UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: JUNE 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-30235

EXELIXIS, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-3257395
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

170 Harbor Way
P.O. Box 511
South San Francisco, 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 [X] No [ ]

As of July 31, 2001, there were 49,161,649 shares of the registrant's common stock outstanding.

EXELIXIS, INC.

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

EXELIXIS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 30, 2001	DECEMBER 31, 2000 (1)
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,063	$ 19,552
Short-term investments	76,990	93,000
Other receivables	2,689	1,493
Inventories	-	3,612
Other current assets	2,791	1,987
Total current assets	128,533	119,644
Property and equipment, net	35,639	23,480
Related party receivables	993	494
Goodwill and other intangibles, net	68,851	58,674
Other assets	4,503	2,622
Total assets	$ 238,519	$ 204,914
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 11,304	$ 10,050
Line of credit	-	1,484
Current portion of capital lease obligations	5,750	3,826
Current portion of notes payable	3,539	1,664
Advances from minority shareholders	-	868
Deferred revenue	6,463	6,233
Total current liabilities	27,056	24,125
Capital lease obligations	8,778	6,341
Notes payable	1,128	1,635
Convertible promissory note	30,000	-
Minority interest in consolidated subsidiary	-	1,044
Other long-term liabilities	200	-
Deferred revenue	17,831	9,036
Total liabilities	84,993	42,180
Stockholders' equity:		
Common stock	50	47
Additional paid-in-capital	328,008	304,339
Notes receivable from stockholders	(1,701)	(1,805)
Deferred stock compensation, net	(6,800)	(10,174)
Accumulated other comprehensive income	434	365
Accumulated deficit	(166,465)	(130,038)
Total stockholders' equity	153,526	162,734
Total liabilities and stockholders' equity	$ 238,519	$ 204,914

(1) The consolidated condensed balance sheet at December 31, 2000 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 consolidated condensed financial statements.

EXELIXIS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Revenues:				
License	$ 924	$ 932	$ 1,848	$ 1,864
Contract and government grants	7,627	4,684	14,437	9,703
Total revenues	8,551	5,616	16,285	11,567
Operating expenses:				
Research and development (1)	20,555	13,365	37,370	22,299
General and administrative (2)	4,976	4,921	9,236	9,216
Amortization of goodwill and intangibles	1,226	-	2,276	-
Acquired in-process research and development	6,673	-	6,673	-
Total operating expenses	33,430	18,286	55,555	31,515
Loss from operations	(24,879)	(12,670)	(39,270)	(19,948)
Other income (expense):				
Interest and other income	1,597	1,866	3,492	2,014
Interest expense	(426)	(168)	(649)	(326)
Total other income	1,171	1,698	2,843	1,688
Net loss	$(23,708)	$(10,972)	$(36,427)	$(18,260)
Net loss per share, basic and diluted	$ (0.52)	$ (0.32)	$ (0.81)	$ (0.90)
Shares used in computing net loss per share, basic and diluted	45,724	34,622	45,048	20,263

(1) Includes stock compensation expense of $1,633 and $3,998 in the quarters ended June 30, 2001 and 2000, respectively, and includes stock compensation expense of $2,800 and $6,002 in the six month periods ended June 30, 2001 and 2000, respectively.
(2) Includes stock compensation expense of $661 and $1,297 in the quarters ended June 30, 2001 and 2000, respectively, and includes stock compensation expense of $1,370 and $2,556 in the six month periods ended June 30, 2001 and 2000, respectively.

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

EXELIXIS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Cash flows from operating activities:		
Net loss	$(36,427)	$(18,260)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,401	1,749
Amortization of deferred stock compensation	4,170	8,558
Amortization of goodwill and other intangibles	2,276	-
Acquired in-process research and development	6,673	-
Changes in assets and liabilities:		
Other receivables	(587)	(751)
Other current assets	(962)	(973)
Related party receivables	(399)	160
Other assets	(2,203)	(20)
Accounts payable and accrued expenses	(2,070)	2,800
Deferred revenue	9,747	10,163
Net cash provided by (used in) operating activities	(15,381)	3,426
Cash flows from investing activities:		
Purchases of property and equipment	(10,403)	(8,498)
Proceeds from sale-leaseback of equipment	4,008	-
Cash acquired in acquisition	3,463	-
Proceeds from maturity of short-term investments	90,469	-
Purchases of short-term investments	(74,203)	(73,045)
Net cash provided by (used in) investing activities	13,334	(81,543)
Cash flows from financing activities:		
Proceeds from initial public offering, net	-	124,709
Proceeds from convertible note	30,000	-
Proceeds from exercise of stock options and warrants	309	545
Proceeds from employee stock purchase plan	1,198	-
Repayments of notes from stockholders	105	-
Principal payments on capital lease obligations	(1,922)	(386)
Principal payments on notes payable	(1,025)	(733)
Net cash provided by financing activities	28,665	124,135
Effect of foreign exchange rate changes on cash	(107)	-
Net increase in cash and cash equivalents	26,511	46,018
Cash and cash equivalents, at beginning of period	19,552	5,400
Cash and cash equivalents, at end of period	$ 46,063	$ 51,418

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

EXELIXIS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2001
(UNAUDITED)

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Exelixis, Inc. ("Exelixis" or the "Company") is a genomics-based biotechnology company focused on product development through its expertise in comparative genomics and model system genetics. An outstanding team of Company scientists has developed multiple fungal, nematode, insect, plant and vertebrate genetic systems. Exelixis' proprietary model systems and comparative genomics technologies address gene function by using biologically relevant functional genomics information very early on in the process to rapidly, efficiently and cost-effectively translate sequence data to knowledge about the function of genes and the proteins that they encode. The Company also has a significant internal cancer discovery and drug development program. Exelixis believes that its technology is broadly applicable to all life science industries including pharmaceutical, diagnostic, agricultural biotechnology and animal health. The Company has active partnerships with Aventis, Bayer, Bristol-Myers Squibb, Pharmacia, Protein Design Labs and Dow AgroSciences.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001, 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, 2000 included in the Company's Annual Report on Form 10-K.

Net Loss per Share

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

Comprehensive Income

There are two components of other comprehensive income: unrealized gains on available-for-sale securities and foreign currency translation adjustments. For the three and six month periods ended June 30, 2001, total comprehensive loss amounted to approximately $23.7 and $36.5 million, respectively. For the three and six month periods ended June 30, 2000, total comprehensive loss amounted to $10.9 million and $18.2 million, respectively.

Foreign Currency Translation

The Company's German subsidiary, Artemis Pharmaceuticals GmbH ("Artemis"), uses its local currency as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expense amounts at the average exchange rates during the period. Resulting translation adjustments are recorded directly to a separate component of stockholders' equity.

Reclassification

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

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations" ("SFAS No. 141"), which establishes financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. SFAS No. 141 requires that all business combinations be accounted for using one method, the purchase method. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 is expected to have no material impact on financial reporting and related disclosures of the Company.

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which establishes financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition, and after they have been initially recognized in the financial statements. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS No. 142 during the first quarter of fiscal 2002, and is in the process of evaluating the impact of implementation on the financial position of the Company.

NOTE 2. SALE OF VINIFERA OWNERSHIP INTEREST

On March 31, 2001, the Company reduced its ownership interest in Vinifera, Inc. ("Vinifera") to 19% by selling 3.0 million shares of Vinifera common stock back to Vinifera in consideration for $2.1 million in interest bearing promissory notes. The promissory notes bear interest rates of prime plus 1% and are payable in two installments of $400,000, due no later than September 30, 2001 and February 28, 2002, respectively, and one installment of $1.3 million, due on February 28, 2006. Due to risks associated with Vinifera's operating results, the Company has reserved for $1.7 million of these promissory notes.

As a result of this transaction, the Company recorded the following amounts as an adjustment to goodwill recorded in connection with the acquisition of Agritope, Inc. (parent company of Vinifera), based on the operating results of Vinifera through March 31, 2001: a write down of the value of acquired developed technology attributable to Vinifera, a gain on sale of Vinifera shares, and the promissory note reserve. The net adjustment was an increase to goodwill in the amount of $675,000. Beginning April 1, 2001, the Company accounts for its remaining investment in Vinifera using the cost method.

NOTE 3. ACQUISITION OF ARTEMIS

In May 2001, Exelixis acquired a majority of the outstanding capital stock of Artemis, a privately held genetics and functional genomics company organized under the laws of Germany. The transaction, which was accounted for under the purchase method of accounting, was effected through the exchange of shares of Exelixis common stock for DEM 1.00 of nominal value of Artemis capital stock, using an exchange ratio of 4.064 to one. Approximately 1.6 million shares of Exelixis common stock were issued in exchange for 78% of the outstanding capital stock of Artemis held by the Artemis stockholders. In addition, Exelixis received a call option (the "Call Option") from, and issued a put option (the "Put Option") to, certain stockholders of Artemis (the "Option Holders") for the issuance of approximately 480,000 shares of Exelixis common stock in exchange for the remaining 22% of the outstanding capital stock of Artemis held by the Artemis stockholders. Exelixis may exercise the Call Option at any time from May 14, 2001 through January 31, 2002, and the Option Holders may exercise their rights under the Put Option at any time from April 1, 2002 through May 15, 2002. The value of any shares issued pursuant to exercising the Call Option or Put Option will be added to goodwill. In connection with the acquisition, Exelixis also issued fully vested options representing the right to purchase approximately 187,000 additional shares of Exelixis common stock to Artemis employees in exchange for such employees' vested options formerly representing the right to purchase shares of Artemis capital stock pursuant to an Employee Phantom Stock Option Program.

The total consideration for the acquisition was approximately $22.3 million, which consisted of Exelixis common stock and options valued at $21.4 million and estimated Exelixis transaction costs of $900,000. Exelixis' transaction costs include financial advisory, legal, accounting and other fees.

Based upon an independent valuation of the tangible and intangible assets acquired, Exelixis management has completed a preliminary allocation of the total cost of the acquisition to the assets acquired and liabilities assumed as follows (in thousands):

Tangible assets acquired	$6,848
In-process research and development	6,673
Developed technology	1,240
Assembled workforce	1,332
Goodwill	9,655
Patents/core technology	571
Liabilities assumed	(4,016)

	$22,303

The Company will amortize the acquired intangible assets using the following estimated useful lives:

Developed technology	5 years
Patents/core technology	15 years
Assembled workforce	3 years
Goodwill	15 years

The valuation of the purchased in-process research and development of $6.7 million was based upon the results of an independent valuation using the income approach for each of the three significant in-process projects. The in-process projects relate primarily to the development of technologies that use vertebrate genetic model organisms, zebrafish and mice, to identify and functionally validate novel genes in vivo. These genes can be used as novel screening targets or as the basis for secreted proteins in clinically and commercially relevant diseases. The in-process projects are expected to be completed over the next 18 months. The income approach estimates the value of each acquired project in-process based on its expected future cash flows. The valuation analysis considered the contribution of the core technology as well as the percent complete of each in-process research and development project. The expected present value of the cash flows associated with the in-process research and development projects was computed using a risk adjusted rate of return of 30%, which is considered commensurate with the overall risk and percent complete of the in-process projects. The purchased in-process research and development was not considered to have reached technological feasibility, and it has no alternative future use, accordingly, it has been recorded as a component of operating expense.

The revenues, expenses, cash flows and other assumptions underlying the estimated fair value of the acquired in-process research and development involve significant risks and uncertainties. The risks and uncertainties associated with completing the acquired in-process projects include the ability to reach future research milestones since the technologies being developed are unproven, the ability to retain key personal, the ability to obtain licenses to key technology, and the ability to avoid infringing on patents and propriety rights of third parties.

PRO FORMA RESULTS

The Company's historical statements of operations include the results of Artemis and Agritope, Inc. (now Exelixis Plant Sciences, Inc.) subsequent to the acquisition dates of May 14, 2001 and December 8, 2000, respectively. The following unaudited pro forma financial information presents the consolidated results of the Company as if the acquisitions of Artemis and Agritope had occurred at the beginning of each period presented. Nonrecurring charges, such as acquired in-process research and development, are not reflected in the following pro forma financial information. This unaudited pro forma information is not intended to be indicative of future operating results (in thousands, except per share data).

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Total revenues	$ 16,359	$ 16,541
Net loss	$(25,754)	$(33,357)
Net loss per share, basic and diluted	$ (1.09)	$ (0.72)

NOTE 4. SUPPLEMENTAL STOCK OPTION PLAN

During April 2001, the Company granted approximately 545,000 supplemental stock options ("Supplemental Options") under the 2000 Equity Incentive Plan to employees (excluding officers and directors) who had stock options with exercise prices greater than $16.00 per share under the 2000 Equity Incentive Plan. The number of Supplemental Options granted were equal to 50% of the corresponding original grant held by each employee, have an exercise price of $16.00, vest monthly over a two year period beginning April 1, 2001, and have a 27 month term. The vesting on the corresponding original grants was halted and will resume in April 2003 following the completion of vesting of the Supplemental Options. This new grant constitutes a synthetic repricing as defined in FASB Interpretation Number 44 "Accounting for Certain Transactions Involving Stock Compensation" and will result in certain options being reported using the variable plan method of accounting for stock compensation expense until they are exercised, forfeited or expire. For the quarter ended June 30, 2001, the compensation expense recorded for these supplemental options is approximately $0.3 million.

NOTE 5. COMMITMENTS

During April 2001, the Company entered into a master lease agreement with a third party lessor for an equipment lease line of credit of up to $12.0 million, which expires on December 31, 2001. The master lease agreement provides for a periodic delivery structure. Each delivery has a payment term of 36 or 48 months depending on the type of the equipment purchased under the lease. At June 30, 2001, $7.9 million was outstanding under the equipment lease line of credit. Under the master lease agreement, the Company is subject to certain financial covenants. As of June 30, 2001, the Company was in compliance with all such covenants.

NOTE 6. COLLABORATION AGREEMENTS

On May 22, 2001, the Company and Protein Design Labs, Inc. ("PDL") entered into a collaboration to discover and develop humanized antibodies for the diagnosis, prevention and treatment of cancer. The collaboration will utilize Exelixis' model organism genetics technology for the identification of new cancer drug targets, and PDL's antibody and clinical development expertise to create and develop new antibody drug candidates. PDL will provide Exelixis with $4.0 million in annual research funding for two or more years and has purchased a $30.0 million convertible note. The note bears interest at 5.75% and the interest thereon is payable annually. The note is convertible into Exelixis common stock at a conversion price per share equal to the lower of (i) $28.175 and (ii) 110% of the Fair Market Value (as defined in the note) of a share of Exelixis common stock at the time of conversion.

On July 17, 2001, the Company and Bristol-Myers Squibb Company ("BMS") entered into a collaboration. The collaboration involved three agreements: (a) a Stock Purchase Agreement; (b) a Cancer Collaboration Agreement; and (c) a License Agreement. Under the terms of the collaboration, BMS (i) purchased 600,600 shares of Exelixis Common Stock in a private placement at a purchase price of $33.30 per share, for proceeds to Exelixis of approximately $20.0 million; (ii) agreed to pay Exelixis a $5.0 million upfront license fee and provide Exelixis with $3.0 million per year in research funding for a minimum of three years; and (iii) granted to Exelixis a worldwide, fully-paid, exclusive license to an analogue to Rebeccamycin developed by BMS, which is currently in Phase I and Phase II clinical studies for cancer. Due to risk and uncertainties with Rebeccamycin, this was given no value in the collaboration agreement. Exelixis has agreed to provide BMS with exclusive rights to certain potential small molecule compound drug targets in cancer identified during the term of the research collaboration. The premium of $10.0 million on the stock purchase by BMS is being accounted for similar to an upfront license fee. Therefore, revenue is being recognized ratably over the life of the contract.

On July 26, 2001, the Company announced the reacquisition, effective February 2002, of future rights to research programs in metabolism and alzheimer's disease previously licensed exclusively to Pharmacia Corporation ("Pharmacia"). Pharmacia will retain rights to targets under the existing agreement selected prior to the reacquisition date, subject to the payment of milestones for certain of those targets selected and royalties for future development of products against or using those targets but will have no other obligations to make payments to the Company, including approximately $9.0 million in annual funding that would otherwise be payable for an additional two years if the Company had not elected to reacquire rights to the research at this time.

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

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the 2000 audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2000. Operating results are not necessarily indicative of results that may occur in future periods.

The following discussion and analysis contains forward-looking statements that are based upon current expectations. Forward-looking statements involve risks and uncertainties. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" as well as those discussed elsewhere in this document and those discussed in our Annual Report on Form 10-K.

OVERVIEW

We believe that we are a leader in the discovery and validation of high-quality novel targets for several major human diseases, and a leader in the discovery of potential new drug therapies, specifically for cancer and other proliferative diseases. Our mission is to develop proprietary cancer products by leveraging our integrated discovery platform to increase the speed, efficiency and quality of pharmaceutical and agricultural product discovery and development.

Through our expertise in comparative genomics and model system genetics, we are able to find new drug targets that we believe would be difficult or impossible to uncover using other experimental approaches. Our pharmaceutical research identifies 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 then represent either potential product targets or drugs that may treat disease, or prevent disease initiation or progression.

We have established commercial collaborations with Aventis CropScience, Bayer, Bristol-Myers Squibb, Dow AgroSciences, Pharmacia and Protein Design Labs, which provide us with substantial funding, including licensing fees, research funding, milestone payments when specific objectives are met and royalties, if our partners successfully develop and commercialize products. In addition, many of these collaborations provide us with access to strategic technologies and product development opportunities. Revenues from these collaborations were $16.3 million for the six months ended June 30, 2001, $24.8 million in 2000, $10.5 million for the same period in 1999 and $2.3 million for the same period in 1998. Our sources of potential revenue for the next several years are likely to include upfront license and other fees, funded research payments under existing and possible future collaborative arrangements and milestone payments and royalties from our collaborators based on revenues received from any products commercialized under those agreements.

We have a history of operating losses resulting principally from costs associated with research and development activities, investment in core technologies and general and administrative functions. As a result of planned expenditures for future research and development activities, including manufacturing and clinical development expenses for a compound in Phase II clinical studies, Exelixis expects to incur additional operating losses for the foreseeable future.

License, research commitment and other non-refundable payments received in connection with research collaboration agreements are deferred and recognized on a straight-line basis over the relevant periods specified in the agreements, generally the research term. Exelixis recognizes contract research revenues as services are performed in accordance with the terms of the agreements. Any amounts received in advance of performance are recorded as deferred revenue.

ACQUISITION OF ARTEMIS PHARMACEUTICALS

In May 2001, we acquired a majority of the outstanding capital stock of Artemis Pharmaceuticals GmbH, a privately held genetics and functional genomics company organized under the laws of Germany ("Artemis"). The transaction, which was accounted for under the purchase method of accounting, was effected through the exchange of shares of our common stock for DEM 1.00 of nominal value of Artemis capital stock, using an exchange ratio of 4.064 to one. Approximately 1.6 million shares of our common stock was issued in exchange for 78% of the outstanding capital stock of Artemis held by the Artemis stockholders. In addition, we received a call option (the "Call Option") from, and issued a put option (the "Put Option") to, certain stockholders of Artemis (the "Option Holders") for the issuance of approximately 480,000 shares of our common stock in exchange for the remaining 22% of the outstanding capital stock of Artemis held by the Option Holders. We may exercise the Call Option at any time from May 14, 2001 through January 31, 2002, and the Option Holders may exercise their rights under the Put Option at any time from April 1, 2002 through May 15, 2002. The value of any shares issued pursuant to exercising the Call Option or Put Option will be added to goodwill. In connection with the acquisition, we also issued fully vested options representing the right to purchase approximately 187,000 additional shares of our common stock to Artemis employees in exchange for such employees' vested options formerly representing the right to purchase shares of Artemis capital stock pursuant to an Employee Phantom Stock Option Program.

The purchase price, which for financial accounting purposes was valued at $22.3 million, was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the date of acquisition, as determined by management based upon an independent valuation. As a result of this transaction, we recorded expense associated with the purchase of in-process research and development of $6.7 million, net tangible assets of $2.8 million, and intangible assets (including goodwill) of $12.8 million, the majority of which will be amortized over 15 years.

RESULTS OF OPERATIONS

REVENUES

Total revenues were $8.6 million and $16.3 million for the three- and six-month periods ended June 30, 2001, respectively, compared to $5.6 million and $11.6 million, respectively, for the comparable periods in 2000. The increase in revenues over the 2000 levels was primarily due to additional license and contract revenues earned from existing collaborations with Bayer, Bristol-Myers Squibb, Pharmacia, and Dow AgroSciences, revenues earned under the collaboration with Aventis Crop Sciences resulting from our acquisition of Agritope, Inc., now renamed Exelixis Plant Sciences, Inc., and revenues earned under our new collaboration with PDL entered into in May 2001. Our acquisition of Artemis in May 2001 also resulted in approximately $0.3 million in additional revenue. We expect revenues to continue to increase during the remainder of 2001 with the signing of our new collaboration agreement with Bristol-Myers Squibb in July 2001.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist primarily of salaries and other personnel-related expenses, facilities costs, supplies and depreciation of facilities and laboratory equipment. Research and development expenses were $20.6 million and $37.4 million for the three- and six-month periods ended June 30, 2001, respectively, compared to $13.4 million and $22.3 million, respectively, for the comparable periods in 2000. The increase was due primarily to increased staffing and other personnel-related costs. These expenses were incurred to support new collaborative arrangements, our internal self-funded research efforts, including the significant build-out of our drug discovery organization and increased expenses related to the ongoing research and development activities at Agritope and Artemis. This was partially offset by a decrease in non-cash stock compensation expense (as described below). We expect to continue to devote substantial resources to research and development. In addition, we expect that research and development expenses will continue to increase in absolute dollar amounts in the future as we assume the responsibility for manufacturing and clinical development of a Phase I/II cancer compound and as we continue to expand our proprietary drug development efforts.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist primarily of personnel costs to support our worldwide activities, facilities costs and professional expenses, such as legal fees. General and administrative expenses were $5.0 million and $9.2 million for the three- and six-month periods ended June 30, 2001, respectively, compared to $4.9 million and $9.2 million, respectively, for the comparable periods in 2000. General and administrative expenses remained flat year-over-year due primarily to a decrease in non-cash stock compensation expense (as described below) which offset our increased staffing and other personnel related costs and rent for facilities and expenses associated with expanding our corporate headquarters. We expect that our general and administrative expenses will increase in absolute dollar amounts in the future as we support a larger, worldwide organization through expanding our administrative staff and adding infrastructure to support our growing research and development efforts.

