0 million credit and a specified reduction against the first acceptance milestone as well as a temporary reduction in the royalty rate it owes us on net sales of products developed under the collaboration. If the acceptance milestone is less than the $30.0 million credit and the specified reduction, then the remaining balance will reduce any future product commercialization milestones that GlaxoSmithKline owes to us. Under the amended PDA, GlaxoSmithKline also will be obligated to pay a new $5.0 million milestone to us upon achieving specified progress with respect to certain other candidates. Under the original PDA, GlaxoSmithKline would have paid the first milestone upon its selection of a compound that had completed proof-of-concept for further development. We may also receive additional development related milestones and royalties on product sales and have certain co-promotion rights to products in North America. In addition, under the amended PDA, GlaxoSmithKline is obligated to provide research funding of $47.5 million over the remaining three-year term of the collaboration.

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

NOTE 5 Genoptera Collaboration

In March 2005, Exelixis, Bayer CropScience LP (“Bayer”) and Genoptera LLC (“Genoptera”) agreed to amend the terms of the collaboration agreement, dated January 1, 2000 (the “Amendment”), among Exelixis, Bayer and Genoptera. Exelixis and Bayer formed Genoptera, a joint venture focused on the discovery of novel insecticides and nematicides for crop protection in January 2000. The Amendment provides for an early termination of the research term and requires Bayer to acquire our 40% ownership interest in Genoptera within six months after the termination of the research term. The Amendment also requires Bayer to pay us an early termination fee of $10.9 million, which was paid in April 2005. We expect to recognize this as revenue once the final knowledge transfer is completed. At that time, Bayer, through Genoptera, will have exclusive rights in the field of agriculture to assays, compounds and products developed under the collaboration and we will have exclusive rights in all other fields. Under the terms of the Amendment, the obligations of Bayer to fund further research cease and we have no further obligations to perform research.

NOTE 6 Subsequent Event - GlaxoSmithKline Collaboration

In May 2005, we filed the third of three INDs required by the amended PDA to achieve a $30.0 million milestone. Under the amended PDA, GlaxoSmithKline is required to pay us a $30.0 million milestone if we file INDs for three out of four compounds (XL880, XL184, XL820 and XL844) prior to the end of 2005. In return for the $30.0 million milestone, GlaxoSmithKline will receive a $30.0 million credit and other reductions to future payments owed to Exelixis. As part of the amended PDA, GlaxoSmithKline also agreed to pay Exelixis a $5.0 million milestone for achieving specified progress with respect to certain other candidates. In May 2005, we submitted two new development candidates to GlaxoSmithKline, thereby triggering the additional milestone. The amended PDA is described in further detail in Note 4.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Exelixis, Inc. is a biotechnology company whose primary mission is to leverage its biological expertise and integrated drug discovery capabilities to develop high-quality, differentiated pharmaceutical products for the treatment of cancer, metabolic disorders, cardiovascular disease and other serious diseases. Our research is designed to identify novel genes and proteins that, when expressed at altered levels, either decrease or increase the activity of a specific disease pathway in a therapeutically relevant manner. These genes and proteins represent either potential product targets or drugs that may treat disease or prevent disease initiation or progression. We believe that our proprietary technologies also are valuable to other industries whose products can be enhanced by an understanding of DNA or proteins, including the agrochemical, agricultural and diagnostic industries.

Our clinical development pipeline currently includes the following compounds in cancer and renal disease: XL119 (becatecarin), for which a Phase 3 clinical trial is ongoing in patients with bile duct tumors; XL784, initially an anticancer compound, currently being developed as a treatment for renal disease for which we anticipate initiating additional clinical studies in 2005; XL647 and XL999, anticancer compounds currently in Phase 1 clinical trials; XL880, an anticancer compound for which we initiated a Phase 1 clinical trial in March 2005; XL820 and XL844, anticancer compounds for which we filed investigational new drug applications (INDs) in April 2005 and May 2005, respectively; and XL184, an anticancer compound for which we anticipate filing an IND in the first half of 2005. Our preclinical pipeline is comprised of six programs, which includes three cancer programs focused on the inhibition of the RAF, Akt/S6k and IGF1R kinases for which we have designated drug candidates with the numbers XL281, XL418 and XL228, respectively. We anticipate that we will continue to advance at least some of these drug candidates in 2005, with the potential of filing INDs beginning in 2006. The preclinical pipeline also includes small molecule compounds designed to target the Liver X Receptor (LXR), Farnesoid X Receptor (FXR) and Mineralocorticoid Receptor (MR). These targets are nuclear hormone receptors (NHRs) that are implicated in various metabolic and cardiovascular disorders.

We have incurred net losses since inception and expect to incur substantial losses for at least the next several years as we continue our research and development activities, including manufacturing and development expenses for compounds in preclinical and clinical studies. As of March 31, 2005, we had approximately $139.1 million in cash, cash equivalents, short-term investments and restricted cash and investments. As of March 31, 2005, we anticipate that our cash and cash equivalents, short-term investments and funding that we expect to receive from collaborators will enable us to maintain our currently planned operations for at least the next 12 months months. It is possible that we will seek additional financing within this timeframe through collaborative relationships, private or public financing or other arrangements. Changes to our current operating plan may require us to consume available capital resources significantly sooner than we expect.

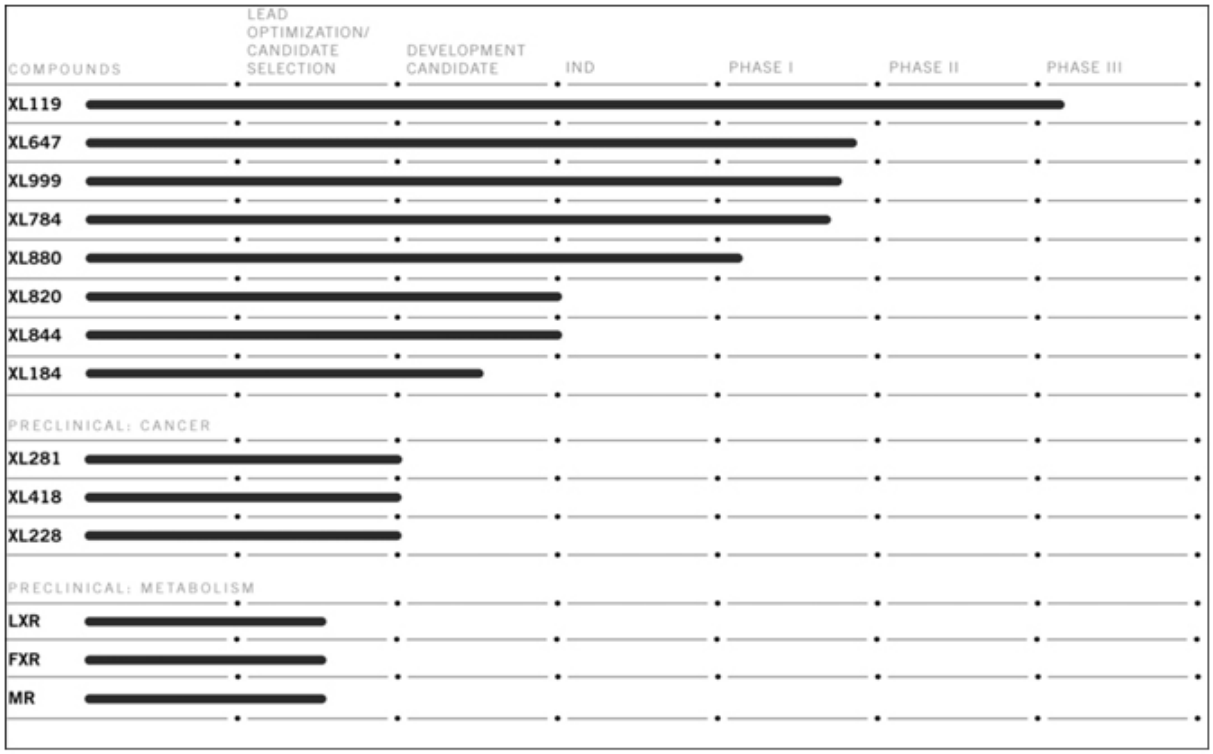
We have established collaborations with major pharmaceutical and biotechnology companies based on the strength of our technologies and biological expertise to support additional development of our proprietary products. Through these collaborations we obtain license fees, research funding, and the opportunity to receive milestone payments and royalties from research results and subsequent product development activities. In addition, many of our collaborations have been structured strategically to provide us with access to technology that may help to advance our internal programs more rapidly while at the same time enabling us to retain rights to use these technologies in different industries. We have also established collaborations with leading companies in the agrochemical industries that allow us to continue expanding our internal development capabilities and diversifying our revenue stream while providing our partners with novel targets and assays. We have ongoing commercial collaborations with several leading pharmaceutical and biotechnology companies, including GlaxoSmithKline and Bristol-Myers Squibb Company. We expect to continue to use corporate partnering as a strategic tool to cultivate our assets, fund our operations and expand the therapeutic and commercial potential of our pipeline.

