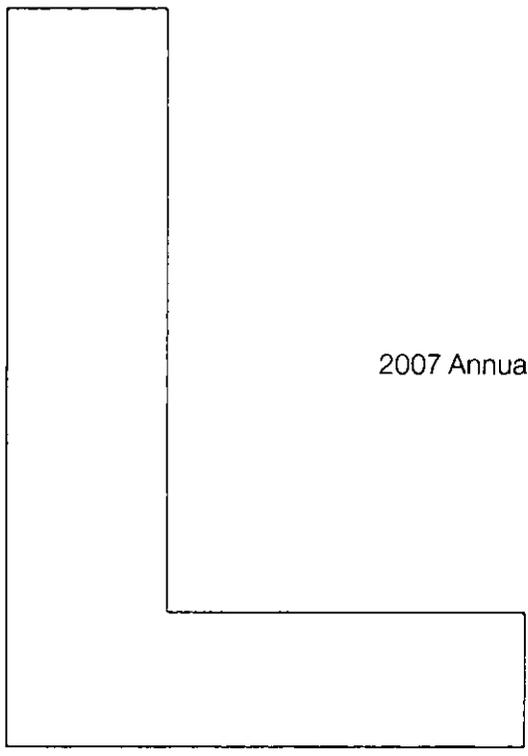
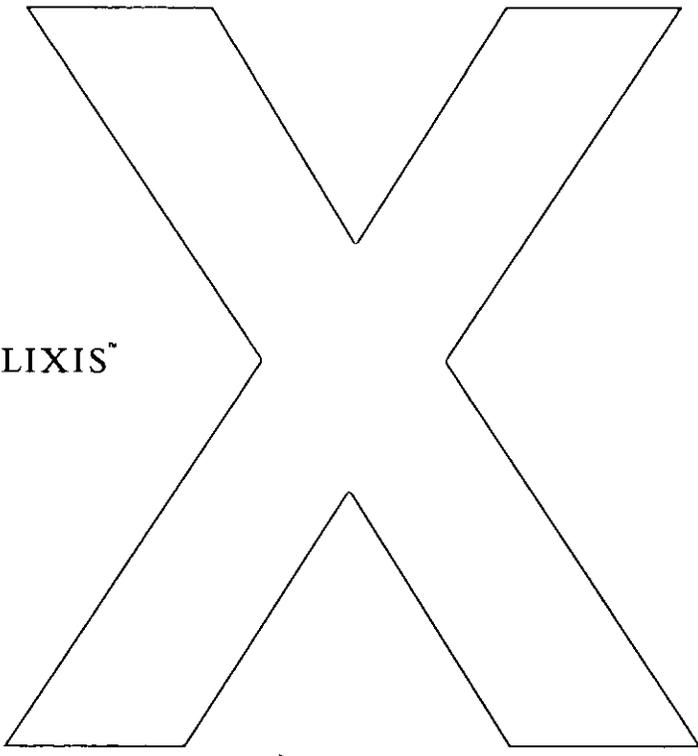




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XL647

POTENTIAL INDICATIONS
NON-SMALL CELL LUNG CANCER
BREAST CANCER
HEAD & NECK CANCER
GLIOBLASTOMA
TARGETS EGFR, HER2 & VEGFR

XL184

POTENTIAL INDICATIONS
MEDULLARY THYROID CANCER
NON-SMALL CELL LUNG CANCER
GLIOBLASTOMA
TARGETS MET, RET & VEGFR

XL147

STUDIES
ADVANCED SOLID TUMORS
TARGETS PI3K

XL765

STUDIES
ADVANCED SOLID TUMORS
TARGETS PI3K & mTOR

XL880

POTENTIAL INDICATIONS

PAPILLARY RENAL CELL CARCINOMA
GASTRIC CANCER
HEAD & NECK CANCER
TARGETS MET & VEGFR

MYELOPROLIFERATIVE DISORDERS

CANCER
INFLAMMATION

XL281

STUDIES

ADVANCED SOLID TUMORS
TARGETS B-RAF & C-RAF, KEY COMPONENTS OF
THE RAS/RAF/MEK/ERK PATHWAY

XL518

STUDIES

ADVANCED SOLID TUMORS
TARGETS MEK, A KEY COMPONENT OF
THE RAS/RAF/MEK/ERK PATHWAY

MATURING PIPELINE

**XL647, XL184 AND XL880
HAVE GENERATED
ENCOURAGING DATA IN
NON-SMALL CELL LUNG
CANCER, THYROID
CANCER AND RENAL
CANCER, RESPECTIVELY**

**ADDITIONAL TRIALS
ARE PLANNED FOR EACH
OF THESE COMPOUNDS
TO EXPLORE ITS
POTENTIAL IN ADDITIONAL
INDICATIONS**

**PIVOTAL TRIALS, DESIGNED
TO GENERATE DATA IN
SUPPORT OF POTENTIAL
FDA APPROVAL, ARE
PLANNED TO BEGIN THIS
YEAR FOR XL647 AND XL184**



**NON-SMALL CELL LUNG
CANCER IS THE LEADING
CAUSE OF CANCER
DEATH IN WOMEN.**

Our later stage compounds are an example of our integrated development strategy. Each of these compounds has demonstrated activity in patients with specific types of tumors, and we are excited about the potential of each of these compounds.

XL647 is designed specifically to inhibit three validated cancer targets simultaneously (EGFR, HER2, and VEGFR). The compound had encouraging results in patients with non-small cell lung cancer (NSCLC) and is currently being studied in two phase 2 trials in this indication. Additional phase 2 trials in breast cancer, glioblastoma, and head and neck cancer are planned, and we are planning to initiate a pivotal trial in NSCLC later this year.

XL184 inhibits RET, MET and VEGFR. All three of these targets may play a role in thyroid cancer, and to date all evaluable patients with medullary thyroid cancer who have been treated with XL184 have had either stable disease or a partial response as their best response. In addition, decreases in the tumor markers calcitonin and carcinoembryonic antigen were seen in all patients. These are exciting observations, and we plan to initiate a pivotal trial in this indication later this year. Additionally, the compound has substantial potential in lung cancer and other indications, and we have initiated a phase 2 trial of XL184 in patients with NSCLC.

XL880 inhibits MET and VEGFR. It was selected by GSK as part of our collaboration in 2007 and is being moved through clinical development by GSK, although Exelixis retains substantial economic interest in the compound. XL880 demonstrated encouraging data in patients with papillary renal cell cancer and is currently in phase 2 trials for that indication as well as for gastric cancer. We are excited about the potential of this compound and will work with our colleagues at GSK to facilitate its rapid development.

ADVANCING XL COMPOUNDS

**THE RAPID ADVANCEMENT
OF OUR CLINICAL
PIPELINE MOVES
US CLOSER TO OUR GOAL
OF DEVELOPING
FIRST-IN-CLASS AND
BEST-IN-CLASS THERAPIES**



Throughout 2007 we made substantial progress in advancing our clinical pipeline. Numerous trial results make it clear that we have built a successful drug development infrastructure. As we move through 2008, we intend to make additional strides toward our goal of becoming a leading drug development organization. In addition to our near-term pivotal trial opportunities, we also continue to advance the rest of our pipeline, which comprises compounds that target key drivers of cancer development, progression and resistance.

XL019 is an inhibitor of JAK2, a target that plays a pivotal role in the biology of myeloproliferative disorders. This compound showed evidence of clinical activity with either stabilization or shrinkage of spleen size in several of the myelofibrosis patients treated in a phase 1 clinical trial. We currently are optimizing the dosing regimen to achieve activity and tolerability profiles that could potentially position XL019 as a leading selective JAK2 inhibitor. If we complete this optimization during 2008, we intend to initiate a pivotal trial of XL019 in myelofibrosis by year's end. XL019 is currently not part of any collaboration and is entirely owned by Exelixis.

There are several other phase 1 compounds in our pipeline that we believe have potential to

provide substantial benefit to large numbers of cancer patients. Two of these compounds, **XL147** and **XL765**, principally target the phosphoinositide-3-kinase (PI3K) pathway. Two additional compounds, **XL281** and **XL518**, each target distinct components of the RAS/RAF/MEK/ERK pathway. These two pathways are inappropriately activated in the majority of solid tumors, and we are optimistic that our compounds will be substantial additions to the arsenal that we are bringing to the table to combat cancer. In March 2008, Genentech exercised its option to further develop and commercialize XL518. Exelixis retains a significant economic interest in the success of this compound.

In addition, we brought **XL139**, a small molecule inhibitor of the hedgehog signaling pathway into development. Hedgehog signaling is deregulated in a variety of cancers and the pathway is a promising target for novel cancer therapies. In January 2008, Bristol-Myers Squibb (BMS) exercised its option to co-develop XL139 and Exelixis exercised its option to co-develop and co-commercialize XL139 in the United States. Following potential commercialization, the companies will equally share profits in the United States and Exelixis will be entitled to receive double-digit royalties on product sales in the rest of the world.

The clinical pipeline also includes **XL228** which targets IGF1R, SRC and BCR-ABL, **XL820** which targets KIT, PDGFR and VEGFR, and **XL844** which targets the CHK1 and CHK2 kinases. These compounds may play important roles in chronic myelogenous leukemia, gastrointestinal stromal tumors and resistance to DNA damaging therapies, respectively.

By the end of 2008, we expect that several of our compounds will potentially enter pivotal trials, including XL647, XL184 and XL019. In addition, several of the compounds in phase 1 clinical trials, including XL147, XL765 and XL281, are likely to generate encouraging data and move into phase 2 clinical trials. Furthermore, we expect that XL820 will have progressed in phase 2 evaluation and XL844 and XL228 will have progressed in phase 1 evaluation. Also, XL880, XL139 and XL518 now have the resources of GlaxoSmithKline, BMS and Genentech, respectively, to take them forward in development. Consistent with our performance over the past several years, we expect to file at least three new investigational new drug applications in 2008, further enhancing the depth and breadth of our industry-leading clinical pipeline.

PIPELINE

COMPOUND/TARGET PROFILE	CURRENT TRIALS	ANTICIPATED 2008/2009 ADDITIONAL TRIALS
INHIBITOR OF EGFR, HER2 & VEGFR XL647¹	PHASE 2 <ul style="list-style-type: none"> • Non-small cell lung cancer: first-line • Non-small cell lung cancer: progressed after EGFRi 	PHASE 2 <ul style="list-style-type: none"> • Breast cancer PIVOTAL TRIALS <ul style="list-style-type: none"> • Non-small cell lung cancer
INHIBITOR OF RET, MET & VEGFR XL184²	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors PHASE 1/2 <ul style="list-style-type: none"> • Non-small cell lung cancer 	PHASE 2 <ul style="list-style-type: none"> • Glioblastoma PIVOTAL TRIAL <ul style="list-style-type: none"> • Medullary thyroid cancer
INHIBITOR OF MET & VEGFR XL880³	PHASE 2 <ul style="list-style-type: none"> • Papillary renal cell carcinoma • Gastric cancer • Head and neck cancer 	
INHIBITOR OF JAK2 XL019	PHASE 1 <ul style="list-style-type: none"> • Myeloproliferative disorders 	PHASE 1 <ul style="list-style-type: none"> • Polycythemia vera PIVOTAL TRIAL <ul style="list-style-type: none"> • Myelofibrosis
INHIBITOR OF THE PI3K PATHWAY XL147	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors 	PHASE 2 <ul style="list-style-type: none"> • Single agent PHASE 1B/2 <ul style="list-style-type: none"> • Combined with chemotherapy • Combined with other targeted agents
INHIBITOR OF PI3K & mTOR XL765	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors 	PHASE 2 <ul style="list-style-type: none"> • Single agent PHASE 1B/2 <ul style="list-style-type: none"> • Combined with chemotherapy • Combined with other targeted agents
INHIBITOR OF B-RAF & C-RAF, KEY COMPONENTS OF THE RAS/RAF/MEK/ERK PATHWAY XL281²	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors 	PHASE 2 <ul style="list-style-type: none"> • Solid tumors
INHIBITOR OF MEK, A KEY COMPONENT OF THE RAS/RAF/MEK/ERK PATHWAY XL518⁴	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors 	
INHIBITOR OF KIT, VEGFR & PDGFR XL820²	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors PHASE 2 <ul style="list-style-type: none"> • Gastrointestinal stromal tumors 	
INHIBITOR OF IGF1R, SRC & BCR-ABL XL228²	PHASE 1 <ul style="list-style-type: none"> • Chronic myelogenous leukemia • Advanced malignancies 	
INHIBITOR OF CHK1 & CHK2 XL844²	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors in combination with gemcitabine 	
INHIBITOR OF THE HEDGEHOG PATHWAY XL139⁵	IND ENABLED	PHASE 1 <ul style="list-style-type: none"> • Advanced solid tumors

THE BREADTH OF TARGETING A BROAD SPECTRUM OF CRITICAL CANCER-RELATED PATHWAYS.

THE DEPTH TO SELECT ONLY THOSE COMPOUNDS WITH FIRST- OR BEST-IN-CLASS POTENTIAL.

THE BALANCE TO MANAGE RISK AND REAP THE REWARDS OF OUR EFFORTS.

THE XL COMPOUNDS: WORKING TO BUILD THE BIGGEST NAME IN CANCER THERAPY.

PHASE 2

XL647¹ targets EGFR, HER2 and VEGFR, which are validated targets in the treatment of diverse solid tumors, including non-small cell lung cancer, breast cancer, head and neck cancer and glioblastoma.

XL184² targets RET, which is implicated in several thyroid cancers, MET, which contributes to resistance to EGFR inhibitors in NSCLC, and VEGFR.

XL880³ targets MET and VEGFR. It is the first MET inhibitor to demonstrate proof-of-concept in a phase 2 trial.

XL820² targets KIT, VEGFR and PDGFR. KIT is mutationally activated in gastrointestinal stromal tumors and in some subtypes of melanoma. VEGFR promotes angiogenesis and PDGFR helps to stabilize new blood vessels. PDGFR also contributes to cancer cell proliferation.

PHASE 1

XL019 specifically targets JAK2 without inhibiting other JAK family members. Activating mutations in JAK2 occur frequently in a variety of myeloproliferative disorders.

XL147 targets PI3K. Activation of PI3K is a frequent event in human tumors, promoting cell growth, survival and resistance to chemotherapy and radiotherapy.

XL765 targets PI3K and mTOR. mTOR is a kinase that constitutes an important signaling node downstream of PI3K. mTOR is frequently activated in human tumors and plays a central role in promoting tumor cell growth.

XL281² targets B-RAF and C-RAF, key components of the RAS/RAF/MEK/ERK kinase signaling pathway. Mutations leading to activation of B-RAF occur in many human cancers, including melanoma, colon cancer and thyroid cancer.

XL518⁴ targets MEK, a component of the RAS/RAF/MEK/ERK kinase signaling pathway. Activating mutations in this pathway occur in many human tumors.

XL228² targets IGF1R, SRC and BCR-ABL (including the T315I mutant form), which drive cell proliferation. The T315I mutant form of BCR-ABL is resistant to approved BCR-ABL inhibitors.

XL844² targets the CHK1 and CHK2 kinases, which may reduce the efficacy of cancer therapies that work via DNA damage. XL844 may improve the efficacy of such therapies.

IND ENABLED

XL139⁵ targets the hedgehog signaling pathway. The pathway is deregulated in basal cell carcinoma, medulloblastoma, glioblastoma, multiple myeloma, pancreatic carcinoma and a variety of other cancers, and may play a key role in the proliferation and drug resistance of cancer stem cells.

¹ Out-licensed to Symphony Evolution Inc. and is subject to a repurchase option.

² Pursuant to a product development and commercialization agreement between Exelixis and GlaxoSmithKline (GSK), GSK has the option to elect and further develop and commercialize up to two additional compounds in our pipeline, which may include XL184, XL281, XL820, XL228 and XL844.

³ GSK has licensed exclusive rights to further develop and commercialize XL880.

⁴ Genentech has exercised its option under the agreement to further develop and commercialize XL518. Exelixis is responsible for the phase 1 clinical trial until the point that a maximum tolerated dose (MTD) is determined. After MTD is achieved, Genentech will be responsible for completing the phase 1 clinical trial and subsequent clinical development. Exelixis has the option to co-promote in the United States and is entitled to receive an initial equal share in profits in the United States, which will decrease as sales increase. The Company will receive royalties on any sales of the product that may be commercialized outside the United States.

⁵ XL139 is exclusively licensed to Bristol-Myers Squibb (BMS) and BMS has primary responsibility for the further development and commercialization of the compound. We exercised our option under our collaboration agreement with BMS to co-develop and co-commercialize XL139 in the United States. As a result, we will be responsible for 35% of all development costs related to clinical trials intended to support regulatory approval in both the United States and the rest of the world, with the remaining 65% to be paid by BMS. We will be entitled to receive double-digit royalties on product sales outside of the United States.

KNOWLEDGE

**OUR UNDERSTANDING OF
CANCER BIOLOGY IS
THE FOUNDATION FOR
OUR INNOVATIVE
APPROACHES
TO INHIBITING
CLINICALLY RELEVANT
PATHWAYS THAT DRIVE
CANCER CELL GROWTH,
PROLIFERATION, SURVIVAL
AND RESISTANCE**



At Exelixis, we believe that the basis for generating important new drugs is scientific rigor and excellence. The cutting edge technologies we use are tools, not ends in themselves. It is the thoughtful application of these powerful new technologies to answer questions about the molecular basis of disease that is central to our success. Our understanding of the biology of cancer has increased tremendously in recent years, and the increased understanding already is leading to better therapies for many patients. However, most types of cancer remain intractable, and many questions remain to be answered.

At its core, research is the exploration for knowledge and understanding – knowledge that describes how a compound binds to its target, understanding the role that specific targets play in disease, knowledge of which tumors and which patients are likely to benefit from a given approach. We look beyond the manifestation of illness to see its molecular basis, matching the

inhibition profiles of specific diseases in our compounds to the biology of defined patient populations. We recognize that our ability to treat disease is enhanced by elucidating the pathways and signals that regulate fundamental cellular processes.

We seek to integrate the advances made around the world with the particular insights made at Exelixis. We listen to physicians who are intimately familiar with the strengths and weaknesses of today's cancer therapies, to patients who need new treatment options and to the regulators and competitors who help shape the commercial landscape.

Knowledge – of biology, medical need, the market and the challenges of drug development – drives our clinical strategies, our approach to pipeline management and our partnership negotiations. But perhaps the most important thing we know is that our true worth will be measured in the lives we help to preserve and extend.

CREATING VALUE

**OUR CLINICAL PIPELINE,
R&D ENGINE AND QUALITY
PARTNERSHIPS ARE
TODAY'S FOUNDATION
FOR TOMORROW'S
SUCCESS**



We have amassed a portfolio of diverse assets with an eye on enhancing our near-term value while building a world-class commercial oncology franchise for the future.

Our primary asset is our broad and deep clinical pipeline. Each of the compounds in our pipeline has potential as a first-in-class or best-in-class therapy for patients with a variety of cancers. Today there are 13 compounds discovered by Exelixis in clinical development. Most of the compounds in our pipeline are being taken forward by us, and some are being moved through the clinic by partners such as GlaxoSmithKline (GSK), Bristol-Myers Squibb (BMS) and Genentech. Collectively, these compounds comprise a safeguard against the attrition and competition that is inevitable in our industry.

Underpinning our pipeline is our robust drug discovery engine. Combining our library of over four million compounds with state-of-the-art

screening capabilities and exhaustive compound characterization, we continuously generate a pool of high-quality leads. This pool is sufficiently large that, even after applying stringent selection criteria for a wide variety of characteristics including safety, potency and specificity, we have been able to file at least three high-quality investigational new drug applications each year.

Finally, our strategy is to leverage the strength of our extensive data and the broad potential of our compounds to establish quality partnerships that generate near-term revenue, and focus external resources on advancing additional compounds through development, while retaining long-term rights to those compounds that succeed. XL880, XL139 and XL518 now have the resources of GSK, BMS and Genentech, respectively, behind them. In addition, potential cardiovascular and metabolic disease therapies are advancing with Wyeth, Daiichi-Sankyo and BMS.

TO OUR
STOCKHOLDERS

**IN 2007, WE ACHIEVED
NOTABLE CLINICAL
SUCCESS, ADVANCED
OUR COMPOUNDS
RAPIDLY THROUGH
DEVELOPMENT, AND
CAREFULLY MANAGED
OUR FINANCES**

**WE ARE POSITIONED
WELL FOR CONTINUED
SUCCESS IN 2008**



Left to right: Frank L. Karbe Executive Vice President and Chief Financial Officer Pamela A. Simonton, JD, LLM Executive Vice President and General Counsel Lupe M. Rivera, SPHR, CCP Senior Vice President, Operations George A. Scangos, PhD President and Chief Executive Officer Gisela M. Schwab, MD Executive Vice President and Chief Medical Officer Michael M. Morrissey, PhD President of Research and Development Peter Lamb, PhD Senior Vice President, Discovery Research and Chief Science Officer

Our vision is to build a world-class biotechnology company. We believe that we can do so by insisting on excellence, focus, execution, and efficiency in everything that we do. Our strategy has been different from most biotechnology companies. From early on in our history, we have worked towards building one of the top oncology pipelines in the biotechnology and pharmaceutical industries. I believe that we have accomplished that goal. Presently there are 13 compounds discovered by Exelixis that are in clinical development. We are leading clinical development for the majority of these compounds, while others are being moved through the clinic by partners such as GlaxoSmithKline (GSK), Bristol-Myers Squibb Company (BMS), Wyeth, and Genentech. Furthermore, this pipeline is dynamic. Each year we bring several additional compounds into clinical development, and we constantly evaluate our data to ensure that we put our resources behind only those compounds that have real potential to be first-in-class or best-in-class

compounds – compounds that not only can gain approval, but also provide meaningful improvements in therapy for patients.