STOCK COMPENSATION EXPENSE

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

As of June 30, 2001, the Company has recorded $6.8 million of deferred stock compensation, net of amortization, related to stock options granted to consultants and employees. Stock compensation expense is being recognized in accordance with FASB Interpretation No. 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28") over the vesting periods of the related options, generally four years. During April 2001, the Company granted approximately 545,000 supplemental stock options ("Supplemental Options") under the 2000 Equity Incentive Plan to certain employees (excluding officers and directors) who had stock options with exercise prices greater than $16.00 per share under the 2000 Equity Incentive Plan. The number of Supplemental Options granted was equal to 50% of the corresponding original grant held by each employee. The Supplemental Options have an exercise price of $16.00, vest monthly over a two year period beginning April 1, 2001, and have a 27 month term. The vesting on the corresponding original stock options was halted and will resume in April 2003 following the completion of vesting of the Supplemental Options. This new grant constitutes a synthetic repricing as defined in FASB Interpretation Number 44, "Accounting for Certain Transactions Involving Stock Compensation" and will result in certain options being reported using the variable plan method of accounting for stock compensation expense until they are exercised, forfeited or expire. For the quarter ended June 30, 2001, the compensation expense recorded for these supplemental options was approximately $0.3 million. The Company recognized stock compensation expense of $2.3 million and $4.2 million for the three- and six-month periods ended June 30, 2001, respectively, compared to $5.3 million and $8.6 million, respectively, for the comparable periods in 2000. The decrease in stock compensation expense year-over-year primarily results from the accelerated amortization method proscribed by FIN 28 partially offset by the expense resulting from the synthetic repricing effect of the supplemental options.

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

The valuation of the purchased in-process research and development related to the acquisition Artemis of $6.7 million was determined by management based upon the results of an independent valuation using the income approach for each of the three significant in-process projects. The in-process projects relate

primarily to the development of technologies that use vertebrate genetic model organisms, zebrafish and mice, to identify and functionally validate novel genes in vivo. These genes can be used as novel screening targets or as the basis for secreted proteins in clinically and commercially relevant diseases. The in-process projects are expected to be completed over the next 18 months. The income approach estimates the value of each acquired project in-process based on its expected future cash flows. The valuation analysis considered the contribution of the core technology as well as the percent complete of each in-process research and development project. The expected present value of the cash flows associated with the in-process research and development projects was computed using a risk adjusted rate of return of 30%, which is considered commensurate with the overall risk and percent complete of the in-process projects. The purchased in-process technology was not considered to have reached technological feasibility, and it has no alternative future use, accordingly, it has been recorded as a component operating expense.

AMORTIZATION OF GOODWILL AND INTANGIBLES

Amortization of goodwill and intangibles results from our acquisitions of Artemis and Agritope, now renamed Exelixis Plant Sciences, Inc. Amortization of goodwill and intangibles was $1.2 million and $2.3 million for the three and six month periods ended June 30, 2001, respectively, compared to none for the comparable periods in 2000.

OTHER INCOME (EXPENSE), NET

Other income (expense), net primarily consists of interest income earned on cash, cash equivalents and short-term investments, partially offset by interest expense incurred on notes payable and capital lease obligations. Net interest income was $1.2 million and $2.8 million for the three- and six-month periods ended June 30, 2001, respectively, compared to $1.7 million for the comparable periods in 2000. The increase year-over-year primarily relates to having earned interest on higher levels of cash, cash equivalents and short-term investments for a full six months during 2001, as compared to 2000 when we closed our initial public offering in April. The decrease for the current quarter compared to last year primarily relates to lower interest income due to declining cash balances and an increase in interest expense for additional capital leases.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our operations primarily through private placements of preferred stock, loans, convertible debt, equipment lease financing and other loan facilities and payments from collaborators. In addition, during the second quarter of 2000, we completed our initial public offering raising $124.5 million in net cash proceeds. We intend to continue to use the proceeds for research and development activities, capital expenditures, working capital and other general corporate purposes. As of June 30, 2001, we had approximately $123.1 million in cash, cash equivalents and short-term investments.

Our operating activities used cash of $15.4 million for the six months ended June 30, 2001, compared to cash provided of $3.4 million for the six months ended June 30, 2000. Cash used in operating activities related primarily to funding net operating losses, partially offset by an increase in non-cash charges related to depreciation and amortization of deferred stock compensation, goodwill and other intangible assets.

Our investing activities provided cash of $13.3 million for the six months ended June 30, 2001, compared to cash used of $81.5 million for the corresponding period in 2000. Investing activities consist primarily of maturities of short-term investments, partially offset by purchases of short-term investments and property and equipment for the six months ended June 30, 2001. We expect to continue to make significant investments in research and development and our administrative infrastructure, including the purchase of property and equipment to support our expanding operations.

Our financing activities provided cash of $28.7 million and $124.1 million for the six months ended June 30, 2001, and 2000, respectively. These amounts consisted primarily of proceeds from a $30.0 million convertible note entered into as part of our collaboration agreement with Protein Design Labs in May 2001 and proceeds from our initial public offering in April 2000.

We believe that our current cash and cash equivalents, short-term investments and committed funding to be received from collaborators, will be sufficient to satisfy our anticipated cash needs for at least the next two years. However, it is possible that we will seek additional financing within this timeframe. We may raise additional funds through public or private financings, collaborative relationships or other arrangements. In July 2001, we filed a registration statement on Form S-3 to offer and sell up to $150.0 million of common stock. We have no current commitments to offer or sell securities with respect to shares that may be offered or sold pursuant to this filing. We cannot assure you that additional funding, if sought, will be available or, even if available, will be available on terms favorable to us. Further, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Our failure to raise capital when needed may harm our business and operating results.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations" ("SFAS No. 141"), which establishes financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. SFAS No. 141 requires that all business combinations be accounted for using one method, the purchase method. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 is expected to have no material impact on financial reporting and related disclosures of the Company.

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which establishes financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition, and after they have been initially recognized in the financial statements. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS No. 142 during the first quarter of fiscal 2002, and is in the process of evaluating the impact of implementation on the financial position of the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our investments are only subject to interest rate risk and our interest income may fluctuate due to changes in U.S. interest rates. By policy, we limit our investments to money market instruments, debt securities of U.S. government agencies and debt obligations of U.S. corporations. We manage market risk by our diversification requirements, which limit the amount of our portfolio that can be invested in a single issuer. We manage credit risk by limiting our purchases to high quality issuers. Through our money manager, we maintain risk management control systems to monitor interest rate risk. The risk management control systems use analytical techniques, including sensitivity analysis. A hypothetical 1% adverse move in interest rates along the entire interest rate yield curve would cause an approximately $0.5 million decline in the value of our financial instruments at June 30, 2001.

All highly liquid investments with an original maturity of three months or less from the date of purchase are considered cash equivalents. The Company views its available-for-sale portfolio as available for use in current operations. Accordingly, we have classified all investments with an original maturity date greater than three months as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date.

Due to our German operations, we have market risk exposure to adverse changes in foreign currency exchange rates. The revenues and expenses of our subsidiary Artemis Pharmaceuticals, GmbH are denominated in Deutche Marks. At the end of each quarter, the revenues and expenses of this subsidiary are translated into U.S. dollars using the average currency rate in effect for the quarter and assets and liabilities are translated into U.S. dollars using the exchange rate in effect at the end of the quarter. Fluctuations in exchange rates therefore impact our financial condition and results of operations, as reported in U.S. dollars. To date we have not experienced any significant negative impact as a result of fluctuations in foreign currency markets. As a policy, we do not engage in speculative or leveraged transactions, nor do we hold financial instruments for trading purposes. We will periodically analyze our exposure to foreign currency fluctuations and may adjust our policies to allow for financial hedging techniques to minimize exchange rate risk.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) On May 22, 2001, we issued a convertible promissory note for the aggregate principal amount of $30.0 million (the "Note") to Protein Design Labs, Inc. ("PDL") in connection with the execution of a collaboration agreement. The Note, which bears interest at a rate of 5.75% annually, is convertible into shares of Exelixis common stock, par value $0.001 per share (the "Exelixis Common Stock"), after the first anniversary of the Note's date of issuance. The Note is convertible into Exelixis Common Stock at a conversion price per share equal to the lower of (i) $28.175 and (ii) 110% of the Fair Market Value (as defined in the Note) of a share of Exelixis Common Stock at the time of conversion. We issued the Note in reliance upon an exemption from the registration requirements of the Securities Act by virtue of Section 4(2) thereof and Regulation D promulgated thereunder.

On May 14, 2001, we acquired all, or rights to acquire all, of the outstanding capital stock of Artemis Pharmaceuticals GmbH, a privately held genetics and functional genomics company organized under the laws of Germany ("Artemis"). The acquisition of Artemis (the "Acquisition") was effected pursuant to a Share Exchange and Assignment Agreement among Exelixis and the stockholders of Artemis (not including Exelixis, the "Artemis Stockholders"), dated as of April 23, 2001

(the "Exchange Agreement"), providing for the exchange of 4.064 shares of Exelixis Common Stock for each DEM 1.00 of nominal value of Artemis capital stock. Pursuant to the Exchange Agreement, Exelixis issued approximately 1.6 million shares of its common stock, in exchange for 78% of the outstanding capital stock of Artemis held by the Artemis Stockholders. In addition, we received a call option (the "Call Option") from, and issued a put option (the "Put Option") to, certain stockholders of Artemis (the "Option Holders") for the issuance of approximately 480,000 shares of Exelixis Common Stock in exchange for the remaining 22% of the outstanding capital stock of Artemis held by the Artemis Stockholders. We may exercise the Call Option at any time from May 14, 2001 through January 31, 2002, and the Option Holders may exercise their rights under the Put Option at any time from April 1, 2002 through May 15, 2002. Further, in connection with the Acquisition, we issued fully vested options representing the right to purchase approximately 187,000 additional shares of Exelixis Common Stock to Artemis employees in exchange for such employees' vested options formerly representing the right to purchase shares of Artemis capital stock pursuant to an Employee Phantom Stock Option Plan. We issued the restricted shares of Exelixis Common Stock in reliance upon an exemption from the registration requirements of the Securities Act by virtue of Section 4(2) thereof and Regulation D promulgated thereunder.

(d) In May 2000, we completed our initial public offering for aggregate proceeds of approximately $136.0 million. In connection with the offering, We paid a total of approximately $9.5 million in underwriting discounts and commissions and $2.0 million in other offering costs and expenses. After deducting the underwriting discounts and commissions and the offering costs and expenses, the net proceeds from the offering were approximately $124.5 million.

From the time of receipt through June 30, 2001, the proceeds from the offering were used for research and development activities, capital expenditures, working capital and other general corporate purposes. In the future, Exelixis intends to use the net proceeds in a similar manner. As of June 30, 2001, approximately $93.1 million of the proceeds remained available and were primarily invested in short-term marketable securities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the 2001 Annual Meeting of Stockholders held on May 22, 2001, the stockholders were asked to vote on two items as follows:

1. To elect two Class II directors, Jason Fisherman, M.D. and Jean-Francois Formela, M.D., to hold office until the 2004 Annual Meeting of Stockholders; and

2. To ratify the selection of PricewaterhouseCoopers LLP as independent accountants of the Company for its fiscal year ended December 31, 2001.

The results of the matters presented at the annual meeting, based on 46,797,585 shares of record entitled to vote, were as follows:

1. Drs. Fisherman and Formela were approved as directors of the Company until the 2004 Annual Meeting of Stockholders as follows:

	For	Withheld
Jason Fisherman	33,564,553	276,908
Jean-Francois Formela	33,563,612	277,849

2. The ratification of PricewaterhouseCoopers LLP as independent accountants of the Company for its fiscal year ended December 31, 2001 was approved as follows:

For	Against	Abstain	Broker Non-Vote
33,715,423	120,139	5,899	0

ITEM 5. OTHER INFORMATION - RISK FACTORS

WE HAVE A HISTORY OF NET LOSSES. WE EXPECT TO CONTINUE TO INCUR NET LOSSES, AND WE MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY.

We have incurred net losses each year since our inception, including a net loss of approximately $36.4 million for the six months ended June 30, 2001. As of that date, we had an accumulated deficit of approximately $166.5 million. We expect these losses to continue and anticipate negative cash flow for the foreseeable future. The size of these net losses will depend, in part, on the rate of growth, if any, in our license and contract revenues and on the level of our expenses. Our research and development expenditures and general and administrative costs have exceeded our revenues to date, and we expect to spend significant additional amounts to fund research and development in order to enhance our core technologies and undertake product development. As a result, we expect that our operating expenses will increase significantly in the near term and, consequently, we will need to generate significant additional revenues to

achieve profitability. Even if we do increase our revenues and achieve profitability, we may not be able to sustain or increase profitability.

WE WILL NEED ADDITIONAL CAPITAL IN THE FUTURE, WHICH MAY NOT BE AVAILABLE TO US.

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

- payments received under collaborative agreements;
- the progress and scope of our collaborative and independent research and development projects;
- our ability to successfully continue development of a recently acquired cancer compound;
- our need to expand our other proprietary product development efforts as well as develop manufacturing and marketing capabilities to commercialize products; and
- the filing, prosecution and enforcement of patent claims.

We anticipate that our current cash and cash equivalents, short-term investments and funding to be received from collaborators will enable us to maintain our currently planned operations for at least the next two years. Changes to our current operating plan may require us to consume available capital resources significantly sooner than we expect. For example, our newly acquired cancer product from our recent relationship with Bristol-Myers Squibb will require significant resources for development that were not in our operational plans prior to acquiring the cancer product. We may be unable to raise sufficient additional capital when we need it, on favorable terms, or at all. If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. The sale of equity or convertible debt securities in the future may be dilutive to our stockholders, and debt financing arrangements may require us to pledge certain assets and enter into covenants that would restrict our ability to incur further indebtedness. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

DIFFICULTIES WE MAY ENCOUNTER MANAGING OUR GROWTH MAY DIVERT RESOURCES AND LIMIT OUR ABILITY TO SUCCESSFULLY EXPAND OUR OPERATIONS.

We have experienced a period of rapid and substantial growth that has placed, and our anticipated growth in the future will continue to place a strain on our administrative and operational infrastructure. As our operations expand, we expect that we will need to manage multiple locations, including additional locations outside of the United States, 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 operational, financial and management controls, reporting systems and procedures. We may not be able to successfully implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls. In addition, acquisitions involve the integration of different financial and management reporting systems. We may not be able to successfully integrate the administrative and operational infrastructure without significant additional improvements and investments in management systems and procedures.

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.

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

We currently have continuing collaborative research agreements with Bayer, Bristol-Myers Squibb (two agreements), Dow AgroSciences, Aventis and Protein Design Labs. Our current collaborative agreement with Bayer is scheduled to expire in 2008, after which it will automatically be extended for one-year terms unless terminated by either party upon 12-month written notice. Our agreement permits Bayer to terminate our collaborative activities prior to 2008 upon the occurrence of specified conditions, such as the failure to agree on key strategic issues after a period of years or the acquisition of Exelixis by certain specified third parties. In addition, our agreements with Bayer are subject to termination at an earlier date if two or more of our Chief Executive Officer, Chief Scientific Officer, Agricultural Biotechnology Program Leader and Chief Informatics Officer cease to have a relationship with us within six months of each other and we are unable to find replacements acceptable to Bayer. The first of our collaborative agreement with Bristol-Myers Squibb expires in September 2002. The funded research term of second arrangement, entered into in

July 2002, expires in July 2005. Our collaborative agreement with Dow AgroSciences is scheduled to expire in July 2003, after which Dow AgroSciences has the option to renew on an annual basis. Our collaborative research arrangement with Aventis is scheduled to expire in June 2004. Aventis has the right to terminate the research arrangement prior to the expiration date, provided that it pays the annual research funding amount due for the year following termination. Thereafter, the arrangement renews annually unless Aventis terminates automatic renewal prior to the scheduled date of renewal. The Aventis arrangement is conducted through a limited liability company, Agrinomics, which is owned equally by Aventis and Exelixis. Aventis may surrender its interest in Agrinomics and terminate the related research collaboration prior to the scheduled expiration upon the payment of the subsequent year's funding commitment. Bayer and Aventis recently announced an exclusive negotiation period for the purchase of Aventis by Bayer. We have not been advised of the status of those discussions nor are we able to predict the impact of such an acquisition of Aventis, if the acquisition were to occur. Our agreement with Protein Design Labs is scheduled to expire in May 2003. Protein Design Labs has a unilateral right to renew for additional 12 and six month periods thereafter. The five-year term of the convertible promissory note entered into as part of this arrangement is unaffected by whether or not Protein Design Labs renews. If these existing agreements are not renewed or if we are unable to enter into new collaborative agreements on commercially acceptable terms, our revenues and product development efforts may be adversely affected.

We recently announced the reacquisition, effective February 2002, of future rights to research programs in metabolism and alzheimer's disease previously licensed exclusively to Pharmacia Corporation. The existing agreement with Pharmacia will terminate as of that date. Pharmacia will retain rights to targets under the existing agreement selected prior to the reacquisition date, subject to the payment of milestones for certain of those targets selected and royalties for future development of products against or using those targets but will have no other obligations to make payments to the Company, including approximately $9.0 million in annual funding that would otherwise be payable for two years if the Company had not elected to reacquire rights to the research at this time. Although we anticipate entering into future collaborations involving either or both of these programs, there can be no assurance that we will be able to enter into new collaborative agreements or that such collaborations will provide revenues equal to or exceeding those otherwise obtainable under the Pharmacia collaboration.

CONFLICTS WITH OUR COLLABORATORS COULD JEOPARDIZE THE OUTCOME OF OUR COLLABORATIVE AGREEMENTS AND OUR ABILITY TO COMMERCIALIZE PRODUCTS.

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

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

WE ARE DEPLOYING UNPROVEN TECHNOLOGIES, AND WE MAY NOT BE ABLE TO DEVELOP COMMERCIALLY SUCCESSFUL PRODUCTS.

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

products and obtain regulatory approval for such products.

WE HAVE NO EXPERIENCE IN DEVELOPING, MANUFACTURING AND MARKETING PRODUCTS AND MAY BE UNABLE TO COMMERCIALIZE PROPRIETARY PRODUCTS.

We recently acquired a development compound, an analog to rebeccamycin ("Rebeccamycin"), directed against cancer under our recent collaborative arrangement with Bristol-Myers Squibb. Clinical development of Rebeccamycin to date has been conducted by the National Cancer Institute (the "NCI"), and manufacturing of this product has been the responsibility of Bristol-Myers Squibb. Rebeccamycin has recently completed Phase I clinical studies and is in Phase I and early Phase II clinical trials being conducted by the NCI. We are currently in negotiations with the NCI to use the results of the clinical studies they have conducted and are conducting in order to determine what additional studies, if any, will be conducted by the NCI or us. There can be no assurance that we will successfully agree upon further development plans, the respective rights and obligations of the parties to conduct additional clinical studies or the timing of such studies. In addition, there can be no assurance that the clinical studies conducted to date will support further clinical development or be accepted by the Food and Drug Administration or FDA, in conjunction with any application for product approval submitted to the FDA for Rebeccamycin. Moreover, although Bristol-Myers Squibb has provided the NCI with sufficient quantities of Rebeccamycin to complete the existing Phase I and II clinical studies, development necessary for further clinical studies and product approval will require us to either develop internal manufacturing capabilities or retain a third party to manufacture the product. In addition, we have recently hired a new Senior Vice President responsible for clinical development of this product, as well as any new potential products that we may develop. As a result, we have limited experience in clinical development and no experience in manufacturing potential drug products. Accordingly, the development of Rebeccamycin is subject to significant risk and uncertainty, particularly with respect to our ability to successfully develop, manufacture and market Rebeccamycin as a product.

With respect to products developed against our proprietary drug targets, we will rely on our collaborators to develop and commercialize products based on our research and development efforts. We have limited or no experience in using the targets that we identify to develop our own proprietary products. Our recent success in applying our drug development capabilities to our proprietary targets in cancer are subject to significant risk and uncertainty, particularly with respect to our ability to meet currently estimated timelines and goals for completing preclinical development efforts and filing an Investigational New Drug Application ("IND") for compounds developed. In order for us to commercialize products, we would need to significantly enhance our capabilities with respect to product development, and establish manufacturing and marketing capabilities, either directly or through outsourcing or licensing arrangements. We may not be able to enter into such outsourcing or licensing agreements on commercially reasonable terms, or at all.

SINCE OUR TECHNOLOGIES HAVE MANY POTENTIAL APPLICATIONS AND WE HAVE LIMITED RESOURCES, OUR FOCUS ON A PARTICULAR AREA MAY RESULT IN OUR FAILURE TO CAPITALIZE ON MORE PROFITABLE AREAS.

We have limited financial and managerial resources. This requires us to focus on product candidates in specific industries and forego opportunities with regard to other products and industries. For example, depending on our ability to allocate resources, a decision to concentrate on a particular agricultural program may mean that we will not have resources available to apply the same technology to a pharmaceutical project. While our technologies may permit us to work in both areas, resource commitments may require trade-offs resulting in delays in the development of certain programs or research areas, which may place us at a competitive disadvantage. Our decisions impacting resource allocation may not lead to the development of viable commercial products and may divert resources from more profitable market opportunities. Moreover, our recent acquisition of Rebeccamycin will require that resources and management time be directed to clinical development and manufacturing of this potential product. There can be no assurance that allocating resources and time to these efforts will allow us to remain competitive in existing programs and potential areas of future research. The resources dedicated to the development of Rebeccamycin may limit or hinder our ability to meet currently estimated timelines and goals for completing preclinical development efforts and filing an IND for our proprietary compounds.

OUR COMPETITORS MAY DEVELOP PRODUCTS AND TECHNOLOGIES THAT MAKE OURS OBSOLETE.

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

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

IF WE ARE UNABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY, THIRD PARTIES MAY BE ABLE TO USE OUR TECHNOLOGY, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO COMPETE IN THE MARKET.

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

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

LITIGATION OR THIRD PARTY CLAIMS OF INTELLECTUAL PROPERTY INFRINGEMENT COULD REQUIRE US TO SPEND SUBSTANTIAL TIME AND MONEY AND ADVERSELY AFFECT OUR ABILITY TO DEVELOP AND COMMERCIALIZE PRODUCTS.

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

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

THE LOSS OF KEY PERSONNEL OR THE INABILITY TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL COULD IMPAIR OUR ABILITY TO EXPAND OUR OPERATIONS.

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

Our business operations will require additional expertise in specific industries

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

OUR COLLABORATIONS WITH OUTSIDE SCIENTISTS MAY BE SUBJECT TO RESTRICTION AND CHANGE.