As our company has matured and our development efforts have intensified, we have restructured the organization as needed to reallocate resources and enhance the efficiency of our operations. We believe that these efforts have strengthened us by enabling us to achieve an appropriate functional balance within the organization.

Recent Developments

Development Update

Our pipeline continues to advance. The following summarizes the status of our clinical and preclinical development pipeline and serves as an update to the disclosures we made in the business section of our Annual Report on Form 10-K for the year ended December 31, 2004. We have an expansive pipeline of high-quality compounds in various stages of development to potentially treat cancer, renal disease and various metabolic and cardiovascular disorders.



Pipeline Update

We anticipate having eight compounds in active clinical trials in 2005. Our most advanced compounds continue to progress in clinical development – XL119 is in a multi-national Phase 3 clinical trial for the treatment of bile duct tumors and is recruiting patients as anticipated and we are planning to initiate additional clinical studies in renal disease for XL784 later in 2005. Additionally, there are three ongoing Phase 1 clinical trials and we anticipate initiating three more Phase 1 clinical trials by the second half of 2005.

All of our compounds with the exception of XL119 (which was licensed from BMS) were developed under our oncology program, which is focused on the development of highly potent, orally available diverse compounds that target specific kinases implicated in angiogenesis and cell proliferation. The program currently comprises ten compounds – seven in clinical development and three in preclinical development. We anticipate completing Phase 1 clinical trials for XL647 and XL999 in the second half of 2005 and to initiate broad Phase 2 clinical trial programs for these compounds as soon as practicable thereafter. In addition, the Phase 1 clinical trial for XL880 was initiated in March and we filed INDs for XL820 and XL844 in April 2005 and May 2005, respectively, and we anticipate filing an IND for XL184 in the first half of 2005. Additionally, we have selected the following drug candidates for further development: XL281, which targets RAF kinase, XL418, which targets Akt/S6k, and XL228, which targets the insulin growth factor 1 (IGF1) receptor. We plan to continue preclinical work on these compounds with the goal of potentially filing INDs for at least some of these drug candidates in 2006.

GlaxoSmithKline Collaboration

In January 2005, we amended the terms of our collaboration with GlaxoSmithKline. Under the original agreement, an option period commenced in October 2004 during which GlaxoSmithKline was required to elect a pre-defined limited or expanded program option. The terms of the amendment reflect GlaxoSmithKline's decision to select a modified program election that is neither the limited nor the expanded option envisioned in the original PDA. Under the amended terms, GlaxoSmithKline selected a modified program election through which the focus of the collaboration is shifted to 12 internal programs at various stages of development (XL784, XL647, XL999, XL880, XL184, XL820, XL844 and five earlier stage oncology programs). Each program centers on compounds that are directed against one or more targets identified in the collaboration. Under the modified program GlaxoSmithKline has the right to select from these programs up to two compounds at proof-of-concept (completion of Phase 2a clinical trial) or three compounds if GlaxoSmithKline extends the collaboration. If GlaxoSmithKline selects three compounds we could receive up to $275.0 million in acceptance milestones. Additionally, GlaxoSmithKline retains exclusivity rights to the approximately 32 specified

targets that are encompassed by the 12 programs. However, we retain rights to all compounds not encompassed by the 12 programs selected by GlaxoSmithKline and may work on any targets with the exception of the approximately 32 targets subject to the exclusivity.

Under the amended terms, GlaxoSmithKline will be required to pay us a new $30.0 million milestone upon (i) the filing of INDs for three out of four compounds (XL880, XL184, XL820 and XL844) prior to the end of 2005 or (ii) the successful completion in 2005 of a Phase 1 clinical trial for one of these four compounds. In return for the new $30.0 million milestone, GlaxoSmithKline will receive a $30.0 million credit and specified reduction against the first acceptance milestone as well as a temporary reduction in the royalty rate it owes us on net sales of products developed under the collaboration. Under the amended PDA, GlaxoSmithKline also will be obligated to pay a new $5.0 million milestone to us upon achieving specified progress with respect to certain other candidates. Under the original agreement, GlaxoSmithKline would have paid the first milestone upon its selection of a compound that had completed proof-of-concept for further development. We may also receive additional development related milestones and royalties on product sales and have certain co-promotion rights to products in North America. In addition, GlaxoSmithKline is obligated to provide research funding of $47.5 million over the remaining three-year term of the collaboration.

As a result of its modified program election, GlaxoSmithKline purchased an additional 1.0 million shares of Exelixis common stock in January 2005 at a premium to the then fair value of the shares and with an aggregate purchase price of approximately $11.1 million.

Genoptera Collaboration

In March 2005, Exelixis, Bayer CropScience LP and Genoptera LLC agreed to amend the terms of the collaboration agreement, dated January 1, 2000, among Exelixis, Bayer and Genoptera. Exelixis and Bayer formed Genoptera, a joint venture focused on the discovery of novel insecticides and nematicides for crop protection in January 2000. The amendment provides for an early termination of the research term and requires Bayer to acquire our 40% ownership interest in Genoptera within six months after the termination of the research term. The amendment also requires Bayer to pay us an early termination fee of $10.9 million, which was paid in April 2005. We will recognize this as revenue upon the final knowledge transfer. At that time, Bayer, through Genoptera, will have exclusive rights in the field of agriculture to assays, compounds and products developed under the collaboration and we will have exclusive rights in all other fields. Under the terms of the amendment, the obligations of Bayer to fund further research cease and we have no further obligations to perform research.

Results of Operations

Revenues

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

	Three Months Ended March 31,	
	2005	2004
Total revenues	$ 12.9	$ 11.9
Dollar increase (decrease)	$ 1.0	
Percentage increase (decrease)	8%	

The increase in revenues for the quarter ended March 31, 2005, as compared to the comparable prior year period, was primarily a result of a $1.9 million increase in research and development funding from our collaboration with GlaxoSmithKline and due to a $1.0 million increase in research and development funding from our collaboration with Sankyo Co., Ltd., which we acquired as part of our acquisition of X-Ceptor Therapeutics, Inc in October 2004. The increase is also attributable to $0.7 million recognized as revenue from a $2.2 million premium that GlaxoSmithKline paid as part of its acquisition of 1.0 million shares of our common stock in January 2005. These increases were partially offset by a $1.4 million decrease in revenues related to the upfront payments from Bristol-Myers Squibb being fully recognized on a straight line basis, which ended in July 2004 and a $0.8 million decrease in revenues related to the termination of our combinatorial chemistry collaborations effective as of December 31, 2004.

Total revenues by category for the three-month periods ended March 31, 2005 and 2004 were as follows (in millions):

	Three Months Ended March 31,	
	2005	2004
Research and development funding	$ 9.8	$ 7.5
Amortization of upfront payments, including premiums paid on equity purchases	2.8	3.1
Delivery of compounds under chemistry collaborations	—	0.8
Milestones	0.3	0.5
Total revenues	$ 12.9	$ 11.9

Research and Development Expenses

Total research and development expenses as compared to the prior year period were as follows (dollar amounts are presented in millions):

	Three Months Ended March 31,	
	2005	2004
Research and development expenses	$ 33.3	$ 34.2
Dollar increase (decrease)	$ (0.9)	
Percentage increase (decrease)	(3)%	

Research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies, consulting and facilities costs. The decrease for the three months ended March 31, 2005, as compared to the comparable period in 2004, resulted primarily from the following:

- Lab Supplies – Lab supplies decreased by 29% to $4.7 million primarily as a result of the termination of most of our combinatorial chemistry collaborations.
- Consulting and professional – Consulting expense, which includes services performed by third-party contract research organizations and other vendors, increased 25% to $3.9 million, due primarily to an increase in activities associated with advancing our clinical and preclinical development programs. These activities included Phase 3 clinical trial activity for XL119, Phase 1 clinical trial activity for XL647 and XL999, initiation of a Phase 1 clinical trial for XL880 and moving XL844, XL820, and XL184 through preclinical testing in anticipation of filing INDs in 2005.
- Facilities – Facilities expense increased 15% to $3.9 million primarily due to our expansion into an additional building in South San Francisco, California as a result of our expanding development operations.