At Exelixis, we strive to maximize success, not to minimize failure. Our goal is to work efficiently, make data-driven decisions rapidly, and quickly advance promising compounds. The robust pipeline of high-quality compounds that has arisen from this approach gives us realistic opportunities to achieve substantial medical and commercial success, and the encouraging data generated by many of our compounds gives us confidence that we are well on the road to achieving that objective. Clearly, not all of our compounds will reach the market. Despite the increasing understanding of cancer biology and the increasing sophistication of our predictive models, the behavior of drugs in humans is still subject to many factors that are not yet completely understood. The process of drug development is one of gradually removing the risks imposed by these unknown factors in a series of clinical trials. One of our objectives is to reach critical success milestones early in development, and by using the latest approaches to translational

medicine, I believe that we have been able to do so. In this way we are able to rapidly identify high priority compounds that merit aggressive development and focus the majority of our resources on those compounds.

I believe that several of our compounds have successfully achieved these early milestones, including XL647, XL184, XL880, XL765, XL147, XL281, and XL518. Each of these compounds has generated encouraging clinical data and merits further development. Additionally, there are several other compounds, including XL019, XL844, XL820, and XL228, that are moving through clinical development on the way towards those milestones. This is a very compelling pipeline that gives me confidence that Exelixis will, in fact, be a substantial contributor to the treatment of many types of cancer.

Next I'll discuss highlights for some of our leading compounds, but a more complete description of the pipeline can be found on our web site and by listening to one of our many public presentations.

XL647: This compound inhibits EGFR, HER2, and VEGFR. Interim data from a phase 2 trial in a selected population of first-line non-small cell lung cancer (NSCLC) patients were very encouraging. Data from two additional phase 2 trials will be presented at the 2008 American Society of Clinical Oncology (ASCO) Annual Meeting in June. We are currently planning a program of pivotal studies designed to generate data in support of registration for this compound. We plan to begin at least one pivotal trial in NSCLC in 2008.

XL184: XL184 inhibits RET, MET, and VEGFR, a unique inhibition profile that has the potential to position the compound as a first-in-class therapy for a variety of cancers.

In October 2007, we presented encouraging interim data from an ongoing phase 1 trial of XL184. The results were especially compelling in seven patients with metastatic medullary thyroid cancer (MTC) for whom data were available at the time of the presentation. Six of the seven patients had measurable disease, and all exhibited tumor shrinkage. All seven patients experienced a rapid decrease in plasma biomarkers of MTC. These results are remarkable in this population of MTC patients, whose disease is difficult to manage and who have failed multiple prior therapies. Updated data will be presented in June at the ASCO Annual Meeting, and we intend to initiate a pivotal trial in MTC in the second half of 2008. Our strategy is to leverage the positive findings in MTC to establish a rapid and cost-effective path to market, while aggressively advancing development of the compound in larger indications. Toward this end, in January 2008 we initiated a phase 1/2 trial of XL184 in patients with NSCLC who have had progressive disease while on an erlotinib-containing regimen.

XL880: This compound, which targets MET and VEGFR, generated an excellent data set in a phase 2 trial in patients with papillary renal cell cancer (PRC). Additional data from this trial as well as from a phase 2 trial in patients with gastric

cancer will be presented in June at the 2008 ASCO Annual Meeting. In addition to those two tumor types, we believe that the compound has substantial potential in some of the major tumors, including NSCLC. Based on the data and the potential of the compound, GSK exercised its option to further develop and commercialize XL880 in December 2007.

XL019: XL019 inhibits JAK2, a kinase inappropriately activated in the majority of patients with myeloproliferative disorders (MPDs) and deregulated in a number of solid tumors, as well as certain subtypes of lymphoma. We believe that XL019 is the only investigational compound designed to inhibit JAK2 selectively, without impacting normal signaling through the three other members of the JAK family. This inhibition profile is expected to provide clinical benefit in MPDs without inducing immune suppression and thrombocytopenia (low platelet counts), a serious and potentially treatment-limiting side effect associated with non-selective JAK inhibitors.

In December 2007, we presented preliminary data from an ongoing phase 1 trial of XL019 in patients with myelofibrosis. Investigators observed evidence of XL019 clinical activity in several patients available for evaluation. To date, we have observed reduction or stabilization of spleen size, a reduction in the number of cells with activating JAK2 mutations and pharmacodynamic evidence of on-target activity. Importantly, we have not seen any myelosuppression or thrombocytopenia, which have been observed in trials of other, non-selective JAK inhibitors. We believe this is a critical differentiating factor for XL019, as MPD is a chronic disease that requires treatment over a prolonged period of time.

We also have observed symptoms consistent with neuropathy at all doses tested to date, and the onset and severity of neuropathy appeared to be dose related. Because even the lowest administered dose of XL019 appeared to have beneficial activity in the disease, we believe that lower doses and/or alternative dosing schedules may retain activity while reducing or eliminating the neuropathies we have seen. Currently, we are working to identify a dose and schedule that will support efficacy and

safety profiles that could position XL019 as a leading selective JAK2 inhibitor. Once the optimization is completed, we intend to initiate a pivotal trial in myelofibrosis and further studies in polycythemia vera and other indications. We believe this goal can be accomplished by the end of 2008.

XL147, XL765: XL147 and XL765 target the phosphoinositide-3-kinase (PI3K) pathway at different points. They are the leading PI3K inhibitors – last year we presented the first data from humans demonstrating inhibition of the pathway. Inappropriate activation of this pathway clearly plays a significant role in the proliferation of many types of tumors, and in the ability of those tumors to overcome chemotherapy. We are moving these compounds aggressively forward and are having partnering discussions with pharmaceutical companies who have the resources to develop these compounds in multiple indications simultaneously.

XL281, XL518: XL281 and XL518 each target distinct components of the RAS/RAF/MEK/ERK pathway and have potential advantages over competitor's compounds in terms of potency and tolerability. We are excited about the phase 1 data and are aggressively moving these compounds forward.

Managing Our Pipeline for Success In 2007 we filed investigational new drug (IND) applications for four new compounds and initiated five new clinical development programs. As a result of our industry-leading productivity, as we enter 2008, there are 13 compounds discovered by Exelixis in clinical development, and we expect to file at least three new INDs this year.

Our R&D productivity is meaningful only if we have a strategy for managing our pipeline over the long-term. Partnerships are an essential pillar of both our development and financing strategies. Over the course of 2007, we made great progress in our existing partnerships while also establishing additional high-value collaborations. We submitted due diligence packages for XL647, XL880, and XL784 to GSK. We retained

rights to XL647, licensed XL880 rights to GSK, and are evaluating potential third-party partnering opportunities for XL784. We earned a \$35.0 million selection milestone from GSK for XL880 which offset a milestone GSK paid to us in 2005, and we are entitled to receive milestone payments and royalties on any sales of XL880. Under our product and commercialization agreement, GSK may select up to two more compounds from XL820, XL184, XL844, XL281, and XL228.

In January 2007, we announced a co-development agreement with Genentech for XL518, a potential cancer therapy, receiving \$40.0 million upon signing the agreement. In March 2008, Genentech exercised its option to further develop XL518. We received an additional payment of \$3.0 million, and are entitled to receive \$7.0 million more when Genentech commences a phase 2 clinical trial with this compound. After completion of the phase 1 clinical trial, Genentech will be responsible for further development of the compound. We have the option to co-promote in the United States and we are entitled to receive royalties on any sales outside the United States.

Our multiple metabolic disease collaborations are enabling us to advance and derive value from additional compounds. In 2007, we extended our collaboration with BMS for compounds targeting the liver X receptor, receiving an additional \$7.5 million in research funding. We also received a \$5.0 million milestone payment from BMS upon the acceptance of an IND, or its foreign equivalent.

Already in 2008, BMS has exercised its option under our oncology collaboration to develop and commercialize XL139, generating a \$20.0 million selection milestone payment to Exelixis. We have exercised our right to co-develop and co-commercialize the compound in the United States, enabling us to retain significant value in the program over the long-term.

In keeping with our commitment to developing first-in-class or best-in-class therapies, we discontinued development of XL418 and XL999, which did not appear to satisfy these criteria. We also halted development of XL784 in the treatment of diabetic nephropathy after it missed its endpoint in a phase 2 clinical trial. Trends toward improvement were noted in a subset of patients, and we are evaluating opportunities to partner the compound with a company that has expertise to pursue development in this indication.

Four Pillars for Financial Success Our four-pillar strategy – executing in our existing partnerships, establishing new, high-value collaborations, utilizing clinical financing vehicles and tapping the equity markets – provides the resources we need to support quality and productivity. In 2007, we generated approximately \$113.5 million in revenue from our various new and existing collaborations. All of our partnerships also provide additional revenue opportunities in the future, through milestone payments, royalties on sales, or profit sharing.

In 2007, we also enhanced our capital resources through the successful completion of a public offering of common stock, raising net proceeds of \$71.9 million. In addition, during 2007, we received \$19.8 million as a result of the sale of 80.1% of our subsidiary Artemis Pharmaceuticals GmbH to Taconic Farms, and we received \$18.0 million for the sale of selected assets of our subsidiary Exelixis Plant Sciences to Dow AgroSciences' affiliate Agrigenetics, Inc. By continuing to execute on our financing strategy, we finished 2007 with \$299.5 million in cash, cash equivalents and short-term and long-term marketable securities¹. These resources, and our proven ability to access and effectively manage capital, should enable us to continue pursuing a better way to better medicine.

Pulling Ahead in 2008 With a solid cash position at the beginning of 2008, multiple high-quality assets available for partnering, and several opt-in decisions expected under our various collaborations, we are well positioned to see our way through a difficult economic environment. We are constantly evaluating our strategies and options in regard to our assets and the changing economic climate, and as in the past, we expect to react nimbly to changes in the environment going forward.

During the year we expect to have numerous presentations at major medical conferences; I believe that the data will be clinically meaningful and will differentiate our compounds from the competition. Additionally, opt-in decisions are expected from several partners, clarifying our pipeline ownership and potentially generating additional revenue. We also will continue to evaluate high-value collaboration opportunities around some of our proprietary programs.

I am proud of all that we have accomplished over the past year, and I want to take this opportunity to recognize the diligent efforts and heartfelt commitment of everyone on the Exelixis team. Each of us is aware that the stakes become higher as we get closer to our goal of bringing ground-breaking therapies to market, and we feel confident in our ability to continue charting our own path to success. Through innovation, pragmatism, and rigor, we believe we have what it takes to make XL the biggest name in oncology.

We thank you, our stockholders, for your continued support. I very much look forward to updating you on our progress in the months ahead.

Sincerely,



George A. Scangos, PhD
President and Chief Executive Officer

¹ This amount includes investments held by Symphony Evolution, Inc. of \$30.9 million and restricted cash and investments of \$7.2 million.

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**INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP
Palo Alto, California

SEC FORM 10-K

A copy of the Exelixis annual report on Form 10-K filed with the Securities and Exchange Commission is available free of charge from Exelixis' Corporate Communications Department by calling 650.837.7012.

STOCK INFORMATION

The common stock of Exelixis has traded on the Nasdaq Global Select Market under the symbol "EXEL" since April 11, 2000. No dividends have been paid on the common stock since Exelixis' inception.

COMMON STOCK

The following table sets forth, for the periods indicated, the high and low intraday sales prices for the common stock of Exelixis as reported by the Nasdaq Global Select Market:

Quarter Ended	High	Low
December 31, 2007	\$12.29	\$7.82
September 30, 2007	\$12.37	\$9.40
June 30, 2007	\$12.77	\$9.92
March 31, 2007	\$11.74	\$8.67

BOARD OF DIRECTORS

Stelios Papadopoulos, PhD
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President and Chief Executive Officer, Exelixis, Inc.

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Founding Partner, DCF Capital

Jack L. Wyszomierski
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Gisela M. Schwab, MD
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Executive Vice President and General Counsel

Peter Lamb, PhD
Senior Vice President, Discovery Research and Chief Science Officer

Lupe M. Rivera, SPHR, CCP
Senior Vice President, Operations

D. Ry Wagner, PhD
Vice President, Plant Biotechnology, Exelixis Plant Sciences, Inc.

This annual report and the accompanying letter to stockholders contain statements that are forward-looking, including, without limitation: statements relating to the future development and therapeutic and commercial potential of XL647, XL184, XL880, XL019, XL147, XL765, XL281, XL518, XL228, XL820, XL844, XL139 and Exelixis' other compounds; the anticipated timing of the initiation of clinical trials for XL647, XL184, XL019, XL147, XL765, XL281, XL139 and Exelixis' other compounds; the availability of data related to XL647, XL184, XL880 and Exelixis' other compounds; the anticipated timing of the filing of new investigational new drug applications; potential compound selections by Exelixis' partners; the realization of revenue opportunities from Exelixis' partnerships and product candidates; the sufficiency of Exelixis' cash resources and the timing and success of future business development activities. Words such as "plan," "goal," "may," "would," "will," "could," "expect," "should," "anticipate," "suggest," "intend," "potential," "encouraging" and similar expressions are intended to identify forward-looking statements. These statements are only predictions and are based upon Exelixis' current plans, assumptions, beliefs and expectations. Forward-looking statements involve risks and uncertainties. Exelixis' actual results and the timing of events could differ materially from those anticipated in such forward-looking statements as a result of these risks and uncertainties, which include, without limitation, risks related to: Exelixis' need for additional financing, including Exelixis' ability to enter into new collaborations, continue existing collaborations and receive milestones and royalties derived from future products developed from research efforts under collaborative agreements; Exelixis' arrangement with Symphony Evolution, Inc.; the potential failure of XL647, XL184, XL880, XL019, XL147, XL765, XL281, XL518, XL228, XL820, XL844, XL139 or any of Exelixis' other compounds to demonstrate safety and efficacy in clinical testing; Exelixis' dependence on and relationships with GlaxoSmithKline, Bristol-Myers Squibb and Genentech; Exelixis' ability to initiate and complete clinical trials at the referenced times, or at all; and Exelixis' ability to successfully advance and develop additional compounds. These and other risk factors are discussed under "Risk Factors" and elsewhere in Exelixis' Annual Report on Form 10-K for the fiscal year ended December 28, 2007 and Exelixis' other reports filed with the Securities and Exchange Commission. Exelixis expressly disclaims any duty, obligation or undertaking to release publicly any updates or revisions to any forward-looking statements made in this discussion to reflect any change in Exelixis' expectations with regard thereto or any changes in events, conditions or circumstances on which any such statements are based.

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

FORM 10-K

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

For the fiscal year ended: December 28, 2007

OR

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

For the transition period from to

Commission File Number: 0-30235

EXELIXIS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock \$.001 Par Value per Share	The Nasdaq Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$975,445,421 (Based on the closing sales price of the registrant's common stock on that date. Excludes an aggregate of 16,658,250 shares of the registrant's common stock held by officers, directors and affiliated stockholders. For purposes of determining whether a stockholder was an affiliate of the registrant at June 29, 2007, the registrant assumed that a stockholder was an affiliate of the registrant at June 29, 2007 if such stockholder (i) beneficially owned 10% or more of the registrant's common stock, as determined based on public filings, and/or (ii) was an executive officer or director or was affiliated with an executive officer or director of the registrant at June 29, 2007. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.)

As of February 20, 2008, there were 105,073,846 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than April 27, 2008, in connection with the registrant's 2008 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Annual Report on Form 10-K.

EXELIXIS, INC.

FORM 10-K

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PART I

Some of the statements under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and elsewhere in this Annual Report on Form 10-K are forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry and involve known and unknown risks, uncertainties and other factors that may cause our company's or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" "should," "would," "could," "estimate," "predict," "potential," "continue," "encouraging" or the negative of such terms or other similar expressions identify forward-looking statements. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Item 1A. Risk Factors" as well as those discussed elsewhere in this Annual Report on Form 10-K. These and many other factors could affect our future financial and operating results. We undertake no obligation to update any forward-looking statement to reflect events after the date of this report.

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

ITEM 1. BUSINESS

Overview

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

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

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

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

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

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

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

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

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

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

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

Areas of Expertise

Integrated Drug Research, Discovery and Development Capabilities

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

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

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

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

Drug Discovery

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

Translational Research

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

Development

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

Our Strategy

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

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

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

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

Target Multiple Pathways

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

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

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

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

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

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

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

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

Leverage Strategic Collaborations

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

Management of Our Financial Resources

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

Our Pipeline

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

Cancer Program

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

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

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

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

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

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

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

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

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

Metabolic Program

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

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

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

Corporate Collaborations

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

GlaxoSmithKline

In October 2002, we established a collaboration with GlaxoSmithKline to discover and develop novel therapeutics in the areas of vascular biology, inflammatory disease and oncology. The collaboration involved three agreements: (1) a Product Development and Commercialization Agreement, or PDA; (2) a Stock Purchase and Stock Issuance Agreement, or SPA; and (3) a Loan and Security Agreement, or LSA. Under the original PDA, GlaxoSmithKline paid us \$30.0 million in an upfront fee and agreed to pay up to an additional \$90.0 million in research and development funding over the first six years of the collaboration.

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

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

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

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

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

Bristol-Myers Squibb

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

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

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

Under the collaboration agreement, Bristol-Myers Squibb paid us a nonrefundable upfront payment in the amount of \$17.5 million and was obligated to provide research and development funding of \$10.0 million per year for an initial research period of two years. On September 20, 2007, the collaboration was extended at Bristol-Myers Squibb's request through January 12, 2009. Bristol-Myers Squibb also has retained the option to further extend the collaboration by an additional year.

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

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

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

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

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

Genentech

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

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

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

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

Symphony Evolution

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

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

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

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

Other Collaborations

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

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

Daiichi-Sankyo. In March 2006, we entered into a collaboration agreement with Daiichi Sankyo Company Limited for the discovery, development and commercialization of novel therapies targeted against MR, a nuclear hormone receptor implicated in a variety of cardiovascular and metabolic diseases. Under the terms of the agreement, we granted to Daiichi-Sankyo an exclusive, worldwide license to certain intellectual property primarily relating to compounds that modulate MR. After completion of the research term, Daiichi-Sankyo will be responsible for all further preclinical and clinical development, regulatory, manufacturing and commercialization activities for the compounds and we do not have rights to reacquire such compounds, except as described below.

Daiichi-Sankyo paid us a nonrefundable upfront payment in the amount of \$20.0 million and is obligated to provide research and development funding of \$3.8 million over a 15-month research term. In June 2007, the parties agreed to extend the research term for an additional six months. In November 2007, the parties decided not to further extend the research term. For each product from the collaboration, we are also entitled to receive payments upon attainment of pre-specified development, regulatory and commercialization milestones. In addition, we are also entitled to receive royalties on any sales of certain products commercialized under the collaboration. Daiichi-Sankyo may terminate the agreement upon 90 days' written notice in which case Daiichi-Sankyo's payment obligations would cease, its license relating to compounds that modulate MR would terminate and revert to us, and we would receive, subject to certain terms and conditions, licenses from Daiichi-Sankyo to research, develop and commercialize compounds that were discovered under the collaboration.

Manufacturing and Raw Materials

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

Government Regulation

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

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture and marketing of pharmaceutical products. These agencies and other federal, state and local entities regulate research and development activities and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of our products.

The process required by the FDA before product candidates may be marketed in the United States generally involves the following:

- preclinical laboratory and animal tests;

- submission of an IND, which must become effective before clinical trials may begin;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug candidate for its intended use;
- pre-approval inspection of manufacturing facilities and selected clinical investigators; and
- FDA approval of a new drug application (NDA), or NDA supplement, for an approval of a new indication if the product is already approved for another indication.

The testing and approval process requires substantial time, effort and financial resources.

Prior to commencing the first clinical trial with a product candidate, we must submit an IND to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the clinical trial. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Our submission of an IND may not result in FDA authorization to commence a clinical trial. A separate submission to the existing IND must be made for each successive clinical trial conducted during product development, and the FDA must grant permission for each clinical trial to start and continue. Further, an independent institutional review board for each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial before it commences at that center. Regulatory authorities or an institutional review board or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

For purposes of NDA approval, human clinical trials are typically conducted in three sequential phases that may overlap.

- Phase 1 – Studies are initially conducted in a limited patient population to test the product candidate for safety, dosage tolerance, absorption, metabolism, distribution and excretion in healthy humans or patients.
- Phase 2 – Studies are conducted with groups of patients afflicted with a specified disease in order to provide enough data to evaluate the preliminary efficacy, optimal dosages and expanded evidence of safety. Multiple phase 2 clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive phase 3 clinical trials. In some cases, a sponsor may decide to run what is referred to as a “phase 2b” evaluation, which is a second, confirmatory phase 2 trial that could, if positive, serve as a pivotal trial in the approval of a product candidate.
- Phase 3 – When phase 2 evaluations demonstrate that a dosage range of the product is effective and has an acceptable safety profile, phase 3 trials are undertaken in large patient populations to further evaluate dosage, to provide statistically significant evidence of clinical efficacy and to further test for safety in an expanded patient population at multiple clinical trial sites.

The FDA may require, or companies may pursue, additional clinical trials after a product is approved. These so-called phase 4 studies may be made a condition to be satisfied after a drug receives approval. The results of phase 4 studies can confirm the effectiveness of a product candidate and can provide important safety information to augment the FDA’s voluntary adverse drug reaction reporting system. The results of product development, preclinical studies and clinical trials are submitted to the FDA as part of an NDA, or as part of an NDA supplement. The FDA may deny approval of an NDA or NDA supplement if the applicable regulatory criteria are not satisfied, or it may require additional clinical data and/or an additional pivotal phase 3 clinical trial. Even if such data are submitted, the FDA may ultimately decide that the NDA or NDA supplement does not satisfy the criteria for approval. Once issued, the FDA may withdraw product approval if ongoing regulatory standards are not met or if safety problems occur after the product reaches the market. In addition, the FDA may require testing and surveillance programs to monitor the effect of approved products which have been commercialized, and the FDA has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs.

Satisfaction of FDA requirements or similar requirements of state, local and foreign regulatory agencies typically takes several years and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease. Government regulation may delay or prevent marketing of product candidates or new diseases for a considerable period of time and impose costly procedures upon our activities. The FDA or any other regulatory agency may not grant approvals for new indications for our product candidates on a timely basis, if at all. Success in early stage clinical trials does not ensure success in later stage clinical trials. Data obtained from clinical activities is not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. Even if a product candidate receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations and dosages. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market.