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

OUR POTENTIAL THERAPEUTIC PRODUCTS ARE SUBJECT TO A LENGTHY AND UNCERTAIN REGULATORY PROCESS THAT MAY NOT RESULT IN THE NECESSARY REGULATORY APPROVALS, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO COMMERCIALIZE PRODUCTS.

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

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

SOCIAL ISSUES MAY LIMIT THE PUBLIC ACCEPTANCE OF GENETICALLY ENGINEERED PRODUCTS, WHICH COULD REDUCE DEMAND FOR OUR PRODUCTS.

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

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

LAWS AND REGULATIONS MAY REDUCE OUR ABILITY TO SELL GENETICALLY ENGINEERED PRODUCTS THAT OUR COLLABORATORS OR WE DEVELOP IN THE FUTURE.

Our collaborators or we may develop genetically engineered agricultural and animal products. The field-testing, production and marketing of genetically engineered products are subject to regulation by federal, state, local and foreign governments. Regulatory agencies administering existing or future regulations or legislation may prevent us from producing and marketing genetically engineered products in a timely manner or under technically or

commercially feasible conditions. In addition, regulatory action or private litigation could result in expenses, delays or other impediments to our product development programs and the commercialization of products.

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

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

WE USE HAZARDOUS CHEMICALS AND RADIOACTIVE AND BIOLOGICAL MATERIALS IN OUR BUSINESS. ANY CLAIMS RELATING TO IMPROPER HANDLING, STORAGE OR DISPOSAL OF THESE MATERIALS COULD BE TIME CONSUMING AND COSTLY.

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

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

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 license, milestone or other fees;
- payments of licensing fees to third parties;
- acceptance of our technologies and platforms;
- the success rate of our discovery efforts leading to milestones and royalties;
- the introduction of new technologies or products by our competitors;
- the timing and willingness of collaborators to commercialize our products;
- our ability to enter into new collaborative relationships;
- the termination or non-renewal of existing collaborations;
- general and industry-specific economic conditions that may affect our collaborators' research and development expenditures; and
- exposure to fluctuations in foreign currency

A large portion of our expenses, including expenses for facilities, equipment and personnel, are relatively fixed in the short term. In addition, we expect operating expenses to increase significantly during the next year. Accordingly, if our revenues decline or do not grow as anticipated due to the expiration 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.

We believe the trading price of our common stock will remain highly volatile and may fluctuate substantially due to factors such as the following:

- the announcement of new products or services by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- failure to achieve operating results projected by securities analysts;
- changes in earnings estimates or recommendations by securities analysts;
- developments in the biotechnology industry;
- acquisitions of other companies or technologies; 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 of acquired companies;
- the potential loss of key collaborators of the acquired companies;
- 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.

IF PRODUCT LIABILITY LAWSUITS ARE SUCCESSFULLY BROUGHT AGAINST US, WE COULD FACE SUBSTANTIAL LIABILITIES THAT EXCEED OUR RESOURCES.

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

OUR FACILITIES ARE LOCATED NEAR KNOWN EARTHQUAKE FAULT ZONES, AND THE OCCURRENCE OF AN EARTHQUAKE OR OTHER CATASTROPHIC DISASTER COULD CAUSE DAMAGE TO OUR FACILITIES AND EQUIPMENT, WHICH COULD REQUIRE US TO CEASE OR CURTAIL OPERATIONS.

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

FUTURE SALES OF OUR COMMON STOCK MAY DEPRESS OUR STOCK PRICE.

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

SOME OF OUR EXISTING STOCKHOLDERS CAN EXERT CONTROL OVER US, AND MAY NOT MAKE DECISIONS THAT ARE IN THE BEST INTERESTS OF ALL STOCKHOLDERS.

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On May 15, 2001, the Company filed a Reg FD, Item 9 Current Report on Form 8-K, in connection with the announcement of the Company's first quarter financial results.

On May 15, 2001, the Company filed an Item 2 Current Report on Form 8-K in connection with the Company's acquisition of Artemis.

SIGNATURE

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

Date: August 14, 2001

EXELIXIS, INC.

/s/ Glen Y. Sato

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

INDEX TO EXHIBITS

Exhibit Number	Description of Document
2.1	Share Exchange and Assignment Agreement, dated April 23, 2001, by and among Exelixis, Inc. and the Artemis stockholders named therein. (1)
3.1	Amended and Restated Certificate of Incorporation (2)
3.2	Amended and Restated Bylaws (2)
4.1	Specimen Common Stock Certificate (2)
4.2	Form of Convertible Promissory Note, dated May 22, by and between Exelixis,Inc. and Protein Design Labs, Inc.
4.3	Form of Note Purchase Agreement, dated May 22, by and between Exelixis, Inc.and Protein Design Labs, Inc.
10.28*	Collaboration Agreement, dated May 22, 2001, by and between Exelixis, Inc. and Protein Design Labs, Inc.

(1) Filed with Exelixis' Item 2 Current Report on Form 8-K filed on May 15, 2001 and incorporated herein by reference.

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

* Confidential treatment requested for certain portions of this exhibit.

NEITHER THIS CONVERTIBLE NOTE NOR THE UNDERLYING SHARES HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER (AS DEFINED BELOW) MAY NOT TRANSFER THIS CONVERTIBLE NOTE, OR ANY SHARES ISSUED PURSUANT TO ITS CONVERSION PROVISION, UNLESS (i) THERE IS AN EFFECTIVE REGISTRATION STATEMENT COVERING SUCH NOTE OR SUCH SHARES UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, (ii) THE COMPANY FIRST RECEIVES A LETTER FROM AN ATTORNEY, ACCEPTABLE TO THE COMPANY OR ITS AGENTS, STATING THAT IN THE OPINION OF THE ATTORNEY THE PROPOSED TRANSFER IS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND UNDER ALL APPLICABLE STATE SECURITIES LAWS, OR (iii) THE TRANSFER IS MADE PURSUANT TO RULE 144 UNDER THE SECURITIES ACT.

EXELIXIS, INC.

5.75% CONVERTIBLE
NOTE DUE MAY 22, 2006

South San Francisco, California

FOR VALUE RECEIVED, Exelixis, Inc., a Delaware corporation (the "Company"), hereby promises to pay, subject to the conversion provisions in Section 6 herein, to Protein Design Labs, Inc., a Delaware corporation, or its permitted transfers and assigns (the "Lender" or "Holder") the principal sum of THIRTY MILLION DOLLARS ($30,000,000) plus interest plus enforcement costs (including, but not limited to, reasonable attorney fees) thereon (collectively, the "Obligations") on the earlier of (i) a "Change in Control" (as hereinafter defined) of the Company; and (ii) May 22, 2006 (such earlier date being the "Maturity Date"). A "Change in Control" of the Company would occur if the Company sells, conveys or otherwise disposes of all or substantially all of its property or business, or merges or consolidates with any other corporation or business entity (other than a wholly-owned subsidiary of the Company) or effects any other transaction or series of transactions in which (I) the members of the Board of Directors of the Company prior to the transaction or series of transactions constituting the putative Change in Control event do not constitute a majority of the members of the Board of Directors of the enterprise following completion of the transaction or series of transactions constituting the putative Change in Control event (and in any event excluding from any such calculation any members of the Board of Directors who prior to such transaction(s) were members of the Board of both the Company and such other company or entity); and (II) the stockholders of the Company immediately prior thereto own less than a majority of the outstanding voting securities of the Company (or its successor or parent) immediately thereafter.

SECTION 1. INTEREST. Interest on the outstanding principal amount shall be cumulative, accrue at the rate of 5.75% per annum (or, if lower, the maximum rate permitted by law), and be paid in cash annually in arrears from and after the date hereof until and including the Maturity Date, unless this convertible note ("Note") is converted pursuant to Section 6 hereof, in which case accrued interest thereon (whether or not yet payable) shall be payable in cash to Lender within thirty (30) days of such date of conversion. Any interest not paid when due shall accrue interest at a rate of 10% per annum (or, if lower, the maximum rate permitted by law) and shall be treated as principal for the purposes of Section 6 hereof until paid.

SECTION 2. NOTE PURCHASE AGREEMENT. This Note has been issued pursuant to a Note Purchase Agreement (the "Note Purchase Agreement") dated as of the date hereof by and among the Company and the Holder. The Company shall keep or cause to be kept at its principal office appropriate records for the recordation of the name and address of the Holder, which address may be changed from time to time effective ten (10) days after receipt of written notice of such change from the Holder.

SECTION 3. DEFAULT. The occurrence of one or more of the following events shall constitute an event of default ("Event of Default"):

3.1 The Company shall fail to pay any of the Obligations when the same shall have become due and payable.

3.2 The Company shall fail to pay any of its material debts or other material obligations (other than the Obligations under this Note) when the same shall have become due and payable.

3.3 The entry of a decree or order by a court having jurisdiction adjudging the Company as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization arrangement, adjustment, or composition of or in respect of the Company under the Bankruptcy Act, as amended, or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, or trustee of the Company, or any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days.

3.4 The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Bankruptcy Act, as amended, or any other applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator,

assignee, or trustee of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action.

3.5 The Company shall (a) be in breach of any material term or provision of this Note; (b) be in breach under Section 12.2 of the Collaboration Agreement of even date herewith ("Collaboration Agreement"), which breach shall remain uncured as provided thereunder; or (c) be in breach of any material term or provision of the Note Purchase Agreement.

SECTION 4. ACCELERATION. Upon an Event of Default, all Obligations shall become immediately due and payable to the Holder without presentment, demand, protest or other notice of any kind, all of which are expressly waived by the Company.

SECTION 5. PREPAYMENTS. The Company may not prepay the amounts due hereunder prior to the third anniversary of this Note. After the third anniversary of this Note, and subject to Holder's right of conversion under Section 6 herein, the Company shall have the right to prepay the amounts due hereunder in whole or in part; provided that the Company meets the following conditions: (a) the Company shall provide the Holder not less than thirty (30) days prior written notice of each prepayment ("Prepayment Notice"), specifying the principal amount or amounts to be prepaid and the prepayment date, and (b) the Company shall pay on the prepayment date the interest accrued to date on the principal amount paid. Any Prepayment Notice shall be irrevocable and binding on the Company; provided any Prepayment Notice shall be deemed rescinded upon notice prior to the prepayment date that Holder intends to exercise its conversion rights.

SECTION 6. CONVERSION.

6.1 The Holder of this Note shall have the right, at the Holder's option, at any time after the first anniversary of this Note, upon written notice, to convert all of the principal amounts outstanding from time to time under this Note into the Company's common stock ("Common Stock") at a price per share ("Original Conversion Price") equal to the lower of: (x) $28.175; and (y) 110% of the Fair Market Value (as hereinafter defined) of a share of Common Stock. "Fair Market Value" of a share of Common Stock means: (i) if the Company's stock is traded on NASDAQ or a national securities exchange, the average closing price for such share of Common Stock on such exchange for the twenty (20) trading days immediately prior to the applicable date of conversion, or (ii) if the Company's stock is not traded on NASDAQ or a national securities exchange, the fair market value of the Company's stock on the applicable date of conversion as determined in good faith by the Company's Board of Directors.

6.2 In the event of an exercise of the Holder's rights of conversion under this Section 6, the Holder shall irrevocably be obligated to convert all of the principal amounts then outstanding under this Note and the Company shall, as promptly as practicable after the surrender, but in no event more than fourteen (14) days after the delivery of the Note for conversion, deliver to the Holder a certificate or certificates representing the number of fully paid and nonassessable shares of Common Stock of the Company into which this Note shall be converted.

6.3 The number of shares of Common Stock which shall be delivered on conversion of principal under this Note shall be an amount determined by dividing the principal under this Note by the Original Conversion Price (or the Conversion Price (as defined below), as determined in accordance with this Section 6), and rounding the result down to the nearest share. The conversion price from time to time specified in Section 6.1 above may be adjusted from time to time as provided in Section 9, and any adjusted conversion price shall be the "Conversion Price."

6.4 No fractional shares of stock or scrip shall be issued upon conversion of this Note. Instead of any fractional shares of stock which would otherwise be issuable upon conversion of this Note, the Company shall pay in cash an amount equal to the fractional share multiplied by the Conversion Price in respect of such fractional interest.

SECTION 7. ASSIGNMENT, EXCHANGE, OR LOSS OF NOTE. Subject to any transfer restrictions herein, upon presentation and surrender of this Note to the Company at its principal office with a duly executed request for assignment and funds sufficient to pay any transfer tax, the Company shall, without charge, execute and deliver a new Note in the name of the assignee named in such instrument of assignment and this Note shall promptly be canceled.

SECTION 8. RIGHTS OF THE HOLDER. The Holder shall not, by virtue of the provisions in this Note, be entitled to any rights of a stockholder in the Company, either at law or equity.

SECTION 9. ADJUSTMENTS. In case the Company shall, after the receipt of notice pursuant to Section 6.1 but prior to the conversion thereunder: (i) pay a dividend or make a distribution on the Common Stock payable in common shares, (ii) subdivide the outstanding Common Stock into a greater number of shares, (iii) combine the outstanding Common Stock into a lesser number of shares, or

(iv) issue by reclassification of the Common Stock any common shares of the Company, the Holder of this Note shall thereafter be entitled, upon conversion, to receive the number and kind of shares which, if this Note had been converted immediately prior to the happening of such event, the Holder would have owned upon such conversion and been entitled to receive upon such dividend, distribution, subdivision, combination, or reclassification. Such adjustment shall become effective on the day next following (x) the record date of such dividend or distribution or (y) the day upon which such subdivision, combination, or reclassification shall become effective.

SECTION 10. RESTRICTIONS ON TRANSFER. This Note has not been registered under the Securities Act. This Note, or any right hereunder, may not be enforced against the Company by any Holder, except the original Holder herein, (i) unless there is an effective registration covering such note or underlying shares under the Securities Act and applicable state securities laws, (ii) unless the Company receives an opinion of an attorney acceptable to the Company or its agents, that the proposed transfer of the Note complies with the requirements of the Securities Act and any relevant state securities law, or (iii) unless the transfer is made pursuant to Rule 144 under the Securities Act.

SECTION 11. NOTICES. All notices and other communications required or permitted under this Note shall be validly given, made, or served if in writing and delivered personally, via overnight courier or sent by registered mail, to the Company at the following address:

Exelixis, Inc.
170 Harbor Way
P.O. Box 511
South San Francisco, California 94083-0511
Attn: Chief Executive Officer

With a copy to:

Exelixis, Inc.
170 Harbor Way
P.O. Box 511
South San Francisco, California 94083-0511
Attn: General Counsel

All notices and other communications required or permitted under this Note shall be validly given, made or served if in writing and delivered personally, via overnight courier or sent by registered mail, to the Holder at the following address:

Protein Design Labs, Inc.
34801 Campus Drive
Fremont, California 94555-3606
Attn: Chief Executive Officer

With a copy to:

Protein Design Labs, Inc.
34801 Campus Drive
Fremont, California 94555-3606
Attn: General Counsel

Changes to a party's address information provided herein shall be effected by notice to the other party as provided herein.

SECTION 12. LAW GOVERNING. This Note shall be governed by and construed in accordance with the internal laws of the State of California.

SECTION 13. TITLES AND CAPTIONS; PRESUMPTION. All section titles or captions contained in this Note are for convenience only and shall not be deemed part of the context nor affect the interpretation of this Note. This Note or any section thereof shall not be construed against any party due to the fact that said Note or any section thereof was drafted by said party.

SECTION 14. COMPUTATION OF TIME. In computing any period of time pursuant to this Note, the day of the act, event or default from which the designated period of time begins to run shall be included, unless it is a Saturday, Sunday, or a legal holiday, in which event the period shall begin to run on the next day which is not a Saturday, Sunday, or legal holiday, in which event the period shall run until the end of the next day thereafter which is not a Saturday, Sunday, or legal holiday.

SECTION 15. FURTHER ASSURANCES. The Company shall execute and deliver all documents, provide all information and take or forbear from all such action as may be necessary or appropriate to achieve the purposes of the Note.

SECTION 16. PARTIES IN INTEREST. Nothing herein shall be construed to be to the benefit of any third party, nor is it intended that any provision shall be for the benefit of any third party.

IN WITNESS WHEREOF, a duly authorized officer of Exelixis, Inc. has executed this Note to be effective on this 22nd day of May 2001.

EXELIXIS, INC.

_____
George A. Scangos
Chief Executive Officer

NOTE PURCHASE AGREEMENT

THIS NOTE PURCHASE AGREEMENT (the "Agreement") is dated as of May 22, 2001 (the "Effective Date") by and between EXELIXIS, INC., a Delaware corporation having its principal place of business at 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511 (the "Company") and PROTEIN DESIGN LABS, INC., a Delaware corporation having its principal place of business at 34801 Campus Drive, Fremont, California 94555-3606 (the "Holder").

RECITALS

A. Pursuant to the terms of the Convertible Note (the "Note"), dated as of even date herewith between the Company and the Holder, the Holder has loaned to the Company the principal sum of Thirty Million Dollars ($30,000,000) (the "Principal Amount").

B. The Company has agreed to issue the Note pursuant to the terms set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and promises herein contained and in order to induce the Holder to loan to the Company the Principal Amount, the Company agrees with the Holder as follows:

1. AUTHORIZATION AND SALE OF NOTES

1.1 AUTHORIZATION OF NOTES. On or before the date hereof the Company shall authorize the issuance of the Note in the form attached to this Agreement as Exhibit A in the Principal Amount.

1.2 SALE OF NOTE. Subject to the terms and conditions hereof, the Company will issue and sell to the Holder, and the Holder will purchase from the Company for the Principal Amount, the Note. The Note and the shares of common stock of the Company (the "Shares") issued upon conversion of the Note are sometimes collectively referred to herein as the "Securities."

2. CLOSING DATE; DELIVERY

2.2 CLOSING DATE. Subject to the terms and conditions of this Agreement, the purchase and sale of the Note hereunder shall take place at 3:00 p.m. local time at the offices of the Company, on the date hereof or at such other time and place as the Company and the Holder may agree (the "Closing"). The date of the Closing is hereinafter referred to as the "Closing Date."

2.3 DELIVERY. At the Closing, the Company will deliver to the Holder the Note against payment of the Principal Amount therefor by wire transfer in immediately available funds:

Bank: Silicon Valley Bank, Santa Clara, CA
ABA Routing: 121-140-399
Acct Number: 33001-60643

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Holder as follows:

3.1 ORGANIZATION AND STANDING. The Company:

(a) is a corporation duly organized, validly existing, authorized to exercise all its corporate powers, rights, and privileges, and in good standing under the laws of the State of Delaware; and

(b) has the corporate power and corporate authority to own and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

3.2 AUTHORIZATION AND VALIDITY. All corporate action on the part of the Company, its officers, directors, and stockholders necessary for the authorization, execution, delivery, and performance of all of the Company's obligations under this Agreement, the Note and all documents, instruments and agreements executed in connection therewith (the "Loan Documents") and for the authorization, issuance, and delivery of the Note has been taken and the Loan Documents constitute legally valid and binding obligations of the Company, enforceable against the Company in accordance with their terms.

3.3 CORPORATE POWER. The Company has all requisite legal and corporate power and authority to execute and deliver the Loan Documents, to sell and issue the Note hereunder, and to carry out and perform its obligations under the Loan Documents.

3.4 VALIDITY OF SECURITIES. The Securities, when issued, sold, and delivered in compliance with the terms and for the consideration expressed in this Agreement, will be duly authorized and validly issued (including without limitation, but subject to the accuracy of the representations of Holder herein,

issued in compliance with all applicable federal and state securities laws), fully paid and nonassessable. The Securities will be free and clear of all liens and encumbrances other than any liens or encumbrances created by or imposed thereon by the Holder; provided, however, that the Securities shall be subject to restrictions on transfer under state and/or federal securities laws. The Securities are not subject to any preemptive rights or rights of first refusal. The Shares have been duly authorized and reserved for issuance upon conversion of the Note. The certificate evidencing the Shares will be in due and proper form.

3.5 SECURITIES LAW COMPLIANCE. Subject to the accuracy of the representations and warranties of the Holder set forth in Section 4, the offer, issue, and sale of the Securities are exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, (the "Securities Act") and the qualification requirements, if any, of applicable state securities laws.

3.6 NO CONFLICT. The execution, delivery, and performance of the Loan Documents, the sale and issuance of the Note and the consummation of the transactions contemplated hereby and thereby will not (a) result in any violation of, be in conflict with, or constitute a default under, with or without the passage of time or the giving of notice: (i) any provision of the Company's Certificate of Incorporation or Bylaws; (ii) any provision of any judgment, decree, or order to which the Company is a party or by which it is bound; (iii) any material contract, obligation, or commitment to which the Company is a party or by which it is bound; or (iv) any material statute, rule, or governmental regulation applicable to the Company, (b) (i) require any consent, approval, authorization or other order of, or qualification with, any court or governmental body or agency (except such as may be required under applicable securities laws), or (ii) result in the imposition or creation of (or the obligation to create or impose) a lien under, any agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or their respective property is bound.

3.7 PROPERTIES. The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them that is material to the business of the Company and its subsidiaries, in each case free and clear of all liens and defects, except as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries.

3.8 SEC FILINGS, FINANCIAL STATEMENTS. The Company has filed with the Securities and Exchange Commission (the "SEC") all required quarterly reports on Form 10-Q and annual reports on Form 10-K, registration statements, documents, and reports required to be filed by it with the SEC or, if not required to be filed, such other reports and documents as have otherwise been filed by the Company (collectively, the "SEC Reports"). To the knowledge of the Company, all of the SEC Reports complied as to form, when filed, in all material respects with the applicable provisions of the Securities Act, and the Securities Exchange Act of 1934, as amended. As of their respective dates, the SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the consolidated financial statements (including notes thereto) contained in the SEC Reports (a) was prepared in accordance with generally accepted accounting principals applied on a consistent basis throughout the periods involved (except as indicated in the notes thereto) and (b) fairly presented the financial position of the Company as at the respective dates thereof.

3.9 NO MATERIAL ADVERSE CHANGES. Since the filing of the Company's Registration Statement on Form S-4, other than as set forth in the Company's SEC Reports, (a) there has not occurred any material adverse change: (i) in the financial condition or operations of the Company and its subsidiaries, taken as a whole, or (ii) in the capital stock or long-term debt of the Company or any of its subsidiaries, taken as a whole, except as contemplated under this Agreement or development, that would reasonably be expected to involve a material adverse change in the financial condition or operations of the Company and its subsidiaries, taken as a whole; (b) the Company and its subsidiaries, taken as a whole, have not sustained any material loss or interference with its assets, businesses or properties (whether owned or leased) from fire, explosion, earthquake, flood or other calamity, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree; and (c) since the date of the latest consolidated balance sheet included in the SEC Reports, except as reflected therein, the Company has not (A) issued any securities other than the issuance of securities pursuant to the grant of or the exercise of options granted under stock option plans or agreements existing prior to the date of the latest consolidated balance sheet included in the SEC Reports, or (B) declared or paid any dividend or made any distribution on any shares of its capital stock or redeemed, purchased or otherwise acquired or agreed to redeem, purchase or otherwise acquire any shares of capital stock, except to the extent provided under any stock option plans or

agreements existing prior to the latest date of the consolidated balance sheet included in the SEC Reports.