The table below summarizes the status of our current drug candidates:

Program	Clinical Status
XL119	Phase 3 clinical trial is ongoing
XL784	Completed a Phase 1 clinical trial as an anticancer compound and we anticipate initiating additional clinical studies in 2005 for renal disease
XL647	Phase 1 clinical trial is ongoing
XL999	Phase 1 clinical trial is ongoing
XL880	Filed IND in December 2004 and initiated Phase 1 clinical trial in March 2005
XL820	Filed IND in April 2005
XL844	Filed IND in May 2005
XL184	Expect to file an IND in the first half of 2005
XL228	Potential IND filing in 2006
XL281	Potential IND filing in 2006
XL481	Potential IND filing in 2006

We currently estimate that typical Phase 1 clinical trials last approximately one year, Phase 2 clinical trials last approximately one to two years and Phase 3 clinical trials last approximately two to four years. However, the length of time generally varies substantially according to factors relating to the clinical trial, such as the type and intended use of the product candidate, the clinical trial design and ability to enroll suitable patients.

We expect that research and development expenses will continue to increase in the future as we advance our compounds through development. We currently do not have estimates of total costs to reach the market by a particular drug candidate or in total.

Our potential therapeutic products are subject to a lengthy and uncertain regulatory process that may not result in the necessary regulatory approvals, which could adversely affect our ability to commercialize products. In addition, clinical trials of our potential products may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval.

General and Administrative Expenses

Total general and administrative expenses as compared to the prior year period were as follows (dollar amounts are presented in millions):

	Three Months Ended March 31,	
	2005	2004
General and administrative expenses	$ 6.2	$ 5.6
Dollar increase (decrease)	$ 0.7	
Percentage increase (decrease)	12%	

General and administrative expenses consist primarily of staffing costs to support our research activities, facility costs, and professional expenses, such as legal and accounting fees. The increase for the three months ended March 31, 2005, as compared to the equivalent period in 2004, resulted primarily from increases in legal and insurance expenses of $0.4 million and increases in facility expenses of $0.1 million.

Amortization of Intangibles

Total amortization of intangible assets as compared to the prior year was as follows (dollar amounts are presented in millions):

	Three Months Ended March 31,	
	2005	2004
Amortization of intangible assets	$ 0.3	$ 0.2
Dollar increase (decrease)	$ 0.1	
Percentage increase (decrease)	64%	

Intangible assets result from our acquisitions of X-Ceptor, Genomica, Artemis and Agritope (renamed Exelixis Plant Sciences). The increase for the three months ended March 31, 2005, as compared to the equivalent period in 2004 was due to the amortization expense of $0.1 million for the assembled workforce related to our acquisition of X-Ceptor that occurred during October 2004.

Total Other Income (Expense)

Total other income (expense) as compared to the prior year period was as follows (dollar amounts are presented in millions):

	Three Months Ended March 31,	
	2005	2004
Total other income (expense)	$ (0.5)	$ (0.2)
Dollar increase (decrease)	$ (0.2)	
Percentage increase (decrease)	(94)%	

Total other income (expense) consists primarily of interest income earned on cash, cash equivalents and short-term investments, offset by interest expense incurred on our notes payable, bank obligations, capital lease obligations and convertible notes and loans. The decrease for the three months ended March 31, 2005, as compared to the equivalent period in 2004, was the result of increases in our convertible loan with GlaxoSmithKline and due to an overall decline in our investment balances.

Liquidity and Capital Resources

Cash Requirements

To date, we have financed our operations primarily through the sale of equity, payments and loans from collaborators, equipment financing facilities and interest income. In addition, we acquired Genomica in December 2001, including its $109.6 million in cash and investments. As of March 31, 2005, we had approximately $139.1 million in cash and cash equivalents, short-term investments and restricted cash and investments.

We have incurred net losses since inception, including a net loss of approximately $27.4 million for the three months ended March 31, 2005, and expect to incur substantial losses for at least the next several years as we continue our research and development activities, including manufacturing and development expenses for compounds in preclinical and clinical studies. We anticipate that our current cash and cash equivalents, short-term investments and funding that we expect to receive from collaborators will enable us to maintain our currently planned operations for at least the next 12 months. It is possible that we will seek additional financing within this timeframe through collaborative relationships, private or public financing or other arrangements. Changes to our current operating plan may require us to consume available capital resources significantly sooner than we expect.

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

- payments received under collaborative agreements, licensing agreements and other arrangements;
- the progress and scope of our collaborative and independent clinical trials and other research and development projects;
- future clinical trial results;
- our need to expand our product and clinical development efforts;
- our ability to share the costs of our clinical development efforts with third parties, including clinical development costs we intend to offload through financing vehicles or by partnering with other companies;
- the cost and timing of regulatory approvals;
- the cost of establishing clinical and research supplies of our product candidates;
- our ability to remain in compliance with, or amend or cause to be waived, financial covenants contained in loan and lease agreements with third parties;
- the effect of competing technological and market developments;
- the filing, maintenance, prosecution, defense and enforcement of patent claims and other intellectual property rights;
- the cost of any acquisitions of or investments in businesses, products and technologies, although we currently have no commitments relating to any such transactions; and
- the cost and timing of establishing or contracting for sales, marketing and distribution capabilities.

If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. We currently have a shelf registration statement on file with the SEC that allows us to sell common stock from time to time. In addition, we have a universal shelf registration statement on file with the SEC that allows us to sell from time to time common stock, preferred stock, debt securities and warrants, either individually or in units. However, we may be unable to raise sufficient additional capital when we need it, on favorable terms or at all. The sale of equity or convertible debt securities in the future may be dilutive to our stockholders, and debt-financing arrangements may require us to pledge certain assets and enter into covenants that would restrict certain business activities or our ability to incur further indebtedness and may contain other terms that are not favorable to our stockholders or us. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

Sources and Uses of Cash

Our operating activities used cash of approximately $32.3 million and $29.0 million for the three months ended March 31, 2005 and 2004, respectively. Cash used in operating activities relates primarily to funding net losses, changes in other receivables and changes in accounts payable and other accrued expenses, partially offset by changes in deferred revenue from collaborators and non-cash charges related to depreciation and amortization. We expect to use cash for operating activities for at least the next several years as we continue to incur net losses associated with our research and development activities, including manufacturing and development expenses for compounds in preclinical and clinical studies.

Our investing activities provided cash of approximately $11.0 million and used cash of approximately $0.1 million for the three months ended March 31, 2005 and 2004, respectively. Changes in cash from investing activities are primarily due to purchases and maturities of short-term investments, purchases of property and equipment. In the three months ended March 31, 2005 and 2004, we made purchases of $4.0 million and $3.1 million, respectively, of property and equipment. We expect to continue to make significant investments in research and development and our administrative infrastructure, including the purchase of property and equipment to support our expanding clinical and preclinical development operations.

Our financing activities provided cash of approximately $4.6 million and $2.5 million for the three months ended March 31, 2005 and 2004, respectively. Changes in cash from financing activities are primarily due to payments and proceeds associated with equipment financing facilities, bank obligations and cash received for the issuance of common shares pursuant to our employee stock purchase program and the exercise of stock options. Also, in January 2005, GlaxoSmithKline purchased an additional 1.0 million shares of Exelixis common stock at an aggregate purchase price of approximately $11.1 million, of which $2.2 million was a premium. We finance property and equipment purchases through equipment financing facilities, such as capital leases, notes and bank obligations. Over the next several years, we are required to make certain payments on capital leases, notes, bank obligations and loans from collaborators.