Any products manufactured or distributed by us pursuant to FDA approvals are subject to continuing regulation by the FDA, including record-keeping requirements and reporting of adverse experiences with the drug. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with good manufacturing practices, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. We cannot be certain that we or our present or future suppliers will be able to comply with the good manufacturing practices regulations and other FDA regulatory requirements. If our present or future suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, require us to recall a drug from distribution, or withdraw approval of the NDA for that drug.

The FDA closely regulates the marketing and promotion of drugs. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising and potential civil and criminal penalties. Physicians may prescribe legally available drugs for uses that are not described in the product's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behavior of physicians in their choice of treatments. The FDA does, however, restrict manufacturer's communications on the subject of off-label use.

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

Competition

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

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

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

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

Research and Development Expenses

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

Revenues from Significant Collaborators

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

Proprietary Rights

We have obtained licenses from various parties that give us rights to technologies that we deem to be necessary or desirable for our research and development. These licenses (both exclusive and non-exclusive) may require us to pay royalties as well as upfront and milestone payments.

Patents extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends on the type of patent, the scope of its coverage and the availability of legal remedies in the country.

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

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

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

Employees

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

Available Information

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

We maintain a site on the worldwide web at www.exelixis.com; however, information found on our website is not incorporated by reference into this report. We make available free of charge on or through our website our SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Further, copies of our filings with the SEC are available at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a site on the worldwide web that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

ITEM 1A. RISK FACTORS

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

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

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

We will need to raise additional capital to:

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

As of December 31, 2007, we had \$299.5 million in cash and cash equivalents and short-term and long-term marketable securities, which included investments held by SEI of \$30.9 million and restricted cash and investments of \$7.2 million. We anticipate that our current cash and cash equivalents, short-term and long-term marketable securities, investments held by SEI and other funding that we expect to receive from collaborators, which assumes a moderate level of business development activity, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. However, our future capital requirements will be substantial and will depend on many factors that may require us to use available capital resources significantly earlier than we currently anticipate. These factors include:

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Development of Product Candidates

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

Clinical trials are inherently risky and may reveal that our product candidates are ineffective or have unacceptable toxicity or other side effects that may significantly decrease the likelihood of regulatory approval. The results of preliminary studies do not necessarily predict clinical or commercial success, and later-stage clinical trials may fail to confirm the results observed in earlier-stage trials or preliminary studies. Although we have established timelines for manufacturing and clinical development based on existing knowledge of our compounds in development and industry metrics, we may not be able to meet those timelines.

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

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

If any of these events were to occur and, as a result, we were to have significant delays in or termination of our clinical testing, our expenses could increase or our ability to generate revenue from the affected product candidates could be impaired, either of which could adversely impact our financial results. For example, in December 2007 we discontinued our development program for XL999 following observation of cardiac adverse events in the clinical program.

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

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

- the number of patients that ultimately participate in the clinical trial;

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

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

Risks Related to Our Relationships with Third Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Regulatory Approval of Our Product Candidates

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

Our product candidates, as well as the activities associated with their research, development and commercialization, are subject to extensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Failure to obtain regulatory approval for a product candidate would prevent us from commercializing that product candidate. We have not received regulatory

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

Risks Related to Commercialization of Products

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

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

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

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

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

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

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

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

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

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

In addition, in some foreign countries, particularly the countries in the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, price negotiations with governmental authorities can take six to twelve months or longer after the receipt of regulatory marketing approval for a product. To obtain reimbursement and/or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost effectiveness of our product candidates or products to other available therapies. The conduct of such a clinical trial could be expensive and result in delays in the commercialization of our product candidates. Third-party payors are challenging the prices charged for medical products and services, and many third-party payors limit reimbursement for newly approved health care products. In particular, third-party payors may limit the indications for which they will reimburse patients who use any products that we may develop. Cost-control initiatives could decrease the price we might establish for products that we may develop, which would result in lower product revenues to us.

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

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

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

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

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

Risks Related to Our Intellectual Property

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

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

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

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

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

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

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

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

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

Risks Related to Employees, Growth and Location

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

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

activities related to advancing our clinical and preclinical development programs, and supporting our collaborative arrangements and our internal proprietary research and development efforts. Competition is intense for experienced clinical personnel, and we may be unable to retain or recruit clinical personnel with the expertise or experience necessary to allow us to pursue collaborations, develop our products and core technologies or expand our operations to the extent otherwise possible. Further, all of our employees are employed "at will" and, therefore, may leave our employment at any time.

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

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

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

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

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

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

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

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

respect to our proprietary and confidential information, including research or clinical data, or that results in damage to our research and development equipment and assets could have a material adverse impact on our business, operating results and financial condition.

Risks Related to Environmental and Product Liability

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

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

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

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

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

Risks Related to Our Common Stock

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

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

- recognition of upfront licensing or other fees;

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

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

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

Our stock price may be extremely volatile.

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

- adverse results or delays in clinical trials;
- announcement of FDA approval or non-approval, or delays in the FDA review process, of our or our collaborators' product candidates or those of our competitors or actions taken by regulatory agencies with respect to our, our collaborators' or our competitors' clinical trials;
- the announcement of new products by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- conflicts or litigation with our collaborators;
- litigation, including intellectual property infringement and product liability lawsuits, involving us;
- failure to achieve operating results projected by securities analysts;
- changes in earnings estimates or recommendations by securities analysts;
- financing transactions;
- developments in the biotechnology or pharmaceutical industry;

- sales of large blocks of our common stock or sales of our common stock by our executive officers, directors and significant stockholders;
- departures of key personnel or board members;
- developments concerning current or future collaborations;
- FDA or international regulatory actions;
- third-party reimbursement policies;
- acquisitions of other companies or technologies;
- disposition of any of our subsidiaries, technologies or compounds; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

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

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

We are exposed to risks associated with acquisitions.

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings. We may from time to time become a party to various legal proceedings arising in the ordinary course of business.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has traded on the Nasdaq Global Select Market (formerly the Nasdaq National Market) under the symbol "EXEL" since April 11, 2000. The following table sets forth, for the periods indicated, the high and low intraday sales prices for our common stock as reported by the Nasdaq Global Select Market:

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

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

Holders

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

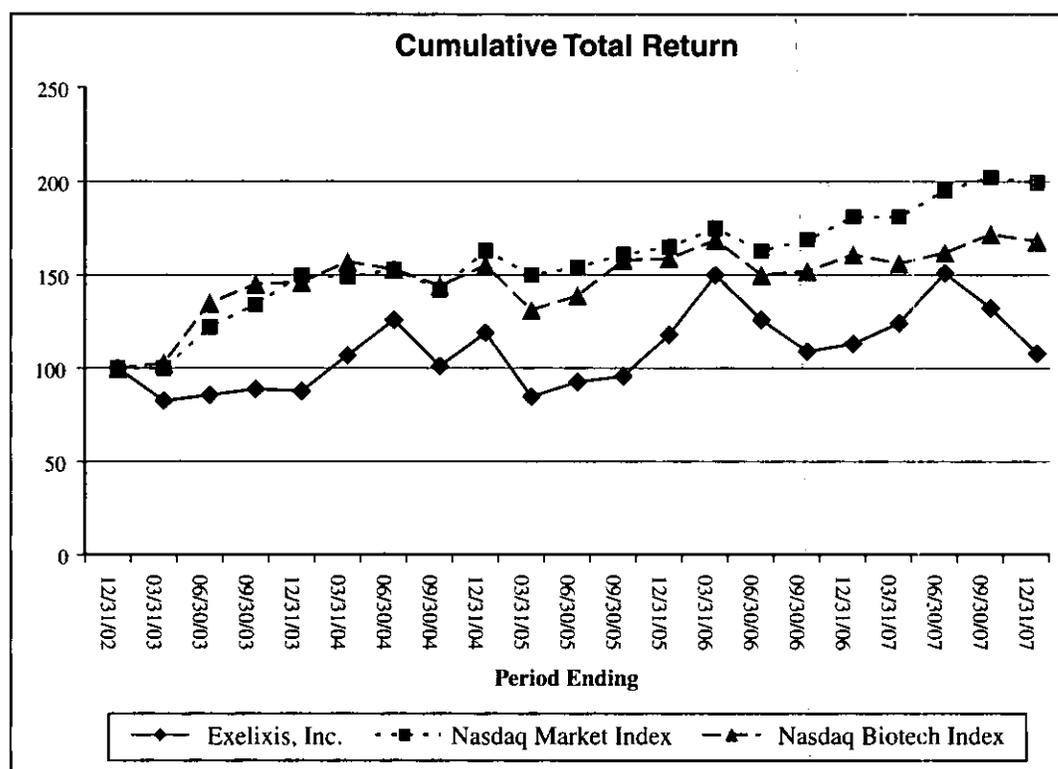
Dividends

Since inception, we have not paid dividends on our common stock. We currently intend to retain all future earnings, if any, for use in our business and currently do not plan to pay any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors.

Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the company under the Securities Act of 1933, as amended.

The following graph compares, for the five year period ended December 31, 2007, the cumulative total stockholder return for our common stock, the Nasdaq Stock Market (U.S. companies) Index, or the Nasdaq Market Index, and the Nasdaq Biotech Index. The graph assumes that \$100 was invested on December 31, 2002 in each of the common stock of the company, the Nasdaq Market Index and the Nasdaq Biotech Index and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



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

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our audited consolidated financial statements. The financial information as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 are derived from audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The following Selected Financial Data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results of operations to be expected in the future.

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

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

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

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

Overview

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

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

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

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

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

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

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

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

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

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

2007 Dispositions

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

Sale of Plant Trait Business

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

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

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

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

Sale of Interest in Artemis Pharmaceuticals GmbH

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

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

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

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

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

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

Certain Factors That May Affect Our Business

Industry-wide Factors

Successful development of drugs is inherently difficult and uncertain. Our business requires significant investments in research and development over many years, often for products that fail during the research and development process. Our long-term prospects depend upon our ability and the ability of our partners to successfully commercialize new therapeutics in highly competitive areas such as cancer treatment.

Company-specific Factors

Our financial performance is driven by many factors, including:

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

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

- *Liquidity.* As of December 31, 2007, we had \$299.5 million in cash and cash equivalents and short-term and long-term marketable securities, which included investments held by SEI of \$30.9 million and restricted cash and investments of \$7.2 million. We anticipate that our current cash and cash equivalents, short-term and long-term marketable securities, investments held by SEI and other funding that we expect to receive from collaborators, which assumes a moderate level of business development activity, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. However, our future capital requirements will be substantial and depend on many factors, including the timing of key events in our agreements with GlaxoSmithKline and SEI that may require us to use available capital significantly earlier than we currently anticipate. We will have to obtain additional funding in order to support our plans for the aggressive development of our broad clinical and preclinical pipelines. Our minimum liquidity needs are also determined by certain financial covenants contained in our loan and security agreement with GlaxoSmithKline, which require us to maintain working capital of at least \$25.0 million and cash and investments of at least \$50.0 million. Our ability to raise additional funds may be severely impaired if any of our product candidates fails to show adequate safety or efficacy in clinical testing.
- *Reliance on Partners.* We currently have no pharmaceutical products that have received marketing approval, and we have generated no revenues from the sale of such products. We do not expect to generate product revenues from the sale of pharmaceutical products in the near term and expect that all of our near term revenues, such as research and development funding and milestone and royalty revenues, will be generated from collaboration agreements with our partners. Milestones under these agreements may be tied to factors that are outside of our control, such as significant clinical or regulatory events with respect to compounds that have been licensed to our partners.
- *GlaxoSmithKline Compound Selection.* Pursuant to our product development and commercialization agreement with GlaxoSmithKline, GlaxoSmithKline has the option to elect to develop up to three of our compounds from the programs specified in the product development and commercialization agreement. In December 2007, GlaxoSmithKline exercised its development option for XL880. As a result of GlaxoSmithKline's exercise of this option, GlaxoSmithKline has the right to select from the identified programs up to one additional compound, which may include XL820, XL184, XL281, XL844 or XL228, or up to two additional compounds if it extends the specified development term. The amount of acceptance milestones that we receive from GlaxoSmithKline will depend on the number of compounds selected, the timing of the selection of the compounds and, for those acceptances made after the end of the original development term, whether GlaxoSmithKline extended the development term. Any future delays in obtaining clinical proof-of-concept for compounds subject to GlaxoSmithKline's election rights may decrease the size of any GlaxoSmithKline milestone payments and negatively affect our financial position. If GlaxoSmithKline selects a second compound prior to the end of the development term under the product development and commercialization agreement in October 2008, the amount of the selection milestone for the second compound would be at least \$55.0 million. Under our product development and commercialization agreement, any milestone payments relating to product candidates remaining under the agreement must be used to pay down our loan with GlaxoSmithKline as long as the loan is outstanding. See " – Liquidity and Capital Resources – Cash Requirements."
- *Symphony Evolution, Inc.* In 2005, we licensed three of our compounds, XL647, XL784 and XL999, to SEI in return for an \$80.0 million investment for the clinical development of these compounds. We have an exclusive purchase option to acquire all of the equity of SEI, thereby allowing us to reacquire

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

Critical Accounting Estimates

Our consolidated financial statements and related notes are prepared in accordance with U.S. generally accepted accounting principles, or GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. We believe the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Revenue Recognition

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

situations, we may receive milestone payments after the end of our period of continued involvement. In such circumstances, we would recognize 100% of the milestone revenue when the milestone is achieved.

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

Goodwill and Intangible Impairment

As of December 31, 2007, our consolidated balance sheet included \$63.7 million of goodwill and other intangible assets. Under GAAP, we evaluate goodwill for impairment on an annual basis and on an interim basis if events or changes in circumstances between annual impairment tests indicate that the asset might be impaired. We will also evaluate other intangible assets for impairment when impairment indicators are identified.

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

Clinical Trial Accruals

Substantial portions of our preclinical studies and all of our clinical trials have been performed by third-party contract research organizations, or CROs, and other vendors. We accrue expenses for preclinical studies performed by our vendors based on certain estimates over the term of the service period and adjust our estimates as required. We accrue costs for clinical trial activities performed by CROs based upon the estimated amount of work completed on each study. For clinical trial expenses, the significant factors used in estimating accruals include the number of patients enrolled, the number of active clinical sites, and the duration for which the patients will be enrolled in the study. We monitor patient enrollment levels and related activities to the extent possible through internal reviews, correspondence with CROs and review of contractual terms. We base our estimates on the best information available at the time. However, additional information may become available to us which will allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain, such increases or decreases in cost are generally considered to be changes in estimates and will be reflected in research and development expenses in the period first known. For example, during the quarter

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

Stock Option Valuation

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R). Under this standard, our estimate of compensation expense requires us to determine the appropriate fair value model and a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns, future forfeitures and related tax effects. The most significant assumptions are our estimates of the expected volatility and the expected term of the award. We have limited historical information available to support the underlying estimates of certain assumptions required to value stock options. The value of a stock option is derived from its potential for appreciation. The more volatile the stock, the more valuable the option becomes because of the greater possibility of significant changes in stock price. Because there is a market for options on our common stock, we have considered implied volatilities as well as our historical realized volatilities when developing an estimate of expected volatility. The expected option term also has a significant effect on the value of the option. The longer the term, the more time the option holder has to allow the stock price to increase without a cash investment and thus, the more valuable the option. Further, lengthier option terms provide more opportunity to exploit market highs. However, empirical data shows that employees, for a variety of reasons, typically do not wait until the end of the contractual term of a nontransferable option to exercise. Accordingly, companies are required to estimate the expected term of the option for input to an option-pricing model. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, from time to time we will likely change the valuation assumptions we use to value stock based awards granted in future periods. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. As of December 31, 2007, \$45.9 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 2.7 years. See Note 10 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

Fiscal Year Convention

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

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

Revenues

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

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

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

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

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

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

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

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

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

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

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

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

Research and Development Expenses

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

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

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

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

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

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

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

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

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

We currently estimate that typical phase 1 clinical trials last approximately one year, phase 2 clinical trials last approximately one to two years and phase 3 clinical trials last approximately two to four years. However, the length of time may vary substantially according to factors relating to the particular clinical trial, such as the type and intended use of the product candidate, the clinical trial design and the ability to enroll suitable patients. We expect that research and development expenses will continue to increase as we advance our compounds through development.

We currently do not have reliable estimates of total costs for a particular drug candidate to reach the market. Our potential therapeutic products are subject to a lengthy and uncertain regulatory process that may involve unanticipated additional clinical trials and may not result in receipt of the necessary regulatory approvals. Failure to receive the necessary regulatory approvals would prevent us from commercializing the product candidates affected. In addition, clinical trials of our potential products may fail to demonstrate safety and efficacy, which could prevent or significantly delay regulatory approval.

General and Administrative Expenses

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

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

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

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

Amortization of Intangible Assets

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

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

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

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

Total Other Income (Expense)

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

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

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

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

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

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

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

Noncontrolling Interest in Symphony Evolution, Inc.

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

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

Income Taxes

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

Under the Internal Revenue Code and similar state provisions, certain substantial changes in our ownership could result in an annual limitation on the amount of net operating loss and credit carryforwards that can be utilized in future years to offset future taxable income. Annual limitations may result in the expiration of net operating loss and credit carryforwards before they are used.

Liquidity and Capital Resources

Sources and Uses of Cash

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

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

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

Operating Activities

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

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

Investing Activities

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

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

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

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

Financing Activities

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

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

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

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

Cash Requirements

We have incurred net losses since inception, including a net loss of \$86.4 million for the year ended December 31, 2007, and we expect to incur substantial losses for at least the next several years as we continue our research and development activities, including manufacturing and development expenses for compounds in preclinical and clinical studies. We anticipate that our current cash and cash equivalents, short-term and long-term marketable securities, investments held by SEI and other funding that we expect to receive from collaborators, which assumes a moderate level of business development activity, will enable us to maintain our operations for a period of at least 12 months following the filing date of this report. However, our future capital requirements will be substantial and will depend on many factors that may require us to use available capital resources significantly sooner than we currently anticipate. These factors include:

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

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

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

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

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

We have contractual obligations in the form of operating leases, notes payable and licensing agreements. The following chart details our contractual obligations (in thousands):

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 Years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Notes payable and bank obligations	\$ 36,514	\$15,767	\$ 17,814	\$ 2,933	\$ —
Licensing agreements	1,543	1,291	247	5	—
Convertible loans(1)	98,583	—	65,065	33,518	—
Operating leases	172,016	16,600	34,857	36,712	83,847
Total contractual cash obligations	\$308,656	\$33,658	\$117,983	\$73,168	\$83,847

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

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

Recent Accounting Pronouncements

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

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

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

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

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

EXELIXIS, INC.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Exelixis, Inc.

We have audited the accompanying consolidated balance sheets of Exelixis, Inc. as of December 28, 2007 and December 29, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended December 28, 2007. These financial statements are the responsibility of Exelixis, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Exelixis, Inc. at December 28, 2007 and December 29, 2006, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 28, 2007, in conformity with U.S. generally accepted accounting principles.

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

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

/s/ Ernst & Young LLP

Palo Alto, California
February 13, 2008

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

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

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

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

	Year Ended December 31,		
	2007	2006	2005
Revenues:			
Contract	\$ 69,023	\$ 62,414	\$ 55,715
License	44,447	36,256	20,246
Total revenues	<u>113,470</u>	<u>98,670</u>	<u>75,961</u>
Operating expenses:			
Research and development	225,375	185,481	141,135
General and administrative	44,940	39,123	27,731
Amortization of intangible assets	202	820	1,086
Total operating expenses	<u>270,517</u>	<u>225,424</u>	<u>169,952</u>
Loss from operations	(157,047)	(126,754)	(93,991)
Other income (expense):			
Interest income and other, net	13,055	8,546	5,371
Interest expense	(3,966)	(4,981)	(6,190)
Gain on sale of businesses	36,936	—	—
Total other income (expense)	<u>46,025</u>	<u>3,565</u>	<u>(819)</u>
Loss before noncontrolling interest in Symphony Evolution, Inc.	(111,022)	(123,189)	(94,810)
Loss attributed to noncontrolling interest in Symphony Evolution, Inc.	24,641	21,697	10,406
Net loss	<u>\$ (86,381)</u>	<u>\$ (101,492)</u>	<u>\$ (84,404)</u>
Net loss per share, basic and diluted	<u>\$ (0.87)</u>	<u>\$ (1.17)</u>	<u>\$ (1.07)</u>
Shares used in computing basic and diluted loss per share amounts	<u>99,147</u>	<u>86,602</u>	<u>78,810</u>

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

EXELIXIS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2004	74,995,484	\$ 75	\$569,345	\$ 624	\$(519,373)	\$ 50,671
Net loss	—	—	—	—	(84,404)	(84,404)
Decrease in unrealized loss on available-for-sale securities	—	—	—	63	—	63
Change in accumulated translation adjustment	—	—	—	286	—	286
Comprehensive loss						(84,055)
Issuance of common stock under stock plans	909,238	—	5,505	—	—	5,505
Issuance of common stock, net of offering costs	6,500,000	8	49,608	—	—	49,616
Issuance of common stock under the GlaxoSmithKline collaboration	1,000,000	1	8,853	—	—	8,854
Issuance of warrants to Symphony Evolution Holdings, Inc.	—	—	2,842	—	—	2,842
Stock-based compensation expense	—	—	110	—	—	110
Balance at December 31, 2005	83,404,722	84	636,263	973	(603,777)	33,543
Net loss	—	—	—	—	(101,492)	(101,492)
Decrease in unrealized loss on available-for-sale securities	—	—	—	405	—	405
Change in accumulated translation adjustment, net	—	—	—	(233)	—	(233)
Comprehensive loss						(101,320)
Issuance of common stock under stock plans	1,013,998	—	8,145	—	—	8,145
Issuance of common stock, net of offering costs	11,500,000	12	90,482	—	—	90,494
Issuance of warrants to Symphony Evolution Holdings, Inc.	—	—	3,984	—	—	3,984
Exercise of Warrant	71,428	—	81	—	—	81
Stock-based compensation expense	—	—	17,613	—	—	17,613
Balance at December 31, 2006	95,990,148	96	756,568	1,145	(705,269)	52,540
Net loss	—	—	—	—	(86,381)	(86,381)
Change in unrealized gains on available-for-sale securities	—	—	—	542	—	542
Change in cumulative translation adjustment	—	—	—	(1,188)	—	(1,188)
Comprehensive loss						(87,027)
Issuance of common stock under stock plans	1,754,584	2	14,508	—	—	14,510
Issuance of common stock, net of offering costs	7,000,000	7	71,883	—	—	71,890
Stock-based compensation expense	—	—	20,168	—	—	20,168
Balance at December 31, 2007	<u>104,744,732</u>	<u>\$105</u>	<u>\$863,127</u>	<u>\$ 499</u>	<u>\$(791,650)</u>	<u>\$ 72,081</u>