4. REPRESENTATIONS AND WARRANTIES OF THE HOLDER

Holder hereby represents and warrants to the Company as follows:

4.1 AUTHORIZATION. When executed and delivered by the Holder, and assuming execution and delivery by the Company, the Agreement will constitute a valid obligation of such Holder, enforceable in accordance with its terms.

4.2 BROKERS AND FINDERS. Holder has not retained any investment banker, broker, or finder in connection with the transactions contemplated by this Agreement.

4.3 INVESTMENT. This Agreement is made with the Holder in reliance upon its representations to the Company, which by the Holder's execution of this Agreement Holder hereby confirms, that the Securities to be received by the Holder will be acquired for investment for the Holder's own account, not as a nominee or agent, and not with a view to the sale or distribution of any part thereof, and that the Holder has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, the Holder further represents that it has no contract, undertaking, agreement, or arrangement with any person to sell, transfer, or grant participation to such person or to any third person, with respect to any of the Securities.

4.4 NO REGISTRATION. Holder understands and acknowledges that the offering of the Securities pursuant to this Agreement will not be registered under the Securities Act on the grounds that the offering and sale of securities contemplated by this Agreement are exempt from registration pursuant to Section 4(2) of the Securities Act, and that the Company's reliance upon such exemption is predicated upon Holder's representations set forth in this Agreement

4.5 LIMITATIONS ON TRANSFERABILITY. Holder covenants that in no event will it dispose of any of the Securities (other than pursuant to Rule 144 promulgated by the SEC under the Securities Act ("Rule 144") or any similar or analogous rule) unless and until (i) Holder shall have notified the Company of the proposed disposition, and (ii) if requested by the Company, Holder shall have furnished the Company with an opinion of counsel satisfactory in form and substance to the Company and the Company's counsel, in the reasonable exercise of their judgment, to the effect that (x) such disposition will not require registration under the Securities Act and (y) appropriate action necessary for compliance with the Securities Act and any applicable state, local, or foreign law has been taken. Notwithstanding the limitations set forth in the foregoing sentence, if Holder is a limited liability company or a partnership it may transfer Securities to its members or constituent partners or a retired partner of such partnership who retires after the date hereof, or to the estate of any such member or partner or retired partner or transfer by gift, will, or intestate succession to any such member's or partner's spouse or lineal descendants or ancestors without the necessity of registration or opinion of counsel if the transferee agrees in writing to be subject to the terms of this Agreement to the same extent if such transferee were a Holder; provided, however, that Holder hereby covenants not to effect such transfer if such transfer either would invalidate the securities laws exemptions pursuant to which the Securities were originally offered and sold or would itself require registration under the Securities Act or applicable state securities laws. Each certificate evidencing the Securities transferred as above provided shall bear the appropriate restrictive legends set forth in Sections 7.6 and 7.7(a) below, except that such certificate shall not bear such legend if the transfer was made in compliance with Rule 144 or if the opinion of counsel referred to above is to the further effect that such legend is not required in order to establish compliance with any provisions of the Securities Act.

4.6 EXPERIENCE. Holder represents that: (i) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its prospective investment in the Securities; (ii) it has received all the information it has requested from the Company and considers necessary or appropriate for deciding whether to purchase the Securities; (iii) it has had the opportunity to discuss the Company's business management, and financial affairs with its management, (iv) it has the ability to bear the economic risks of its prospective investment; and (v) it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss on its investment.

4.7 ACCREDITED HOLDER. Holder presently qualifies, and will as of the Closing Date qualify, as an "accredited investor" within the meaning of Regulation D of the rules and regulations promulgated under the Securities Act.

5. CONDITIONS OF THE HOLDER'S OBLIGATIONS AT CLOSING

The obligations of the Holder under Section 1 of this Agreement are subject to the fulfillment at or before the Closing of the following conditions, any of which may be waived by the Holder:

5.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of

the Company contained in Section 3 shall be true on and as of the Closing with the same effect as if made on and as of the Closing.

5.2 PERFORMANCE. The Company shall have performed or fulfilled all agreements, obligations, and conditions contained in the Loan Documents and required to be performed or fulfilled by the Company before the Closing.

6. CONDITIONS OF THE COMPANY'S OBLIGATIONS AT CLOSING

The obligations of the Company under Section 1 of this Agreement are subject to the fulfillment at or before the Closing of the following condition, which may be waived in writing by the Company:

6.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Holder contained in Section 4 shall be true on and as of the Closing with the same effect as if made on and as of the Closing.

7. MISCELLANEOUS

7.1 GOVERNING LAW. This Agreement shall be governed by, and be construed in accordance with, the laws of the State of California, excluding those laws that direct the application of the laws of another jurisdiction.

7.2 SURVIVAL; TERMINATION. The warranties and representations of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing for until the earlier of: (a) the payment in full of all outstanding principal and interest under the Note, or (b) the conversion of the Note into Shares, provided, however, that such representations and warranties need only be accurate as of the date of such execution and delivery and as of the Closing. This Agreement shall be terminated and of no further force and effect upon earlier of: (a) the payment in full of all outstanding principal and interest under the Note, or (b) the conversion of the Note into Shares.

7.3 SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of and be binding upon the successors, assigns, heirs, executors and administrators of the parties hereto.

7.4 ENTIRE AGREEMENT; INDEMNITY; WAIVER.

(A) ENTIRE AGREEMENT. This Agreement and the exhibits hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and supersede any and all prior and contemporaneous agreements, understandings, discussions and correspondence.

(B) WAIVER. Holder's failure, at any time or times hereafter, to requirestrict performance by the Company of any provision of this Agreement shall not waive, affect or diminish any right of the Holder thereafter to demand strict compliance and performance therewith. Any suspension or waiver by the Holder of a default under the Agreement or a default under any of the other Loan Documents shall not suspend, waive or affect any other default under this Agreement or any other default under any of the other Loan Documents, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character. None of the undertakings, agreements, warranties, covenants and representations of the Company contained in this Agreement or any of the other Loan Documents and no default under this Agreement or default under any of the other Loan Documents shall be deemed to have been suspended or waived by the Holder unless such suspension or waiver is in writing signed by an officer of the Company, and directed to the Holder.

7.5 NOTICES. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by Federal Express or other national overnight delivery service or otherwise delivered by hand or by messenger, addressed (a) if to the Holder, at Holder's address set forth below or at such other address as the Holder shall have furnished to the Company in writing or (b) if to any other holder of any Note, at such address as such holder shall have furnished the Company in writing or, until any such holder so furnishes an address to the Company, then to and at the address of the last holder of such Note who has so furnished an address to the Company, or (c) if to the Company, at its address set forth below, or at such other address as the Company shall have furnished to the Holder.

Holder:	Company:
Protein Design Labs, Inc.	Exelixis, Inc.
34801 Campus Drive	170 Harbor Way
Fremont, CA 94555-3606	P. O. Box 511
Attn: General Counsel	South San Francisco, CA 94083-0511
	Attn: General Counsel

7.6 CALIFORNIA CORPORATE SECURITIES LAW. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM THE QUALIFICATION BY SECTION 25100, 25102, OR 25105 OF THE CALIFORNIA CORPORATIONS

CODE.

7.7 LEGENDS.

(A) All certificates for the Securities shall bear a legend substantially similar to the following:

"The securities represented hereby have not been registered under the Securities Act of 1933, as amended ("Securities Act"). Such securities may not be transferred unless a Registration Statement under the Act is in effect as to such transfer or, in the opinion of counsel for the Company, registration under the Act is unnecessary in order for such transfer to comply with the Act or unless sold pursuant to Rule 144 of the Act."

(B) The certificates evidencing the Securities shall also bear any legend required pursuant to any state, local, or foreign law governing such securities.

7.8 COUNTERPARTS. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

COMPANY:
EXELIXIS, INC.,
a Delaware corporation

_____
George A. Scangos
Chief Executive Officer

HOLDER:
PROTEIN DESIGN LABS, INC.,
a Delaware corporation

_____
Laurence Jay Korn
Chairperson and Chief Executive Officer

[*] = 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 10.28

COLLABORATION AGREEMENT

THIS COLLABORATION AGREEMENT (the "Agreement") is dated as of May 22, 2001 (the "Effective Date") by and between EXELIXIS, INC., a Delaware corporation having its principal place of business at 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511 ("EXEL"), and PROTEIN DESIGN LABS, INC., a Delaware corporation having its principal place of business at 34801 Campus Drive, Fremont, California 94555-3606 ("PDL"). EXEL and PDL are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

A. PDL has expertise and capability in developing antibodies, in particular humanized antibodies, as pharmaceuticals.

B. EXEL has expertise and proprietary technology relating to drug discovery focused particularly on genetic model systems, genomics and computational biology and is applying such technology to discover and validate targets and products for drug discovery in a variety of disease areas.

C. PDL and EXEL desire to establish a collaboration to utilize the technology and expertise of PDL and EXEL to identify and characterize targets for the treatment of cancer and precancerous conditions, controlling cell growth, apoptosis, and proliferation, to generate antibodies directed against such targets, and to develop and commercialize novel antibody products for diagnostic, prophylactic and therapeutic uses.

NOW, THEREFORE, the Parties agree as follows:

1. DEFINITIONS

The following terms shall have the following meanings as used in this Agreement:

1.1 "AFFILIATE" means, with respect to a particular Party, a person, corporation, partnership, or other entity that controls, is controlled by, or is under common control with such Party. For the purposes of the definition in this Section 1.1, the word "control" (including, with correlative meaning, the terms "controlled by" or "under the common control with") means the actual power, either directly or indirectly through one or more intermediaries, to direct or cause the direction of the management and policies of such entity, whether by the ownership of at least fifty percent (50%) of the voting stock of such entity, or by contract or otherwise.

1.2 "ANTIBODY" means a Humanized Antibody or Precursor Antibody.

1.3 "ANTIBODY INVENTIONS" means an Invention directed to Antibodies, including without limitation, composition of matter, methods of manufacture, methods of use, formulations, dosing regimens, etc.

1.4 "ANTIBODY TARGET" means [*].

1.5 "ANTIBODY TARGET CANDIDATE" means [*].

1.6 "BLA" means a Biologics License Application as defined in the current Federal Food, Drug and Cosmetic Act, and applicable regulations promulgated thereunder by the FDA or the equivalent application to the equivalent agency of any other regulatory jurisdiction, as amended from time to time during the term of this Agreement.

1.7 "CO-FUNDED PRODUCT" means a Product for which EXEL has made an effective election to co-fund pursuant to Section 5.1 and which has not ceased to be a Co-Funded Product pursuant to Section 5.9.

1.8 "COLLABORATION" means all of the research activities performed by, or on behalf of, EXEL or PDL during the Research Term pursuant to the Research Plan, through the stage of evaluation of Precursor Antibodies.

1.9 "COMBINATION PRODUCT" means any product containing both (i) substantially all of at least one variable region of an Antibody, and (ii) one or more other therapeutically active ingredients.

1.10 "COMMERCIALIZATION PLAN" shall have the meaning set forth in Section 3.4(b).

1.11 "CONTROLLED" means, with respect to all or any portion of any gene,

protein, compound, material, Information or intellectual property right, that the Party owns or has a license to such gene, protein, compound, material, Information or intellectual property right and has the ability to grant to the other Party access, a license or a sublicense (as applicable) to such gene, protein, compound, material, Information or intellectual property right as provided for herein without violating the terms of any agreement or other arrangements with any Third Party existing at the time such Party would be first required hereunder to grant the other Party such access, license or sublicense.

1.12 "COST OF GOODS SOLD" means [*].

1.13 "COST OF MANUFACTURE" means [*].

1.14 "DEVELOPMENT" means those activities undertaken with respect to a Product that are directed toward obtaining Regulatory Approval and the pre-marketing, marketing research, marketing and sale of such Product, including without limitation, humanization, cell line optimization, pre-clinical testing and toxicology studies, human clinical trials, formulation, bulk production, fill/finish, manufacturing process development, manufacturing scale-up costs and validation, qualification and certification costs and preparation of regulatory filings.

1.15 "DEVELOPMENT PLAN" means the plan describing the Development intended to be conducted for a given Co-Funded Product, including an estimated schedule and budget, as such plan may be amended by the relevant Joint Development Committee from time to time.

1.16 "DEVELOPMENT COSTS" means [*].

1.17 "DILIGENT EFFORTS" means the carrying out of obligations or tasks in a sustained manner consistent with the efforts a Party devotes to a product or a research, development or marketing project of similar market potential, profit potential or strategic value resulting from its own research efforts, based on conditions then prevailing and taking into account its relative risk profile, time to market, and other factors considered in portfolio management. Diligent Efforts requires that the Party: (i) promptly assign responsibility for such obligations to specific employee(s) who monitor such progress on an on-going basis, (ii) set and consistently seek to achieve specific and meaningful objectives for carrying out such obligations, and (iii) allocate resources designed to advance progress with respect to such objectives.

1.18 "DRUG APPROVAL APPLICATION" means an application for Regulatory Approval required before commercial sale of a Product as a pharmaceutical product in a regulatory jurisdiction.

1.19 "EXEL DIAGNOSTIC PRODUCT" means [*].

1.20 "EXEL KNOW-HOW" means all Information Controlled by EXEL during the term of the Agreement that is necessary or reasonably useful for PDL (a) to fulfill its obligations under the Research Plan, or (b) to research, develop, use, import, manufacture, market or sell Antibodies or Products, but excluding the EXEL Patents.

1.21 "EXEL PATENTS" means all (i) unexpired letters patent (including inventor's certificates) which have not been held invalid or unenforceable by a court of competent jurisdiction from which no appeal can be taken or has been taken within the required time period, including without limitation any substitution, extension, registration, confirmation, reissue, re-examination, renewal, patent of addition or any like filing thereof and (ii) pending applications for letters patent, including without limitation any continuation, division, or continuation-in-part thereof and any provisional applications Controlled by EXEL related to Targets or Antibodies, including the identification and generation of Antibody Target Candidates and Antibody Targets for use in identifying and generating Antibodies, including but not limited to issued patents and pending applications that claim the composition of matter, manufacture, import or use of a Target, Antibody Target Candidate, Antibody Target, Antibody or Product, which are filed prior to or during the term of this Agreement in the United States or any foreign jurisdiction. "EXEL Patents" shall not include Joint Patents or PDL Patents or, after assignment to PDL, Antibody Patents.

1.22 "EXEL PRODUCTS" means those Products which previously were Co-Funded Products, but which EXEL has assumed responsibility for Development and commercialization as described in Section 5.9(c).

1.23 "FIRST COMMERCIAL SALE" means the first sale of the applicable Product to a Third Party following Regulatory Approval of the Product in the country where sold.

1.24 "HUMANIZED ANTIBODY" means [*] pursuant to this Agreement by [*]. The term "Humanized Antibody" shall include, without limitation [*].

1.25 "INDEPENDENT RESEARCH" means [*].

1.26 "IND" means an Investigational New Drug Application as defined in the current Federal Food, Drug and Cosmetic Act and applicable regulations

promulgated thereunder by the FDA or the equivalent application to the equivalent agency in any other regulatory jurisdiction, as amended from time to time during the term of this Agreement, and any equivalent application or filing for diagnostics or medical devices.

1.27 "INFORMATION" means information, results and data of any type whatsoever, in any tangible or intangible form whatsoever, including without limitation, databases, inventions, practices, methods, techniques, specifications, formulations, formulae, knowledge, know-how, skill, experience, test data including pharmacological, biological, chemical, biochemical, toxicological and clinical test data, analytical and quality control data, stability data, studies and procedures, and patent and other legal information or descriptions.

1.28 "INVENTIONS" means any and all inventions, results, know-how and other Information, and all intellectual property relating thereto, made, discovered or developed by one or more Parties and their employees or agents (including, without limitation, consultants or contractors who have assigned rights to inventions to a Party) pursuant to work performed under the Collaboration or in the course of developing a Pre-Opt-In Product or developing or marketing a Co-Funded Product.

1.29 "JOINT INVENTIONS" means any and all Inventions (other than Antibody Inventions) made jointly by employees or agents of both Parties (including, without limitation, consultants or contractors who have assigned rights to inventions to a Party), as determined in accordance with United States patent laws.

1.30 "JOINT PATENTS" means all (i) unexpired letters patent (including inventor's certificates) which have not been held invalid or unenforceable by a court of competent jurisdiction from which no appeal can be taken or has been taken within the required time period, including without limitation any substitution, extension, registration, confirmation, reissue, re-examination, renewal, patent of addition or any like filing thereof, and (ii) pending applications for letters patent, including without limitation any continuation, division, or continuation-in-part thereof and any provisional applications claiming Joint Inventions, which are filed during the term of this Agreement in the United States or any foreign jurisdiction. "Joint Patents" shall not include EXEL Patents or PDL Patents or Antibody Patents.

1.31 "MODEL SYSTEM TARGETS" means [*].

1.32 "NET SALES" means [*]. In the case of Combination Products for which a Product and each of the other therapeutically active ingredients contained in the Combination Product have established market prices when sold separately, Net Sales shall be determined by multiplying the Net Sales for each such Combination Product by a fraction, the numerator of which shall be the established market price for the Product(s) contained in the Combination Product, and the denominator of which shall be the sum of the established market prices for the Product(s) plus the other active ingredients contained in the Combination Product. When such separate market prices are not established, then the Parties shall negotiate in good faith to determine the method of calculating Net Sales for Combination Products.

If PDL, its Affiliates or sublicensees receive non-cash consideration for any Product sold or otherwise transferred to a Third Party, the fair market value of such non-cash consideration on the date of the transfer as known to PDL, or as reasonably estimated by PDL if unknown, shall be included in the definition of Net Sales. EXEL shall have a right to review the basis of such determination and upon written notice, audit such estimates as provided in Section 9.16.

1.33 "ONCOLOGY SCREENS" shall have the meaning [*].

1.34 "OPT-IN PERIOD" shall have the meaning set forth in Section 5.1.

1.35 "PATENTS" means EXEL Patents, PDL Patents and/or Joint Patents as the context requires.

1.36 "PDL DIAGNOSTIC PRODUCT" means a product that is being or has been developed for [*] for use with a [*].

1.37 "PDL KNOW-HOW" means all Information Controlled by PDL during the term of the Agreement that is necessary or reasonably useful for EXEL to (a) fulfill its obligations under the Research Plan, or (b) develop, import, use, manufacture, market or sell EXEL Products, but excluding the PDL Patents and excluding all Information Controlled by PDL that relates to antibodies other than EXEL Products (including, without limitation, general methods for the humanization or manufacture of antibodies), except to the extent the Parties agree pursuant to Section 5.9(c).

1.38 "PDL PATENTS" means all (i) unexpired letters patent (including inventor's certificates) which have not been held invalid or unenforceable by a court of competent jurisdiction from which no appeal can be taken or has been taken within the required time period, including without limitation any substitution, extension, registration, confirmation, reissue, re-examination,

renewal, patent of addition or any like filing thereof and (ii) pending applications for letters patent, including without limitation any continuation, division, or continuation-in-part thereof and any provisional applications, Controlled by PDL related to the development of Antibodies, including but not limited to applications that claim the composition of matter, manufacture, or use of a Target, Antibody or Product, which are issued or filed prior to or during the term of this Agreement in the United States or any foreign jurisdiction. "PDL Patents" shall not include Joint Patents or EXEL Patents or, until assigned to PDL, Antibody Patents.

1.39 "PDL PRODUCT" means any Product developed under this Agreement which (a) [*], or (b) [*].

1.40 "PHASE III CLINICAL TRIAL" means a trial on sufficient numbers of patients that is designed to establish that a pharmaceutical product is safe and efficacious for its intended use, and to define warnings, precautions and adverse reactions that are associated with the pharmaceutical product in the dosage range to be prescribed, and to support Regulatory Approval of such pharmaceutical product or label expansion of such pharmaceutical product.

1.41 "PRECURSOR ANTIBODY" means [*] pursuant to this Agreement from [*]. The term "Precursor Antibody" shall include, without limitation [*].

1.42 "PRE-OPT-IN PRODUCT" means a Product for which EXEL has not made a decision under Section 5.1 whether to co-fund and for which the Opt-In Period has not expired.

1.43 "PRODUCT" means any therapeutic or prophylactic product developed under this Agreement, for [*], incorporating [*].

1.44 "PRODUCT PROFIT" means the profit or loss for a particular Co-Funded Product for a particular period calculated as described in Exhibit B.

1.45 "REGULATORY APPROVAL" means any and all approvals (including supplements, amendments, pre- and post-approvals, pricing and reimbursement approvals), licenses, registrations or authorizations of any national, supra-national (e.g., the European Commission or the Council of the European Union), regional, state or local regulatory agency, department, bureau, commission, council or other governmental entity, that are necessary for the manufacture, distribution, use and sale of a Product in a regulatory jurisdiction.

1.46 "RESEARCH FUNDING" means the research funding and license payments made by PDL to EXEL as described in Section 9.2.

1.47 "RESEARCH PLAN" means the research plan describing the goals and activities to be conducted through the stage of Precursor Antibody evaluation during the Research Term, including initially a detailed description of such goals and activities for the first year of the Research Term and a general description of the goals and intended activities for the remainder of the Research Term, as such plan is amended from time to time during the Research Term in accordance with Section 3.1(b). The Research Plan, including any amended Research Plan, shall be attached as Exhibit A.

1.48 "RESEARCH TERM" means the period commencing on [*] and ending on the termination [*].

1.49 "SOLE INVENTIONS" means any and all Inventions (other than Antibody Inventions) made, discovered or developed solely by one Party and its employees or agents (including, without limitation, consultants or contractors who have assigned rights to inventions to a Party).

1.50 "TARGET(S)" means [*]. The term "Target(s)" shall include [*], but shall exclude [*].

1.51 "TARGET POOL" means [*] whenever identified, [*].

1.52 "THIRD PARTY" means any entity other than (i) EXEL, (ii) PDL or (iii) an Affiliate of either of them.

1.53 "THIRD PARTY ROYALTY" means any royalty paid by a Party or an Affiliate to a Third Party in respect of the manufacture, importation, use or sale of a Product.