We believe there have been no significant changes during the three-month period ended March 31, 2005 to the items that we disclosed as our contractual obligations under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended December 31, 2004.

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 or on behalf of us. The risks and uncertainties described below are not the only ones facing Exelixis. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks or such other risks actually occur, our business could be harmed.

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

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

We will need to raise additional capital to:

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

As of March 31, 2005, we had approximately $139.1 million in cash and cash equivalents, short-term investments and restricted cash and investments. As of March 31, 2005, we anticipate that our cash and cash equivalents, short-term investments and funding that we expect to receive from collaborators will enable us to maintain our currently planned operations for at least the next 12 months. Our future capital requirements will be substantial and will depend on many factors, including:

- payments received under collaborative agreements, licensing agreements and other arrangements;
- the progress and scope of our collaborative and independent clinical trials and other research and development projects;
- future clinical trial results;
- our need to expand our product and clinical development efforts;
- our ability to share the costs of our clinical development efforts with third parties, including clinical development costs we intend to offload through financing vehicles or by partnering with other companies;
- the cost and timing of regulatory approvals;
- the cost of establishing clinical and research supplies of our product candidates;
- our ability to remain in compliance with, or amend or cause to be waived, financial covenants contained in loan and lease agreements with third parties;
- the effect of competing technological and market developments;
- the filing, maintenance, prosecution, defense and enforcement of patent claims and other intellectual property rights;
- the cost of any acquisitions of or investments in businesses, products and technologies, although we currently have no commitments relating to any such transactions; and

- the cost and timing of establishing or contracting for sales, marketing and distribution capabilities.

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

Our capital needs may also increase in 2006 if we have to repay a $30 million convertible promissory note that we issued in May 2001 to PDL in connection with a collaboration agreement. The note matures in May 2006 and is convertible into our common stock at PDL's option any time after the first anniversary of the note. The note is convertible into Exelixis common stock at a conversion price per share equal to the lower of (i) $28.175 or (ii) 110% of the fair market value (as defined in the note) of a share of our common stock at the time of conversion. If the note is not converted by PDL, we will have to repay the entire note in May 2006.

In addition, we must raise additional capital in order to stay in compliance with financial covenants contained in agreements with third parties. For example, as part of our collaboration with GlaxoSmithKline, we entered into a loan and security agreement, dated October 28, 2002, which, as amended, contains financial covenants pursuant to which our working capital (the amount by which our current assets exceed our current liabilities) must not be less than $25.0 million and our cash and investments (total cash, cash equivalents and investments) must not be less than $50.0 million. As of March 31, 2005, our working capital was $74.0 million and our cash and investments were $139.1 million. If we were to default on the financial covenants under the loan and security agreement, GlaxoSmithKline may, among other remedies, declare immediately due and payable all obligations under the loan and security agreement. In addition, in connection with an equipment lease financing transaction with General Electric Capital Corporation, we entered into a lease agreement pursuant to which we are required to maintain minimum unrestricted cash, which is defined as cash on hand, including investments in marketable securities with maturities of less than 24 months, less cash pledged to other parties, of $35.0 million. As of March 31, 2005, we had unrestricted cash of $57.8 million. If we were to default on this financial covenant, we may be required to pay as liquidated damages the stipulated loss value of the equipment and all rents and other sums then due under the agreement. If we cannot raise additional capital in order to remain in compliance with our financial covenants or if we are unable to renegotiate such covenants and the lendor or lessor exercises its remedies under the agreement, we would not be able to operate under our current operating plan.

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

We have incurred net losses each year since our inception, including a net loss of approximately $27.4 million for the quarter ended March 31, 2005. As of that date, we had an accumulated deficit of approximately $546.8 million. We expect these losses to continue and anticipate negative operating cash flow for the foreseeable future. We have not yet completed the development, including obtaining regulatory approval, of any of our product candidates and, consequently, have not generated revenues from the sale of products. Our only revenues to date are license revenues and revenues under contracts with our partners. The size of our net losses will depend, in part, on the rate of growth, if any, in our license and contract revenues and on the level of our expenses. These losses have had and will continue to have an adverse effect on our stockholders' equity and working capital. Our research and development expenditures and general and administrative expenses have exceeded our revenues to date, and we expect to spend significant additional amounts to fund research and development in order to enhance our technologies and undertake product development. We currently have seven product candidates in various stages of clinical development and we anticipate filing IND applications for additional product candidates during the next 12 months. As a result, we expect that our operating expenses will increase significantly, and, consequently, we will need to generate significant additional revenues to achieve profitability. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses or when we will become profitable, if at all. Even if we do increase our revenues and achieve profitability, we may not be able to maintain or increase profitability.

Risks Related to Development of Product Candidates

Clinical testing of our product candidates is a lengthy, costly and uncertain process and may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval.

Clinical trials are inherently risky and may reveal that our product candidates are ineffective or have unacceptable toxicity or other side effects that may significantly decrease the likelihood of regulatory approval. The results of preliminary studies do not necessarily predict clinical or commercial success, and later-stage clinical trials may fail to confirm the results observed in earlier-

stage trials or preliminary studies. Although we have established timelines for manufacturing and clinical development based on existing knowledge of our compounds in development and industry metrics, we may not be able to meet those timelines.

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

- our product candidates may not prove to be efficacious or may cause harmful side effects;
- negative or inconclusive clinical trial results may require us to conduct further testing or to abandon projects that we had expected to be promising;
- patient registration or enrollment in our clinical testing may be lower than we anticipate, resulting in the delay or cancellation of clinical testing; and
- regulators or institutional review boards may not authorize, delay, suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or their determination that participating patients are being exposed to unacceptable health risks.

If any of these events were to occur and, as a result, we were to have significant delays in or termination of our clinical testing, our expenses could increase and our ability to generate revenue from the affected product candidates could be impaired, which would adversely impact our financial results.

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

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

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

Our research and clinical testing may be delayed or abandoned if we or our competitors subsequently discovered other compounds that we believe show significantly improved safety or efficacy compared to our product candidates, which could limit our ability to generate revenues, cause us to incur additional expense and cause the market price of our common stock to decline significantly.

Risks Related to Our Relationships With Third Parties

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

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

If these agreements or agreements with other partners are not renewed or are terminated early, whether unilaterally or by mutual agreement, or if we are unable to enter into new collaborative agreements on commercially acceptable terms, our revenues and product development efforts could suffer. For example, our agreement with Pharmacia Corporation terminated by mutual agreement in February 2002, which eliminated the opportunity for us to earn approximately $9.0 million in research revenue in 2002 and 2003. Similarly, our collaboration with GlaxoSmithKline is scheduled to expire in October 2008 but is subject to earlier termination at the discretion of GlaxoSmithKline starting in 2005 if we fail to meet certain diligence requirements. In addition, from time to time we

review and assess certain aspects of our collaborations, partnerships and agreements and may amend or terminate, either by mutual agreement or pursuant to any applicable early termination provisions, such collaborations, partnerships or agreements if we deem them to be no longer in our economic or strategic interests. We may not be able to enter into new collaborative agreements on similar or superior financial terms to offset the loss of revenue from the termination or expiration of any of our existing arrangements, and the timing of new collaborative agreements may have a material adverse effect on our ability to continue to successfully meet our objectives.

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

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

If third parties on whom we rely do not perform as contractually required or expected, we may not be able to obtain regulatory approval for or commercialize our product candidates.

We do not have the ability to independently conduct clinical trials for our product candidates, and we must rely on third parties we do not control, such as contract research organizations, medical institutions, clinical investigators and contract laboratories to conduct our clinical trials. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if the third parties need to be replaced or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our preclinical development activities or clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates.

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

We currently do not have manufacturing capabilities or experience necessary to enable us to produce materials for clinical trials, including the trials for XL119, XL784, XL647, XL999 and XL880. We rely on collaborators and third-party contractors to produce our compounds for preclinical and clinical testing. These suppliers must comply with applicable regulatory requirements, including the FDA's current Good Manufacturing Practices, or GMP. Our current and anticipated future dependence upon these third-party manufacturers may adversely affect our future profit margins and our ability to develop and commercialize product candidates on a timely and competitive basis. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet our development timelines and applicable regulatory requirements. We may not be able to maintain or renew our existing third-party manufacturing arrangements, or enter into new arrangements, on acceptable terms, or at all. Our third-party manufacturers could terminate or decline to renew our manufacturing arrangements based on their own business priorities, at a time that is costly or inconvenient for us. If we are unable to contract for the production of materials in sufficient quantity and of sufficient quality on acceptable terms, our clinical trials may be delayed. Delays in preclinical or clinical testing could delay the filing of our INDs and the initiation of clinical trials.