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

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

	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net loss	\$ (86,381)	\$(101,492)	\$ (84,404)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	11,130	16,090	16,669
Loss attributed to noncontrolling interest	(24,641)	(21,697)	(10,406)
Stock-based compensation expense	20,168	17,613	110
Amortization of intangibles	202	820	1,086
Gain on sale of plant trait business and Artemis Pharmaceuticals	(36,936)		
Loss on the sale of equipment	165	18	60
Other	786	754	602
Changes in assets and liabilities:			
Other receivables	17,698	(15,090)	(2,801)
Prepaid expenses and other current assets	(2,965)	(645)	(1,103)
Other assets	(175)	644	(1,022)
Accounts payable and other accrued expenses	23,658	12,164	355
Other long-term liabilities	4,433	6,015	6,479
Deferred revenue	4,119	39,467	28,014
Net cash used in operating activities	<u>(68,739)</u>	<u>(45,339)</u>	<u>(46,361)</u>
Cash flows from investing activities:			
Purchases of investments held by Symphony Evolution, Inc.	(2,280)	(42,338)	(40,681)
Proceeds on sale of investments held by Symphony Evolution, Inc.	26,433	21,290	6,642
Purchases of property and equipment	(17,399)	(11,610)	(14,357)
Proceeds from sale of equipment	—	10	186
Proceeds on sale of plant trait business	18,000	—	—
Proceeds on sale of Artemis Pharmaceuticals, net	17,309	—	—
Change in restricted cash and investments	2,396	3,048	3,358
Proceeds from maturities of marketable securities	156,339	99,641	113,598
Purchases of marketable securities	(203,817)	(91,742)	(109,394)
Net cash used in investing activities	<u>(3,019)</u>	<u>(21,701)</u>	<u>(40,648)</u>
Cash flows from financing activities:			
Proceeds from the issuance of common stock, net of offering costs	71,890	90,482	58,468
Proceeds from exercise of stock options and warrants	8,301	3,275	1,773
Proceeds from employee stock purchase plan	3,567	2,783	2,199
Payments on capital lease obligations	—	(98)	(1,931)
Proceeds from notes payable and bank obligations	12,632	14,791	12,725
Principal payments on notes payable and bank obligations	(12,142)	(41,889)	(9,301)
Proceeds from purchase of noncontrolling interest by preferred shareholders in Symphony Evolution, Inc., net of fees	—	40,000	37,000
Net cash provided by financing activities	<u>84,248</u>	<u>109,344</u>	<u>100,933</u>
Effect of foreign exchange rates on cash and cash equivalents	<u>(402)</u>	<u>(263)</u>	<u>(137)</u>
Net increase in cash and cash equivalents	12,088	42,041	13,787
Cash and cash equivalents, at beginning of year	123,369	81,328	67,541
Cash and cash equivalents, at end of year	<u>\$ 135,457</u>	<u>\$ 123,369</u>	<u>\$ 81,328</u>
Supplemental cash flow disclosure:			
Cash paid for interest	\$ 597	\$ 2,634	\$ 2,747
Warrants issued in conjunction with the Symphony Evolution, Inc. financing	—	3,984	2,842

The accompany notes are an integral part of these consolidated financial statements

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Consolidation

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

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

Use of Estimates

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

Cash and Investments

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

December 31, 2007

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

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

December 31, 2006

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

December 31, 2007

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

December 31, 2006

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the following estimated useful lives:

Equipment and furniture	5 years
Computer equipment and software	3 years
Leasehold improvements	Shorter of lease life or 7 years

Repairs and maintenance costs are charged to expense as incurred.

Intangible Assets

Goodwill amounts have been recorded as the excess purchase price over tangible assets, liabilities and intangible assets acquired based on their estimated fair value, by applying the purchase method. Under GAAP, we evaluate goodwill for impairment on an annual basis and on an interim basis if events or changes in circumstances between annual impairment tests indicate that the asset might be impaired. When evaluating goodwill for impairment we must determine the reporting units that exist within Exelixis. We determined that our reporting units are consistent with our operating segments. We have allocated goodwill to our reporting units based on the relative fair value of the reporting units. We also evaluate other intangible assets for impairment when impairment indicators are identified.

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

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

Long-lived Assets

The carrying value of our long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Long-lived assets include property and equipment and identified intangible assets.

Fair Value of Financial Instruments

The carrying amounts of certain of our financial instruments, including cash and cash equivalents and marketable securities, approximate fair value due to their short maturities. We have estimated the fair value of our long-term debt instruments using the net present value of the payments discounted at an interest rate that is consistent with our current borrowing rate for similar long-term debt. We have outstanding balances associated with our \$85.0 million convertible loan with GlaxoSmithKline and our equipment lines of credit of \$10.9 million and \$21.9 million as of December 31, 2007. These items are described in further detail in Note 3 of the Notes to the Consolidated Financial Statements. We estimated the fair value of our convertible loan with GlaxoSmithKline to be \$73.4 million and \$71.4 million as of December 31, 2007 and 2006, respectively. We

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and investments in marketable securities. Cash equivalents and marketable securities consist of money market funds, taxable commercial paper, corporate bonds with high credit quality and U.S. government agency obligations. Investments held by Symphony Evolution, Inc. consist of investments in money market funds. All cash and cash equivalents, marketable securities and investments held by Symphony Evolution, Inc. are maintained with financial institutions that management believes are creditworthy. Other receivables are typically unsecured and are concentrated in the pharmaceutical and biotechnology industries. Accordingly, we may be exposed to credit risk generally associated with pharmaceutical and biotechnology companies. We have incurred no bad debt expense since inception.

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

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

Revenue Recognition

License, research commitment and other non-refundable payments received in connection with research collaboration agreements are deferred and recognized on a straight-line basis over the period of continuing involvement, generally the research term specified in the agreement. Contract research revenues are recognized as services are performed pursuant to the terms of the agreements. Any amounts received in advance of performance are recorded as deferred revenue. Payments are not refundable if research is not successful.

We enter into corporate collaborations under which we may obtain up-front license fees, research funding, and contingent milestone payments and royalties. We evaluate whether the delivered elements under these arrangements have value to our collaboration partner on a stand-alone basis and whether objective and reliable evidence of fair value of the undelivered item exists. Deliverables that do not meet these criteria are not evaluated separately for the purpose of revenue recognition. For a combined unit of accounting, non-refundable up-front fees and milestones are recognized in a manner consistent with the final deliverable, which is generally ratably over the research period.

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

certain situations, we may receive milestone payments after the end of our period of continued involvement. In such circumstances, we would recognize 100% of the milestone revenue when the milestone is achieved.

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

Research and Development Expenses

Research and development costs are expensed as incurred and include costs associated with research performed pursuant to collaborative agreements. Research and development costs consist of direct and indirect internal costs related to specific projects as well as fees paid to other entities that conduct certain research activities on our behalf.

Substantial portions of our preclinical studies and all of our clinical trials have been performed by third-party contract research organizations (“CROs”) and other vendors. We accrue expenses for preclinical studies performed by our vendors based on certain estimates over the term of the service period and adjust our estimates as required. We accrue costs for clinical trial activities performed by CROs based upon the estimated amount of work completed on each study. For clinical trial expenses, the significant factors used in estimating accruals include the number of patients enrolled, the number of active clinical sites, and the duration for which the patients will be enrolled in the study. We monitor patient enrollment levels and related activities to the extent possible through internal reviews, correspondence with CROs and review of contractual terms. We base our estimates on the best information available at the time. However, additional information may become available to us which will allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain, such increases or decreases in cost are generally considered to be changes in estimates and will be reflected in research and development expenses in the period first known. For example, during the quarter ended December 31, 2007, we recorded a reduction of \$2.6 million to our accrued clinical trial liabilities and research and development expenses related to our XL784 clinical trial.

Net Loss Per Share

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

Foreign Currency Translation

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

Stock-Based Compensation

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

We have limited historical information available to support the underlying estimates of certain assumptions required to value stock options. Because there is a market for options on our common stock, we have considered implied volatilities as well as our historical realized volatilities when developing an estimate of expected volatility. The expected option term also has a significant effect on the value of the option. The longer the term, the more time the option holder has to allow the stock price to increase without a cash investment and thus, the more valuable the option. However, empirical data shows that employees, for a variety of reasons, typically do not wait until the end of the contractual term of a nontransferable option to exercise. Accordingly, companies are required to estimate the expected term of the option for input to an option-pricing model. We estimate the term using historical data and peer data. We recognize compensation expense on a straight-line basis over the requisite service period. We have elected to use the simplified method to calculate the beginning pool of excess tax benefits as described in FASB FSP 123(R)-3.

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Comprehensive Loss

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

Comprehensive loss is as follows (in thousands):

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

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

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

Recent Accounting Pronouncements

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

NOTE 2. DISPOSITIONS

Sale of Plant Trait Business

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

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Artemis Pharmaceuticals

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

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

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

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

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

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

NOTE 3. RESEARCH AND COLLABORATION AGREEMENTS

Bristol-Myers Squibb

2001 Cancer Collaboration

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

LXR Collaboration

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

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

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

2007 Cancer Collaboration

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Genentech

2005 Collaboration

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

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

MEK Collaboration

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Daiichi Sankyo Company Limited

In March 2006, Exelixis and Daiichi Sankyo Company Limited entered into a collaboration agreement for the discovery, development and commercialization of novel therapies targeted against Mineralocorticoid Receptor (“MR”), a nuclear hormone receptor implicated in a variety of cardiovascular and metabolic diseases. Under the terms of the agreement, we granted to Daiichi-Sankyo an exclusive, worldwide license to certain intellectual property primarily relating to compounds that modulate MR. After completion of the research term, Daiichi-Sankyo will be responsible for all further preclinical and clinical development, regulatory, manufacturing and commercialization activities for the compounds and we do not have rights to reacquire such compounds.

Daiichi-Sankyo paid us a nonrefundable upfront payment in the amount of \$20.0 million and is obligated to provide research and development funding of \$3.8 million over a 15-month research term through June 2007. The upfront payment and research and development funding will be recognized as revenue over the initial 15-month research term, which commenced on April 1, 2006. During June 2007, our collaboration agreement with Daiichi-Sankyo was amended to extend the research term by six months over which Daiichi-Sankyo is required to provide \$1.5 million in research and development funding. In November 2007, the parties decided not to further extend the research term. For each product from the collaboration, we are also entitled to receive payments upon attainment of pre-specified development, regulatory and commercialization milestones. In addition, we are also entitled to receive royalties on any sales of certain products commercialized under the collaboration. Daiichi-Sankyo may terminate the agreement upon 90 days’ written notice in which case Daiichi-Sankyo’s payment obligations will cease, its license relating to compounds that modulate MR will terminate and revert to us, and we will receive, subject to certain terms and conditions, licenses from Daiichi-Sankyo to research, develop and commercialize compounds that were discovered under the agreement.

Wyeth Pharmaceuticals

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

Helsinn Healthcare

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

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

Bayer

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

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

GlaxoSmithKline

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

NOTE 4. SYMPHONY EVOLUTION

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 5. RELATED PARTY TRANSACTIONS

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

NOTE 6. PROPERTY AND EQUIPMENT

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

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

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

NOTE 7. GOODWILL AND OTHER ACQUIRED INTANGIBLES

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 8. DEBT

Our debt consists of the following (in thousands):

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

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 9. COMMON STOCK AND WARRANTS

Stock Repurchase Agreements

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

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

Warrants

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

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

Reserved Shares

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

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

NOTE 10. EMPLOYEE BENEFIT PLANS

Stock Option Plans

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Stock Purchase Plan

In January 2000, we adopted the 2000 Employee Stock Purchase Plan (the "ESPP"). The ESPP allows for qualified employees (as defined in the ESPP) to purchase shares of our common stock at a price equal to the lower of 85% of the closing price at the beginning of the offering period or 85% of the closing price at the end of each six month purchase period. Compensation expense related to our ESPP was \$1.3 million and \$0.9 million for 2007 and 2006, respectively. As of December 31, 2007, we had 1.1 million shares available for grant under our ESPP. We issued 411,121 shares, 376,544 shares, and 377,322 shares of common stock during 2007, 2006, and 2005, respectively, pursuant to the ESPP at an average price per share of \$8.68, \$7.42, and \$5.83, respectively.

Stock-Based Compensation

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

	<u>Stock Options</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Weighted average grant-date fair value	\$ 5.26	\$ 5.26	\$ 5.67
Risk-free interest rate	4.36%	4.42%	4.25%
Dividend yield	0%	0%	0%
Volatility	59%	64%	66%
Expected life	4.9 years	4.7 years	6.2 years
	<u>ESPP</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Weighted average grant-date fair value	\$ 3.29	\$ 2.72	\$ 2.24
Risk-free interest rate	4.49%	4.69%	2.74%
Dividend yield	0%	0%	0%
Volatility	53%	53%	56%
Expected life	6 months	6 months	6 months

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

At December 31, 2007, a total of 12,687,767 shares were available for grant under our stock option plans.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between our closing stock price on the last trading day of fiscal 2007 and the exercise prices, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. Total intrinsic value of options exercised was \$3.4 million, \$1.3 million and \$0.4 million for 2007, 2006 and 2005, respectively. Total fair value of employee options vested and expensed in 2007 and 2006 was \$17.5 million and \$16.5 million respectively. In addition, we recognized stock-based compensation expense of \$1.3 million, \$0.2 million and \$0.1 million relating to nonemployees in 2007, 2006 and 2005, respectively.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

401(k) Plan

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

NOTE 11. INCOME TAXES

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

Deferred tax assets and liabilities reflect the net tax effects of net operating loss and tax credit carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes.

Our deferred tax assets and liabilities consist of the following (in thousands):

	December 31,	
	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	\$ 244,670	\$ 213,920
Tax credit carryforwards	59,110	43,860
Capitalized research and development costs	5,290	6,510
Deferred revenue	12,920	18,060
Accruals and reserves not currently deductible	2,460	6,600
Book over tax depreciation	2,240	3,480
Amortization of deferred stock compensation – non-qualified	7,870	3,830
Total deferred tax assets	334,560	296,260
Valuation allowance	(334,540)	(295,220)
Net deferred tax assets	20	1,040
Deferred tax liabilities:		
Other identified intangible assets	(20)	(1,040)
Net deferred taxes	<u>\$ —</u>	<u>\$ —</u>

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by \$39.3 million, \$45.4 million, and \$44.8 million during 2007, 2006 and 2005, respectively.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Under the Internal Revenue Code and similar state provisions, certain substantial changes in our ownership could result in an annual limitation on the amount of net operating loss and credit carryforwards that can be utilized in future years to offset future taxable income. The annual limitation may result in the expiration of net operating losses and credit carryforwards before utilization.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and was adopted by us on January 1, 2007.

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

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

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 12. COMMITMENTS

Leases

We lease office and research space and certain equipment under operating leases that expire at various dates through the year 2018. Certain operating leases contain renewal provisions and require us to pay other expenses. In 2007, we entered into a new lease agreement to lease an additional 66,000 square feet in South San Francisco, California that is estimated to commence in May 2008 and expires in 2015. Under the terms of this lease, we have the right to rent all of the remaining 62,393 rentable square feet of the building. This expansion right expires on December 31, 2008. If we exercise our right to lease the entire building, we will have the option to extend the Lease for an additional ten years. Aggregate future minimum lease payments under operating leases are as follows (in thousands):

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

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

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

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

Letter of Credit and Restricted Cash

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Licensing Agreements

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

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

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

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

Indemnification Agreements

Related to the sale of our plant trait business we have agreed to indemnify the purchaser and its affiliates up to a specified amount if they incur damages due to any infringement or alleged infringement of certain patents. We have certain collaboration licensing agreements, which contain standard indemnification clauses. Such clauses typically indemnify the customer or vendor for an adverse judgment in a lawsuit in the event of our misuse or negligence. We consider the likelihood of an adverse judgment related to an indemnification agreement to be remote. Furthermore, in the event of an adverse judgment, any losses under such an adverse judgment may be substantially offset by corporate insurance.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE 13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables summarize the unaudited quarterly financial data for the last two fiscal years (in thousands, except per share data):

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

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

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

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

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on our financial statements.

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

Attestation Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Exelixis, Inc

We have audited Exelixis, Inc.'s internal control over financial reporting as of December 28, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Exelixis, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance

about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Exelixis, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Exelixis, Inc. as of December 28, 2007 and December 29, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three fiscal years in the period ended December 28, 2007 of Exelixis, Inc. and our report dated February 13, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California
February 13, 2008

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

Code of Ethics

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

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Conduct and Ethics by posting such information on our website, at the address and location specified above and, to the extent required by the listing standards of the Nasdaq Stock Market, by filing a Current Report on Form 8-K with the SEC, disclosing such information.

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

Equity Compensation Plan Information

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

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

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

- ¹ In January 2000, we adopted the 2000 Equity Incentive Plan (the "2000 Plan") to replace the 1997 Plan (described below in note 4). A total of 3.0 million shares of Exelixis common stock were initially authorized for issuance under the 2000 Plan. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: (i) 5% of our outstanding shares on a fully-diluted basis and (ii) that number of shares subject to stock awards granted under the 2000 Plan during the prior 12-month period; provided, however, that the share increases shall not exceed 30.0 million shares in the aggregate. The Board of Directors may, however, provide for a lesser number at any time prior to the calculation date.
- ² In January 2000, we adopted the 2000 Non-Employee Directors' Stock Option Plan (the "Director Plan"). The Director Plan provides for the automatic grant of options to purchase shares of common stock to non-employee directors. A total of 0.5 million shares of our common stock were initially authorized for issuance under the Director Plan. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: (i) 0.75% of our outstanding shares on a fully-diluted basis and (ii) that number of shares subject to options granted under the Director Plan during the prior 12-month period. The Board of Directors may, however, provide for a lesser number at any time prior to the calculation date.
- ³ In January 2000, we adopted the 2000 Employee Stock Purchase Plan (the "ESPP"). The ESPP was amended in April 2005 to increase the total number of shares issuable under the plan. The ESPP allows for qualified employees (as defined in the ESPP) to purchase shares of our common stock at a price equal to the lower of 85% of the closing price at the beginning of the offering period or 85% of the closing price at the end of each purchase period. A total of 0.3 million shares of common stock were initially authorized for issuance under the ESPP. On the last day of each year for ten years, starting in 2000, the share reserve will automatically be increased by a number of shares equal to the greater of: (i) 0.75% of our outstanding shares on a fully-diluted basis and (ii) that number of shares subject to stock awards granted under the plan during the prior 12-month period; provided, however, that the share increases shall not exceed 3.4 million shares in the aggregate. However, the board may provide for a lesser number at any time prior to the calculation date.

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

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

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

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

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

INDEX TO EXHIBITS

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

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

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

<u>Exhibit Number</u>	<u>Description</u>
10.50	Amendment No. 7, dated December 21, 2006, to the Loan and Security Agreement, dated May 22, 2002, between Silicon Valley Bank and Exelixis, Inc. (24)
10.51	Amendment No. 8, dated December 21, 2007, to the Loan and Security Agreement, dated May 22, 2002, between Silicon Valley Bank and Exelixis, Inc. (28)
10.52**	Contract Research Agreement, dated as of September 4, 2007, by and among Agrigenetics, Inc., Mycogen Corporation, Exelixis Plant Sciences, Inc. and Exelixis, Inc. (27)
10.53	Lease Agreement, dated September 14, 2007, between ARE-San Francisco No. 12, LLC and Exelixis, Inc. (27)
10.54**	Shareholders' Agreement, dated November 20, 2007, by and between Taconic Farms, Inc. and Exelixis, Inc.
21.1	Subsidiaries of Exelixis, Inc.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (contained on signature page).
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
32.1‡	Certification by the Chief Executive Officer and the Chief Financial Officer of Exelixis, Inc., as required by Rule 13a-14(b) or 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

† Management contract or compensatory plan.

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

* Confidential treatment granted for certain portions of this exhibit.

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

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

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

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

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



170 Harbor Way
P.O. Box 511
South San Francisco, CA 94083-0511

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 1, 2008**

To the Stockholders of Exelixis, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Exelixis, Inc., a Delaware corporation ("Exelixis"), will be held on Thursday, May 1, 2008 at 8:00 a.m., local time, at its offices located at 210 East Grand Avenue, South San Francisco, CA 94083-0511 for the following purposes:

1. To elect four Class III directors to hold office until the 2011 Annual Meeting of Stockholders.
2. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as Exelixis' independent registered public accounting firm for the fiscal year ending January 2, 2009.
3. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is March 5, 2008. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

Important notice regarding the availability of proxy materials for the Stockholders Meeting to be held on May 1, 2008 at 8:00 a.m., local time, at Exelixis' offices located at 210 East Grand Avenue, South San Francisco, CA 94083-0511.

The proxy statement and annual report to stockholders are available at <http://bnymellon.mobular.net/bnymellon/exel>. The Board of Directors recommends that you vote **FOR** the proposals identified above.

By Order of the Board of Directors

JAMES B. BUCHER
Secretary

South San Francisco, California
April 10, 2008

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR YOUR CONVENIENCE. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER. YOU MAY ALSO BE ABLE TO SUBMIT YOUR PROXY VIA THE INTERNET OR BY TELEPHONE. PLEASE REFER TO THE INFORMATION PROVIDED WITH YOUR PROXY CARD OR VOTING INSTRUCTION FORM FOR FURTHER INFORMATION.



EXELIXIS™

170 Harbor Way
P.O. Box 511
South San Francisco, CA 94083-0511

**PROXY STATEMENT
FOR THE 2008 ANNUAL MEETING OF STOCKHOLDERS
MAY 1, 2008**

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Why am I receiving these materials?