2. THE COLLABORATION RELATIONSHIP

2.1 OVERVIEW. PDL and EXEL will collaborate to identify, develop, market and sell antibodies for use in the diagnosis, prophylaxis and treatment of one or more [*] cancerous conditions. EXEL will conduct activities under the Research Plan to identify Targets and will present all such Targets to PDL [*]. Targets will be analyzed [*]. [*] conduct preclinical testing in preparation for an IND and develop a Development Plan for any Product for which PDL intends to file an IND. If EXEL elects to co-fund one or more Products [*]

3. MANAGEMENT OF THE COLLABORATION

3.1 JOINT SCIENTIFIC COMMITTEE.

(A) MEMBERSHIP. [*] the Effective Date, the Parties shall establish a Joint Scientific Committee (the "JSC") to oversee the research activities of EXEL and PDL under the Research Plan. The JSC shall be composed of four representatives, two members appointed by each of the Parties. One representative from each Party on the JSC shall be the individual at the Party with primary responsibility for the management of the Collaboration. Initial designees shall be Geoff Duyk and Greg Plowman on behalf of EXEL and William Benjamin and Max Vasquez on behalf of PDL. Each Party may replace its appointed JSC representatives at any time upon written notice to the other Party. EXEL shall designate one of its representatives as Chairperson of the JSC, and PDL shall designate one of its representatives as Vice-Chairperson. The Chairperson shall be responsible for scheduling meetings and preparing and circulating a draft agenda in advance of each meeting. Any member may add topics to the agenda. The Vice-Chairperson shall be responsible for preparing and issuing minutes of each meeting within thirty (30) days thereafter.

(B) RESPONSIBILITIES. During the [*], the JSC shall meet on a quarterly basis as provided in Section 3.5. Following the Research Term, the JSC shall meet on a quarterly basis for [*] for the purposes of winding down or completing work [*]. [*] may elect to continue to work in the same manner as described in the Research Plan on [*] and [*] on a case-by-case basis. For those [*] for which [*] continues to conduct such work and that complete the stage of in vitro and in vivo validation as described in Section 2.7 of the Research Plan (to the extent specified by the JSC), for each such resulting Product, the Opt-In Decision as set forth in Section 5.1 (i.e., EXEL's right to co-fund) shall survive; otherwise, such rights shall terminate. The JSC shall operate [*] and in accordance with the principles set forth in this Article 3. The JSC shall: (i) evaluate the data generated by the Parties in the course of the Collaboration, (ii) decide what research activities the Parties shall perform on Targets or Precursor Antibodies under the Collaboration, except as provided in Section 4.2, and (iii) review and amend the Research Plan from time to time as appropriate, including not less than an annual review to detail the activities and goals for the upcoming year; provided that any amendment of the Research Plan that varies any material terms of this Agreement shall be subject to Section 15.4, which requires that any such amendment shall be reduced to writing and signed by an authorized officer of each Party.

3.2 JOINT PATENT COMMITTEE. Within [*] the Effective Date, a Joint Patent Committee (the "JPC") shall be formed. The JPC, in consultation with the JSC, will devise a strategy for the protection of intellectual property arising from the Collaboration, including Antibody Target Candidates, Antibody Targets and Antibody Inventions, and will supervise and direct the filing, prosecution and maintenance of all Patents covering the Joint Inventions, as further described in Article 10. This committee will consist of one member from each Party's management team or the Party's designated alternate. The PDL representative will serve as the Chairperson of the JPC. During the term of this Agreement, the JPC will meet at [*], as provided in Section 3.5, and may hold additional meetings at the request of either Party.

3.3 JOINT DEVELOPMENT COMMITTEE.

(A) MEMBERSHIP. [*] as EXEL exercises its option to co-fund a Product, as provided in Section 5.1, the Parties promptly shall establish a Joint Development Committee (a "JDC") to oversee the development and commercialization of that Co-Funded Product. The JDC shall be composed of four representatives, two members appointed by each of the Parties. One JDC representative from PDL shall be the individual at PDL with primary responsibility for the management of the development of the Product. Each Party may replace its appointed JDC representatives at any time upon written notice to the other Party. PDL shall designate one of its representatives as Chairperson of the JDC, and EXEL shall designate one of its representatives as Vice-Chairperson. The Chairperson shall be responsible for scheduling meetings and preparing and circulating an agenda in advance of each meeting. The Vice-Chairperson shall be responsible for preparing and issuing minutes of each meeting within thirty (30) days thereafter.

(B) RESPONSIBILITIES. During the Development of a Co-Funded Product, the JDC for that Co-Funded Product shall meet on a quarterly basis as provided in Section 3.5. Each JDC shall operate [*] and in accordance with the principles set forth in this Article 3. Each JDC shall: (i) oversee the progress of the Development conducted by PDL for its Co-Funded Product, and (ii) review and approve any material amendments to the Development Plan for its Co-Funded Product.

3.4 JOINT COMMERCIALIZATION COMMITTEE.

(A) MEMBERSHIP. [*] for each Co-Funded Product, the Parties shall establish a Joint Commercialization Committee ("JCC") for that Co-Funded Product. The JCC shall be composed of four representatives, two members appointed by each of the Parties. One representative from PDL on the JCC shall

be the individual at PDL with primary responsibility for the commercialization of the Product. Each Party may replace its appointed JCC representatives at any time upon written notice to the other Party. PDL shall designate one of its representatives as Chairperson of the JDC, and EXEL shall designate one of its representatives as Vice-Chairperson. The Chairperson shall be responsible for scheduling meetings and preparing and circulating an agenda in advance of each meeting. The Vice-Chairperson shall be responsible for preparing and issuing minutes of each meeting within thirty (30) days thereafter.

(B) RESPONSIBILITIES. Each JCC shall meet on a quarterly basis as provided in Section 3.5. Each JCC shall operate [*] and in accordance with the principles set forth in this Article 3. Each JCC shall: (i) prepare a basic commercialization plan, including a launch and marketing plan and budget for the commercialization of its Co-Funded Product (the "Commercialization Plan"), (ii) oversee the implementation of the Commercialization Plan by PDL, and (iii) review and approve any material amendments to the Commercialization Plan. In any event, the Commercialization Plan shall not include detailed Information regarding PDL's implementation of the Plan, including without limitation, sales force incentives, which shall be in PDL's sole discretion. The Commercialization Plan shall be prepared taking into consideration such factors as: (i) the use of Third Party collaborators to develop, market and sell in particular countries or territories, (ii) market conditions, (iii) regulatory factors, and (iv) competition. The Commercialization Plan budget will include all projected additional Regulatory Approvals, and sales and marketing expenses for the Co-Funded Product.

3.5 MEETINGS. All meetings of the JSC, JPC, JDCs and JCCs shall be held at the headquarters of either EXEL or PDL (or at any other mutually agreed upon location), on an alternating basis. Either Party may bring additional representatives to attend meetings of a particular committee as nonvoting observers. A meeting of a committee may be held by audio or video teleconference with the consent of each Party, provided that at least half of the minimum number of meetings for that committee shall be held in person. Meetings of a committee shall be effective only if at least one representative of each Party is present or participating.

3.6 OBLIGATIONS OF PARTIES. EXEL and PDL shall provide the JSC, JPC, JDCs and JCCs and their authorized representatives with reasonable access during regular business hours to all records, documents, and Information relating to the Collaboration which any such committee may reasonably require in order to perform its obligations hereunder; provided, however, that if such documents are under a bona fide obligation of confidentiality to a Third Party, then EXEL or PDL, as the case may be, may withhold access thereto to the extent necessary to satisfy such obligation, such access not to be unreasonably withheld. EXEL and PDL may also withhold documents relating to any evaluations of the Collaboration, including documents relating to evaluating the activities under this Agreement or relating to a decision whether to continue a Collaboration project.

3.7 COLLABORATION GUIDELINES.

(A) GENERAL. In all matters related to the Collaboration and the development and marketing of Co-Funded Products, the Parties shall be guided by standards of reasonableness in economic terms and fairness to each of the Parties, striving to balance as best they can the legitimate interests and concerns of the Parties to further the goals of the Collaboration and to realize the economic potential of the Products.

(B) [*]; DEADLOCKS. The JSC, JPC, JDCs and JCCs shall operate [*]. In the event of a deadlock within the JSC, the JPC, a JDC or a JCC concerning anydecision, such deadlock shall be resolved as follows:

(I) JSC DEADLOCKS. If a deadlock arises between the members of the JSC, a non-JSC-member officer of each party shall be advised of the deadlock in writing and shall attempt to provide the JSC with a mutually agreed upon resolution within one (1) month. If such resolution is not timely provided, the Chief Executive Officer ("CEO") of each Party shall be advised of the deadlock in writing and the deadlock shall be resolved by mutual agreement of the Parties' CEOs within one (1) month after they have been so advised. If the CEOs do not agree on a resolution, [*] regarding any deadlock concerning target selection (i.e., whether a Target meets the Antibody Target Candidate or Antibody Target criteria) and all other deadlocks shall be submitted to and resolved by binding arbitration pursuant to the Commercial Arbitration Rules of the American Arbitration Association (the "AAA Rules"). In any event, each Party shall submit a briefing document detailing its position in the deadlock not to exceed 25 double-spaced 8.5"x11" pages within 10 business days of the selection of the arbitrator, and the arbitrator shall be instructed to make such determination within 30 days of submission of both position papers, but in any event not later than 40 days following submission of the matter to arbitration. The arbitration shall be held in San Francisco, California and shall be conducted by one arbitrator who is knowledgeable in the subject matter at issue and who is selected by mutual agreement of the Parties or, failing such agreement, shall be selected according to the AAA Rules. In conducting the arbitration, the arbitrator shall apply the California Rules of Evidence, and

shall be able to decree any and all relief of an equitable nature, including without limitation such relief as a temporary restraining order, a preliminary injunction, a permanent injunction, and specific performance. Each Party shall bear its respective costs and expenses and the fees of the arbitrator shall be shared equally.

(II) JPC Deadlocks. If a deadlock arises between the members of the JPC, the General Counsel of each Party shall be advised of the deadlock in writing and shall attempt to provide the JPC with a mutually agreed upon resolution within one (1) month. If such resolution is not timely provided by the General Counsels of the Parties, the CEO of each Party shall be advised of the deadlock in writing and the deadlock shall be resolved by mutual agreement of the Parties' CEOs within one (1) month after they have been so advised. If the CEOs do not agree on a resolution, then [*].

(III) JDC DEADLOCKS. If a deadlock arises between the members of a JDC, the CEO of each Party shall be advised of the deadlock in writing and shall attempt to provide the JDC with a mutually agreed upon resolution within one (1) month. If such resolution is not timely provided by the CEOs of the Parties, the deadlock shall be resolved by mutual agreement of the Parties' CEOs within one (1) month after they have been so advised. If the CEOs do not agree on a resolution, then [*].

(IV) JCC Deadlocks. If a deadlock arises between the members of a JCC, the CEO of each Party shall be advised of the deadlock in writing and shall attempt to provide the JCC with a mutually agreed upon resolution [*]. If such resolution is not timely provided by [*]

(C) INDEPENDENCE. Subject to the terms of this Agreement, the activities and resources of each Party shall be managed by such Party, acting independently and in its individual capacity. The relationship between EXEL and PDL is that of independent contractors and neither Party shall have the power to bind or obligate the other Party in any manner, other than as is expressly set forth in this Agreement.

4. COLLABORATION; HUMANIZATION

4.1 COLLABORATION.

(A) GENERAL. [*], the Parties shall conduct collaborative research with the general goals and objectives of: (a) applying EXEL technology to discover and characterize Targets that may be useful as tools for the discovery and development of therapeutic and diagnostic Antibodies for controlling cell growth, apoptosis and proliferation in the diagnosis, prevention, treatment or cure of cancer or pre-cancerous conditions, and (b) applying PDL technology [*]. Subject to [*], the obligations of EXEL described in [*] shall terminate [*]. The rights and obligations of PDL in [*] shall terminate as provided for in [*]. The obligations of PDL in [*] shall continue until the later of (i) the [*] or (ii) the time [*]. The details of the Collaboration are set forth below and in the Research Plan. In the event of any conflict between the provisions of this Agreement and those of the Research Plan, the provisions of this Agreement shall govern.

(B) PRESENTATION OF TARGETS. Promptly after the Effective Date, EXEL shall present to the JSC all Model System Targets and Targets identified prior to the Research Term. During the Research Term, EXEL will conduct activities as described in Sections 2.1 and 2.2 of the Research Plan to identify additional Model System Targets and Targets and, promptly after identification, will present all such additional Model System Targets and Targets to the JSC. [*].

(C) ALLOCATION OF TARGETS TO [*]. As described in Section 2.3 of the Research Plan, [*] shall conduct [*] for each [*]. After presentation to the JSC of the [*] and results of such [*] for a [*], the JSC shall determine whether the [*] is to be designated an [*] and pursued in accordance with the Research Plan. All [*] shall be included in and shall constitute the "Work Pool." For each [*] determined not to be designated an [*], then, promptly following such determination by the JSC, and in no event later than the quarterly JSC meeting following the JSC meeting at which such determination was made, [*] shall elect, by notifying the JSC, whether such [*] shall be included in the [*] (in which case it shall be a [*]) or the [*] (in which case it shall be an [*]).

(D) [*] [*] shall be reserved for possible future inclusion by the JSC in the Work Pool. [*] shall have [*] license with respect to the [*] as set forth in [*]. [*] may designate a maximum number of [*] equal to [*]. [*] may at any time, by notifying the JSC, elect to re-designate a [*] as an [*], in which event it shall no longer count against the maximum number of [*]. The JSC may designate a [*] for out-licensing, in which case it shall continue to count as a [*] until such time as it is either out-licensed or re-designated by [*] as an [*] or re-designated by the JSC to be included in the Work Pool.

(E) [*] [*] shall be available for possible future inclusion by the JSC in the Work Pool or by [*] in the [*] at [*] , subject to the following limitation: If [*] [*] in one or more model organisms, other than [*], either on its own behalf or pursuant to an agreement with a Third Party Antibody Collaborator (as defined below) and if [*] identifies through such [

*] that is also a [*], then [*] shall promptly notify the JSC in writing that such [*] was identified in a screen outside the Collaboration. If such [*] is an [*], and if there is a reasonable basis to believe such [*] may have potential in cancer, then no later than the quarterly JSC meeting following the JSC meeting at which such notice was provided, the JSC may elect to include such [*] in the Work Pool or [*] may elect to include such [*]. If neither the JSC nor [*] so elects, then such [*] shall be remain in the [*] and shall be deemed an [*] [*] shall have [*] license with respect to the [*] as set forth in Section 8.1(b), except that it shall have [*] license with respect to any [*] in the [*] as set forth in Section 8.1(a). "Third Party Antibody Collaborator" shall mean a Third Party providing average annual research funding or other non-cash consideration (which shall be fair market value on the date of transfer if known to [*] or, as reasonably estimated by [*] if unknown) of not less than [*] in a designated therapeutic area.

(F) [*] Each [*] shall be available for selection by the JSC for inclusion in the Work Pool until such time as [*] notifies [*] and the JSC in writing that either [*] or the Third Party Antibody Collaborator has made a decision (as documented by written records of [*]) to begin work to express and purify the protein expressed by such [*] for purposes of developing a [*]. Upon receipt of such notice, [*] shall have no further rights to that [*] and it shall cease to be a [*].

4.2 HUMANIZED ANTIBODY GENERATION AND PRECLINICAL TESTING. [*] will determine which Precursor Antibodies should be humanized. If [*] decides not to humanize a particular Precursor Antibody, then the provisions of Section 7.1 shall apply to that Precursor Antibody and the provisions of Section 7.2, if applicable, shall apply to its Target. [*] will generate Humanized Antibodies for each Precursor Antibody selected by [*] and will conduct appropriate preclinical testing, as determined by [*], for preparation of the IND. If [*] decides not to file an IND for any particular Humanized Antibody, then the provisions of Section 7.3 shall apply to that Humanized Antibody.

4.3 CONDUCT OF RESEARCH. Each Party shall use Diligent Efforts to conduct: (i) their respective tasks, as contemplated under the Research Plan and by the JSC (the "Research"), and (ii) the Collaboration and the Research in good scientific manner, and in compliance in all material respects with the requirements of applicable laws, rules and regulations and all applicable good laboratory practices to attempt to achieve their objectives efficiently and expeditiously.

4.4 RECORDS. Each Party shall maintain complete and accurate records of all work conducted by it or on its behalf under the Collaboration or pursuant to the Research and all Information generated in connection with its efforts under the Collaboration or pursuant to the Research. Each Party shall maintain such records for a period of [*] after the later to occur of (a) the end of the Research Term, or (b) the termination of all efforts to develop, license, market or sell the Product to which such records pertain. Such records shall fully and properly reflect all work done and all Information generated in the performance of the Collaboration or the Research in sufficient detail and in good scientific manner appropriate for patent and regulatory purposes. Each Party shall have the right to review and copy such records of the other Party at reasonable times to the extent necessary for such Party to conduct its research, development or other obligations under this Agreement.

4.5 REPORTS. [*], each Party shall report to the JSC not less than [*] and will periodically submit to the other Party and the JSC a written progress report summarizing the Research.

4.6 SHARING OF BIOLOGICAL DATA. PDL shall provide EXEL with copies of all Information that is Controlled by PDL and that is generated by or on behalf of PDL in the course of the Collaboration. EXEL may use such PDL Information for [*]. EXEL shall not [*]. EXEL shall provide PDL with copies of all Information that is Controlled by EXEL and that is generated by or on behalf of EXEL in the course of the Collaboration. PDL may use such Information for [*].

4.7 RIGHT TO ENGAGE THIRD PARTIES FOR COLLABORATION EFFORTS. [*] shall have the right to grant licenses and sublicenses to Third Parties of its rights with respect to the conduct of its portion of the Collaboration, as it deems necessary or advisable, provided that [*].

5. DEVELOPMENT AND MARKETING OF CO-FUNDED PRODUCTS; EXEL PRODUCTS

5.1 DEVELOPMENT DECISION. At such time as PDL has substantially completed the IND and Development Plan for a Product, PDL shall deliver to EXEL (i) such IND and Development Plan, and (ii) documentation of historical Development Costs described in Section 5.2(a), and the budget for such costs, if any, for that Product. EXEL shall have [*] from the date of PDL's delivery of the IND and the Development Plan to review and comment on the IND and Development Plan ("Opt-In Period") [*] and to determine whether EXEL will elect to co-fund the development and commercialization of that Product ("Opt-In Decision"). If EXEL decides to co-fund such Product, EXEL shall provide written notice to PDL of its Opt-In Decision, accompanied by the payments specified in Section 5.2(a) prior to the expiration of the Opt-In Period. Effective as of the date of such notice, such Product shall become a "Co-Funded Product" and the Development Plan provided to EXEL shall be deemed agreed to by EXEL unless the

Parties mutually agree in writing on a revised Development Plan. The Parties then shall establish a Joint Development Committee to oversee the Development of the Co-Funded Product, in accordance with Section 3.3. If EXEL does not so notify PDL and make such payments within the Opt-In Period, then EXEL immediately shall return all copies of the IND and Development Plan for that Product to PDL. Thereafter, that Product shall be deemed a PDL Product, as provided in Section 6.1.

5.2 PAYMENTS FOR CO-FUNDED PRODUCTS. EXEL shall make the following payments for each Co-Funded Product:

(A) INITIAL PAYMENTS. [*] reimbursement of fifty percent (50%) of the Development Costs incurred by PDL through the end of PDL's most recently ended fiscal quarter prior to PDL's delivery to EXEL of the IND and Development Plan for that Product under Section 5.1.

(B) REIMBURSEMENT OF DEVELOPMENT COSTS. Following the initial payments under Section 5.2(a), EXEL shall reimburse PDL [*] for fifty percent (50%) of the Development Costs incurred by PDL for each Co-Funded Product. All such reimbursement payments shall be due within thirty (30) days after invoicing by PDL.

5.3 DEVELOPMENT PLAN FOR CO-FUNDED PRODUCTS. [*] shall provide [*] for all Co-Funded Products. [*] shall [*] of each Co-Funded Product as described in the [*]. [*] shall have the right to [*]. [*] shall have [*]. The JDC for each Co-Funded Product shall carry out its responsibilities, as described in Section 3.3.

5.4 COMMERCIALIZATION PLAN FOR CO-FUNDED PRODUCTS. The marketing and sale of each Co-Funded Product will be governed by its Commercialization Plan, prepared as described in Section 3.4. PDL shall have the authority and responsibility to implement each Commercialization Plan. The JCC for each Co-Funded Product shall carry out its responsibilities, as described in Section 3.4.

5.5 RIGHT TO ENGAGE THIRD PARTIES FOR [*]. PDL may use Third Parties to perform portions of its obligations relating to [*]. In any material agreement with a Third Party relating to the Development of a Product, the Party retaining such Third Party shall provide for terms that are consistent with the terms of this Agreement and the Party shall remain liable for the performance of any obligations hereunder which it delegates to Third Parties. [*] shall have the right to grant licenses and sublicenses to Third Parties of its rights with respect to Co-Funded Products as it deems necessary or advisable for the Development and/or commercialization of Co-Funded Products. [*] shall [*].

5.6 INDS AND DRUG APPROVAL APPLICATIONS. [*] shall be responsible for the preparation and filing of, and shall own all regulatory submissions relating to, [*] filed in any regulatory jurisdiction. [*] shall keep the relevant JDC and JCC informed regarding the schedule and process for the preparation of Drug Approval Applications for Co-Funded Products. [*] shall provide a draft copy of the initial Drug Approval Application for each Major Market (as defined in Section 9.3), and all supplemental Drug Approval Applications for each Major Market (e.g., for a new indication) for each Co-Funded Product to EXEL for review, to the extent practical, prior to their submission to the appropriate regulatory authority, provided, however, that [*] shall be required to promptly review such submission and in any event shall have [*] to comment on such documents, [*].

5.7 RECORDS. Each Party shall maintain complete and accurate records of all research and development work conducted by it or on its behalf related to Co-Funded Products and Pre-Opt-In Products, and all Information generated and Development Costs incurred by it or on its behalf in connection with Development under this Agreement with respect to Co-Funded Products and Pre-Opt-In Products. Each Party shall maintain such records for a period of [*] after the later to occur of (a) the end of the Research Term, or (b) the termination of all efforts to develop, license, market or sell the Product to which such records pertain. Such records shall fully and properly reflect all work performed and all Information generated in sufficient detail and in good scientific manner appropriate for patent and regulatory purposes. Each Party shall have the right to review and copy such records of the other Party at reasonable times to the extent necessary for such Party to conduct its research, development or other obligations under this Agreement.