Our third-party manufacturers may not be able to comply with the GMP regulations, other applicable FDA regulatory requirements or similar regulations applicable outside of the United States. Additionally, if we are required to enter into new supply arrangements, we may not be able to obtain approval from the FDA of any alternate supplier in a timely manner, or at all, which could delay or prevent the clinical development and commercialization of any related product candidates. Failure of our third-party manufacturers or us to obtain approval from the FDA or to comply with applicable regulations could result in sanctions being imposed on us, including fines, civil penalties, delays in or failure to grant marketing approval of our product candidates, injunctions, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products and compounds, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect our business.

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

Some of the materials necessary for the manufacture of our compounds under development may, from time to time, be available either in limited quantities, or from a limited number of manufacturers, or both. Our contract manufacturers need to obtain these materials for our clinical trials and, potentially, for commercial distribution when and if we obtain marketing approval for these compounds. Suppliers may not sell us these materials at the time we need them or on commercially reasonable terms. If we are unable to obtain the materials needed for the conduct of our clinical trials, product testing and potential regulatory approval could be delayed, adversely impacting our ability to develop the product candidates. Similarly, if we are unable to obtain critical materials after regulatory approval has been obtained for a product candidate, the commercial launch of that product could be delayed or there would be a shortage in supply, which could materially affect our ability to generate revenues from that product. If suppliers increase the price of these materials, the price for one or more of our products may increase, which may make our product less competitive in the marketplace. If it becomes necessary to change suppliers for any of these materials or if any of our suppliers experience a shutdown or disruption in the facilities used to produce these materials, due to technical, regulatory or other problems, it could harm our ability to manufacture our products. For example, our primary supplier for XL119 informed us of an internal restructuring that may impact our ability to obtain drug substance from them. While we do not expect that this restructuring will jeopardize the drug supply for the Phase 3 clinical studies for XL119 and expect that we will be able to obtain additional supplies of XL119 when necessary, we cannot be certain that we will be able to obtain additional supplies of XL119 in a timely manner and on terms as favorable as our current arrangement. Our inability to obtain critical materials for any reason could substantially impair our development activities or the production, marketing and distribution of any products that we may develop.

Risks Related to Regulatory Approval of Our Product Candidates

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

Our product candidates, as well as the activities associated with their research, development and commercialization, are subject to extensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Failure to obtain regulatory approval for a product candidate would prevent us from commercializing that product candidate. We have not received regulatory approval to market any of our product candidates in any jurisdiction and have only limited experience in preparing and filing the applications necessary to gain regulatory approvals. The process of obtaining regulatory approvals is expensive, often takes many years, if approval is obtained at all, and can vary substantially based upon the type, complexity and novelty of the product candidates involved. Before a new drug application can be filed with the FDA, the product candidate must undergo extensive clinical trials, which can take many years and may require substantial expenditures. Any clinical trial may fail to produce results satisfactory to the FDA. For example, the FDA could determine that the design of a clinical trial is inadequate to produce reliable results. The regulatory process also requires preclinical testing, and data obtained from preclinical and clinical activities are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in regulatory policy for product approval during the period of product development and regulatory agency review. Changes in regulatory approval policy, regulations or statutes or the process for regulatory review during the development or approval periods of our product candidates may cause delays in the approval or rejection of an application. Even if the FDA or a comparable authority in another country approves a product candidate, the approval may impose significant restrictions on the indicated uses, conditions for use, labeling, advertising, promotion, marketing and/or production of such product and may impose ongoing requirements for post-approval studies, including additional research and development and clinical trials. These agencies also may impose various civil or criminal sanctions for failure to comply with regulatory requirements, including withdrawal of product approval.

Risks Related to Commercialization of Products

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

Our ability to commercialize any products that we may develop will be highly dependent upon the extent to which these products gain market acceptance among physicians, patients, health care payors, such as Medicare and Medicaid, private health

insurers, including managed care organizations and group purchasing organizations, and the medical community. If these products do not achieve an adequate level of acceptance, we may not generate material product revenues, and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

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

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

We have no experience as a company in the sales, marketing and distribution of pharmaceutical products and do not currently have a sales and marketing organization. Developing a sales and marketing force would be expensive and time-consuming, could delay any product launch, and we may never be able to develop this capacity. To the extent that we enter into arrangements to perform sales, marketing and distribution services with third parties, our product revenues are likely to be lower than if we market and sell any products that we develop ourselves. If we are unable to establish adequate sales, marketing and distribution capabilities, independently or with others, we may not be able to generate product revenues.

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

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

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

Another development that may affect the pricing of drugs is the proposed Congressional action regarding drug reimportation into the United States. The Medicare Prescription Drug Plan legislation gives additional discretion to the Secretary of Health and Human Services to allow drug reimportation from foreign countries into the United States under some circumstances, including countries where the drugs are sold at a lower price than in the United States. Proponents of drug reimportation may attempt to pass legislation, which would directly allow reimportation under certain circumstances. If legislation or regulations were passed allowing the reimportation of drugs, they could decrease the price we receive for any products that we may develop, thereby negatively affecting our revenues and prospects for profitability.

In addition, in some foreign countries, particularly the countries of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take six to 12 months or longer after the receipt of regulatory marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost effectiveness of our product candidates or products to other available therapies. The conduct of such a clinical trial could be expensive and result in delays in the commercialization of our product candidates. Third-party payors are challenging the prices charged for medical products and services, and many third-party payors limit reimbursement for newly approved health care products. In particular, third-party payors may limit

the indications for which they will reimburse patients who use any products that we may develop. Cost-control initiatives could decrease the price we might establish for products that we may develop, which would result in lower product revenues to us.

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

The biotechnology industry is highly fragmented and is characterized by rapid technological change. In particular, the area of gene research is a rapidly evolving field. We face, and will continue to face, intense competition from large biotechnology and pharmaceutical companies, as well as academic research institutions, clinical reference laboratories and government agencies that are pursuing research activities similar to ours. Some of our competitors have entered into collaborations with leading companies within our target markets, including some of our existing collaborators. In addition, significant delays in the development of our product candidates could allow our competitors to bring products to market before us, which would impair our ability to commercialize our product candidates. Our future success will depend on our ability to maintain a competitive position with respect to technological advances. Any products that are developed through our technologies will compete in highly competitive markets. Further, our competitors may be more effective at using their technologies to develop commercial products. Many of the organizations competing with us have greater capital resources, larger research and development staffs and facilities, more experience in obtaining regulatory approvals and more extensive product manufacturing and marketing capabilities. As a result, our competitors may be able to more easily develop technologies and products that would render our technologies and products, and those of our collaborators, obsolete and noncompetitive. In addition, there may be product candidates of which we are not aware at an earlier stage of development that may compete with our product candidates.

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

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

Risks Related to Our Intellectual Property

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

Our success will depend in part on our ability to obtain patents and maintain adequate protection of the intellectual property related to our technologies and products. The patent positions of biotechnology companies, including our patent position, are generally uncertain and involve complex legal and factual questions. We will be able to protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We will continue to apply for patents covering our technologies and products as and when we deem appropriate. However, these applications may be challenged or may fail to result in issued patents. In addition, because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that cover the production, manufacture, commercialization or use of our product candidates. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patents. In addition, our patents may be challenged or invalidated or may fail to provide us with any competitive advantages, if, for example, others were the first to invent or to file patent applications for these inventions.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties (for example, the patent owner has failed to “work” the invention in that country or the third party has patented improvements). In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. Compulsory licensing of life saving drugs is also becoming increasingly popular in developing countries either through direct legislation or international initiatives. Such compulsory licenses could be extended to include some of our product candidates, which could limit our potential revenue opportunities. Moreover, the legal systems of certain countries, particularly certain developing

countries, do not favor the aggressive enforcement of patent and other intellectual property protection, which makes it difficult to stop infringement. We rely on trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information and trade secrets, but these measures may not provide adequate protection. While we seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants, we cannot assure you that our proprietary information will not be disclosed, or that we can meaningfully protect our trade secrets. In addition, our competitors may independently develop substantially equivalent proprietary information or may otherwise gain access to our trade secrets.