We have sent you this proxy statement and the enclosed proxy card because the Board of Directors of Exelixis, Inc. (sometimes referred to as “we,” “us,” the “Company” or “Exelixis”) is soliciting your proxy to vote at the 2008 Annual Meeting of Stockholders, including at any adjournments or postponements of the meeting. You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card, or follow the instructions below to submit your proxy over the telephone or on the Internet.

We intend to mail this proxy statement and accompanying proxy card on or about April 10, 2008 to all stockholders of record entitled to vote at the Annual Meeting.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on March 5, 2008 will be entitled to vote at the Annual Meeting. On this record date, there were 105,073,846 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on March 5, 2008 your shares were registered directly in your name with our transfer agent, BNY Mellon Shareowner Services, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card or vote by proxy over the telephone or on the Internet as instructed below to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on March 5, 2008 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in “street name” and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are two matters scheduled for a vote:

- Election of four Class III directors to hold office until the 2011 Annual Meeting of Stockholders; and
- Ratification of Ernst & Young LLP as Exelixis’ independent registered public accounting firm for the fiscal year ending January 2, 2009.

How do I vote?

You may either vote "For" all the nominees to the Board of Directors or you may "Withhold" your vote for any nominee you specify. For each of the other matters to be voted on, you may vote "For" or "Against" or abstain from voting. The procedures for voting are fairly simple:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting, vote by proxy using the enclosed proxy card, vote by proxy over the telephone or vote by proxy on the Internet. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy.

- To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.
- To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.
- To vote over the telephone, dial toll-free 1-866-540-5760 from the United States using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 11:59 p.m., Eastern Time, on April 30, 2008 to be counted.
- To vote on the Internet, go to <http://www.proxyvoting.com/exel> to complete an electronic proxy card. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 11:59 p.m., Eastern Time, on April 30, 2008 to be counted.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

Most beneficial owners whose stock is held in street name receive voting instruction forms from their banks, brokers or other agents, rather than the proxy card. You must follow these instructions in order for your bank, broker or other agent to vote your shares per your instructions. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, many brokers and banks provide the means to grant proxies to vote shares by telephone and via the Internet. If your shares are held in an account with a broker or bank providing such a service, you may grant a proxy to vote those shares by telephone or over the Internet as instructed by your broker or bank. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

We provide Internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of March 5, 2008.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted "For" the election of each of the four nominees for director, and "For" the ratification of the selection of Ernst & Young LLP as Exelixis' independent registered public accounting firm for the fiscal year ending January 2, 2009.

If any other matter is properly presented at the meeting, your proxyholder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will bear the entire cost of soliciting proxies, including the preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of our common stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of our common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by our directors, officers or other regular employees. No additional compensation will be paid to directors, officers or other regular employees for such services.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. You may revoke your proxy in the following ways:

Stockholder of Record: Shares Registered in Your Name

- Your proxy may be revoked by filing with the Secretary of Exelixis at the Company's principal executive office, Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511, either (1) a written notice of revocation or (2) a duly executed proxy card bearing a later date.
- Your proxy may also be revoked by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke your proxy.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

- If your shares are held by your broker or bank as nominee or agent, you should follow the instructions provided by your broker or bank to revoke any prior voting instructions.

What is the deadline for submitting stockholder proposals for the 2009 Annual Meeting?

To be considered for inclusion in the 2009 proxy materials, your proposal must be submitted in writing by November 27, 2008 to Exelixis' Secretary at Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511. However, if our 2009 Annual Meeting of Stockholders is not held between April 1, 2009 and May 31, 2009, then the deadline will be a reasonable time prior to the time that we begin to print and mail our proxy materials.

If you wish to submit a proposal or nominate a director at the 2009 Annual Meeting of Stockholders, but you are not requesting that your proposal or nomination be included in next year's proxy materials, you must submit your proposal in writing, in the manner set forth in our Bylaws, to Exelixis' Secretary at Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511 no earlier than the close of business on February 1, 2009, and no later than the close of business on March 2, 2009. However, if our 2009 Annual Meeting of Stockholders is not held between April 1, 2009 and May 31, 2009, then you must notify Exelixis'

Secretary, in writing, not earlier than the close of business on the 90th day prior to the date of the 2009 Annual Meeting of Stockholders and not later than the close of business on the later of (i) the 60th day prior to the date of the 2009 Annual Meeting of Stockholders or (ii) if we publicly announce the date of the 2009 Annual Meeting of Stockholders fewer than 70 days prior to the date of the 2009 Annual Meeting of Stockholders, the 10th day following the day that we first make a public announcement of the date of the 2009 Annual Meeting of Stockholders. We also advise you to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations. The chairperson of the 2009 Annual Meeting of Stockholders may determine, if the facts warrant, that a matter has not been properly brought before the meeting and, therefore, may not be considered at the meeting. In addition, if you do not also comply with the requirements of Rule 14a-4(c)(2) under the Securities Exchange Act of 1934, our management will have discretionary authority to vote all shares for which it has proxies in opposition to any such stockholder proposal or director nomination.

How are votes counted?

Votes will be counted by the inspector of election appointed for the Annual Meeting, who will separately count "For", "Withhold" and, with respect to Proposal 2, "Against" votes, abstentions and broker non-votes. A "broker non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner (despite voting on at least one other proposal for which it does have discretionary authority or for which it has received instructions). Broker non-votes have no effect and will not be counted towards the vote total for any proposal. Abstentions will be counted towards the vote total for Proposal 2 and will have the same effect as "Against" votes.

How many votes are needed to approve each proposal?

- For the election of directors, the four Class III nominees receiving the most "For" votes (from the holders of votes of shares present in person or represented by proxy and entitled to vote on the election of directors) will be elected. Only votes "For" or "Withheld" will affect the outcome.
- To be approved, Proposal No. 2, the ratification of Ernst & Young LLP as Exelixis' independent registered public accounting firm for the fiscal year ended January 2, 2009, must receive "For" votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares entitled to vote are represented by votes at the meeting or by proxy. On the record date, there were 105,073,846 shares outstanding and entitled to vote.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, either the chairman of the meeting or the holders of a majority of shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in our quarterly report on Form 10-Q for the second quarter of 2008.

PROPOSAL 1

ELECTION OF CLASS III DIRECTORS

Our Certificate of Incorporation and Bylaws provide that the Board of Directors is divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy in a class, including a vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director's successor is elected and qualified, or until such director's earlier death, resignation or removal.

The Board of Directors presently has ten members. There are four directors in Class III whose term of office expires in 2008. Each of the nominees for election to this class is currently a director of the Company who was previously elected by the stockholders. If elected at the Annual Meeting, each of these nominees would serve until the 2011 Annual Meeting and until his successor is elected and has qualified, or, if sooner, until the director's death, resignation or removal.

Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote at the Annual Meeting. The four nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the four nominees named below. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of such substitute nominee as the Nominating and Corporate Governance Committee of the Board may propose. Each person nominated for election has agreed to serve if elected, and we have no reason to believe that any nominee will be unable to serve.

Set forth below is biographical information for each person nominated and each person whose term of office as a director will continue after the Annual Meeting.

Class III Nominees for Election for a Three-Year Term expiring at the 2011 Annual Meeting

Stelios Papadopoulos, Ph.D., age 59, a co-founder of Exelixis, has been a director since December 1994 and the Chairman of the Board since January 1998. Dr. Papadopoulos retired as Vice Chairman of Cowen & Co., LLC in August 2006 after six years as an investment banker with the firm, where he focused on the biotechnology and pharmaceutical sectors. Prior to joining Cowen & Co., he spent 13 years as an investment banker at PaineWebber, Incorporated, where he was most recently Chairman of PaineWebber Development Corp., a PaineWebber subsidiary focusing on biotechnology. He joined PaineWebber in April 1987 from Drexel Burnham Lambert, where he was a Vice President in the Equity Research Department covering the biotechnology industry. Prior to Drexel, he was a biotechnology analyst at Donaldson, Lufkin & Jenrette. Before coming to Wall Street in 1985, Dr. Papadopoulos was on the faculty of the Department of Cell Biology at New York University Medical Center. He continues his affiliation with New York University Medical Center as an Adjunct Associate Professor of Cell Biology. Dr. Papadopoulos is a co-founder and member of the board of directors of Anadys Pharmaceuticals, Inc. and Cellzome AG. He is vice-chairman of the board of directors of BG Medicine, Inc., a privately-held life sciences company, a member of the board of directors of Neuronix, Inc., a privately-held biotechnology company, and a member of the Scientific Advisory Board of Symphony Capital, a private equity firm. In the not-for-profit sector, Dr. Papadopoulos is a co-founder and Chairman of Fondation Sante, a member of the board of visitors of Duke University Medical Center and a member of the board of directors of the National Marrow Donor Program. Dr. Papadopoulos holds a Ph.D. in Biophysics and an M.B.A. in Finance, both from New York University.

George A. Scangos, Ph.D., age 59, has served as a director and as Exelixis' President and Chief Executive Officer since October 1996. From September 1993 to October 1996, Dr. Scangos served as President of Biotechnology at Bayer Corporation, a pharmaceutical company, and was responsible for research, business and

process development, manufacturing, engineering and quality assurance. Dr. Scangos is a member and Chairman of the board of directors of Anadys Pharmaceuticals, Inc. and is a member of the board of directors of Entelos, Inc. Dr. Scangos was a Post-Doctoral Fellow at Yale University and a faculty member at Johns Hopkins University. Dr. Scangos currently holds an appointment as Adjunct Professor of Biology at Johns Hopkins University. Dr. Scangos holds a B.A. in Biology from Cornell University and a Ph.D. in Microbiology from the University of Massachusetts.

Frank McCormick, Ph.D., age 57, has been a director since July 2003. Dr. McCormick is Director of the University of California, San Francisco (UCSF) Comprehensive Cancer Center and has been the David A. Wood Professor of Tumor Biology and Cancer Research in the Department of Microbiology and Immunology at UCSF since 1998. From 1992 to 1998, Dr. McCormick was the founder and Chief Scientific Officer at Onyx Pharmaceuticals, Inc., a biotechnology company. From 1991 to 1992, he served as Vice President of Therapeutic Research at Chiron Corporation, a pharmaceutical company, and from 1981 to 1990, he served as Vice President of Discovery Research with Cetus Corporation, a biotechnology company. Dr. McCormick is on the editorial board of some of the most prestigious international cancer publications and serves as a board member or advisor to multiple cancer research organizations. Dr. McCormick was a Post-Doctoral Fellow with Dr. Allen Smith at the Imperial Cancer Research Fund in London, England, and with Professor Seymour S. Cohen at the State University of New York at Stony Brook. Dr. McCormick holds a B.S. in Biochemistry from the University of Birmingham, England and a Ph.D. in Biochemistry from the University of Cambridge, England.

Lance Willsey, M.D., age 46, has been a director since April 1997. Dr. Willsey has been a founding partner of DCF Capital, a hedge fund focused on investing in the life sciences, since July 1998. From July 1997 to July 1998, Dr. Willsey served on the Staff Department of Urologic Oncology at the Dana Farber Cancer Institute at Harvard University School of Medicine. From July 1996 to July 1997, Dr. Willsey served on the Staff Department of Urology at Massachusetts General Hospital at Harvard University School of Medicine, where he was a urology resident from July 1992 to July 1996. Dr. Willsey is a member of the board of directors of Exact Sciences Corporation, a biotechnology company. Dr. Willsey holds a B.S. in Physiology from Michigan State University and an M.S. in Biology and an M.D., both from Wayne State University.

The Board of Directors Recommends a Vote in Favor of Each Named Nominee.

Class I Directors Continuing in Office until the 2009 Annual Meeting

Charles Cohen, Ph.D., age 57, has been a director since November 1995. Since May 2007, Dr. Cohen has been a managing director of Advent Healthcare Ventures, a venture capital firm. Currently, Dr. Cohen is the Chairman of the Supervisory Board of Cellzome AG, a post-genomics biotechnology company. From 2003 to 2007, Dr. Cohen was Vice President of Advent International, a global private equity firm. In 2000 to 2002, Dr. Cohen was the Chief Executive Officer of Cellzome AG. Prior to that, Dr. Cohen co-founded Creative BioMolecules, Inc., a biotechnology company, in 1982 and was a director and its Chief Executive Officer from 1985 to 1995. Dr. Cohen serves on the board of directors of several private companies. Dr. Cohen has been the Chief Executive Officer of several companies. Dr. Cohen received his Ph.D. from New York University School of Medicine.

George Poste, D.V.M., Ph.D., age 63, has been a director since August 2004. Dr. Poste has been the director of the Biodesign Institute at Arizona State University since May 2003. Dr. Poste serves as the Chief Executive Officer of Health Technology Networks, a consulting company that specializes in the application of genomic technologies and computing in healthcare, since 1999. From 1992 to 1999, he was the Chief Science and Technology Officer and President, R&D of SmithKline Beecham Corporation, a pharmaceutical company. Dr. Poste serves on the Defense Science Board of the U.S. Department of Defense (and chairs the Task Force on Bioterrorism) and is a member of other organizations dedicated to advance the defense against bioweapons and biowarfare. Dr. Poste is also the Non-Executive Chairman of Orchid Biosciences, Inc., a DNA forensics company, and a member of the board of directors of Monsanto Company, a provider of agricultural products and

solutions. Dr. Poste is a Fellow of the Royal Society, the UK Academy of Medical Sciences, Hoover Institution, Stanford University, and various other prestigious organizations and has been awarded honorary doctorates from several universities. Dr. Poste holds a D.V.M. in veterinary medicine and a Ph.D. in Virology from the University of Bristol, England.

Jack L. Wyszomierski, age 52, has been a director since February 2004. Since 2004, Mr. Wyszomierski has been the Executive Vice President and Chief Financial Officer of VWR International, LLC, a supplier of laboratory supplies, equipment and supply chain solutions to the global research laboratory industry. From 1982 to 2003, Mr. Wyszomierski held positions of increasing responsibility within the finance group at Schering-Plough Corporation, a health care company, culminating with his appointment as Executive Vice President and Chief Financial Officer in 1996. Prior to joining Schering-Plough, he was responsible for capitalization planning at Joy Manufacturing Company, a producer of mining equipment, and was a management consultant at Data Resources, Inc. Mr. Wyszomierski holds a M.S. in Industrial Administration and a B.S. in Administration, Management Science and Economics from Carnegie Mellon University.

Class II Directors Continuing in Office until the 2010 Annual Meeting

Alan M. Garber, M.D., Ph.D., age 52, has been a director since January 2005. Dr. Garber has been the Henry J. Kaiser Jr. Professor and a Professor of Medicine at Stanford University since 1998. Dr. Garber is also a Professor (by courtesy) of Economics, Business, and Health Research and Policy at Stanford University. Dr. Garber is the Director of the Center for Primary Care and Outcomes Research at Stanford University School of Medicine, the Center for Health Policy at Stanford University and the Health Care Program of the National Bureau of Economic Research. He is a Senior Fellow at the Institute for International Studies at Stanford University and a staff physician at the VA Palo Alto Health Care System. Dr. Garber is a member of the Institute of Medicine, the American Society of Clinical Investigation, and the Association of American Physicians. Dr. Garber is on the editorial board of acclaimed scientific journals and has received numerous awards and honors. Dr. Garber holds an A.B. *summa cum laude*, an A.M. and a Ph.D., all in Economics from Harvard University, and an M.D. from Stanford University.

Vincent T. Marchesi, M.D., Ph.D., age 72, has been a director since May 2001. Since 1973, Dr. Marchesi has been a Professor of Pathology and Cell Biology at Yale University and, since 1991, the Director of the Boyer Center for Molecular Medicine at Yale University. In 1982, Dr. Marchesi co-founded Molecular Diagnostics, Inc., a diagnostic development company. Dr. Marchesi was formerly Chair of Pathology at the Yale-New Haven Hospital. Dr. Marchesi holds an M.D. from Yale University and a Ph.D. from Oxford University, and is a member of the National Academy of Sciences and the Institute of Medicine.

Carl B. Feldbaum, Esq., age 64, has been a director since February 2007. Mr. Feldbaum is also member of the board of directors of Actelion, Ltd, a biopharmaceutical company. Mr. Feldbaum is president emeritus of the Biotechnology Industry Organization (BIO), which represents more than 1,000 biotechnology companies, academic institutions and state biotechnology centers internationally. Mr. Feldbaum served as president of BIO from 1993 until his retirement in 2005. Prior to joining BIO, Mr. Feldbaum was chief of staff to Senator Arlen Specter of Pennsylvania. He also was president and founder of the Palomar Corporation, a national security "think tank" in Washington, D.C. Before founding Palomar Corporation, Mr. Feldbaum was assistant to the Secretary of Energy and served as the Inspector General for defense intelligence in the U.S. Department of Defense. Mr. Feldbaum received a B.S. in Biology from Princeton University and his J.D. from the University of Pennsylvania Law School.

INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Corporate Governance

Corporate Governance Guidelines. We have adopted written corporate governance guidelines, which may be viewed at www.exelixis.com.¹ These guidelines include guidelines for determining director independence and qualifications for directors. Our Board regularly reviews, and modifies from time to time, the corporate governance guidelines, Board committee charters and Board practices.

Code of Conduct and Ethics. We have adopted a Code of Conduct and Ethics that applies to all directors, officers and employees, including the principal executive officer, principal financial officer and principal accounting officer. Our Board regularly reviews, and modifies from time to time, the Code of Conduct and Ethics. Our Code of Conduct and Ethics may be viewed at www.exelixis.com under the caption "Investors".¹ We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Conduct and Ethics by posting such information on our website, at the address and location specified above and, to the extent required by the listing standards of the Nasdaq Stock Market, by filing a Current Report on Form 8-K with the SEC, disclosing such information.

Director Independence. We have adopted standards for director independence pursuant to Nasdaq listing standards and rules of the Securities and Exchange Commission ("SEC"), which require that a majority of the members of a listed company's Board of Directors qualify as "independent," as affirmatively determined by the Board of Directors. An "independent director" means a person other than an officer or employee of the Company or one of our subsidiaries, or another individual having a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent registered public accounting firm, the Board has affirmatively determined that Drs. Cohen, Garber, Marchesi, McCormick, Papadopoulos, Poste and Willsey and Messrs. Wyszomierski and Feldbaum, who are nine of the ten members of the Board, represent a majority on the Board and are independent. In making this determination, the Board found that none of these directors or nominees for director had a material or other disqualifying relationship with the Company. Dr. Scangos, the Company's President and Chief Executive Officer, is not an independent director by virtue of his employment with the Company. In addition, the Board has also determined that: (i) all directors who serve on the Audit, Compensation and Nominating and Corporate Governance Committees are independent under applicable Nasdaq listing standards and SEC rules; and (ii) all members of the Audit Committee meet the additional independence requirement that they do not directly or indirectly receive compensation from us other than their compensation as directors.

Stockholder Communications with the Board. Security holders may send communications to the Board by mail at 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511, by facsimile at (650) 837-7251 or by e-mail at info@exelixis.com, each of the foregoing sent "Attn: Board of Directors."

Board Committees and Meetings

During the year ended December 28, 2007, the Board held four meetings. As required under applicable listing standards of the Nasdaq Stock Market, during the year ended December 28, 2007, our independent directors met four times in regularly scheduled executive sessions at which only independent directors were present. During the year ended December 28, 2007, all of our directors attended at least 75% of the total meetings of the Board and of the committees on which they served during the period for which they were a director or committee member, respectively.

¹ The information on our website is not a part of this proxy statement.

In 2007, the Board had an Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Research and Development Committee.

Audit Committee

The Audit Committee of the Board oversees the Company's corporate accounting and financial reporting process, ensures the integrity of our financial statements and has been designated as the Qualified Legal Compliance Committee within the meaning of Rule 205.2(k) of Title 17, Chapter II of the Code of Federal Regulations. The Audit Committee performs several functions, such as evaluating the performance of, and assessing the qualifications of, the independent registered public accounting firm; determining on behalf of the Board whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm; reviewing and approving the engagement of the independent registered public accounting firm to perform any proposed permissible services and appropriate compensation thereof; reviewing and approving all related party transactions; establishing procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; reviewing the financial statements to be included in our Annual Report on Form 10-K; discussing with management and the independent registered public accounting firm the results of the annual audit and the results of our quarterly financial statement reviews; and resolving any disagreements between the independent registered public accounting firm and management. The Audit Committee also has the specific responsibilities and authority necessary to comply with the listing standards of the Nasdaq Stock Market applicable to audit committees.

During 2007, the Audit Committee was comprised of three independent directors, Drs. Cohen and Willsey and Mr. Wyszomierski (chairman). The Board has determined that Mr. Wyszomierski is an "audit committee financial expert" as defined in applicable SEC rules. The Audit Committee met five times during the year ended December 28, 2007. The Audit Committee's report is set forth in "Report of the Audit Committee" below. The Audit Committee has adopted a written charter, which was attached as Appendix A to our proxy statement for the 2007 Annual Meeting.

Nominating and Corporate Governance Committee

The purpose of the Nominating and Corporate Governance Committee is to oversee all aspects of the Company's corporate governance functions on behalf of the Board; make recommendations to the Board regarding corporate governance issues; identify, review and evaluate candidates to serve as directors; serve as a focal point for communication between such candidates, non-committee directors and management; recommend such candidates to the Board and make such other recommendations to the Board regarding affairs relating to the directors, including director compensation; and develop a set of corporate governance principles for the Company.

During 2007, the Nominating and Corporate Governance Committee was comprised of three independent directors, Drs. Garber (chairman) and Poste and Mr. Feldbaum. The Nominating and Corporate Governance Committee held four meetings in 2007. The committee has adopted a written charter, which was attached as Appendix B to our proxy statement for the 2007 Annual Meeting. Because we are an emerging biopharmaceutical company with rapidly evolving and expanding research and clinical programs, the Board does not believe that it is appropriate to adopt, and the Nominating and Corporate Governance Committee has not adopted, a formal policy with respect to a fixed set of minimum qualifications for its candidates for membership on the Board. Instead, in considering candidates for directorship, the Nominating and Corporate Governance Committee will generally consider all relevant factors, including the candidate's applicable expertise and demonstrated excellence in his or her field, the usefulness of such expertise to us, the availability of the candidate to devote sufficient time and attention to the affairs of the Company, the existence of any relationship that would interfere with the exercise of the candidate's independent judgment, and the candidate's demonstrated character and judgment. In the review process, the Nominating and Corporate Governance Committee evaluates prospective candidates for directorship in the context of the existing membership of the Board (including the qualities and skills of the existing directors), our operating requirements and the long-term interests of our stockholders. The Nominating and Corporate Governance Committee

generally will consider and assess all candidates recommended by our directors, officers and stockholders. We have also engaged an executive search firm to assist the committee in identifying and recruiting potential candidates for membership on the Board. The Nominating and Corporate Governance Committee intends to consider stockholder recommendations for directors using the same criteria as potential nominees recommended by the members of the Nominating and Corporate Governance Committee or others. The Nominating and Corporate Governance Committee has not received any recommended nominations from any of our stockholders in connection with the 2008 Annual Meeting. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. If, after its review, the Nominating and Corporate Governance Committee supports a candidate, it would recommend the candidate for consideration by the full Board.