5.8 REPORTS. During the term of the Agreement, [*] will provide reports at the relevant JDC and JCC meetings summarizing the recent Development and commercialization activities relating to each Co-Funded Product. [*] will provide [*] with summary reports for Pre-Opt-In Products through the JSC or, after the Research Term, upon request by [*], but not more frequently than [*].

5.9 TERMINATION OF CO-FUNDING; OUT-LICENSE OF CO-FUNDED PRODUCTS.

(A) VOLUNTARY TERMINATION BY [*]. [*] shall have the right to terminate its co-funding obligation for any Co-Funded Product effective [*] after providing irrevocable, written notice to [*] of such election to terminate. Upon the effective date of such termination: (i) such Product shall

be deemed a [*] Product, rather than a Co-Funded Product, (ii) the JDC for such Product shall be disbanded, and (iii) [*] shall no longer have any rights pursuant to Section 9.9 to receive a share of Product Profit with respect to such Product but instead shall receive prospective milestones for events that occur after the effective date of such termination and royalties on Net Sales of such Product pursuant to Article 9. [*]

(B) COMPULSORY TERMINATION BY [*]. If [*] fails to make a payment under Section 5.2 and such payment is not received within [*] after notice of failure to pay by [*], then at [*] option, [*] shall be deemed to have terminated co-funding effective [*] after the end of such [*] period. The effect of such termination shall be as described in Section 5.9(a).

(C) VOLUNTARY TERMINATION BY [*]; [*] PRODUCTS. If [*] decides to terminate the development and/or commercialization of a particular Co-Funded Product and not to attempt to out-license such Co-Funded Product to a Third Party, [*] shall have the right to terminate its obligations to develop and commercialize that Co-Funded Product effective [*] after providing irrevocable, written notice to [*] of such election to terminate. Within [*] after receipt of such notice, [*] shall notify [*] in writing whether or not it elects to assume sole responsibility for, and all costs and obligations of, the continued development and commercialization of such Product. If [*] so elects, then upon the effective date of [*] termination: (i) such Product shall be deemed an "[*]" rather than a Co-Funded Product, (ii) the JDC for such Product shall be disbanded, and (iii) promptly after [*] election, [*] and [*] shall work together to transfer and assign all regulatory documents, contracts, materials and Information to [*] or its designees to the extent necessary for [*] to assume such responsibility. [*].

(D) OUT-LICENSING DECISION FOR PRODUCTS AND DIAGNOSTIC PRODUCTS. [*] shall provide [*] with written notice of its intent to out-license some or all of the rights for a particular Co-Funded Product and/or its related Diagnostic Product to a Third Party (whether or not accompanied by a decision to terminate the development and/or commercialization of a particular Co-Funded Product and/or its Diagnostic Product). [*] shall have [*] from receipt of such notice to notify [*] in writing that it wishes to exercise its right of negotiation. If [*] exercises such right, the Parties shall negotiate for a period of up to [*] to enter into a license agreement, the terms of which shall include customary terms and conditions, including, without limitation, appropriate signing and licensing fees, milestone payments and royalties. If [*] do not enter into a license agreement within such time, [*] thereafter shall have the right to out-license such rights to a Third Party, subject to [*]. Upon [*] entering into such a license or sublicense with a Third Party, [*] shall have [*] and [*] shall have [*]. All compensation received by the Parties from such Third Party under such license or sublicense (including, but not limited to, all license fees, milestone payments and royalty payments) shall be shared as [*] by the Parties in accordance with [*], provided that all such compensation shall be calculated after deductions for Development Costs incurred by either Party under the agreement with the Third Party.

6. DEVELOPMENT AND MARKETING OF PDL PRODUCTS

6.1 PDL PRODUCTS. If EXEL does not elect to co-fund a Product as provided in Article 5, such Product shall be deemed a PDL Product. PDL shall have sole control and responsibility for the development and commercialization of PDL Products, and EXEL shall have no further rights with respect to such PDL Product except (a) the right to receive milestone and royalty payments as described in Sections 9.3, 9.4 and 9.5, and (b) [*].

6.2 REPORTS. Upon written request by EXEL to PDL during the term of the Agreement, but not more frequently than once per calendar year, PDL will submit to EXEL a written progress report summarizing the status of each PDL Product.

6.3 RIGHT OF NEGOTIATION. [*].

7. COMMERCIALIZATION OF TARGETS AND EARLY-STAGE PRODUCTS

7.1 TARGETS AND PRECURSOR ANTIBODIES. In the event that (a) any Targets result from the Collaboration for which Antibodies are not generated for any reason, or (b) any Precursor Antibodies to a given Antibody Target Candidate or Antibody Target result from the Collaboration, but PDL determines not to select any Precursor Antibodies to that Antibody Target Candidate or Antibody Target for humanization, then the JSC may designate such Targets and/or Precursor Antibodies for out-licensing ("Out-Licensing Candidates"), [*] [*] shall have [*]. All consideration received or to be received from any such license, including, without limitation, all license fees, milestone payments and royalties shall be treated as [*].

7.2 [*] REVERSION TARGETS. Each Target identified by [*] during the [*] that (a) [*] or (b) [*], shall revert to [*] ("Reversion Targets") and shall not be treated as Out-Licensing Candidates pursuant to Section 7.1. Upon a Target becoming a Reversion Target, [*] shall have no further rights to that Reversion Target, it shall cease to be a Target and [*] licenses under this Agreement to that Reversion Target shall terminate.

7.3 HUMANIZED ANTIBODIES NOT SELECTED BY [*] FOR IND. In the event that

[*] creates a Humanized Antibody, but decides not to proceed with an IND filing for such Humanized Antibody, then such Humanized Antibody shall be treated in the same manner as a [*] Product is treated under [*].

7.4 GENERAL LICENSING. Subject to Sections 5.9(d) and 6.3, [*] shall have the right to enter into a license or sublicense with any Third Party for any or all rights to any Antibody Target Candidates, Antibodies or Products [*], including without limitation any Out-Licensing Candidates. All consideration received or to be received from any such license, including, without limitation, all license fees, milestone payments and royalties shall be treated as [*], except that any consideration for [*] shall be allocated as provided in Sections 5.9 and 6.3. Upon [*] or the Parties' entering into such a license or sublicense with a Third Party with respect to any Target, Antibody or Pre-Opt-In Product, all rights under Article 5 shall terminate with respect to the applicable Product licensed to the Third Party.

7.5 [*] REVERSION. Effective [*], all [*] shall revert to [*]. [*] shall have no further rights with respect to such [*].

8. LICENSES AND RELATED RIGHTS

8.1 LICENSES TO PDL.

(A) RESEARCH. Subject to the terms of this Agreement, EXEL hereby grants PDL a non-exclusive, worldwide, non-transferable, royalty-free license for internal use under the EXEL Patents, EXEL Know-How and EXEL's interest in the Joint Patents to the extent necessary (i) to permit PDL to conduct its obligations under Article 4 and (ii) to use and characterize Targets, including, without limitation, the Overlap Targets. The license set forth above includes the right to sublicense, subject to Sections 4.7 and 5.5.

(B) PRE-OPT-IN PRODUCTS AND PDL PRODUCTS. Subject to the terms of this Agreement, EXEL hereby grants PDL a worldwide, exclusive license, including the right to sublicense, under the EXEL Patents, EXEL Know-How and EXEL's interest in the Joint Patents (i) to use the Targets [*] for the purpose of creating, developing and marketing antibodies for commercial purposes, (ii) to use Antibody Target Candidates and Antibody Targets to make, have made, use, develop and test Antibodies, and (iii) to make, have made, use, develop, test, sell, offer to sell, have sold and import Pre-Opt-In Products and PDL Products. Such license shall include all human prophylactic and therapeutic indications for Pre-Opt-In Products and PDL Products and shall be milestone and royalty-bearing as set forth in Article 9. The exclusivity of the license set forth in 8.1(b) is subject to EXEL's retained rights under Sections 8.2 (a) and 8.5.

(C) CO-FUNDED PRODUCTS. Subject to the terms of this Agreement, EXEL hereby grants PDL a worldwide, co-exclusive license (with EXEL), including the right to sublicense, under the EXEL Patents, EXEL Know-How and EXEL's interest in the Joint Patents to make, have made, use, develop, test, sell, offer to sell, have sold and import Co-Funded Products. Such license shall include all human prophylactic and therapeutic indications and shall involve profit-sharing with respect to any such Product in lieu of royalties and milestones as set forth in Article 9.

(D) PDL DIAGNOSTIC PRODUCTS. Subject to the terms of this Agreement, EXEL hereby grants PDL a worldwide, co-exclusive license, including the right to sublicense, under the EXEL Patents, EXEL Know-How and EXEL's interest in the Joint Patents to make, have made, use, develop, test, sell, offer to sell, have sold and import PDL Diagnostic Products. At the time PDL identifies a Third Party manufacturer for any such PDL Diagnostic Product, PDL may request the co-exclusive license be converted to an exclusive license. [*].

(E) ANTIBODY INVENTIONS. Subject to the terms of this Agreement, EXEL hereby grants PDL a worldwide, exclusive license, including the right to sublicense, under the Antibody Patents that claim Antibody Inventions invented solely or jointly by PDL to practice such Antibody Inventions for all purposes.

8.2 LICENSES TO EXEL.

(A) RESEARCH. Subject to the terms of this Agreement, PDL hereby grants EXEL a non-exclusive, worldwide, non-transferable, royalty-free license (without the right to sublicense) for internal use under the PDL Patents, PDL Know-How and PDL's interest in the Joint Patents to the extent necessary (i) to permit EXEL to conduct its obligations under the Research Plan, and (ii) [*].

(B) EXEL PRODUCTS. Subject to the terms of this Agreement, effective upon a Product becoming an EXEL Product pursuant to Sections 5.9(c) or 12.2(b), PDL hereby grants to EXEL, a worldwide, license (with the right to sublicense) under the PDL Patents, PDL Know-How and PDL's interest in the Joint Patents to develop, make, have made, use, sell, offer to sell, have sold and import such EXEL Products. This license shall be subject to any licenses or sublicenses granted by PDL in accordance with Section 5.9 prior to the license under this Section 8.2(b) becoming effective. Such license shall include all human prophylactic and therapeutic indications and any Diagnostic Products developed for use in connection with such prophylactic and therapeutic indications and shall be milestone and royalty-bearing as set forth in Section 5.9(c). Such license shall be exclusive to the extent of PDL's interest in an Antibody Patent

covering the EXEL Product and to the extent any PDL Patent or Joint Patent relates solely to such EXEL Product; otherwise such license shall be non-exclusive.

(C) EXEL DIAGNOSTIC PRODUCTS. Subject to the terms of this Agreement, effective upon a Product becoming an EXEL Product pursuant to Section 5.9(c) or 12.2(b), and to the extent PDL then has rights to a EXEL Diagnostic Product developed for use with such EXEL Product, PDL hereby grants to EXEL, a worldwide license (with the right to sublicense) under the PDL Patents, PDL Know-How and PDL's interest in the Joint Patents to develop, make, have made, use, sell, offer to sell, have sold and import such EXEL Diagnostic Product. This license shall be subject to any licenses or sublicenses granted by PDL, in accordance with Section 5.9, prior to the license under this Section 8.2(c) becoming effective. Such license shall include all human diagnostic indications and shall be milestone and royalty-bearing as set forth in Section 5.9(c). Such license shall be consistent with the license granted pursuant to Section 8.2(b) with respect to the EXEL Product for which the EXEL Diagnostic Product is intended to be used.

8.3 NEGATIVE COVENANTS. Each Party hereby covenants that it will not practice any technology licensed to it under this Agreement outside the scope of the licenses granted herein. Specifically and without limitation, EXEL shall not, unless expressly permitted elsewhere in this Agreement [*], provided that this covenant shall not be interpreted to prevent EXEL from [*].

8.4 EXCLUSIVITY. EXEL shall not research, develop or commercialize Products, except under the terms of this Agreement. Specifically and without limitation, unless expressly permitted elsewhere in this Agreement, neither EXEL nor its Affiliates shall: (a) [*]; (b) make, have made, use, sell, offer to sell, have sold or import such [*]; or (c) develop, make, have made, sell, offer to sell, have sold or import, a [*] until the earlier of either (i) [*], or (ii) if at any time [*] following the selection of [*]. [*].

8.5 INDEPENDENT RESEARCH. The Parties acknowledge and agree that EXEL may use Information and materials that EXEL generates in the course of performing its obligations under this Agreement that constitutes general know-how relating to [*] for Independent Research. For clarification, EXEL may use the following Information generated by EXEL in the course of performing its obligations under this Agreement, for Independent Research: [*] EXEL shall have no rights under this Agreement to use PDL Information or materials, or to use or operate under any rights licensed by PDL from Third Parties, for Independent Research or for development or commercialization of any product or for any purpose other than as expressly provided under this Agreement.

9. COMPENSATION

9.1 LOAN. Concurrently with the execution of this Agreement, the Parties are entering into a Note Purchase Agreement of even date herein pursuant to which PDL will loan EXEL thirty million dollars ($30,000,000) pursuant to a Convertible Note. The terms of such Convertible Note shall be governed exclusively by the Note Purchase Agreement and related documents executed pursuant thereto.

9.2 RESEARCH FUNDING. Subject to Sections 12.2 and 12.3, for the first two (2) years of this Agreement, PDL shall make research funding and license payments totaling four million dollars ($4,000,000) per year. This initial Research Term shall be deemed to begin on [*]. Research Funding shall be payable in equal [*] installments within [*] after the beginning of each [*] during the term of the Research Funding. The annual Research Funding at the rate of four million dollars ($4,000,000) per year shall be [*]. If the Research Term has been [*], then the research funding shall [*] at the rate of [*] for the following [*]. The Research Term and Research Funding thereafter shall be [*] at the rate of four million dollars ($4,000,000) per year for the [*].

9.3 MILESTONE PAYMENTS. For each PDL Product, PDL shall pay EXEL the following amounts within thirty (30) days after each PDL Product achieves the stated milestone:

(A) [*] [*]
(B) [*] [*]
(C) Upon first filing of a BLA for the PDL Product [*]
(D) Upon first Regulatory Approval of the PDL Product in a Major Indication in a Major Market [*]
(E) If the PDL Product has not achieved Milestone 9.3(d), upon such PDL Product achieving sales resulting in cumulative royalty payments from PDL to EXEL under this Agreement of at least [*] [*]

[*] as used in (b) above shall occur at such time as a draft final report for the trial has been written [*].

Milestone payments shall be payable only once, which shall be the first time a milestone is achieved. If a milestone for a PDL Product is skipped or avoided by advancing to what would normally be expected to be a later development or regulatory step, then the milestone that was expected to occur earlier shall be deemed to have been achieved at the same time as such later

milestone is achieved, and the corresponding payment for both milestones shall be due. For the purposes of milestone payments, all dosage forms, formulations and constructs containing an Antibody against the same Antibody Target shall be deemed a single Product.

"Major Indication" as used in (d) above means the following: cancers in any of the following: [*]; provided, however, that the PDL Product is [*] in the target cancer.

"Major Market" as used in (d) above means the United States, United Kingdom, Germany, France, Italy or Japan.

9.4 Royalty Payments. For sales of each PDL Product for a prophylactic or therapeutic indication by PDL, its Affiliates or sublicensees, PDL shall pay EXEL royalties at the following rates:

Annual Net Sales of a given PDL Product	Royalty Rate
[*]	

Except as set forth in Section 9.6, the foregoing royalty rates shall not be subject to adjustment or reduction for any reason. For the purposes of royalty payments, all dosage forms, formulations and constructs containing the same Antibody shall be deemed a single Product. The measure of annual Net Sales set forth in this Section 9.4 shall be the sum of Net Sales of a particular PDL Product in all countries for each fiscal year of PDL.

By way of example, if in a particular fiscal year, PDL sells two PDL Products, with one PDL Product having [*] in annual Net Sales and the other PDL Product having [*] in annual Net Sales, then PDL shall make royalty payments to EXEL during that year totaling [*] with respect to the first PDL Product and [*] with respect to the second PDL Product for that fiscal year, assuming no adjustments are required pursuant to Section 9.6.

9.5 ROYALTY PAYMENT FOR PDL PRODUCT FOR A DIAGNOSTIC INDICATION. For sales of each Diagnostic Product by PDL, its Affiliates or sublicensees, PDL shall pay EXEL royalties at a rate equal to [*] of the rate that would otherwise apply under Sections 6.3 or 9.4 after all adjustments under this Agreement to such rates.

9.6 ROYALTY CREDITS AND ADJUSTMENTS.

(A) The milestone payments set forth in Section 9.3(b) - (d) shall be [*]. In addition, the amount of [*] shall be creditable against royalty payments beginning in the quarter of the [*] as set forth in Section 9.4 and Section 9.5 as provided in Section 9.6(b).

(B) [*]. Amounts paid by PDL to Third Parties for intellectual property applicable to products in addition to PDL Products shall be reasonably allocated among the products covered under the applicable licenses from Third Parties. In any event, royalty credits shall not apply to license fees and other amounts paid under Third Party licenses prior to the Effective Date. Royalty credits may be applied against royalties due under Section 9.4 or Section 9.5 with respect to PDL Products, provided that the royalty paid by PDL after the application of any credit under this Section 9.6(b) shall not, as a result of such adjustment, be less than [*] of the royalty rate which would otherwise apply under Section 9.4 or Section 9.5 to such Products.

(C) [*].

(D) In no event shall the royalty rate under Section 9.4 for a PDL Product be reduced pursuant to this Section 9.6 to less than [*].

9.7 TERM OF ROYALTIES. EXEL's right to receive royalties under Section 9.4 and Section 9.5 shall expire on a country-by-country basis upon the later of (i) [*] from the First Commercial Sale of such PDL Product in such country, or (ii) the expiration of the last to expire issued patent within the EXEL Patents or Joint Patents in such country covering the PDL Product or the manufacture, use or sale of such PDL Product.

9.8 ROYALTY PAYMENT REPORTS. All royalty payments under this Agreement shall be made to EXEL or its designee quarterly within [*] following the end of each calendar quarter for which royalties are due or, in the case of royalties from the sales of sublicensees, within [*] following the end of the quarter in which PDL receives the royalty report from the sublicensee. Each royalty payment shall be accompanied by a statement stating the Net Sales, by country, of each PDL Product sold during the relevant calendar quarter.

9.9 PROFIT SHARING FOR CO-FUNDED PRODUCTS.

(A) SHARE OF PROFITS. PDL shall be entitled to [*] of Product Profit from the sale of Co-Funded Products and EXEL shall be entitled to [*] of such Product Profit until such time as, and so long as, [*] of the cumulative Product Profit for all Co-Funded Products equals [*] of the amount paid to EXEL under Section 9.2 (i.e., [*]). Whenever cumulative Product Profit exceeds such amount, each Party shall be entitled to [*] of the subsequent Product

Profit from the sale of Co-Funded Products. The respective shares of Product Profit are referred to below as the "PDL Share" and the "EXEL Share." The respective profit sharing described in this Section 9.9(a) may be adjusted for particular Co-Funded Products pursuant to Section 3.7(b).

(B) DETERMINATION OF PRODUCT PROFIT. Within [*] after the end of each calendar quarter following the First Commercial Sale of a Co-Funded Product, PDL shall provide EXEL with a statement detailing (i) PDL's Net Sales and the Product Profit incurred or received, as applicable, in the previous calendar quarter with respect to each Co-Funded Product, (ii) the cumulative Product Profit for all Co-Funded Products and (iii) the PDL Share and the EXEL Share for that quarter (the "Quarterly Report"). Such statement shall be accompanied by appropriate supporting information.

(C) PAYMENTS. If the Product Profit for such calendar quarter was negative, then EXEL shall pay the EXEL Share to PDL within [*] after receipt of the Quarterly Report. If the Product Profit for such calendar quarter was positive, then PDL shall pay the EXEL Share to EXEL within [*] after sending the Quarterly Report to EXEL.

9.10 NONREFUNDABLE PAYMENTS. Except as expressly provided in this Agreement, all payments made by a Party to the other shall be non-refundable and non-creditable.

9.11 PAYMENT METHOD. All payments due under this Agreement to a Party shall be made by bank wire transfer in immediately available funds to an account designated by the receiving Party. All payments hereunder shall be made in United States dollars.

9.12 TAXES. Each Party shall pay any and all taxes levied on account of all payments it receives under this Agreement. If laws or regulations require that taxes be withheld, the Party required to withhold will (i) deduct those taxes from the remittable payment, (ii) pay the taxes to the proper taxing authority, and (iii) send evidence of the obligation together with proof of tax payment to the other Party within [*] following that tax payment.

9.13 BLOCKED CURRENCY. In each country where the local currency is blocked and cannot be removed from the country, royalties or profit share payments accrued in that country shall be paid to the receiving Party in the country in local currency by deposit in a local bank designated by the receiving Party, unless the Parties otherwise agree.

9.14 SUBLICENSES. In the event PDL grants licenses or sublicenses to others to sell PDL Products which are subject to royalties under Section 9.4, such licenses or sublicenses shall include an obligation for the licensee or sublicensee to account for and report its sales of Products on substantially the same basis as if such sales were Net Sales by PDL, and PDL shall pay to EXEL, with respect to such sales, royalties as if such sales of the licensee or sublicensee were Net Sales of PDL. With respect to such sales of PDL Products by licensees or sublicensees, PDL shall be required only to include information regarding Net Sales reflected in reports received by PDL during the calendar quarter in question. PDL shall use commercially reasonable efforts to cause its sublicensees to report sales of PDL Products in a manner that will enable PDL to report such Net Sales by licensees and sublicensees on a quarterly basis.

9.15 FOREIGN EXCHANGE. Conversion of sales recorded in local currencies to United States dollars will be performed in a manner consistent with PDL's normal practices used to prepare its audited financial statements for internal and external reporting purposes, which uses a mutually agreed upon generally accepted source of published exchange rates. It is agreed that the exchange rates published by Citibank or the Wall Street Journal for the last banking day of the quarter shall be acceptable exchange rates; provided that, in the case of sales by sublicensees, the Parties will use the exchange rates provided in the agreements between PDL and such sublicensees.

9.16 RECORDS; INSPECTION. Each Party shall keep complete and accurate books of account and records for PDL Products, EXEL Products and Co-Funded Products, to be made under this Agreement. Such books and records shall be kept for at least [*] following the end of the calendar year to which they pertain. Such records will be open for inspection during such three year period by independent accountants, solely for the purpose of verifying payment statements hereunder. Such inspections shall be made no more than once each calendar year, at reasonable times and on reasonable notice. Inspections conducted under this Section 9.16 shall be conducted by an independent Third Party reasonably acceptable to both Parties. The audit shall be at the expense of the Party requesting the audit, except in the event that the results of the audit reveal that the audited Party underpaid the Party requesting the audit by [*] or more for any period covered by the audit, in which case the audit fees, and any unpaid amounts (plus interest) that are discovered will be paid promptly by the audited Party, and in any event no later than [*] following delivery of the audit results to the audited Party.