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

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

Third parties may accuse us of employing their proprietary technology without authorization. In addition, third parties may obtain patents that relate to our technologies and claim that use of such technologies infringes these patents. Regardless of their merit, such claims could require us to incur substantial costs, including the diversion of management and technical personnel, in defending ourselves against any such claims or enforcing our patents. In the event that a successful claim of infringement is brought against us, we may be required to pay damages and obtain one or more licenses from third parties. We may not be able to obtain these licenses at a reasonable cost, or at all. Defense of any lawsuit or failure to obtain any of these licenses could adversely affect our ability to develop and commercialize products.

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 or pharmaceutical companies, including our competitors or potential competitors. We may be subject to claims that these employees, independent contractors or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. 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 or their work product could hamper or prevent our ability to commercialize certain product candidates, which could severely harm our business.

Risks Related to Employees, Growth and Location

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

We are highly dependent on the principal members of our management and scientific staff, the loss of whose services might adversely impact the achievement of our objectives and the continuation of existing collaborations. However, we do not currently have sufficient executive management and technical personnel to fully execute our business plan. Recruiting and retaining qualified scientific and clinical personnel will be critical to support activities related to advancing our clinical and preclinical development programs, and supporting our collaborative arrangements and our internal proprietary research and development efforts. Although we believe we will be successful in attracting and retaining qualified management, competition is intense for experienced technical personnel, and we may be unable to retain or recruit scientists with the expertise or experience necessary to allow us to pursue collaborations, develop our products and core technologies or expand our operations to the extent otherwise possible. Further, all of our employees are employed “at will” and, therefore, may leave our employment at any time.

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

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

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

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

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

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

Risks Related to Environmental and Product Liability

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

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

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

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

We may be held liable if any product our collaborators or we develop causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. Regardless of merit or eventual outcome, product liability claims could result in decreased demand for our product candidates, injury to our reputation, withdrawal of patients from our clinical trials, substantial monetary awards to trial participants and the inability to commercialize any products that we may develop. These claims might be made directly by consumers, health care providers, pharmaceutical companies or others selling or testing our products. We have obtained limited product liability insurance coverage for our clinical trials in the amount of $10.0 million per occurrence and $10.0 million in the aggregate. However, our insurance may not reimburse us or may not be sufficient to reimburse us for expenses or losses we may suffer. Moreover, if insurance coverage becomes more expensive, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. If we obtain marketing approval for any of our product candidates, we intend to expand our insurance coverage to include the sale of commercial products, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, juries have awarded large judgments in class action lawsuits based on drugs that had unanticipated side effects. In addition, the pharmaceutical and biotechnology industries, in general, have been subject to significant medical malpractice litigation. A successful product liability claim or series of claims brought against us would decrease our cash reserves and could cause our stock price to fall.

Risks Related to Genetic Engineering of Products

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

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

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

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

We or our collaborators may develop genetically engineered agricultural and animal products. The field-testing, production and marketing of genetically engineered products are subject to regulation by federal, state, local and foreign governments. Regulatory agencies administering existing or future regulations or legislation may prevent us from producing and marketing genetically engineered products in a timely manner or under technically or commercially feasible conditions. In addition, regulatory action or private litigation could result in expenses, delays or other impediments to our product development programs and the commercialization of products. The FDA has released a policy statement stating that it will apply the same regulatory standards to foods developed through genetic engineering as it applies to foods developed through traditional plant breeding. Genetically engineered food products will be subject to premarket review, however, if these products raise safety questions or are deemed to be food additives. Our product candidates may be subject to lengthy FDA reviews and unfavorable FDA determinations if they raise questions regarding safety or our products are deemed to be food additives.

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

Risks Related to Our Common Stock

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

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

- recognition of upfront licensing or other fees;
- payments of non-refundable upfront or licensing fees to third parties;
- acceptance of our technologies and platforms;
- the success rate of our discovery efforts leading to milestone payments and royalties;
- the introduction of new technologies or products by our competitors;
- the timing and willingness of collaborators to commercialize our products;
- our ability to enter into new collaborative relationships;
- the termination or non-renewal of existing collaborations;
- the timing and amount of expenses incurred for clinical development and manufacturing of our products;

- the impairment of acquired goodwill and other assets; and
- general and industry-specific economic conditions that may affect our collaborators' research and development expenditures.

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

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

Our stock price may be extremely volatile.

The trading price of our common stock has been highly volatile, and we believe the trading price of our common stock will remain highly volatile and may fluctuate substantially due to factors such as the following:

- adverse results or delays in clinical trials;
- announcement of FDA approval or non-approval, or delays in the FDA review process, of our or our collaborators' product candidates or those of our competitors or actions taken by regulatory agencies with respect to our, our collaborators' or our competitors' clinical trials;
- the announcement of new products by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- litigation, including intellectual property infringement lawsuits, involving us;
- failure to achieve operating results projected by securities analysts;
- changes in earnings estimates or recommendations by securities analysts;
- financing transactions;
- developments in the biotechnology or pharmaceutical industry;
- 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;
- developments concerning current or future collaborations;
- FDA or international regulatory actions;
- third-party reimbursement policies;
- acquisitions of other companies or technologies;
- disposition of any of our subsidiaries, technologies or compounds; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

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

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

We are exposed to risks associated with acquisitions.

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

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

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

For example, in October 2004, we completed our acquisition of X-Ceptor. If we are not successful in integrating X-Ceptor in our operations, the anticipated benefits of the acquisition may not be realized. The dedication of management resources to integration activities may detract attention from the day-to-day business. In addition, key officers and employees of X-Ceptor may leave the company at any time. The failure to retain such key officers and employees may decrease the likelihood of a successful integration.

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

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

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

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

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 attempts by our stockholders to replace or remove our current management.

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

- limitations on the removal of directors.

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. Finally, these provisions establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon at stockholder meetings. These provisions would apply even if the offer may be considered beneficial by some stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks at March 31, 2005 have not changed significantly from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2004 on file with the Securities and Exchange Commission. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. We have estimated the effects on our interest rate sensitive assets and liabilities based on a one percentage point hypothetical adverse change in interest rates as of March 31, 2005 and December 31, 2004. As of March 31, 2005 and December 31, 2004, a decrease in the interest rates of one percentage point would have had a net adverse change in the fair value of interest rate sensitive assets and liabilities of approximately $3.9 million and $4.3 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits

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

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.

Date: May 9, 2005

/s/ Frank Karbe

Frank Karbe
Senior Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Number	Exhibit Description
10.1**	First Amendment, dated January 10, 2005, to the Product Development and Commercialization Agreement between SmithKlineBeecham Corporation and Exelixis, Inc.(1)
10.2	First Amendment, dated January 10, 2005, to the Stock Purchase and Stock Issuance Agreement between SmithKlineBeecham Corporation and Exelixis, Inc.(1)
10.3**	Third Amendment, dated January 10, 2005, to the Loan and Security Agreement between SmithKlineBeecham Corporation and Exelixis, Inc.(1)
10.4**	Amendment No. 1, effective January 1, 2005, to Collaboration Agreement, among Exelixis, Inc. Bayer CropScience LP and Genoptera LLC.
10.5*	2000 Employee Stock Purchase Plan. (2)
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
32.1***	Certification by the Chief Executive Officer and the Chief Financial Officer of Exelixis, Inc., as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

* Management contract or compensatory plan.

** 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 the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

(1) Filed as an Exhibit to Exelixis, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2004, filed with the Securities and Exchange Commission March 15, 2005, as amended, and incorporated herein by reference.

(2) Filed as an Appendix to Exelixis, Inc.'s Definitive Proxy Statement on Schedule 14A, as filed with the Securities and Exchange Commission on March 18, 2005 and incorporated herein by reference.