Stockholders who wish to recommend individuals for consideration by the Nominating and Corporate Governance Committee to become nominees for election to the Board may do so by delivering a written recommendation to the Nominating and Corporate Governance Committee within the timeframe specified in our Bylaws that is applicable to matters to be brought before an Annual Meeting of Stockholders as set forth under "Questions and Answers about This Proxy Material and Voting" above. Such communications should be sent to the following address: 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511, Attn: Nominating and Corporate Governance Committee of the Board of Directors. Submissions must include the full name of the proposed nominee, a description of the proposed nominee's business experience for at least the previous five years, complete biographical information, a description of the proposed nominee's qualifications as a director and a representation that the nominating stockholder is a beneficial or record owner of our stock. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director, if elected.

Compensation Committee

The purpose of the Compensation Committee is to oversee the Company's compensation policies, plans and programs, review and determine the compensation to be paid to officers and directors and prepare and review the Compensation Committee's report included in our annual proxy statement in accordance with applicable rules and regulations of the SEC. The Compensation Committee reviews and recommends to the Board the compensation and benefits of all officers, establishes and reviews general policies relating to compensation and benefits of employees, including executive officers, and performs such other functions regarding compensation as the Board may delegate. The Compensation Committee also administers the issuance of stock options and other awards under our stock plans.

During 2007, the Compensation Committee was comprised of three independent directors, Drs. Cohen (chairman), Marchesi and Willsey. The Compensation Committee met 11 times during the year ended December 28, 2007. The Compensation Committee's report is set forth in "Compensation Committee Report" below. Additional information on the committee's processes and procedures for consideration of executive compensation are addressed in the Compensation Discussion and Analysis below. The Compensation Committee has adopted a written charter, which was attached as Appendix C to our proxy statement for the 2007 Annual Meeting.

Research and Development Committee

The Research and Development Committee, which was established effective January 1, 2006, is responsible for advising the Company and the Board on matters of scientific importance as the Board, in consultation with management, may designate from time to time. The Research and Development Committee has adopted a written charter. During 2007, the Research and Development Committee was comprised of three members, Drs. McCormick, Marchesi and Poste (chairman) and met two times.

Annual Meeting; Attendance

The Board does not have a formal policy with respect to the attendance of its members at Annual Meetings of Stockholders. Dr. Scangos was the only member of the Board in attendance at the 2007 Annual Meeting of Stockholders.

Compensation of Directors

Cash Compensation Arrangements

The table below provides information regarding the cash compensation arrangements for our non-employee directors for 2007 and 2008. Dr. Scangos receives no compensation in his capacity as a member of the Board.

Cash Compensation		<u>2007</u>	<u>2008</u>
Board	Retainer Fee	\$20,000	\$20,000
	Additional Chair Retainer Fee	20,000	25,000
	Regular Meeting Fee	2,500	2,500
	Special Meeting Fee(1)	500	1,000
Audit Committee	Retainer Fee	6,000	6,000
	Additional Chair Retainer Fee	6,000	10,000
	Meeting Fee(2)	1,000	1,000
Compensation Committee	Retainer Fee	5,000	5,000
	Additional Chair Retainer Fee	2,500	5,000
	Meeting Fee(2)	1,000	1,000
Nominating & Corporate Governance	Retainer Fee	5,000	5,000
	Additional Chair Retainer Fee	2,500	5,000
	Meeting Fee(2)	1,000	1,000
Research & Development Committee	Retainer Fee	10,000	10,000
	Additional Chair Retainer Fee	10,000	10,000
	Meeting Fee(2)	5,000	5,000

(1) Meeting at which minutes are generated.

(2) In-person meeting or teleconference at which minutes are generated.

Equity Compensation Arrangements

In January 2000, we adopted the 2000 Non-Employee Directors' Stock Option Plan (the "Directors' Plan") to provide for the automatic grant of options to purchase shares of common stock to directors who are not employees of the Company or of any of our affiliates. Such options are granted automatically, without further action by us, the Board or our stockholders. Under the terms of the Directors' Plan, all non-employee directors receive a one-time initial option to purchase 25,000 shares of common stock. In addition, effective in 2008 all non-employee directors receive an annual option to purchase 15,000 shares of common stock on the date of the Annual Meeting of Stockholders. Prior to 2008, all non-employee directors received an annual option to purchase 10,000 shares of common stock on the date of the Annual Meeting of Stockholders. Options granted under the Directors' Plan are not intended to qualify as incentive stock options under the Internal Revenue Code of 1986, as amended. The exercise price of options granted under the Directors' Plan is equal to 100% of the fair market value of a share of common stock on the grant date. Under the terms of the Directors' Plan, the initial options to purchase 25,000 shares are immediately exercisable but will vest at the rate of 25% of the shares on the first anniversary of the grant date and monthly thereafter over the next three years. The annual grants to purchase 15,000 shares are exercisable immediately but will vest monthly over a one-year period. As long as the optionholder continues to serve with us or with an affiliate of the Company, the option will continue to vest and be exercisable during its term. When the optionholder's service terminates, we will have the right to repurchase any unvested shares at the original exercise price, without interest. All options granted under the Directors' Plan have a term of ten years and are set to terminate three months after a non-employee director's service terminates. In the event of a merger of Exelixis with or into another corporation or a consolidation, acquisition of assets or other change-in-control transaction involving Exelixis, any surviving entity will either assume or replace all outstanding options under the Directors' Plan. Otherwise, the vesting of the options will accelerate.

During 2007, we granted options covering 10,000 shares to each of our non-employee directors, at an exercise price per share of \$10.53. In addition, we granted to Mr. Feldbaum options covering 25,000 shares, at an exercise price per share of \$10.41, when he joined the Board on February 8, 2007. The exercise price for each of these grants equaled the fair market value of our common stock at the date of grant (based on the closing sale price reported on the Nasdaq Global Market on the last trading day prior to the day of grant).

Reimbursement of Expenses

The members of the Board are also eligible for reimbursement of expenses incurred in connection with their attendance of Board meetings in accordance with our policy. In 2007, total reimbursement for such expenses was approximately \$37,006.

Director Compensation Table

The following table shows compensation information for our non-employee directors for the fiscal year ended December 28, 2007.

Director Compensation for Fiscal 2007

<u>Name</u>	<u>Fees Earned or Paid in Cash(\$)</u>	<u>Option Awards\$(1)</u>	<u>All Other Compensation(\$)</u>	<u>Total(\$)</u>
Charles Cohen, Ph.D.	\$59,500	\$ 57,703	\$—	\$117,203
Carl B. Feldbaum, Esq.	35,239	66,044	—	101,283
Alan M. Garber, M.D., Ph.D.	41,500	95,118	—	136,618
Vincent T. Marchesi, M.D., Ph.D.	61,437	57,703	—	119,140
Frank McCormick, Ph.D.	42,500	77,222	—	119,722
Stelios Papadopoulos, Ph.D.	50,000	179,638	—	229,638
George Poste, D.V.M., Ph.D.	69,000	86,319	—	155,319
Lance Willsey, M.D.	55,000	57,703	—	112,703
Jack L. Wyszomierski	47,000	89,022	—	136,022

(1) Amounts shown in this column reflect the compensation costs that we recognized in fiscal 2007 for option awards as determined pursuant to Statement of Financial Accounting Standards No. 123(R), (or "FAS 123R"). The assumptions used to calculate the value of option awards are set forth in Note 10 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2007, filed with the SEC on February 25, 2008. There can be no assurance that the options will ever be exercised (in which case no value will actually be realized by the director) or that the value on exercise will be equal to the FAS 123R value shown in this column.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2007, the Compensation Committee was comprised of Drs. Cohen, Marchesi and Willsey. None of the members of the Compensation Committee has at any time been an officer or employee of Exelixis, except that Dr. Cohen served as our acting Chief Scientific Officer from December 1995 to April 1997 and was named as an officer of one of our former subsidiaries from 2001 through March 2005, for which he did not receive any compensation. No interlocking relationship exists between the Board or Compensation Committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

COMPENSATION COMMITTEE REPORT²

The Compensation Committee of the Board, comprised of independent directors, has reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement and, based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated into the Company's Annual Report on Form 10-K for the year ended December 28, 2007.

Compensation Committee:

Vincent Marchesi
Lance Willsey
Charles Cohen, Chairman

² The material in this report is not "soliciting material," is furnished to, but not deemed "filed" with, the Commission and is not deemed to be incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act, other than the Company's Annual Report on Form 10-K, where it shall be deemed to be "furnished," whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

REPORT OF THE AUDIT COMMITTEE³

The Audit Committee of the Company's Board of Directors serves as the representative of the Board for (a) general oversight of the Company's financial reporting process, (b) monitoring the integrity of the Company's financial statements and systems of internal accounting and financial controls, (c) compliance with legal and regulatory requirements related to the preparation and external audit of the Company's financial statements and (d) selection, evaluation and retention of Exelixis' independent registered public accounting firm. Each of the members of the Audit Committee is independent as defined under the listing standards of the Nasdaq Stock Market and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934.

The Audit Committee maintains a written charter that outlines its responsibilities. Management of the Company has primary responsibility for preparing the Company's consolidated financial statements, ensuring the integrity of such data and establishing the financial reporting process. Ernst & Young LLP, Exelixis' independent registered public accounting firm, is responsible for performing an annual audit of the Company's consolidated financial statements, reviewing the Company's unaudited interim financial statements and expressing an opinion as to the conformity of the annual financial statements with U.S. generally accepted accounting principles. The Audit Committee's responsibility is to oversee and review this process. Based on this background, the Audit Committee reports as follows:

1. The Audit Committee has reviewed and discussed Exelixis' audited consolidated financial statements as of and for the fiscal year ended December 28, 2007 with management and the independent registered public accounting firm, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Audit Committee reviewed management's report on its assessment of the effectiveness of Exelixis' internal control over financial reporting and the independent registered public accounting firm's report on internal control over financial reporting. The Audit Committee has also discussed with management the process used to support the certifications of the Chief Executive Officer and Chief Financial Officer that are required in periodic reports filed by Exelixis with the SEC.

2. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed under generally accepted auditing standards in the United States, including those matters set forth in Statement of Auditing Standards No. 61, as amended, "Communication with Audit Committees" (Codification of Statements on Auditing Standards, AU Section 380), other standards of the Public Accounting Oversight Board (United States), rules of the Securities and Exchange Commission and other applicable regulations.

3. The Audit Committee has received and reviewed the written disclosures and letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and has discussed with the independent registered public accounting firm its independence from Exelixis. The Audit Committee has also considered whether the provision of non-audit services to Exelixis by the independent registered public accounting firm is compatible with maintaining the independence of the independent registered public accounting firm. The Audit Committee has concluded that the independent registered public accounting firm is independent from Exelixis and its management.

4. Based on review and discussion of the matters set forth in paragraphs (1) through (3) above, the Audit Committee has recommended to the Board (and the Board has approved) that the audited consolidated financial

³ The material in this report is not "soliciting material," is not deemed "filed" with the Commission and is not deemed to be incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

statements referred to above and management's assessment of the effectiveness of Exelixis' internal control over financial accounting be included in the Company's Annual Report on Form 10-K for the year ended December 28, 2007 for filing with the SEC.

The Audit Committee has also selected Ernst & Young LLP as Exelixis' independent registered public accounting firm for the fiscal year ending January 2, 2009 and has presented its selection to the Board to present to the stockholders for ratification.

Audit Committee:

Charles Cohen
Lance Willsey
Jack Wyszomierski (Chairman)

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected Ernst & Young LLP as Exelixis' independent registered public accounting firm for the fiscal year ending January 2, 2009. The Board, on behalf of the Audit Committee, has further directed that management submit the selection of the independent registered public accounting firm for ratification by the stockholders at the Annual Meeting. Ernst & Young LLP has audited our financial statements for each of the seven fiscal years in the period ended December 28, 2007. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our Bylaws nor other governing documents or law require stockholder ratification of the selection of Ernst & Young LLP as Exelixis' independent registered public accounting firm. However, the Board is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee of the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee of the Board in its discretion may direct the appointment of different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of Exelixis and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting is required to ratify the selection of Ernst & Young LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

On Behalf of the Audit Committee, the Board of Directors Recommends a Vote in Favor of Proposal 2.

Principal Accountant Fees and Services

The aggregate fees billed by Ernst & Young LLP for the last two fiscal years for the services described below are as follows:

	Fiscal Year Ended	
	December 28, 2007	December 29, 2006
Audit Fees (1)	\$875,717	\$928,600
Audit-related Fees (2)	79,314	26,700
Tax Fees (3)	—	—
All Other Fees (4)	1,500	1,500
Total Fees	<u>\$956,531</u>	<u>\$956,800</u>

- (1) "Audit fees" consist of fees billed for professional services rendered for the audit of our consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements.
- (2) "Audit-related fees" consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit fees." During fiscal 2007 and 2006, these services included consultations relating to various transactions of Exelixis.
- (3) "Tax fees" include fees for tax compliance, tax planning and tax advice. No tax fees were billed during fiscal 2007 and 2006.
- (4) "All other fees" consist of fees for products and services other than the services described above. During fiscal 2007 and 2006, these fees related to an online subscription to an Ernst & Young LLP database.

All fees described above were approved by the Audit Committee. The Audit Committee has determined that the rendering of the services other than audit services by Ernst & Young LLP is compatible with maintaining the independence of the independent registered public accounting firm.

Pre-Approval of Services

During 2007 and 2006, the Audit Committee of the Board pre-approved the audit and non-audit services to be performed by Exelixis' independent registered public accounting firm, Ernst & Young LLP. Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements. The Audit Committee pre-approves all audit and non-audit services rendered by Ernst & Young LLP, although the Audit Committee has not adopted a formal written policy for the pre-approval of audit and non-audit services. The Audit Committee generally pre-approves specified services in the defined categories of audit services, audit-related services, tax services and all other services up to specified amounts. Pre-approval may also be given as part of the Audit Committee's approval of the scope of the engagement of the independent registered public accounting firm or on an individual explicit case-by-case basis before the independent auditor is engaged to provide each service. The Audit Committee or its chairman, whom the Audit Committee has designated as a one-person subcommittee with pre-approval authority, pre-approved all audit fees, audit-related fees, tax fees and other fees in 2007 and 2006. Any pre-approvals by the subcommittee must be and were presented to the Audit Committee at its next scheduled meeting.

**SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the ownership of the Company's common stock as of December 28, 2007 by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all executive officers and directors of the Company as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock. Unless otherwise indicated, the address of each of the individuals named below is: c/o Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511.

<u>Beneficial Owner</u>	<u>Beneficial Ownership (1)</u>	
	<u>Number of Shares</u>	<u>Percent of Total</u>
George A. Scangos, Ph.D. (2)	3,428,495	3.21%
Michael M. Morrissey, Ph.D. (3)	650,922	*
Frank L. Karbe (4)	441,356	*
Gisela M. Schwab, M.D. (5)	80,578	*
Pamela A. Simonton, J.D., LL.M. (6)	355,718	*
Stelios Papadopoulos, Ph.D. (7)	837,277	*
Charles Cohen, Ph.D. (8)	255,625	*
Carl B. Feldbaum, Esq. (9)	35,000	*
Alan M. Garber, M.D., Ph.D. (10)	55,000	*
Vincent T. Marchesi, M.D., Ph.D. (11)	97,000	*
Frank McCormick, Ph.D. (12)	65,000	*
George Poste, D.V.M., Ph.D. (13)	55,000	*
Lance Willsey, M.D. (14)	122,500	*
Jack Wyzomierski (15)	65,000	*
All directors and executive officers as a group (16 persons) (16)	7,015,800	6.41%
5% Stockholders		
Persons Associated with FMR Corp. (17) 82 Devonshire Street Boston, Massachusetts 02109	15,469,400	14.77
T. Rowe Price Associates (18) 100 E Pratt Street Baltimore, MD 21202	9,347,790	8.92
Wellington Management Company LLP (19) 75 State Street Boston, MA 02109	7,523,010	7.18

* Less than one percent

- (1) This table is based upon information supplied by officers and directors and upon information gathered by us about principal stockholders known to us. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 104,744,732 shares outstanding on December 28, 2007, adjusted as required by rules promulgated by the SEC.
- (2) Includes 8,963 shares held by Dr. Scangos and Leslie S. Wilson, as Trustees of The Jennifer Wilson Scangos Trust, and 8,963 shares held by Dr. Scangos and Leslie S. Wilson, as Trustees of The Katherine Wilson Scangos Trust. Also includes 2,135,414 shares Dr. Scangos has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007. Also includes 145 shares acquired in January 2008 through matching contributions made by the Company with respect to Dr. Scangos' contributions into the Company's 401(k) plan during the quarter ended December 28, 2007.

- (3) Includes 42,500 shares held by Dr. Morrissey and Meghan D. Morrissey, Trustees of the Morrissey Family Living Trust, dated July 21, 1994, as amended. Also includes 604,998 shares Dr. Morrissey has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007.
- (4) Includes 429,789 shares Mr. Karbe has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007.
- (5) Includes 74,812 shares Dr. Schwab has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007.
- (6) Includes 352,500 shares Ms. Simonton has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007.
- (7) Includes 10,000 shares held by Fondation Santé, of which Dr. Papadopoulos is a co-trustee. Also includes 185,000 shares Dr. Papadopoulos has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 21,250 of which would be subject to repurchase by us, if so exercised.
- (8) Includes 85,000 shares Dr. Cohen has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 2,500 of which would be subject to repurchase by us, if so exercised.
- (9) Represents 35,000 shares Mr. Feldbaum has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 21,250 of which would be subject to repurchase by us, if so exercised.
- (10) Represents 55,000 shares Dr. Garber has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 8,230 of which would be subject to repurchase by us, if so exercised.
- (11) Includes 75,000 shares Dr. Marchesi has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 2,500 of which would be subject to repurchase by us, if so exercised.
- (12) Represents 65,000 shares Dr. McCormick has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 2,500 of which would be subject to repurchase by us, if so exercised.
- (13) Represents 55,000 shares Dr. Poste has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 5,625 of which would be subject to repurchase by us, if so exercised.
- (14) Includes 85,000 shares Dr. Willsey has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 2,500 of which would be subject to repurchase by us, if so exercised.
- (15) Represents 65,000 shares Mr. Wyszomierski has the right to acquire pursuant to options exercisable within 60 days of December 28, 2007, 2,500 of which would be subject to repurchase by us, if so exercised.
- (16) Total number of shares includes 2,249,290 shares of common stock held by our directors and executive officers as of December 28, 2007 and entities affiliated with such directors and executive officers. Also includes 4,766,510 shares issuable upon exercise of options exercisable within 60 days of December 28, 2007, 71,355 of which would be subject to repurchase by us, if so exercised. Also includes 281 shares acquired in January 2008 through matching contributions made by the Company with respect to contributions by certain of our executive officers into the Company's 401(k) plan during the quarter ended December 28, 2007.
- (17) Fidelity Management & Research Company ("Fidelity"), Pyramis Global Advisors, LLC ("PGA") and Fidelity International Limited ("FIL" and together with Fidelity and PGA, the "Fidelity Investment Advisers") are wholly owned subsidiaries of FMR Corp., investment advisers and the beneficial owners of 15,388,300, 21,200 and 59,900 shares of our common stock, respectively, as a result of acting as the investment advisers to various investment companies (the "Fidelity Funds"). FMR Corp. and Edward C. Johnson 3rd, Chairman of FMR Corp., through their control of the Fidelity Investment Advisers and the Fidelity Funds each has sole power to dispose of the 15,388,300 shares owned by the Fidelity Funds. Neither FMR Corp. nor Edward C. Johnson 3rd has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Fidelity Funds' boards of trustees. Edward C. Johnson 3rd and FMR Corp., through its control of PGA, each has sole dispositive power over 21,200 shares and sole power to vote or direct the voting of 21,200 shares owned by the institutional accounts or funds advised by PGA. Fidelity Investment Advisers carries out the voting of the shares under written guidelines established by the Fidelity Funds' boards of trustees. The foregoing information is based solely on a Schedule 13G/A filed with the SEC on February 14, 2008.
- (18) These shares are owned by various individual and institutional investors for which T. Rowe Price Associates, Inc. ("Price Associates") serves as investment adviser. Price Associates reported that it has sole

dispositive power over such shares and sole voting power over 2,269,800 of such shares. The foregoing information is based solely on a Schedule 13G/A filed with the SEC on February 13, 2008.

- (19) These securities are owned of record by clients of Wellington Management Company, LLP ("WMC"). Those clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. WMC, in its capacity as investment adviser, may be deemed to beneficially own the shares held of record by clients of WMC. WMC reported that it has shared voting power over 5,533,817 of such shares and shared dispositive power over 7,454,510 of such shares. The foregoing information is based solely on a Schedule 13G/A filed with the SEC on February 14, 2008.

EXECUTIVE OFFICERS

The following chart sets forth certain information regarding our executive officers as of March 15, 2008:

<u>Name</u>	<u>Age</u>	<u>Position</u>
George A. Scangos, Ph.D. (1)	59	President, Chief Executive Officer and Director
Michael M. Morrissey, Ph.D.	47	President of Research and Development
Frank L. Karbe	39	Executive Vice President and Chief Financial Officer
Gisela M. Schwab, M.D.	51	Executive Vice President and Chief Medical Officer
Pamela A. Simonton, J.D., LL.M.	58	Executive Vice President and General Counsel
Peter Lamb, Ph.D.	47	Senior Vice President, Discovery Research and Chief Scientific Officer
Lupe M. Rivera	41	Senior Vice President, Operations

(1) Please see “Class III Nominees for Election for a Three-Year Term expiring at the 2011 Annual Meeting” in this proxy statement for information about Dr. Scangos.