9.17 LATE PAYMENTS. Any overdue payments under this Agreement shall bear interest at the rate of [*], or the highest rate allowed by law, whichever is less, commencing on the date such payment is due until paid.

10. INTELLECTUAL PROPERTY

10.1 OWNERSHIP.

(A) Except as otherwise described herein and subject to the licenses granted under this Agreement, each Party shall own the entire right, title and interest in and to any and all of its Sole Inventions, and Patents covering such Sole Inventions, except that all Antibody Inventions initially shall be assigned to EXEL. The Parties intend that during patent prosecution [*] (such patent applications and any patents that issue with respect to such applications being referred to as "Antibody Patents"). At the time PDL notifies EXEL pursuant to Section 5.1 and thus commences the Opt-In Period for a particular Product containing a particular Antibody, EXEL shall assign to PDL the Antibody Patents that cover that Antibody. Following such assignment to PDL, the assigned Antibody Patents shall be treated as PDL Patents under this Agreement. (B) Subject to Section 10.1(a) and the licenses granted under this Agreement, PDL and EXEL shall each own an undivided one-half interest in and to any and all Joint Inventions and Joint Patents. The Parties shall have the right to grant licenses under such Joint Patents only to the extent provided in this Agreement.

10.2 STRATEGY; DISCLOSURE. During the Research Term, each Party shall submit a written report to the JPC within [*] after the end of each quarter describing any Sole Invention or Joint Invention or Antibody Inventions of which it became aware during the prior quarter that it believes may be patentable. The JPC, in consultation with the JSC, shall decide whether to file a patent application for each such Joint Invention, as discussed in Section 10.3. The JPC shall establish the patent strategy for all Joint Inventions, Antibody Inventions and Inventions pertaining to Antibody Target Candidates and Antibody Targets arising from the Collaboration, considering in good faith EXEL's obligations to PDL and Third Parties relating to patent strategy for Targets.

10.3 PATENT PROSECUTION AND MAINTENANCE; ABANDONMENT.

(A) SOLE INVENTIONS. Each Party shall direct the filing, prosecution and maintenance of all Patents covering its Sole Inventions, to the extent possible consistent with the strategy established by the JPC for Joint Inventions and consistent with the remaining provisions, as applicable, of this Section 10.3.

(B) EXEL PRODUCT PATENTS. EXEL shall prosecute and reasonably maintain all of the patents and applications that qualify as EXEL Patents that claim or cover any Co-Funded Product or PDL Product or the Antibody Target of any such Product ("EXEL Product Patents"). If EXEL decides not to continue the prosecution or maintenance of an EXEL Product Patent in any country, it shall promptly advise PDL thereof and, at the request of PDL, EXEL and PDL shall negotiate in good faith to determine an appropriate course of action in the interests of both Parties. If the Parties determine that it would be [*] for PDL to assume responsibility for such prosecution or maintenance, then PDL shall have the right but not the obligation to assume such prosecution or maintenance. If the Parties do not determine that it would be [*] for PDL to assume responsibility for such prosecution or maintenance, then, at PDL's request, EXEL shall continue such prosecution or maintenance, provided that, [*].

(C) PDL PRODUCT PATENTS. PDL shall prosecute and reasonably maintain all of the patents and applications that qualify as PDL Patents that claim or cover any Co-Funded Product or EXEL Product or the Antibody Target of any such Product ("PDL Product Patents"). If PDL decides not to continue the prosecution or maintenance of a PDL Product Patent in any country, it promptly shall advise EXEL thereof and, at the request of EXEL, PDL and EXEL shall negotiate in good faith to determine an appropriate course of action in the interests of both Parties. If the Parties determine that it would be [*] for EXEL to assume responsibility for such prosecution or maintenance, then EXEL shall have the right but not the obligation to assume such prosecution or maintenance. If the Parties do not determine that it would be [*] for EXEL to assume responsibility for such prosecution or maintenance, then, at EXEL's request, PDL shall continue such prosecution or maintenance, provided that, [*].

(D) JOINT INVENTIONS. Each Party will use reasonable efforts to advise the other of a Joint Invention as provided in Section 10.2 or promptly upon such Party becoming aware of such Joint Invention. If the Invention is an Antibody Invention, it shall be assigned as provided in Section 10.1(a) and shall be prosecuted as provided in Section 10.3(e). As soon as one of the Parties concludes that it wishes to file a patent application covering a Joint Invention, it immediately shall inform the other Party thereof, consult about the filing procedures concerning such patent application, and file such patent applications for the Joint Inventions in such countries as the JPC determines. For this purpose, such Party will provide the other Party with the determination of inventors and scope of claims as early as possible. If a Party is faced with possible loss of rights resulting from the delay necessary for such communication, such communications may take place promptly after filing a provisional or convention application. PDL will have the first right of election to file patent applications for Joint Inventions in any country in the world. If PDL declines to file any such application within [*] after receipt of a written request to do so from EXEL, then EXEL may do so. Regardless of which Party files a patent application, however, any claims covered by such applications shall be considered as part of the Joint Patents. If the Party who

initially files a patent application covering a Joint Invention decides not to continue the prosecution or maintenance of such patent application or patent in general or in any particular country, it promptly shall notify the other Party in writing in reasonably sufficient time for such other Party to assume such prosecution and maintenance, and shall take the necessary steps and execute the necessary documents to permit such other Party to assume such prosecution or maintenance. The other Party shall have the right but not the obligation to assume such prosecution or maintenance.

(E) ANTIBODY INVENTIONS. Antibody Inventions initially shall be assigned to EXEL as provided in Section 10.1(a). Unless the Parties agree otherwise, EXEL shall file patent applications for the Antibody Inventions in such countries as the JPC determines. If EXEL declines to file any such application within [*] after receipt of a written request to do so from PDL, then PDL may do so. At the time that an application constituting an Antibody Patent is filed, EXEL shall promptly notify PDL in writing in reasonably sufficient time for PDL to assume the prosecution and maintenance of that Antibody Patent, and shall take the necessary steps and execute the necessary documents to permit PDL to assume such prosecution or maintenance. If PDL subsequently decides not to continue the prosecution or maintenance of an Antibody Patent directed to a Pre-Opt-In Product, in general or in any particular country, it promptly shall notify EXEL in writing in reasonably sufficient time for EXEL to assume such prosecution and maintenance, and shall take the necessary steps and execute the necessary documents to permit EXEL to assume such prosecution or maintenance. EXEL shall have the right but not the obligation to assume such prosecution or maintenance.

(F) COOPERATION. At the request of the Party performing the prosecution of any patent application under this Section 10.3, the other Party will cooperate, in all reasonable ways, in connection with the prosecution and maintenance of all such patent applications. Each Party shall make available to the other Party or its respective authorized attorneys, agents or representatives such of its employees or consultants as the other Party in its reasonable judgment deems necessary in order to assist such other Party with the prosecution and maintenance of such patents. Each Party shall sign or use commercially reasonable efforts to have signed at no charge to the other Party all legal documents necessary in connection with such prosecution and maintenance.

(G) UPDATES ON DEVELOPMENTS. The Party performing the prosecution of any patent application under this Section 10.3 shall advise the other Party of any substantial action or development in the prosecution of such patent applications and patents, in particular those involving the question of scope or the issuance, rejection, or revocation, of an interference involving, or an opposition to any such patent application or patent. In addition, the Party filing a patent application on a Joint Invention shall provide the other Party with (a) a draft of such new patent application prior to filing that application, allowing adequate time for review and comment by the other Party if possible; provided, however, the filing Party shall not be obligated to delay the filing of any patent application; and (b) copies of material correspondence from patent offices concerning patent applications covering such Joint Invention and a reasonable opportunity to comment on any material responses, amendments or submissions to be made to such patent offices. Notwithstanding the foregoing, PDL (with respect to PDL Patents directed to PDL Products) and EXEL (with respect to EXEL Patents directed to EXEL Products) shall have no obligation to advise or confer with the other Party with respect to such Patents and shall prosecute, maintain or abandon such Patents in their sole discretion.

(H) EXPENSES. For any Patents that relate solely to Co-Funded Products, all costs and expenses for the filing, prosecution (including any interferences, reissue proceedings and reexaminations) and maintenance of such Patents shall be [*]. For any other Patents, all such costs and expenses shall be [*].

10.4 ENFORCEMENT OF PATENT RIGHTS.

(A) ENFORCEMENT OF PDL PRODUCT PATENTS.

(I) ENFORCEMENT BY PDL. In the event either Party becomes aware of a suspected infringement of a PDL Product Patent or the institution by a Third Party of any proceedings for the revocation of, or to invalidate or render unenforceable, any PDL Product Patent due to the Third Party having an antibody product against the same target as a Co-Funded Product or an EXEL Product, such Party shall notify the other Party promptly, and following such notification, the Parties shall confer. PDL shall have the right, but shall not be obligated, to bring an infringement action or to defend such proceedings at its own expense, in its own name and entirely under its own direction and control. EXEL will reasonably assist PDL in such actions or proceedings if so requested, and will lend its name to such actions or proceedings if requested by PDL or required by law [*]. EXEL shall have the right to participate and be represented in any such suit by its own counsel at its own expense. No settlement of any such action or defense which restricts the scope or affects the enforceability of a PDL Product Patent that covers an EXEL Product may be entered into by PDL without the prior consent of EXEL, which consent shall not be unreasonably withheld.

(II) ENFORCEMENT BY EXEL. If PDL elects not to bring any action for infringement or to defend any proceeding described in Section 10.4(a)(i) and so notifies EXEL, then, subject to the rights of any Third Party licensors of such Patent to PDL, EXEL may bring such action or defend such proceeding at its own expense, in its own name and entirely under its own direction and control. PDL will reasonably assist EXEL in any action or proceeding being prosecuted or defended by EXEL, if so requested by EXEL or required by law at [*]. PDL shall have the right to participate and be represented in any such suit by its own counsel at its own expense. No settlement of any such action or defense which restricts the scope or affects the enforceability of PDL Patents may be entered into by EXEL without the prior consent of PDL, which consent shall not be unreasonably withheld.

(B) ENFORCEMENT OF EXEL PRODUCT PATENTS.

(I) ENFORCEMENT BY EXEL. In the event either Party becomes aware of a suspected infringement of an EXEL Product Patent or the institution by a Third Party of any proceedings for the revocation of, or to invalidate or render unenforceable, any EXEL Product Patent due to the Third Party having an antibody product against the same target as a Co-Funded Product or a PDL Product, such Party shall notify the other Party promptly, and following such notification, the Parties shall confer. EXEL shall have the right, but shall not be obligated, to bring an infringement action or to defend such proceedings at its own expense, in its own name and entirely under its own direction and control. PDL will reasonably assist EXEL in such actions or proceedings if so requested, and will lend its name to such actions or proceedings if requested by EXEL or required by law [*]. PDL shall have the right to participate and be represented in any such suit by its own counsel at its own expense. No settlement of any such action or defense which restricts the scope or affects the enforceability of an EXEL Product Patent that covers a Co-Funded Product or PDL Product may be entered into by EXEL without the prior consent of PDL, which consent shall not be unreasonably withheld.

(II) ENFORCEMENT BY PDL. If EXEL elects not to bring any action for infringement or to defend any proceeding described in Section 10.4(b)(i) and so notifies PDL, then, subject to the rights of any Third Party licensors of such Patent to EXEL, PDL may bring such action or defend such proceeding at its own expense, in its own name and entirely under its own direction and control. EXEL will reasonably assist PDL in any action or proceeding being prosecuted or defended by PDL, if so requested by PDL or required by law [*]. EXEL shall have the right to participate and be represented in any such suit by its own counsel at its own expense. No settlement of any such action or defense which restricts the scope or affects the enforceability of EXEL Patents may be entered into by PDL without the prior consent of EXEL, which consent shall not be unreasonably withheld.

(C) ENFORCEMENT OF JOINT PATENTS.

(I) ENFORCEMENT BY PDL. In the event either Party becomes aware of a suspected infringement of a Joint Patent or the institution by a Third Party of any proceedings for the revocation of, or to invalidate or render unenforceable, any Joint Patent, such Party shall notify the other Party promptly, and following such notification, the Parties shall confer. PDL shall have the right, but shall not be obligated, to prosecute an infringement action or to defend such proceedings at its own expense, in its own name and entirely under its own direction and control. EXEL will reasonably assist PDL in such actions or proceedings if so requested, and will lend its name to such actions or proceedings if requested by PDL or required by law [*]. EXEL shall have the right to participate and be represented in any such suit by its own counsel at its own expense. No settlement of any such action or defense which restricts the scope or affects the enforceability of a Joint Patent that covers an EXEL Product may be entered into by PDL without the prior consent of EXEL, which consent shall not be unreasonably withheld.

(II) ENFORCEMENT BY EXEL. If PDL elects not to bring any action for infringement or to defend any proceeding described in Section 10.4(c)(i) and so notifies EXEL, then EXEL may bring such action or defend such proceeding at its own expense, in its own name and entirely under its own direction and control. PDL will reasonably assist EXEL in any action or proceeding being prosecuted or defended by EXEL, if so requested by EXEL or required by law [*]. PDL shall have the right to participate and be represented in any such suit by its own counsel at its own expense. No settlement of any such action or defense which restricts the scope or affects the enforceability of a Joint Patent that covers a Co-Funded Product or PDL Product may be entered into by EXEL without the prior consent of PDL, which consent shall not be unreasonably withheld.

(D) GENERAL PROVISIONS RELATING TO ENFORCEMENT OF PATENTS.

(I) WITHDRAWAL. If either Party brings such an action or defends such a proceeding under this Section 10.4 and subsequently ceases to pursue or withdraws from such action or proceeding, it shall promptly notify the other Party and the other Party may substitute itself for the withdrawing Party under the terms of this Section 10.4 at its own expense.

(II) RECOVERIES. In the event either Party exercises the rights

conferred in this Section 10.4 and recovers any damages or other sums in such action, suit or proceeding or in settlement thereof, such damages or other sums recovered shall first be applied to all out-of-pocket costs and expenses incurred by the Parties in connection therewith, including attorneys fees. If such recovery is insufficient to cover all such costs and expenses of both Parties, it shall be shared [*]. If after such reimbursement any funds shall remain from such damages or other sums recovered, such funds shall be [*].

(E) EXCLUDED PATENTS. Certain patents as identified in Exhibits D-1 and D-2 relating to background technologies of either EXEL or PDL, shall not be subject to the provisions of Sections 10.3 and 10.4 (a-d).

10.5 TRADEMARKS; PRODUCT PRESENTATION.

(A) CO-FUNDED PRODUCTS. PDL shall own all right title and interest in and to all trademarks, trade names, service marks and trade dress specifically developed for and used on or in connection with all Co-Funded Products. PDL shall be responsible for all decisions regarding the trademarks, service marks and trade dress used on and in connection with all Co-Funded Products. PDL and EXEL shall each retain sole and exclusive ownership of their own respective and independently developed and pre-existing trademarks, trade names, service marks and trade dress, regardless of whether such trademarks, trade names, service marks and trade dress are used on or in connection with any Co-Funded Product. The JCC shall approve all trademarks and service marks used on or in connection with any Co-Funded Products. Subject to applicable laws, rules and regulations, any written or visual promotional or educational materials intended for use in conjunction with Co-Funded Products shall refer to both Parties (where practical) with substantially equal prominence, and all product labeling and promotional material regarding the detailing and promoting of such Products shall display the names and logos of PDL and EXEL (where practical) with substantially equal prominence.

(B) PDL PRODUCTS. PDL shall own all right title and interest in and to all trademarks, service marks and trade dress specifically developed by PDL for and used on or in connection with all PDL Products. PDL shall be responsible for all decisions regarding the trademarks, service marks and trade dress used on or in connection with all PDL Products.

(C) EXEL PRODUCTS. EXEL shall own all right title and interest in and to all trademarks, service marks and trade dress specifically developed by EXEL for and used on or in connection with all EXEL Products. EXEL shall be responsible for all decisions regarding the trademarks, service marks and trade dress used on or in connection with all EXEL Products. PDL agrees to assign promptly any trademark rights for an EXEL Product to EXEL.

11. CONFIDENTIALITY

11.1 NONDISCLOSURE OF CONFIDENTIAL INFORMATION. All written and oral Information disclosed by one Party to the other Party pursuant to this Agreement and characterized as confidential to the receiving Party shall be "Confidential Information." The Parties agree that during the term of this Agreement, and for a period of [*] after this Agreement expires or terminates, a Party receiving Confidential Information of the other Party will (i) maintain in confidence such Confidential Information to the same extent such Party maintains its own proprietary information of similar kind and value (but at a minimum each Party shall use commercially reasonable efforts), (ii) not disclose such Confidential Information to any Third Party without prior written consent of the other Party, and (iii) not use such Confidential Information for any purpose except those permitted by this Agreement.

11.2 EXCEPTIONS. The obligations in Section 11.1 shall not apply with respect to any portion of the Confidential Information that the receiving Party can show by competent written proof:

(A) Is publicly disclosed by the disclosing Party, either before or after it is disclosed to the receiving Party hereunder; or

(B) Was known to the receiving Party, without obligation to keep it confidential, prior to disclosure by the disclosing Party; or

(C) Is subsequently disclosed to the receiving Party by a Third Party lawfully in possession thereof and without obligation to keep it confidential; or

(D) Has been published by a Third Party; or

(E) Has been independently developed by the receiving Party without the aid, application or use of Confidential Information.

11.3 AUTHORIZED DISCLOSURE. A Party may disclose the Confidential Information belonging to the other Party to the extent such disclosure is reasonably necessary in any of the following instances:

(A) Filing or prosecuting Patents relating to Sole Inventions, Joint Inventions or Products;

(B) Regulatory filings relating to Products;

(C) Prosecuting or defending litigation;

(D) Complying with applicable governmental regulations; or

(E) Disclosure, in connection with the performance of this Agreement, to Affiliates, sublicensees, prospective licensees, research collaborators, employees, consultants, or agents, each of whom prior to disclosure must be bound by similar obligations of confidentiality and non-use at least equivalent in scope to those set forth in this Article 11.

The Parties acknowledge that the terms of this Agreement shall be treated as Confidential Information of both Parties. Such terms may be disclosed by a Party to investment bankers, investors, prospective business partners (including potential acquirers or acquisition targets) and potential investors, each of whom prior to disclosure must be bound by similar obligations of confidentiality and non-use at least equivalent in scope to those set forth in this Article 11. In addition, if required, a copy of this Agreement may be filed by either Party with the Securities and Exchange Commission. In connection with any such filing, the filing Party shall endeavor to obtain confidential treatment of economic and trade secret information and shall consult with the other Party prior to such filing with respect to determining for which information confidential treatment should be sought.

11.4 PUBLICITY. The Parties agree that the public announcement of the execution of this Agreement shall be substantially in the form of the press release attached as Exhibit C. Any other news release relating to this Agreement or to the performance hereunder, shall first be reviewed and approved by both Parties; provided, however, that any disclosure which is required by law as advised by the disclosing Party's counsel may be made without the prior consent of the other Party, although the other Party shall be given prompt notice of any such legally required disclosure and to the extent practicable shall provide the other Party an opportunity to comment on the proposed disclosure.

11.5 PUBLICATIONS. Neither Party shall publish or present the results of studies carried out under this Agreement without the opportunity for prior review by the other Party. Subject to Section 11.3, each Party agrees to provide the other Party the opportunity to review any proposed abstracts, manuscripts or presentations (including verbal presentations) which relate to any Target, Antibody or Product (excluding any Product that has become a PDL Product) at least [*] prior to its intended submission for publication and agrees, upon request, not to submit any such abstract or manuscript for publication until the other Party is given a reasonable period of time to secure patent protection for any material in such publication which it believes to be patentable. Both Parties understand that a reasonable commercial strategy may require delay of publication of information for filing of patent applications. The Parties agree to review and consider delay of publication and filing of patent applications under certain circumstances. The JSC and JPC will review such requests and recommend subsequent action. Neither Party shall have the right to publish or present Confidential Information of the other Party that is subject to Section 11.1. Nothing contained in this Section 11.5 shall prohibit the inclusion of information necessary for a patent application, except for Confidential Information of the nonfiling Party, provided the nonfiling Party is given a reasonable opportunity to review the information to be included prior to submission of such patent application. Any disputes between the Parties regarding delaying a publication or presentation to permit the filing of a patent application shall be referred to the JSC or, for a Co-Funded Product, the relevant JDC.

12. TERM AND TERMINATION

12.1 TERM. This Agreement shall become effective on the Effective Date and shall remain in effect until the expiration of the last royalty or profit sharing payment obligation with respect to any Product, as provided in this Agreement.

12.2 TERMINATION FOR MATERIAL BREACH.

(A) ENTIRE AGREEMENT. If either Party breaches any material agreement, condition or covenant of this Agreement, the Note Purchase Agreement or the Note, or makes any materially false report to the other Party, the Party not in breach may terminate this Agreement at its option on [*] written notice, subject to the remaining provisions of this Section 12.2; provided however, that any breach that relates only to a particular Product(s) or only to the activities under the Collaboration shall be governed by Section 12.2(b) instead of this Section 12.2(a).

(B) PARTICULAR PRODUCTS OR COLLABORATION. In the case of a breach that relates only to a particular Product(s) or only to the activities under the Collaboration, the non-breaching Party, at its option on [*] written notice and subject to the remaining provisions of this Section 12.2, may terminate this Agreement as to the particular Product(s) to which such breach relates, (provided, however, that after such time as the breaching Party has first filed for Regulatory Approval of a Product, the non-breaching Party may terminate the breaching Party's rights to such Product only in those countries to which such

breach relates) or in the case of a breach relating only to the activities under the Collaboration, the non-breaching Party may terminate the Collaboration under this Agreement, but this Agreement shall continue in full force and effect with respect to all Products. In the event of a breach by PDL with respect to a particular Co-Funded Product, then EXEL, as an alternative to terminating the Agreement as to such Product as provided above, may instead, on providing [*] written notice to PDL, elect to terminate PDL's rights to such Co-Funded Product on the same terms as if PDL had voluntarily terminated its rights to such Co-Funded Product under Section 5.9(c).