AMENDMENT NO. 1 TO COLLABORATION AGREEMENT AMONG EXELIXIS, INC., BAYER CORPORATION AND GENOPTERA LLC

THIS AMENDMENT NO. 1 TO THE COLLABORATION AGREEMENT ("Amendment No. 1") is made effective as of January 1, 2005 ("Amendment No. 1 Effective Date") and entered into on March 30, 2005 by and between **EXELIXIS, INC**. (formerly known as Exelixis Pharmaceuticals, Inc.), a Delaware corporation having its principal place of business in South San Francisco, California ("Exelixis"), **BAYER** CropScience LP, a partnership having its principal place of business in Research Triangle Park, NC 27709 ("Bayer") and **GENOPTERA LLC**, a Delaware limited liability company having its principal place of business in South San Francisco, California (the "LLC"). Each of the above parties are individually referred to as a "Party" or collectively as the "Parties".

RECITALS

WHEREAS, Exelixis and Bayer A.G., an Affiliate of Bayer, began working together in the field of pesticide research under a collaboration agreement ("Original Agreement") entered into as of May 1, 1998, which agreement terminated as of the effective date of the Collaboration Agreement (described below);

WHEREAS, to continue and expand upon the work initiated under the Original Agreement, Exelixis and Bayer Corporation, an Affiliate of Bayer, formed a joint venture, Genoptera LLC, and Exelixis, Bayer Corporation and Genoptera entered into an LLC Operating Agreement (the "Operating Agreement"), effective December 15, 1999;

WHEREAS, to pursue the business objectives of the LCC, the Parties entered into the Collaboration Agreement on January 1, 2000 (the "Collaboration Agreement") covering research directed towards the discovery and testing of insecticides and nematicides for crop protection, having a Research Term of eight (8) years from the Effective Date; and

WHEREAS, on November 1, 2002 Bayer Corporation transferred its membership interest in Genoptera, and assigned the Operating Agreement and Collaboration Agreement, to Bayer.

WHEREAS, Exelixis, Bayer and the LLC now agree that it is in their collective best interests to amend the Collaboration Agreement to permit early termination of the Research Term in exchange for certain other consideration.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the

Parties agree as follows:

1. The Parties hereby agree to amend the terms of the Collaboration Agreement as provided below, effective as of the Amendment No. 1 Effective Date. To the extent that the Collaboration Agreement is explicitly amended by this Amendment No. 1, the terms of this Amendment No. 1 will control where the terms of the Collaboration Agreement are contrary to or conflict with the following provisions. Where the Collaboration Agreement is not explicitly amended, the terms of the Collaboration Agreement will remain in full force and effect. Capitalized terms used in this Amendment No. 1 that are not otherwise defined herein shall have the same meanings defined in the Collaboration Agreement.

2. Section 2.1(b) of the Collaboration Agreement is hereby deleted in its entirety and replaced with the following:

   "**(b)** The Research Term will begin on the Effective Date and terminate on March 31, 2005."

3. Section 2.5(a) of the Collaboration Agreement is hereby deleted in its entirety and replaced with the following:

   "**(a)(i)** Before the Amendment No. 1 Effective Date. In the first Contract Year, the LLC shall provide Exelixis with **[*]** in Research funding and shall carry forward **[*]** for Research funding for the subsequent Contract Year. At least ninety (90) days in advance of the commencement of each Contract Year after the first Contract Year but before the Amendment No. 1 Effective Date, Exelixis shall provide the LLC with a written calculation of the Annual FTE Rate for the following Contract Year in accordance with Section 1.3. For Contract Years beginning prior to the Amendment No. 1 Effective Date, if such Annual FTE Rate exceeds **[*]**, the LLC shall provide Exelixis, at least sixty (60) days in advance of the commencement of such Contract Year, written notice of whether the LLC commits to provide sufficient Research funding (which shall include any carry-forward described in this Section 2.5(a)) in the subsequent Contract Year to support **[*]** FTEs at such Annual FTE Rate. If the LLC does not provide such commitment, then the LLC shall specify such lesser amount of research funding which it commits to provide in the forthcoming Contract Year, which amount shall not be less than **[*]** plus any carry-forward described in this Section 2.5(a). The number of FTEs that are funded during any given Calendar Year beginning prior to the Amendment No. 1 Effective Date shall equal the sum of such level of funding specified by the LLC plus any carry-forward described in Section 2.5(b) divided by the Annual FTE Rate in effect for such Calendar Year (which partial number being rounded down) is referred to in this Section 2.5 and Section 9.2 as the "Specified FTEs" for such Contract Years. The amount of Research funding provided to Exelixis by the LLC in each Contract Year after the first Contract Year

and prior to the Amendment No. 1 Effective Date shall equal the result of the following calculation: multiply the number of Specified FTEs by the Annual FTE Rate for such Calendar Year and deduct from the product of such multiplication the amount of any Exelixis carry-forward described in Section 2.5(b).

(a)(ii) After the Amendment No. 1 Effective Date. For the calendar quarter beginning on the Amendment No. 1 Effective Date, the LLC shall make a payment to Exelixis of $2,500,000. A part of such payment to the amount of **[*]** shall be designated as an "Adjusted FTE Payment", which shall be determined by the calculation described in Exhibit 1 hereto, and the remainder in the amount of **[*]** shall be designated as a "Termination Credit", which remainder shall be fully creditable against the Early Termination Fee owed by Bayer pursuant to Section 14.2(b) and as described in Exhibit 1 hereto.

4. Section 9.2 of the Collaboration Agreement is hereby deleted in its entirety and replaced with the following:

"**9.2 Research Funding.** From the Effective Date until the end of the Research Term, Exelixis will invoice the LLC (and send a copy of the first such invoice to Bayer) for and the LLC will make within thirty (30) days thereafter quarterly advance payments to Exelixis as follows. For quarters prior to the Amendment No. 1 Effective Date, such quarterly advance payments shall be sufficient to pay for the number of Specified FTEs (as defined in Section 2.5(a)) then performing Research under this Agreement multiplied by the then current Annual FTE Rate; in any event for each such calendar quarter, the amount of research funding provided by the LLC to Exelixis shall be not less than **[*]** of the amount calculated in Section 2.5(a) and shall only exceed $2,500,000 in the event that the LLC commits to provide more than **[*]** in Research funding in the applicable Contract Year as set forth in Section 2.5(a). For the quarter beginning on the Amendment No. 1 Effective Date, such quarterly advance payment shall be equal to $2,500,000."

5. Exelixis hereby confirms that the LLC has made the payment of $2,500,000 for the calendar quarter beginning on the Amendment No. 1 Effective Date, as set out in Sections 2.5 (a) (ii) and 9.2 of the Collaboration Agreement, as amended herein.

6. Section 14.2 of the Collaboration Agreement is hereby deleted in its entirety and replaced with the following:

"14.2 Termination of Research Term.

(a) Upon the termination of the Research Term: (i) the licenses granted to the LLC under Section 11.1 shall terminate; (ii) all

Research shall cease; (iii) Exelixis shall not have any further obligations to perform Research or provide Dedicated FTEs or Shared FTEs to the LLC for any purpose; (iv) Exelixis shall deliver to the LLC all targets or other related data or materials, regardless of the status of any such targets, which have been developed under the Agreement prior to the effective date of termination of the Research Term. Such targets (excluding the selected targets which are listed in Exhibit 3) are listed in Exhibit 2 hereto (collectively, "Additional Targets") . The Additional Targets shall be deemed to be Selected Non-Cognate Targets of Bayer; (v) Bayer's payment obligations under Section 9.2 shall cease, provided that Bayer shall make all such payments which had accrued prior to the date of such termination; (vi) Exelixis may retain (subject to the adjustment/crediting provisions set out in this Amendment No 1) all payments received from the LLC after the Amendment No 1 Effective Date; and (vii) each Party's other rights and obligations under this Agreement (with respect to Targets, LLC Assays, Bayer Assays, LLC Compounds, Collaboration Compounds, and Products (collectively, "Collaboration Materials") shall continue with the understanding that Bayer (or Bayer and the LLC) shall have exclusive rights (excluding Exelixis) to the Collaboration Materials within the Field of Use as defined in this Agreement, and Exelixis shall have exclusive rights (excluding the LLC and Bayer) to the Collaboration Materials outside the Field of Use as defined in this the Agreement. The statement under (vii) above shall prevail over any conflicting provisions which may be contained in this Agreement. This Agreement shall continue in effect until the date set forth in Section 14.1 or until terminated pursuant to Section 14.3. Additionally, the targets on Exhibit 3 hereto reflect all the Selected targets of Bayer as of the date the Research Term is terminated.