Michael M. Morrissey, Ph.D., has served as President of Research and Development since January 2007. From January 2006 until December 2006, Dr. Morrissey served as Executive Vice President, Discovery. From January 2003 to December 2005, Dr. Morrissey served as Senior Vice President, Discovery. Previously, he served as Vice President of Discovery Research from February 2000 through December 2002. From 1991 to 2000, Dr. Morrissey held several positions at Berlex Biosciences, last holding the position of Vice President, Discovery Research. From 1986 to 1991, he served as a Senior Scientist and Project Team Leader in Medicinal Chemistry at CIBA-Geigy Corporation, a pharmaceutical company. He is the author of numerous scientific publications in medicinal chemistry and drug discovery and an inventor on 68 issued U.S. patents and 25 additional published U.S. patent applications. Dr. Morrissey holds a B.S. (Honors) in Chemistry from the University of Wisconsin and a Ph.D. in Chemistry from Harvard University.

Frank L. Karbe has served as Executive Vice President and Chief Financial Officer since July 2007. From February 2004 to July 2007, Mr. Karbe served as Senior Vice President, Chief Financial Officer. From 1997 to January 2004, Mr. Karbe worked as an investment banker for Goldman Sachs & Co., where he served most recently as Vice President in the healthcare group focusing on corporate finance and mergers & acquisitions in the biotechnology industry. Prior to Goldman Sachs, Mr. Karbe held various positions in the finance department of The Royal Dutch/Shell Group in Europe. Mr. Karbe holds a Diplom Kaufmann from the WHU—Otto Beisheim Graduate School of Management, Koblenz, Germany (equivalent to a U.S. Masters of Business Administration).

Gisela M. Schwab, M.D., has served as Executive Vice President and Chief Medical Officer since January 2008. She joined Exelixis in 2006 as Senior Vice President and Chief Medical Officer. From 2002 to 2006, she held the position of Senior Vice President and Chief Medical Officer at Abgenix, Inc., a human antibody-based drug development company. She also served as vice president, clinical development, at Abgenix from 1999 to 2001. Prior to working at Abgenix, from 1992 to 1999, she held positions of increasing responsibility at Amgen Inc., most recently as Director of Clinical Research and Hematology/Oncology Therapeutic Area Team Leader. She received her Doctor of Medicine degree from the University of Heidelberg, trained at the National Cancer Institute and is board certified in internal medicine and hematology and oncology.

Pamela A. Simonton, J.D., LL.M., has served as Executive Vice President and General Counsel since January 2008. Previously, she served as Senior Vice President, Patents and Licensing from January 2004 until December 2007. In addition, she served as Vice President of Corporate Technology Development from April 2000 through December 2003. From July 1996 to April 2000, Ms. Simonton served as Vice President, Licensing

and Acquisitions for Bayer Corporation's Pharmaceutical Division. From September 1994 to July 1996, Ms. Simonton served as Vice President of Patents and Licensing for Bayer's Pharmaceutical Division, North America. Ms. Simonton holds a B.S. in Chemistry from Barry College, an M.S. in Physics from the University of Miami, a J.D. from Nova University and an LL.M. in Patent and Trade Regulation from George Washington University.

Peter Lamb, Ph.D., has served as Senior Vice President, Discovery Research and Chief Scientific Officer since January 2007. Previously, he served as Vice President, Discovery Pharmacology from December 2003 until January 2007 and Senior Director, Molecular Pharmacology and Structural Biology from October 2000 until December 2003. From June 1992 until September 2000 he held positions of increasing responsibility at Ligand Pharmaceuticals, most recently serving as Director of Transcription Research. During this time, he led teams that implemented novel drug discovery approaches that led to the identification of the first small molecule activators of cytokine receptors. Dr. Lamb has held post-doctoral research fellowships at the Carnegie Institution, Department of Embryology with Dr. S.L. McKnight and the University of Oxford with Dr N.J. Proudfoot, working in the field of gene regulation. He has authored numerous articles in the fields of gene expression, signal transduction and oncology, and is an author on multiple issued and pending US patents. He has a Ph.D. in Molecular Biology from the ICRF/University of London and a B.A. in Biochemistry from the University of Cambridge.

Lupe M. Rivera has served as Senior Vice President, Operations since July 2007. Ms. Rivera served as Senior Vice President, Human Resources and Communications from January 2007 through June 2007. Ms. Rivera served as Vice President, Human Resources from July 2004 through December 2006, and she served as Exelixis' Human Resources Director from January 2002 through June 2004. She joined Exelixis in 2002 from AT&T's Digital Subscriber Line (DSL) unit where she held the position of District Manager, Human Resources. Prior to joining AT&T, she was Director, Human Resources for NorthPoint Communications, and prior to that she held various positions with Deltanet, an information technology company. Ms. Rivera also spent twelve years in banking with Valley National Bank of Arizona and Bank One, Arizona. Ms. Rivera holds a Masters Degree in Human Resources & Organization Development from University of San Francisco. Ms. Rivera is a certified Senior Professional in Human Resources (SPHR) by the Human Resource Certification Institute and a Certified Compensation Professional (CCP) from World at Work (formerly known as the American Compensation Association).

COMPENSATION OF EXECUTIVE OFFICERS.

Compensation Discussion and Analysis

Objectives of the Compensation Program

We are committed to developing innovative therapies for cancer and other serious diseases. Through our integrated drug discovery and development activities, we are building a portfolio of novel compounds that we believe have the potential to be high-quality, differentiated pharmaceutical products. Our most advanced pharmaceutical programs focus on discovery and development of small molecule drugs for cancer. The success of development-stage biotechnology companies is significantly influenced by the quality of their work forces. As a result, we face intense competition for executives and other skilled employees from large pharmaceutical companies and strong local competitors, all of which aggressively recruit employees. In light of these circumstances, the overall objective of our compensation program is to support our long-term strategic goal of becoming a successful fully integrated biotechnology company by attracting, retaining and motivating the highest caliber of executives and other employees.

The goals of our executive compensation program are to align compensation with business objectives and performance and with the interests of our stockholders and to enable us to attract, retain and reward executive officers for extraordinary performance. We pay cash compensation to provide an appropriate and competitive level of current cash income and to reward, in the case of any bonus or salary increase, superior performance over the past year. As discussed in further detail below, our 2007 compensation program for our Named Executive Officers (as defined in the "Summary Compensation Table" below) consisted of, and was intended to strike a balance among, the following three principal components:

- *Base Salary.* Base salary for each of our Named Executive Officers is based principally on a review of the performance of Exelixis and each Named Executive Officer during the prior year, the criticality of each Named Executive Officer's skill set, each Named Executive Officer's expected future contributions and prospects for advancement, each Named Executive Officer's tenure and market and benchmark data for our industry and specific peer group, as well as applicable market pressures.
- *Bonus.* Annual cash bonuses are discretionary but generally follow guidelines that set bonus targets based on the seniority of the applicable position and take into account the achievement of company-wide and, other than for our Chief Executive Officer and President of Research and Development, applicable division or department performance, objectives.
- *Equity Incentive Compensation.* Long-term incentive awards, comprised of stock option grants, are designed to ensure that incentive compensation is linked to our long-term performance and to align our Named Executive Officers' performance objectives with the interests of our stockholders. Stock options were granted to our Named Executive Officers both as a reward for past individual and corporate performance and as an incentive for future performance based on the factors set forth above with respect to base salaries, also taking into account the percentage of vested versus unvested options held by each Named Executive Officer.

In addition, we have a Change in Control and Severance Benefit Plan in which all of our Named Executive Officers participate.

The Compensation Committee has not established any formal policies or guidelines for allocating compensation between current and long-term incentive compensation, or between cash and non-cash compensation. However, because of the overall importance to our success of aggressively pursuing our strategic goals, as well as to preserve our cash resources, a significant portion of the Named Executive Officers' total compensation has been, and is expected to continue to be, comprised of stock options.

Role of the Compensation Committee and Executive Officers in Compensation Decisions

The Compensation Committee is responsible for recommending to the Board for approval the compensation packages offered to our Named Executive Officers. The Compensation Committee acts on behalf of the Board of

Directors in discharging the Board's responsibilities with respect to overseeing the Company's compensation policies, plans and programs and establishing and reviewing general policies relating to compensation and benefits of our employees. The Compensation Committee also administers our 2000 Equity Incentive Plan and our other benefit plans. For executive compensation decisions, including decisions relating to the grant of stock options to Named Executive Officers, the Compensation Committee typically considers the recommendations of Dr. Scangos, our Chief Executive Officer, and Dr. Scangos typically participates in the Compensation Committee's deliberations about Named Executive Officer compensation matters. Dr. Scangos and our Compensation Committee also consider the recommendations of Dr. Morrissey, our President of Research and Development, with respect to officers who report to Dr. Morrissey, and in 2007 Dr. Morrissey participated in the Compensation Committee's deliberations about compensation matters related to these officers. However, neither Dr. Scangos nor Dr. Morrissey participates in the determination of his own compensation, nor does he participate in deliberations with respect thereto. Our Chief Executive Officer also annually develops our research and development and other business goals, which are reviewed and, subject to their input, approved by the Compensation Committee and the Board of Directors. In determining their Named Executive Officer compensation recommendations, Dr. Scangos and Dr. Morrissey solicit the input of, and receive documentary support from Lupe Rivera, our Senior Vice President, Operations, who was responsible for our human resources function in connection with compensation decisions for 2007 and 2008 to date. The Compensation Committee also receives documentary support from Ms. Rivera, including benchmark and industry data from third-party salary survey sources and a compensation consultant. Other than Dr. Scangos, Dr. Morrissey and Ms. Rivera, no other executive officers participated in the determination or recommendation of the amount or form of Named Executive Officer compensation. We also retained the consulting firm, Remedy Compensation Consulting, to compile benchmark and industry compensation data. The Compensation Committee does not delegate any of its functions to others in determining executive compensation, and we do not currently engage any other consultants with respect to executive and/or director compensation matters.

Compensation Committee Process

In setting the level of cash and equity compensation for our Named Executive Officers, the Compensation Committee considers various factors, including the performance of Exelixis and each Named Executive Officer during the prior year, the criticality of each Named Executive Officer's skill set, each Named Executive Officer's expected future contributions and prospects for advancement, the percentage of vested versus unvested options held by each Named Executive Officer, each Named Executive Officer's tenure and market and benchmark data for our industry and specific peer group, as well as applicable market pressures. When establishing each element of a Named Executive Officer's compensation, the Compensation Committee also takes into consideration the Named Executive Officer's historical cash and equity compensation as well as his or her total current and potential compensation.

The Compensation Committee believes that it is important when making its compensation decisions to be informed as to the current practices of comparable publicly held companies. To this end, the Compensation Committee reviews market and benchmark data, which include competitive information relating to compensation levels for comparable positions in the biotechnology and life sciences industries, as well as the compensation levels of our Named Executive Officers. In conjunction with its review, the Compensation Committee reviews peer company data obtained from publicly filed proxy statements and the following benchmark surveys: Radford Biotechnology Salary Survey and Organization Resources Counselors, Inc.'s Worldwide SIRS Life Sciences Survey.

The list of our peer companies used in setting base salaries and bonus targets for 2007 was developed and approved by our Nominating and Corporate Governance Committee and Board of Directors in 2006. Our peer companies were selected by eliminating from a list of U.S.-listed biotechnology companies those companies that our Nominating and Corporate Governance Committee deemed not suitable for comparison purposes because, at the time that the peer list was determined (a) they were not U.S. companies, (b) their operations were not directly comparable to our operations, such as companies specializing in drug delivery technologies or tools, (c) they had a market capitalization in excess of \$4 billion or less than \$250 million, (d) they had more than 1,500 or fewer than 100 employees, (e) they were not clinical development-stage companies or (f) a substantial portion of their revenues were related to marketed products.

The companies comprising our peer group for purposes of setting base salaries and bonus targets for 2007 were:

Adolor Corporation	Idenix Pharmaceuticals, Inc.	Nastech Pharmaceutical Company Inc.
Alexion Pharmaceuticals, Inc.	Incyte Corporation	Neurocrine Biosciences, Inc.
Arena Pharmaceuticals, Inc.	Isis Pharmaceuticals, Inc.	Nuvelo, Inc.
ARIAD Pharmaceuticals, Inc.	Lexicon Genetics Incorporated	Regeneron Pharmaceuticals, Inc.
Array BioPharma Inc.	Ligand Pharmaceuticals Incorporated	Rigel Pharmaceuticals, Inc.
AtheroGenics, Inc.	Maxygen, Inc.	Telik, Inc.
CV Therapeutics, Inc.	Medarex, Inc.	Vertex Pharmaceuticals Incorporated
Dendreon Corporation	Myriad Genetics Company Inc.	Zymogenetics, Inc.
Human Genome Sciences, Inc.		

The list of our peer companies used in setting base salaries and bonus targets for 2008 was developed and approved by our Nominating and Corporate Governance Committee and Board of Directors in 2007. Our peer companies were selected by eliminating from a list of U.S.-listed biotechnology companies those companies that our Nominating and Corporate Governance Committee deemed not suitable for comparison purposes because, at the time that the peer list was determined (a) they were not U.S. companies, (b) their operations were not directly comparable to our operations, such as companies specializing in drug delivery technologies or tools, (c) they had a market capitalization in excess of \$4 billion or less than \$250 million, (d) they had more than 1,500 or fewer than 100 employees, (e) they were not clinical development-stage companies or (f) a substantial portion of their revenues were related to marketed products.

The companies comprising our peer group for purposes of setting base salaries and bonus targets for 2008 were:

Acadia Pharmaceuticals Inc.	Cytokinetics Inc.	Neurocrine Biosciences Inc.
Affymax, Inc.	Dendreon Corporation	Regeneron Pharmaceuticals Inc.
Alnylam Pharmaceuticals Inc.	Geron Corp	Rigel Pharmaceuticals Inc.
Altus Pharmaceuticals Inc.	Human Genome Sciences, Inc.	Seattle Genetics Inc.
Arena Pharmaceuticals, Inc.	Incyte Corp	Senomyx Inc.
Ariad Pharmaceuticals Inc.	Isis Pharmaceuticals Inc.	Xenoport Inc.
Array BioPharma Inc.	Lexicon Genetics Inc.	Xoma Ltd.
Biocryst Pharmaceuticals Inc.	Maxygen, Inc.	Zymogenetics, Inc.
Cell Genesys Inc.	Medarex, Inc.	

The Compensation Committee benchmarks cash compensation as well compensation in the form of stock options. The Compensation Committee uses peer group data primarily to insure that our executive compensation program as a whole is competitive. Consistent with the Compensation Committee's philosophy of maintaining compensation levels that attract and retain the highest caliber executives, the Compensation Committee generally targets total cash and equity compensation at the upper third percentile of the peer company market. In

determining the amount and mix of compensation elements and whether each element provides the correct incentives and rewards for performance consistent with our short and long-term goals and objectives, the Compensation Committee relies on its judgment about each individual rather than adopting a formulaic approach to compensatory decisions.

Elements of Compensation

Our executive compensation program consists of three principal components: base salary, annual cash bonuses (if approved by our Compensation Committee and Board of Directors) and equity incentive compensation in the form of stock options. Our Named Executive Officers are also eligible to participate, on the same basis as other employees, in our 401(k) plan and our other benefit programs generally available to all employees. Our Named Executive Officers currently do not receive any perquisites.

- *Base Salary.* The Compensation Committee annually reviews each Named Executive Officer's base salary and sets such salary based on a review of the performance of each Named Executive Officer during the prior year, the criticality of each Named Executive Officer's skill set, each Named Executive Officer's expected future contributions and prospects for advancement, each Named Executive Officer's tenure and market and benchmark data for our industry and specific peer group, as well as applicable market pressures.
- *Annual Cash Bonus.* Our annual cash bonuses are intended to align the Named Executive Officers' compensation with our business objectives and performance and with the interests of our stockholders and to enable us to retain and reward Named Executive Officers who demonstrate extraordinary performance. Annual cash bonuses are discretionary, but our Compensation Committee follows guidelines that set bonus targets (expressed as a percentage of base salary) based on the seniority of the applicable position and take into account the achievement of company-wide and, other than for our Chief Executive Officer and President of Research and Development, applicable division or department performance objectives. The bonus targets are reviewed annually by the Compensation Committee. Our company-wide goals in 2007 included both corporate, research and development and business goals. Our Compensation Committee follows guidelines that provide that the portion of a Named Executive Officer's total bonus target that is tied to the company-wide performance component increases with the seniority of the Named Executive Officer's position. In 2007, the company-wide performance component was 80% for our executive vice presidents and senior vice presidents and 100% for our Chief Executive Officer and President of Research and Development. Whether or not a bonus is paid for any year is within the discretion of our Board of Directors. The actual bonus awarded in any year, if any, may be more or less than the target, depending on individual performance and the achievement of our company-wide objectives. In awarding bonuses, the Compensation Committee also reviews total cash compensation (base salary and bonus) awarded to similarly situated executive officers at our peer companies.

In determining annual cash bonuses, the Compensation Committee takes into account the extent to which we achieve the annual company-wide goals that are established by the executive officers and approved by the Compensation Committee and, other than with respect to our Chief Executive Officer and President of Research and Development, the extent to which each Named Executive Officer's division or department contributed to the overall success of the Company. However, while we have established general guidelines related to bonus target amounts and the portion of each Named Executive Officer's annual cash bonus that is tied to company-wide and division or department performance components, the Compensation Committee exercises broad discretion in determining the amount of cash bonuses and does not attempt to quantify the level of achievement of corporate goals or the extent to which each Named Executive Officer's division or department contributed to the overall success of the Company.

The Compensation Committee has not determined whether it would attempt to recover bonuses from our executive officers if the performance objectives that led to a bonus determination were to be restated, or found not to have been met to the extent originally believed by the Compensation Committee. However, as a public company, if we are required to restate our financial results due to our material noncompliance with any financial reporting requirements under the federal securities laws, as a result of misconduct, our Chief Executive Officer and Chief

Financial Officer may be legally required to reimburse us for any bonus or other incentive-based or equity-based compensation they receive in accordance with the provisions of Section 304 of the Sarbanes-Oxley Act of 2002.

We have not paid any significant signing or promotion bonuses to our executive officers, nor have we guaranteed any bonuses to our executive officers.

- *Equity Incentives.* Our 2000 Equity Incentive Plan provides for the issuance of options to Named Executive Officers to purchase shares of our common stock at an exercise price equal to the fair market value of such stock on the date of grant. We grant stock options to align Named Executive Officers' compensation with our long-term performance, thereby linking their compensation to the interests of our stockholders. The Compensation Committee believes that stock options continue to be the most effective equity-based tool to motivate our Named Executive Officers to aggressively pursue our long-term strategic goals because options only have value if our stock price increases over time. Stock options are also the most prevalent long-term incentive instrument at our peer companies. The Compensation Committee generally approves the grant of stock options to Named Executive Officers once a year at its regular meeting in December, as well as, if appropriate, in connection with promotions during the year. Stock options are granted to our Named Executive Officers both as a reward for past individual and corporate performance and as an incentive for future performance. In determining the size of option grants to Named Executive Officers, the Compensation Committee considers the number of shares of our common stock subject to outstanding options, including exercise prices, already owned by each Named Executive Officer and the percentage of vested versus unvested options held by each Named Executive Officer, as well as market and benchmark data for our industry and specific peer group. Because of the overall importance to our success of aggressively pursuing our strategic goals, as well as to preserve our cash resources, a significant portion of the Named Executive Officers' total compensation has been, and is expected to continue to be, comprised of stock options.
- *Change in Control and Severance Benefit Plan.* Our Change in Control and Severance Benefit Plan, in which all of our Named Executive Officers participate, was adopted in 2005 in order to consolidate our prior change in control and severance benefits with individual executives into a single uniform double-trigger plan for executive officers, to maintain the competitiveness of our executive compensation program and to remove an executive's potential personal bias against a takeover attempt. A description of this plan is included below under the heading "—Potential Payments Upon Termination or Change-In-Control." We adopted a double-trigger plan, in which each plan participant receives benefits under the plan only if the plan participant is terminated without cause or resigns for good reason after a change in control, rather than a single-trigger plan, in which each plan participant would receive benefits under the plan if a change in control occurs or the plan participant resigns for any reason after a change in control. In assessing whether the plan should provide for a single or double trigger, we conducted an analysis of prevailing change in control practices at our peer-companies. We selected the double-trigger because it protects the plan participants from post change in control events that are not related to the plan participants' performance, encourages the plan participants to stay throughout a transition period in the event of a change in control and does not provide for benefits for a plan participant who remains with the surviving company in a comparable position.
- *Other Benefits.* We have a 401(k) plan in which substantially all of our employees, including our Named Executive Officers, are entitled to participate. Employees contribute their own funds, as salary deductions, on a pre-tax basis. Contributions may be made up to plan limits, subject to government limitations. We match 50% of the first 4% of employee contributions into the 401(k) plan. We provide health care, dental and vision benefits to all full-time employees, including our Named Executive Officers. These and other benefits are available to all employees, subject to applicable laws.

2007 and 2008 Compensation Decisions

General. In determining each Named Executive Officer's, including our Chief Executive Officer's, 2007 and 2008 base salaries and target bonuses and cash bonus for 2007, the Compensation Committee considered a

number of factors and criteria, including the officer's historical compensation levels, the performance of Exelixis and each Named Executive Officer during the prior year, the criticality of each Named Executive Officer's skill set, each Named Executive Officer's expected future contributions and prospects for advancement, each Named Executive Officer's tenure and market and benchmark data for our industry and specific peer group, as well as applicable market pressures. Consistent with the Compensation Committee's philosophy of maintaining compensation levels that attract and retain the highest caliber executives, the Compensation Committee generally targeted base salary, target bonus amount and total cash compensation for each Named Executive Officer at a level competitive with approximately the upper third of similarly situated executive officers at companies included our peer company market and in the market surveys reviewed by the Compensation Committee. The Compensation Committee also reviewed historical compensation levels for our Named Executive Officers and similarly situated executive officers at our peer companies in order to ascertain any trends in executive officer compensation.