(C) RIGHT TO CURE. In any notice of breach under this Section 12.2, the non-breaching Party shall identify the actions or conduct that such Party considers to be a material breach and specify conduct or actions that the notifying Party would consider to be an acceptable cure of such breach. No termination of this Agreement or the Collaboration or of rights relating to a particular Product or country pursuant to Section 12.2(a) or (b) shall become effective unless such breach shall not have been remedied, or steps initiated to remedy the same to the non-breaching Party's reasonable satisfaction, within [*] after written notice thereof to the breaching Party, or, in case the breach is a failure to make any payment when due, within [*] after such notice.

(D) DISPUTES. If a Party gives notice of termination under this Section 12.2 and the other Party disputes whether such notice was proper, then the issue of whether this Agreement has been terminated shall be resolved in accordance with Section 15.1. If, as a result of such dispute resolution process it is determined that the notice of termination was proper, then such termination shall be deemed to have been effective on the effective date of the notice of termination. If as a result of such dispute resolution process it is determined that the notice of termination was improper, then no termination shall have occurred and this Agreement shall have remained in effect.

12.3 TERMINATION OR EXPIRATION OF RESEARCH FUNDING/COLLABORATION. PDL and EXEL shall have their respective rights to terminate Research Funding as described in Section 9.2, which shall have the effect of terminating the Research Term. Upon such termination or upon expiration of the Research Term, the Collaboration under this Agreement shall terminate, but all other rights and obligations under this Agreement shall continue. If either Party terminates the Collaboration pursuant to Section 12.2, any Research Funding paid by PDL for any time period beyond the effective date of such termination shall be immediately refunded by EXEL to PDL. The termination or expiration of the Collaboration shall not affect any rights of PDL to any Targets, Antibodies or Products resulting from the Collaboration prior to its termination or expiration.

12.4 EFFECT OF TERMINATION OF ENTIRE AGREEMENT OR RIGHTS TO PARTICULAR PRODUCT. Upon termination of this Agreement in its entirety pursuant to Section 12.2(a), all licenses granted to the breaching Party under this Agreement shall terminate and the breaching Party shall return to the non-breaching Party all materials and Information delivered under this Agreement by the non-breaching Party to the breaching Party, except as provided in Section 12.5. Upon termination of this Agreement pursuant to Section 12.2(b) with respect to a particular Product, all licenses granted to the breaching Party under this Agreement with respect to that Product (for the countries in which such rights are being terminated) shall terminate and, if such termination is for all countries, the breaching Party shall return to the non-breaching Party all materials and Information delivered under this Agreement by the non-breaching Party to the breaching Party relating to that Product, except as provided in Section 12.5.

12.5 INVENTORY. Upon termination of this Agreement in its entirety or with respect to a particular Product for which Regulatory Approval has been obtained, the breaching Party shall have all rights necessary to sell within [*] of such termination any such Product in its or its Affiliates' or sublicensee's inventory on the date of such termination, which have not previously been sold ("Inventory"); provided, however that the breaching Party shall pay the royalties due on such Inventory and provide related reports in the amounts and manner provided for in Article 9.

12.6 SURVIVAL.

(A) In the event of termination of this Agreement for any reason other than material breach pursuant to Section 12.2, in addition to those Sections which by their terms survive, the following provisions of this Agreement shall also survive: Articles 1, 5, 6, 7, 8 10, 11, 12, and 15 and Sections 9.3 - 9.17, 14.1 and 14.2.

(B) In the event of termination of this Agreement pursuant to Section 12.2, the provisions of this Agreement referenced in Section 12.6(b) shall survive, provided, however, that any licenses granted under this Agreement in favor of the breaching Party shall terminate. In such case, the non-breaching Party shall continue to hold the licenses granted hereunder, subject to the royalties set forth herein.

(C) In any event, termination of this Agreement shall not relieve the Parties of any liability or obligation which accrued hereunder prior to the effective date of such termination, nor preclude either Party from pursuing all rights and remedies it may have hereunder or at law or in equity with respect to

any breach of this Agreement, nor prejudice either Party's right to obtain performance of any obligation.

13. REPRESENTATIONS AND COVENANTS

13.1 MUTUAL AUTHORITY. EXEL and PDL each represents and warrants to the other that (a) it has the authority and right to enter into and perform this Agreement and (b) its execution, delivery and performance of this Agreement will not conflict in any material fashion with the terms of any other agreement to which it is or becomes a party or by which it is or becomes bound.

13.2 REPRESENTATIONS BY EXEL.

(A) EXEL [*].

(B) To its knowledge, EXEL, as of the Effective Date, owns or has a valid license to use all technology it anticipates using in the Collaboration.

13.3 RIGHTS IN TECHNOLOGY. During the term of this Agreement, each Party will use Diligent Efforts not to diminish the rights under its Patents or Joint Patents granted to each other herein, including without limitation by not committing or permitting any acts or omissions which would cause the breach of any agreements between itself and Third Parties which provide for intellectual property rights applicable to the development, manufacture, use or sale of Products. Each Party agrees to provide promptly the other Party with notice of any such alleged breach. As of the Effective Date, each Party is in compliance in all material respects with any aforementioned agreements with Third Parties.

13.4 PERFORMANCE BY AFFILIATES. The Parties recognize that each may perform some or all of its obligations under this Agreement through Affiliates, provided, however, that each Party shall remain responsible and be guarantor of the performance by its Affiliates and shall cause its Affiliates to comply with the provisions of this Agreement in connection with such performance.

14. INDEMNIFICATION AND LIMITATION OF LIABILITY

14.1 INDEMNIFICATION.

(A) PDL PRODUCTS. PDL hereby agrees to defend and hold harmless EXEL and its agents and employees from and against any and all suits, claims, actions, demands, liabilities, expenses and/or loss, including reasonable legal expenses and reasonable attorneys' fees ("Losses") resulting directly or indirectly from the manufacture, use, testing, handling, storage, sale or other disposition of PDL Products by PDL or its Affiliates, agents or sublicensees except to the extent such Losses result from the negligence or wrongdoing of EXEL.

(B) EXEL PRODUCTS. EXEL hereby agrees to defend and hold harmless PDL and its agents and employees from and against any and all Losses resulting directly or indirectly from the manufacture, use, testing, handling, storage, sale or other disposition of EXEL Products by EXEL or its Affiliates, agents or sublicensees except to the extent such Losses result from the negligence or wrongdoing of PDL.

(C) GENERAL INDEMNIFICATION PROVISIONS. In the event that a Party is seeking indemnification under this Section 14.1, it shall inform the other Party of a claim as soon as reasonably practicable after it receives notice of the claim, shall permit the other Party to assume direction and control of the defense of the claim (including the right to settle the claim solely for monetary consideration), and shall cooperate as requested by the other Party (at the expense of the other Party) in the defense of the claim.

(D) CO-FUNDED PRODUCTS. In the event of any Losses to either Party resulting directly or indirectly from the manufacture, use, testing, handling, storage, sale or other disposition of Co-Funded Products by either Party or their Affiliates, agents or sublicensees, such [*] or if no Regulatory Approval has occurred for the Co-Funded Product, then such [*] for that Co-Funded Product.

14.2 LIMITATION OF LIABILITY. EXCEPT AS SPECIFICALLY PROVIDED IN SECTION 14.1, IN NO EVENT SHALL EITHER PARTY, ITS DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR AFFILIATES BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, SPECIAL, EXEMPLARY OR CONSEQUENTIAL DAMAGES, WHETHER BASED UPON A CLAIM OR ACTION OF CONTRACT, WARRANTY, NEGLIGENCE, STRICT LIABILITY OR OTHER TORT, OR OTHERWISE, ARISING OUT OF THIS AGREEMENT. For clarification, the foregoing sentence shall not be interpreted to limit or to expand the express rights specifically granted in the sections of this Agreement.

14.3 PRODUCT LIABILITY INSURANCE. Any Party developing a Product shall carry product liability insurance of not less than [*]. Such product liability insurance shall be in effect not later than the first administration of a Product in humans. Notwithstanding the foregoing, a Party may self-insure for product liability claims if the Party then has current assets of at least [*].

15. MISCELLANEOUS

15.1 DISPUTE RESOLUTION. In the event of any controversy or claim arising out of, relating to or in connection with any provision of this Agreement, other than a dispute addressed in Sections 3.7 or 15.3, the Parties shall try to settle their differences amicably between themselves first, by referring the disputed matter to an appropriate Vice President (or higher level officer) of each Party and, if not resolved by such officers, by referring the disputed matter to the respective Chief Executive Officers of each Party. Either Party may initiate such informal dispute resolution by sending written notice of the dispute to the other Party, and, within twenty (20) days after such notice, such representatives of the Parties shall meet for attempted resolution by good faith negotiations. If such personnel are unable to resolve such dispute within thirty (30) days of their first meeting of such negotiations, either Party may seek to have such dispute resolved in any United States federal court of competent jurisdiction and appropriate venue. The Parties hereby consent to jurisdiction in the United States federal courts. If, notwithstanding such consent, United States federal courts would not have proper jurisdiction over a dispute, then such dispute may be submitted to any state court in the United States with proper jurisdiction and venue. The Parties agree that, except as provided in Section 15.3, any dispute under this Agreement shall be submitted exclusively to a state or federal court in the United States.

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

15.3 PATENTS AND TRADEMARKS. Any dispute, controversy or claim relating to the scope, validity, enforceability or infringement of any Patent rights covering the manufacture, use or sale of any Product or of any trademark rights related to any Product shall be submitted to a court of competent jurisdiction in the territory in which such Patent or trademark rights were granted or arose.

15.4 ENTIRE AGREEMENT; AMENDMENT. This Agreement sets forth the complete, final and exclusive agreement and all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties hereto and supersedes and terminates all prior agreements and understandings between the Parties. There are no covenants, promises, agreements, warranties, representations, conditions or understandings, either oral or written, between the Parties other than as are set forth herein and therein. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon the Parties unless reduced to writing and signed by an authorized officer of each Party.

15.5 EXPORT CONTROL. This Agreement is made subject to any restrictions concerning the export of products or technical information from the United States or other countries which may be imposed upon or related to EXEL or PDL from time to time. Each Party agrees that it will not export, directly or indirectly, any technical information acquired from the other Party under this Agreement or any products using such technical information to a location or in a manner that at the time of export requires an export license or other governmental approval, without first obtaining the written consent to do so from the appropriate agency or other governmental entity.

15.6 BANKRUPTCY.

(A) All rights and licenses granted under or pursuant to this Agreement, including amendments hereto, by each Party to the other Party are, for all purposes of Section 365(n) of Title 11 of the United States Code ("Title 11"), licenses of rights to intellectual property as defined in Title 11. Each Party agrees during the term of this Agreement to create and maintain current copies or, if not amenable to copying, detailed descriptions or other appropriate embodiments, to the extent feasible, of all such intellectual property. If a case is commenced by or against either Party (the "Bankrupt Party") under Title 11, then, unless and until this Agreement is rejected as provided in Title 11, the Bankrupt Party (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Title 11 Trustee) shall, at the election of the Bankrupt Party made within sixty (60) days after the commencement of the case (or, if no such election is made, immediately upon the request of the non-Bankrupt Party) either (i) perform all of the obligations provided in this Agreement to be performed by the Bankrupt Party including, where applicable and without limitation, providing to the non-Bankrupt Party portions of such intellectual property (including embodiments thereof) held by the Bankrupt Party and such successors and assigns or otherwise available to them or (ii) provide to the non-Bankrupt Party all such intellectual property (including all embodiments thereof) held by the Bankrupt Party and such successors and assigns or otherwise available to them.

(B) If a Title 11 case is commenced by or against the Bankrupt Party and this Agreement is rejected as provided in Title 11 and the non-Bankrupt Party elects to retain its rights hereunder as provided in Title 11, then the Bankrupt Party (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitations, a Title 11 Trustee) shall provide to the non-Bankrupt Party all such intellectual property (including all embodiments thereof) held by the Bankrupt Party and such

successors and assigns or otherwise available to them immediately upon the non-Bankrupt Party's written request therefor. Whenever the Bankrupt Party or any of its successors or assigns provides to the non-Bankrupt Party any of the intellectual property licensed hereunder (or any embodiment thereof) pursuant to this Section 15.6, the non-Bankrupt Party shall have the right to perform the obligations of the Bankrupt Party hereunder with respect to such intellectual property, but neither such provision nor such performance by the non-Bankrupt Party shall release the Bankrupt Party from any such obligation or liability for failing to perform it.

(C) All rights, powers and remedies of the non-Bankrupt Party provided herein are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, Title 11) in the event of the commencement of a Title 11 case by or against the Bankrupt Party. The non-Bankrupt Party, in addition to the rights, power and remedies expressly provided herein, shall be entitled to exercise all other such rights and powers and resort to all other such remedies as may now or hereafter exist at law or in equity (including, without limitation, under Title 11) in such event. The Parties agree that they intend the foregoing non-Bankrupt Party rights to extend to the maximum extent permitted by law and any provisions of applicable contracts with Third Parties, including without limitation for purposes of Title 11, (i) the right of access to any intellectual property (including all embodiments thereof) of the Bankrupt Party or any Third Party with whom the Bankrupt Party contracts to perform an obligation of the Bankrupt Party under this Agreement, and, in the case of the Third Party, which is necessary for the development, registration and manufacture of Products, and (ii) the right to contract directly with any Third Party described in Section 15.6(c)(i) to complete the contracted work. Any intellectual property provided pursuant to the provisions of this Section 15.6 shall be subject to the licenses set forth in this Agreement and the payment obligations of this Agreement, which shall be deemed to be royalties for purposes of Title 11.

15.7 FORCE MAJEURE. Both Parties shall be excused from the performance of their obligations under this Agreement to the extent that such performance is prevented by force majeure and the nonperforming Party promptly provides notice of the prevention to the other Party. Such excuse shall be continued so long as the condition constituting force majeure continues and the nonperforming Party takes reasonable efforts to remove the condition. For purposes of this Agreement, force majeure shall include conditions beyond the control of the Parties, including without limitation, an act of God, voluntary or involuntary compliance with any regulation, law or order of any government, war, civil commotion, labor strike or lock-out, epidemic, failure or default of public utilities or common carriers, destruction of production facilities or materials by fire, earthquake, storm or like catastrophe; provided, however, the payment of invoices due and owing hereunder shall not be delayed by the payer because of a force majeure affecting the payer.

15.8 NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing, shall specifically refer to this Agreement and shall be deemed to have been sufficiently given for all purposes if sent by express delivery service or personally delivered, or by facsimile or electronic mail and confirmed by first class mail. Unless otherwise specified in writing, the mailing addresses of the Parties shall be as described below.

For EXEL:
Exelixis, Inc.
170 Harbor Way
P.O. Box 511
South San Francisco, CA 94083-0511
Attention: Chief Executive Officer

With a copy to:
Cooley Godward LLP
Five Palo Alto Square
3000 El Camino Real
Palo Alto, CA 94306-2155
Attention: Robert L. Jones, Esq.

For PDL:
Protein Design Labs, Inc.
34801 Campus Drive
Fremont, CA 94555-3606
Attention: Chief Executive Officer

With a copy to:
Protein Design Labs, Inc.
34801 Campus Drive
Fremont, CA 94555-3606
Attention: General Counsel

15.9 CONSENTS NOT UNREASONABLY WITHHELD OR DELAYED. Whenever provision is made in this Agreement for either Party to secure the consent or approval of the other, that consent or approval shall not unreasonably be withheld or delayed, and whenever in this Agreement provisions are made for one Party to object to or disapprove a matter, such objection or disapproval shall not unreasonably be exercised.

15.10 UNITED STATES DOLLARS. References in this Agreement to "Dollars" or "$" shall mean the legal tender of the United States.

15.11 NO STRICT CONSTRUCTION. This Agreement has been prepared jointly and shall not be strictly construed against either Party.

15.12 ASSIGNMENT. Neither Party may assign or transfer this Agreement or any rights or obligations hereunder without the prior written consent of the other, except a Party may make such an assignment without the other Party's consent to an Affiliate or to a successor to substantially all of the business of such Party, whether in a merger, sale of stock, sale of assets or other transaction. Any permitted successor or assignee of rights and/or obligations hereunder shall, in writing to the other Party, expressly assume performance of such rights and/or obligations. Any permitted assignment shall be binding on the successors of the assigning Party. Any assignment or attempted assignment by either Party in violation of the terms of this Section 15.12 shall be null and void and of no legal effect.

15.13 ELECTRONIC DATA INTERCHANGE. If both Parties elect to facilitate business activities hereunder by electronically sending and receiving data in agreed formats (also referred to as Electronic Data Interchange or "EDI") in substitution for conventional paper-based documents, the terms and conditions of this Agreement shall apply to such EDI activities.

15.14 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

15.15 FURTHER ACTIONS. Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

15.16 SEVERABILITY. If any one or more of the provisions of this Agreement is held to be invalid or unenforceable by any court of competent jurisdiction from which no appeal can be or is taken, the provision shall be considered severed from this Agreement and shall not serve to invalidate any remaining provisions hereof. The Parties shall make a good faith effort to replace any invalid or unenforceable provision with a valid and enforceable one such that the objectives contemplated by the Parties when entering this Agreement may be realized.

15.17 AMBIGUITIES. Ambiguities, if any, in this Agreement shall not be construed against any Party, irrespective of which Party may be deemed to have authored the ambiguous provision.

15.18 HEADINGS. The headings for each article and section in this Agreement have been inserted for convenience of reference only and are not intended to limit or expand on the meaning of the language contained in the particular article or section.

15.19 NO WAIVER. Any delay in enforcing a Party's rights under this Agreement or any waiver as to a particular default or other matter shall not constitute a waiver of such Party's rights to the future enforcement of its rights under this Agreement, excepting only as to an express written and signed waiver as to a particular matter for a particular period of time.

IN WITNESS WHEREOF, the Parties have executed this Agreement in duplicate originals by their proper officers as of the date and year first above written.

PROTEIN DESIGN LABS, INC.	EXELIXIS, INC.
By: /s/ Laurence Jay Korn	By: /s/ George Scangos
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Laurence Jay Korn	George A. Scangos
Chairperson and Chief Executive Officer	Chief Executive Officer

[*] = 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.

LIST OF EXHIBITS

Exhibit A	-	Research Plan
Exhibit B	-	Product Profit Calculation
Exhibit C	-	Form of Press Release
Exhibit D-1	-	EXEL Background Patents
Exhibit D-2	-	PDL Background Patents

D-2.

A-1.

EXHIBIT A
RESEARCH PLAN
[*]

EXHIBIT A1

Entrypoints for Genetic Screens - Proposed or Initiated in Oncology Program

[*]

EXHIBIT B

PRODUCT PROFIT CALCULATION

[*]

EXHIBIT C

For Immediate Release

Contacts: Robert L. Kirkman, M.D.
Vice President, Business Development
and Corporate Communications
Protein Design Labs, Inc.
(510) 574-1419, rkirkman@pdl.com

Glen Y. Sato
Chief Financial Officer
Exelixis, Inc.
(650) 837-7565
gsato@exelixis.com

PROTEIN DESIGN LABS AND EXELIXIS ANNOUNCE ONCOLOGY ANTIBODY DRUG DISCOVERY COLLABORATION

FREMONT and SOUTH SAN FRANCISCO, CA - May 22, 2001 - Protein Design Labs, Inc. (Nasdaq: PDLI) (PDL) and Exelixis, Inc. (Nasdaq: EXEL) (Exelixis) announced today a collaboration to discover and develop humanized antibodies for the diagnosis, prevention and treatment of cancer. The collaboration will utilize Exelixis' model organism genetics technology for the identification of new cancer drug targets, and PDL's antibody and clinical development expertise to create and develop new antibody drug candidates. PDL will provide Exelixis with $4.0 million in annual research funding for two or more years, and has purchased a $30.0 million note convertible after the first year of the collaboration into shares of Exelixis common stock.

George A. Scangos, Ph.D., President and Chief Executive Officer of Exelixis, said, "We're pleased to be working with PDL, a leader in the development of humanized antibodies, and are already in a position to deliver our first targets under this collaboration. PDL is committed to a high-quality pipeline of anti-cancer antibody products, and I am pleased that PDL has recognized the value in our oncology target portfolio. The direct cash value to Exelixis is substantial, and there is considerably more value in the co-development rights that Exelixis has in this program, and in the resources that PDL will bring to the collaboration. This relationship is consistent with Exelixis' strategy of moving towards the market and capturing increasing value from the results of our research, and is a strong complement to our internal efforts directed towards finding small molecule therapeutics for cancer."

Laurence Jay Korn, Ph.D., Chief Executive Officer and Chairperson of Protein Design Labs, said, "PDL has seven antibodies in clinical development, including Zamyl (anti-CD33) and Remitogen (anti-HLA-DR) for potential cancer indications, and Nuvion (anti-CD3) for the treatment of graft versus host disease. This collaboration provides PDL with an opportunity to expand our pipeline of oncology drugs with new antibodies that specifically block the initiation or progression of cancer, using the model organism genetic approach of Exelixis to identify novel targets. The Exelixis technology is designed to provide information about the function of a target at an early stage, which mav be quite valuable, as we believe antibodies for cancer are likely to work best when they interfere with a function necessary for cell growth or proliferation, or when they induce apoptosis."

Under the terms of the collaborative agreement, PDL will receive an exclusive, worldwide license to develop antibodies against certain targets identified by Exelixis that are involved in cell growth, apoptosis (cell death) and proliferation. This approach may provide potential targets for developing novel humanized antibodies for the treatment of cancer using PDL's proprietary SMART antibody technology. Exelixis will have the right to co-fund and co-develop antibodies resulting from the collaboration. For antibody products developed by PDL that Exelixis elects not to co-develop, Exelixis will be entitled to specified milestone payments and royalty payments on any product sales.

Protein Design Labs, Inc. is a leader in the development of humanized antibodies to prevent or treat various disease conditions. PDL currently has antibodies under development for autoimmune and inflammatory conditions, asthma and cancer. PDL holds fundamental patents in the U.S., Europe and Japan for its antibody humanization technology. Further information is available at www.pdl.com.

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

This press release contains certain forward-looking statements that involve risks and uncertainties that may affect our business, as more fully discussed in the "Risk Factors" section of our filings with the U.S. Securities and Exchange Commission. These risks and uncertainties include, but are not limited to, our

ability successfully to collaborate and identify novel targets and develop potential products from the collaboration. Exelixis and PDL direct the reader to our respective SEC filings, including our respective Annual Reports on Form 10-K for the year ended December 31, 2000. The information in this press release is current as of its release date. Neither party assumes responsibility to update the information.

EXHIBIT D-1
THIRD PARTY TECHNOLOGY
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EXHIBIT D-2
PDL EXCLUDED PATENTS

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