(b) Upon termination of the Research Term, Bayer shall pay Exelixis an "Early Termination Fee" to the amount of **[*]** as determined by the calculation set out in Exhibit 1 hereto.

The Early Termination Fee shall be reduced by a Termination Credit to the amount of **[*]** that shall have accrued, pursuant to the calculation set out in Exhibit 1 hereto, for payments made by the LLC prior to the effective date of termination of the Research Term.

Bayer shall pay to Exelixis the balance between the above Early Termination Fee and the Termination Credit, i.e. $ 10,935,833, within fifteen (15) days after the end of the Research Term.

(c) Within six (6) months after the end of the Research Term, Bayer shall notify Exelixis in writing whether Bayer will acquire Exelixis' interest in the LLC pursuant to Section 14.4(a) or Section 14.4(b)."

7. Section 14.4 of the Collaboration Agreement is hereby deleted in its entirety and replaced with the following:

"**14.4 Acquisition Of The LLC By Bayer**. Within six (6) months after the end of the Research Term, Bayer shall acquire Exelixis' interest in the LLC, such acquisition to be made (in Bayer's sole discretion) pursuant to either Section 14.4(a) or Section 14.4(b).

(a) Bayer shall acquire Exelixis' interest in the LLC by paying Exelixis in U.S. dollars an amount equal to the Fair Market Value (as defined in the Operating Agreement) of Exelixis' interest in the LLC, as determined pursuant to Section 13.1 of the Operating Agreement except that, in lieu of providing Exelixis with a Proposed Changed Circumstance Notice or a Final Notice (as both terms are defined in the Operating Agreement), Bayer shall send Exelixis a written notification that expressly initiates the thirty (30) day period in which the Parties will attempt in good faith to agree in writing upon such Fair Market Value. If no agreement is reached during such thirty (30) day period, then the procedures set forth in Sections 13.1(a)-(h) of the Operating Agreement will apply. The Parties shall negotiate in good faith and execute promptly after the Fair Market Value determination an LLC Interest Purchase Agreement to effect Bayer's purchase of Exelixis' interest in the LLC. The terms of such agreement shall be consistent with all of the following:

(i) Bayer's acquisition of Exelixis' ownership interest in the LLC shall terminate any right of Exelixis to receive a portion of the premium fees payable by Bayer under Section 9.4(a). However, the premium fee obligations of Exelixis set forth in Sections 9.4(b), 9.4(c) and 9.4 (d) shall continue in effect.

(ii) The ownership and license rights applicable to all Assays, Compounds, Products, and Targets in existence immediately prior to the closing of such transaction shall continue without modification.

(iii) Rights with respect to Targets, assays, compounds and products arising from the activities of the Parties under this Agreement shall not be affected by reason of the acquisition by Bayer.

(iv) The Operation Agreement will terminate with respect to Exelixis.

(b) Bayer shall acquire Exelixis' interest in the LLC by paying Exelixis in U.S. dollars a premium fee as described in Section 14.4(b)(i) below. The Parties shall negotiate in good faith and execute promptly an LLC Interest Purchase Agreement to effect Bayer's purchase of Exelixis' interest in the LLC. The terms of such agreement shall be consistent with all of the following:

(i) Bayer's acquisition of Exelixis' ownership interest in the LLC shall create an obligation for Bayer to pay Exelixis: (x) **[*]** of all amounts owed by Bayer to the LLC under Section 9.3 after the effective date of such LLC Interest Purchase Agreement; (y) a running premium fee of **[*]** on the aggregate Net Sales of Bayer Products as set out under Section 9.4 (a) sold by Bayer; *provided, however*, that if such Bayer Product was discovered from screening in an assay based on an Additional Target, then the foregoing premium fee shall **[*]**; and (z) a running premium fee of **[*]** on the aggregate net sales of products (containing or incorporating any Collaboration Compound as set out under Section 9.4 (d)) sold by Bayer; *provided, however*, that if such product was discovered from screening in an assay based on an Additional Target, then the foregoing premium fee shall **[*]**. For each Bayer Product, Bayer shall pay Exelixis such premium fee for the duration set forth in Section 9.4(a). For each product containing or incorporating any Collaboration Compound, Bayer shall pay Exelixis a premium fee for a duration comparable to that set forth in Section 9.4(a). However, the premium fee obligations of Exelixis set forth in Sections 9.4(b), 9.4(c) and 9.4(d) shall continue in effect **[*]** set forth therein.

(ii) Except as modified in this Amendment No 1, the ownership and license rights applicable to all Assays, Compounds, Products, and Targets in existence immediately prior to the closing of such transaction shall continue without modification.

(iii) Except as modified in this Amendment No 1, the Rights with respect to Targets, assays, compounds and products arising from the activities of the Parties under this Agreement shall not be affected by reason of the acquisition by Bayer."

(iv) The Operation Agreement will terminate with respect to Exelixis.

8. The Parties hereby acknowledge and agree that as of the Amendment No. 1 Effective Date, the Research Plan in existence prior to such date shall be deleted and no longer be in effect, and Exhibit 4 hereto contains a list of all Information and Patents that have been developed by or on behalf of the LLC since the beginning of the Research Term and until the Amendment No. 1 Effective Date. Within two (2) weeks of execution of this Amendment No.1, the Parties shall meet (in person or by videoconferencing) to finalize the remaining tasks under the Research Program by mutual written agreement. Within four (4) weeks after the end of the Research Term, the Parties shall update Exhibit 4 hereto in order to include all Information and Patents that have been developed by or on behalf of the LLC until the end of the Research Term.

9. This Amendment No. 1 amends the terms of the Collaboration Agreement and is deemed incorporated into, and governed by all other terms of, the Collaboration Agreement. Except as modified in this Amendment No 1, the provisions of the Collaboration Agreement, as amended by this Amendment No. 1, remain in full force and effect.

10. Each Party shall execute, acknowledge and deliver such further instruments, and do all other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Amendment No. 1.

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

11. This Amendment No. 1 may be signed in 2 counterparts, each and every one of which shall be deemed an original, notwithstanding variations in format or file designation, which may result from the electronic transmission, storage and printing of copies of this Amendment No. 1 from separate computers or printers. Facsimile signatures shall be treated as original signatures.

IN WITNESS WHEREOF, the Parties have caused this Amendment No. 1 to be executed by their duly authorized representatives as of the Amendment No. 1 Effective Date.

EXELIXIS, INC.

By: /s/ Frank Karbe
Name: Frank Karbe
Title: SVP, CFO

BAYER CROPSCIENCE LP

By: /s/ Bruce A. Mackintosh
Name: Bruce A. Mackintosh
Title: VP, General Counsel

GENOPTERA LLC

By: /s/ Eva M. Franken
Name: Eva M. Franken
Title: General Manager

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

EXHIBIT 1

Calculation of the Adjusted FTE Payment, Termination Credit and Early Termination Fee

[*]

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EXHIBIT 2

Additional Targets

[*]

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

EXHIBIT 3

List of Selected Targets

[*]

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

EXHIBIT 4

List of Information and Patents

[*]

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

EXHIBIT 31.1

CERTIFICATION

I, George A. Scangos, Ph.D., Chief Executive Officer of Exelixis, Inc., certify that:

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

2. Based on my knowledge, this quarterly 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 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 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.

Date: May 9, 2005

/s/ George A. Scangos
George A. Scangos
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Frank Karbe, Chief Financial Officer of Exelixis, Inc., certify that:

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

2. Based on my knowledge, this quarterly 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 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 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.

Date: May 9, 2005

/s/ Frank Karbe

Frank Karbe
Senior Vice President, Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), George A Scangos, Chief Executive Officer of Exelixis, Inc. (the "Company"), and Frank Karbe, Chief Financial Officer of the Company, each hereby certifies, to his knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2005 (the "Periodic Report"), to which this Certification is attached as Exhibit 32.1, fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Periodic 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 9th day of May 2005.

/s/ George A. Scangos
George A. Scangos, Ph.D.
Chief Executive Officer
(Principal Executive Officer)

/s/ Frank Karbe
Frank Karbe
Chief Financial Officer
(Principal Financial Officer)