In determining the 2007 and 2008 base salaries for each Named Executive Officer, the Compensation Committee aimed to set the base salaries at competitive levels as described above. In addition, for each year, the Compensation Committee considered each Named Executive Officer's performance in the prior year, as applicable, in adjusting his or her base salary.

The Compensation Committee's determination of cash bonuses for 2007 for the Named Executive Officers, including our Chief Executive Officer, took into account its assessment of each Named Executive Officer's performance and total compensation, the compensation of similarly situated executive officers at our peer companies and other factors. While the Compensation Committee considered our general guidelines related to bonus target amounts and the portion of each Named Executive Officer's annual cash bonus that should be tied to company-wide and division or department performance components, the Compensation Committee exercised broad discretion in determining the amount of cash bonuses for 2007 and did not attempt to quantify the level of achievement of corporate goals or the extent to which any Named Executive Officer's division or department contributed to the overall success of the Company or to apply strict percentage criteria to an allocation of each Named Executive Officer's cash bonus between company-wide and division or department performance components.

The Compensation Committee set the 2008 target bonus percentages for each Named Executive Officer at a competitive levels as described above, taking into account each Named Executive Officer's performance in 2007 and prior years, as applicable, and trends in executive compensation at our peer companies and generally in our industry. The target bonus amounts are intended to serve only as general guidelines for awarding actual bonuses and are not designed to set formulaic payout levels.

In determining option grants to our Named Executive Officers in December 2007 (and, with respect to our Executive Vice President, Chief Financial Officer, in July 2007), the Compensation Committee considered the number of shares of our common stock subject to outstanding options, including exercise prices, then currently held by each Named Executive Officer, as well as market and benchmark data for our industry and specific peer group, with the goal of ensuring a level of incentive compensation for each Named Executive Officer that is appropriately linked to our long-term performance and aligns our Named Executive Officers' performance objectives with the interests of our stockholders. The Compensation Committee generally targeted option grants for each Named Executive Officer at a level that provides each Named Executive Officer with an ongoing equity position in the Company that is competitive with approximately the upper third of similarly situated executive officers at companies included our peer company market and in the market surveys reviewed by the Compensation Committee. All option grants to Named Executive Officers in December 2007 were made at an exercise price of \$9.91 per share, which was equal to the fair market value for each share of our common stock on the date of grant. The option grant to our Executive Vice President, Chief Financial Officer in July 2007 was made at an exercise price of \$11.93 per share, which was equal to the fair market value for each share of our common stock on the date of grant. The option to purchase 25% of the shares subject to such options vests one year from the grant date, and the options vest as to remaining shares in 36 equal monthly installments thereafter.

The Compensation Committee granted stock options rather than other forms of equity compensation, and applied the foregoing vesting schedule, in order to remain competitive based on its view of prevailing practices at our peer companies and generally in our industry and to maintain consistency with historical practice and equity incentives granted to new employees.

Compensation for the Chief Executive Officer. In determining Dr. Scangos' 2007 and 2008 base salaries and target bonuses, cash bonus for 2007 and December 2007 stock option grant, the Compensation Committee considered the factors and criteria described under the heading "—2007 and 2008 Compensation Decisions—General" above.

In determining Dr. Scangos' 2008 base salary and target bonus, cash bonus for 2007 and December 2007 stock option grant, in December 2007, the Compensation Committee considered our 2007 corporate, research and development and business goals, which included goals related to: making investigational new drug ("IND") filings for XL418, XL147, XL765 and XL019; progress in our clinical trials of our development candidates XL647, XL880, XL820, XL184, XL784 and XL999; advancing three new compounds to development candidate status; establishing new corporate collaborations; and concluding 2007 with an appropriate amount of cash resources. The Compensation Committee also considered our 2007 research and development and business achievements, including the following:

- the submission of proof-of-concept data reports to GlaxoSmithKline for XL647, XL880 and XL784;
- the advancement of XL184 and XL820 to Phase 2 clinical trials;
- the initiation of seven clinical trials for our compounds previously in clinical development;
- the filing of INDs for XL418, XL147, XL765 and XL019;
- enhancements to our clinical development planning and capabilities;
- the advancement of four compounds to development candidate status;
- development of our early stage product candidate pipeline in support of the advancement of additional compounds to development candidate status in 2008;
- the completion of equity and capital expenditure financings;
- the successful divestitures of the majority of our Exelixis Plant Sciences, Inc. assets and 80.1% of Artemis Pharmaceuticals GmbH; and
- the extensions of collaborative arrangements with Bristol-Myers Squibb Company and Daiichi Sankyo Company Limited.

In December 2007, the Compensation Committee determined that we had met our goals for 2007 except to the extent that goals evolved during the year due to strategic changes.

In December 2007, the Compensation Committee also reviewed our goals and objectives for 2008, taking such goals and objectives into account in the determination of Dr. Scangos' recommended base salary and target bonus for 2008. Our 2008 goals include objectives related to progress in our clinical trials of our development candidates XL647, XL880, XL820, XL184, XL147, XL765 and XL019; making IND filings; achieving corporate collaboration milestones; advancing new compounds to development candidate status; managing our research pipeline; commencing the development of a commercial infrastructure; and concluding 2008 with an appropriate amount of cash resources.

On the strength of the Company's achievements and in recognition of Dr. Scangos' instrumental leadership role as our Chief Executive Officer, in December 2007, the Compensation Committee recommended, and the Board of Directors approved, a merit increase of approximately 7.0% to Dr. Scangos' 2007 base salary (to \$850,000 in 2008), a cash bonus of \$477,000 and a grant of stock options to acquire 400,000 shares of our

common stock. The increase in Dr. Scangos' base salary was based on the factors and criteria described under the heading "—2007 and 2008 Compensation Decisions—General" above and is generally consistent on a percentage basis with the merit salary increases approved for the other Named Executive Officers. The Compensation Committee considered the base salaries of chief executive officers at companies that it considered comparable as a factor in its determination of Dr. Scangos' base salary for 2008, but it did not specifically benchmark Dr. Scangos' base salary to a particular peer group. Dr. Scangos' target bonus for 2007 was 60% of his base salary, and the actual bonus paid to Dr. Scangos represented 60% of his base salary, consistent with the Compensation Committee's assessment that we had met our Company objectives for 2007. The Compensation Committee maintained Dr. Scangos' target bonus for 2008 at 60%.

Compensation of the Other Named Executive Officers. The Compensation Committee reviewed similar considerations for each of the other Named Executive Officers, including the factors and criteria described under the heading "—2007 and 2008 Compensation Decisions—General" above, as well as the following factors.

With respect to Dr. Morrissey, the Compensation Committee focused on Dr. Morrissey's leadership of our research and development organization through an organizational restructuring and high growth, while ensuring a productive, results-driven organization. In December 2007, the Compensation Committee recommended, and the Board of Directors approved, an aggregate merit and promotion increase of 10.0% to Dr. Morrissey's 2007 base salary (to \$484,629 in 2008), a cash bonus of \$220,286 and a grant of stock options to acquire 200,000 shares of our common stock. The salary increase and stock option grant to Dr. Morrissey took into account his promotion during the year to President of Research and Development, which was not in effect at the time of the prior year's assessment of salary increases and option grants, and were based on the Compensation Committee's assessment of the appropriate salary and equity position, including unvested stock options, for an officer in Dr. Morrissey's position, taking into account practices at comparable companies. Dr. Morrissey's target bonus for 2007 was 50% of his base salary, and the actual bonus paid to Dr. Morrissey represented 50% of his base salary, consistent with the Compensation Committee's assessment that we had met our Company objectives for 2007. The Compensation Committee maintained the 2008 target bonus for Dr. Morrissey at 50%.

With respect to Mr. Karbe's contributions, the Compensation Committee gave particular weight to Mr. Karbe's leadership in continuing to build a strong finance organization during 2007 and leadership of our successful 2007 equity offering. In July 2007, Mr. Karbe was promoted to Executive Vice President and Chief Financial Officer, and, in connection therewith, the Compensation Committee recommended, and the Board of Directors approved, a grant of stock options to acquire 60,000 shares of our common stock. This grant was approved based on the Compensation Committee's assessment of the appropriate equity position, including unvested stock options, for an officer in Mr. Karbe's position, taking into account practices at comparable companies. In recognition of Mr. Karbe's contributions during 2007, in December 2007, the Compensation Committee recommended, and the Board of Directors approved, a merit increase of 7.0% to Mr. Karbe's 2007 base salary (to \$411,950 in 2008), a cash bonus of \$173,250 and a grant of stock options to acquire 100,000 shares of our common stock. Mr. Karbe's target bonus for 2007 was 45% of his base salary, and the actual bonus paid to Mr. Karbe represented 45% of his base salary, consistent with the Compensation Committee's assessment that we had met our Company objectives for 2007 and that Mr. Karbe had met his personal objectives for 2007. The Compensation Committee maintained the 2008 target bonus for Mr. Karbe at 45%.

With respect to Dr. Schwab, the Compensation Committee focused on Dr. Schwab's contributions to the clinical side of the business, particularly her leadership role in the generation of proof-of-concept data, expanding phase 2 compound clinical trial enrollment and otherwise advancing compounds in phase 2 clinical development, the initiation of seven new clinical trials for compounds previously in clinical development, the initiation of seven first-in-human clinical trials, the filing of four INDs and facilitating the interactions between our discovery, translational medicine and development groups. In recognition of Dr. Schwab's contributions, in December 2007, the Compensation Committee recommended, and the Board of Directors approved, a merit and promotion increase of 10.0% to Dr. Schwab's 2007 base salary (to \$404,250 in 2008), a cash bonus of \$128,625 and a grant of stock options to acquire 200,000 shares of our common stock. Dr. Schwab's target bonus for 2007

was 35% of her base salary, and the actual bonus paid to Dr. Schwab represented 35% of her base salary, consistent with the Compensation Committee's assessment that we had met our Company objectives for 2007 and that Dr. Schwab had met her personal objectives for 2007. The Compensation Committee increased Dr. Schwab's target bonus for 2008 to 45% of her base salary in light of her promotion, effective January 1, 2008, to Executive Vice President and Chief Medical Officer.

With respect to Ms. Simonton, the Compensation Committee noted that Ms. Simonton had made extraordinary contributions to the Company during 2007 with respect to legal, patent, securities, business development and partnership matters. In recognition of Ms. Simonton's contributions, in December 2007, the Compensation Committee recommended, and the Board of Directors approved, an aggregate merit and promotion increase of 10.0% to Ms. Simonton's 2007 base salary (to \$372,128 in 2008), a cash bonus of \$118,404 and a grant of stock options to acquire 100,000 shares of our common stock. Ms. Simonton's target bonus for 2007 was 35% of her base salary, and the actual bonus paid to Ms. Simonton represented 35% of her base salary, consistent with the Compensation Committee's assessment that we had met our Company objectives for 2007 and that Ms. Simonton had met her personal objectives for 2007. The Compensation Committee increased Ms. Simonton's target bonus for 2008 to 45% of her base salary in light of her promotion, effective January 1, 2008, to Executive Vice President and General Counsel.

Accounting and Tax Considerations

Effective January 1, 2006, we adopted the fair value provisions of Financial Accounting Standards Board Statement No. 123(R) (revised 2004), "Share-Based Payment" (or "FAS 123R"). Under FAS 123R, we are required to estimate and record an expense for each award of equity compensation (including stock options) over the vesting period of the award. The Compensation Committee has determined to retain for the foreseeable future our stock option program as the sole component of its long-term compensation program, and, therefore, to record this expense on an ongoing basis according to FAS 123R. The Compensation Committee has considered, and may in the future consider, the grant of restricted stock to our executive officers in lieu of stock option grants in light of the accounting impact of FAS 123R with respect to stock option grants.

Section 162(m) of the Internal Revenue Code of 1986 limits our deduction for federal income tax purposes to not more than \$1.0 million of compensation paid to certain executive officers in a calendar year. Compensation above \$1.0 million may be deducted if it is "performance-based compensation." The Compensation Committee has not yet established a policy for determining which forms of incentive compensation awarded to our executive officers shall be designed to qualify as "performance-based compensation." To maintain flexibility in compensating our executive officers in a manner designed to promote our objectives, the Compensation Committee has not adopted a policy that requires all compensation to be deductible. However, the Compensation Committee intends to evaluate the effects of the compensation limits of Section 162(m) on any compensation it proposes to grant, and the Compensation Committee intends to provide future compensation in a manner consistent with our best interests and those of our stockholders.

Conclusion

It is the opinion of the Compensation Committee that the aforementioned compensation policies and elements provide the necessary incentives to properly align our performance and the interests of our stockholders while maintaining progressive, balanced and competitive executive compensation practices that enable us to attract and retain the highest caliber of executives.

Summary Compensation Table

The following table shows for the fiscal years ended December 28, 2007 and December 29, 2006 compensation awarded to or paid to, or earned by, the Company's Chief Executive Officer, Chief Financial Officer and its three other most highly compensated executive officers at December 28, 2007 (the "Named Executive Officers").

Summary Compensation Table for Fiscal 2007

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) (1)	Non-Equity Incentive Plan Compensation (\$) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$) (3)	Total (\$)
George A. Scangos, Ph.D., President and Chief Executive Officer	2007	\$794,135	\$477,000	—	\$2,531,952	—	—	\$ 2,599	\$3,805,686
	2006	750,000	400,000	—	2,510,117	—	—	4,750	3,664,867
Michael M. Morrissey, Ph.D., President of Research and Development	2007	439,802	220,286	—	933,428	—	—	4,609	1,598,125
	2006	400,520	200,260	—	803,627	—	—	4,400	1,408,807
Frank L. Karbe, Executive Vice President and Chief Financial Officer	2007	376,018	173,250	—	816,342	—	—	54	1,365,664
	2006	345,030	155,264	—	676,836	—	—	—	1,177,130
Gisela M. Schwab, M.D., Executive Vice President and Chief Medical Officer (4)	2007	367,164	128,625	—	307,090	—	—	4,500	807,379
	2006	109,038	43,750	—	80,508	—	—	2,154	235,450
Pamela A. Simonton, J.D., LL.M., Executive Vice President and General Counsel	2007	337,989	118,404	—	511,712	—	—	4,601	972,706
	2006	322,189	144,985	—	482,416	—	—	57,029	1,006,619

- (1) Amounts shown in this column reflect the compensation costs recognized by us in fiscal 2007 for option awards as determined pursuant to FAS 123R. The assumptions used to calculate the value of option awards are set forth in Note 10 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2007 filed with the SEC on February 25, 2008. There can be no assurance that the options will ever be exercised (in which case no value will actually be realized by the executive) or that the value on exercise will be equal to the FAS 123R value shown in this column.
- (2) Bonuses for services rendered in 2007 by Named Executive Officers are included in the Bonus column. While we have established general guidelines related to bonus target amounts and the portion of each Named Executive Officer's annual cash bonus that is tied to company-wide and division or department performance components, the Compensation Committee exercises broad discretion in determining the amount of cash bonuses and does not attempt to quantify the level of achievement of corporate goals or the extent to which each Named Executive Officer's division or department contributed to the overall success of the Company. Accordingly, we do not consider these bonuses to be Non-Equity Incentive Plan Compensation.
- (3) Unless otherwise indicated, the amounts in this column consist of matching contributions made by us under our tax-qualified 401(k) plan, which provides for broad-based employee participation, and the following employee recognition awards in 2007, which are generally available to all employees: Dr. Morrissey—\$109; Mr. Karbe—\$54; and Ms. Simonton—\$101. In addition to Ms. Simonton receiving a matching contribution under the 401(k) plan in 2006, we also forgave \$52,629 in interest pursuant to the terms of a loan we entered into with Ms. Simonton in 2001.
- (4) Dr. Schwab joined Exelixis on September 1, 2006.

Grants of Plan-Based Awards

The following table shows for the fiscal year ended December 28, 2007, certain information regarding grants of plan-based awards to the Named Executive Officers:

Grants of Plan-Based Awards in Fiscal 2007

Name	Grant Date	Approval Date	Number of Non-Equity Incentive Plan Units Granted (#)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Option Awards: Number of Securities Underlying Options (#) (2)	Exercise or Base Price of Option Awards (\$/Sh)	Full Grant Date Fair Value (\$ (3)
				Threshold (\$)	Target (\$)	Maximum (\$)			
George A. Scangos, Ph.D.	12/6/2007	12/6/2007	—	—	—	—	400,000	\$ 9.91	\$2,093,000
Michael M. Morrissey, Ph.D.	12/6/2007	12/6/2007	—	—	—	—	200,000	9.91	1,046,500
Frank L. Karbe	7/9/2007	7/9/2007	—	—	—	—	60,000	11.93	392,220
	12/6/2007	12/6/2007	—	—	—	—	100,000	9.91	523,250
Gisela M. Schwab, M.D.	12/6/2007	12/6/2007	—	—	—	—	200,000	9.91	1,046,500
Pamela A. Simonton, J.D., LL.M.	12/6/2007	12/6/2007	—	—	—	—	100,000	9.91	523,250

- (1) Each year the Compensation Committee considers payment of annual cash bonuses to Named Executive Officers for services rendered in the past year. While we have established general guidelines related to bonus target amounts and the portion of each Named Executive Officer's annual cash bonus that is tied to company-wide and division or department performance components, the Compensation Committee exercises broad discretion in determining the amount of cash bonuses and does not attempt to quantify the level of achievement of corporate goals or the extent to which each Named Executive Officer's division or department contributed to the overall success of the Company. Accordingly, we do not consider these bonuses to be Non-Equity Incentive Plan Compensation. The bonus targets for the year ended December 28, 2007 were \$477,000 for Dr. Scangos, \$220,286 for Dr. Morrissey, \$173,250 for Mr. Karbe (based on his increased target annual base salary resulting from his promotion to Executive Vice President and Chief Financial Officer in July 2007), \$128,625 for Dr. Schwab and \$118,404 for Ms. Simonton. Whether or not a bonus is paid for any year is within the discretion of the Board. The actual bonus awarded in any year, if any, may be more or less than the target, depending on individual performance and the achievement of our company-wide objectives. In awarding bonuses, the Compensation Committee also reviews total cash compensation (base salary and bonus) awarded to similarly situated executive officers at our peer companies. The actual cash bonus award earned for the year ended December 28, 2007 for each Named Executive Officer is set forth in the Summary Compensation Table above. For a description of the payment of bonuses to Named Executive Officers under our compensation program, see the Compensation Discussion and Analysis above.
- (2) Options were granted under our 2000 Equity Incentive Plan. The options expire 10 years from the date of grant or earlier upon termination of service. The options vest as to 1/4 of the original number of shares subject to the option on the one-year anniversary of the vesting commencement date and thereafter as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting commencement date. Vesting is subject to acceleration as described under the caption "—Potential Payments Upon Termination or Change-In-Control" below.
- (3) Amounts shown in this column reflect the fair value of the option awards granted in 2007 to each Named Executive Officer as determined pursuant to FAS 123R. The assumptions used to calculate the value of option awards are set forth in Note 10 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2007 filed with the SEC on February 25, 2008. There can be no assurance that the options will ever be exercised (in which case no value will actually be realized by the executive) or that the value on exercise will be equal to the FAS 123R value shown in this column.

Outstanding Equity Awards at Fiscal Year-End

The following table shows for the fiscal year ended December 28, 2007 certain information regarding outstanding equity awards at fiscal year end for the Named Executive Officers. None of our Named Executive Officers exercised options in 2007.

Outstanding Equity Awards at December 28, 2007

Name	Grant Date	Option Awards				Option Exercise Price (\$)	Option Expiration Date
		Number of Securities Underlying Unexercised Options (#) (1)	Number of Securities Underlying Unexercised Options (#) (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)			
		Exercisable	Unexercisable				
George A. Scangos, Ph.D.	12/06/2000	250,000	—	—	\$18.81	01/14/2011	
	12/03/2001	350,000	—	—	15.43	12/02/2011	
	01/29/2003	400,000	—	—	6.45	01/28/2013	
	12/10/2003	200,000	—	—	6.15	12/09/2013	
	12/13/2004	262,500	87,500(2)	—	8.92	12/12/2014	
	12/12/2005	500,000	500,000(3)	—	8.90	12/11/2015	
	12/08/2006	100,000	300,000(4)	—	8.99	12/07/2016	
12/06/2007	—	400,000(5)	—	9.91	12/05/2017		
Michael M. Morrissey, Ph.D.	12/06/2000	20,000	—	—	18.81	1/14/2011	
	12/03/2001	50,000	—	—	15.43	12/2/2011	
	01/29/2003	85,000	—	—	6.45	1/28/2013	
	12/10/2003	150,000	—	—	6.15	12/9/2013	
	12/13/2004	75,000	25,000(2)	—	8.92	12/12/2014	
	12/12/2005	150,000	150,000(3)	—	8.90	12/11/2015	
	12/08/2006	25,000	75,000(4)	—	8.99	12/7/2016	
12/06/2007	—	200,000(5)	—	9.91	12/05/2017		
Frank L. Karbe	02/15/2004	200,000	—	—	8.00	02/14/2014	
	02/24/2004	25,000	—	—	8.18	02/23/2014	
	12/13/2004	63,750	21,250(2)	—	8.92	12/12/2014	
	12/12/2005	100,000	100,000(3)	—	8.90	12/11/2015	
	12/08/2006	25,000	75,000(4)	—	8.99	12/07/2016	
	07/09/2007	—	60,000(6)	—	11.93	07/08/2017	
	12/06/2007	—	100,000(5)	—	9.91	12/05/2017	
Gisela M. Schwab, M.D.	09/01/2006	54,687	120,313(7)	—	9.73	8/31/2016	
	12/08/2006	11,000	33,000(4)	—	8.99	12/07/2016	
	12/06/2007	—	200,000(5)	—	9.91	12/05/2017	
Pamela A. Simonton, J.D., LL.M.	04/03/2000	87,500	—	—	11.00	04/02/2010	
	12/06/2000	10,000	—	—	18.81	12/05/2010	
	12/03/2001	35,000	—	—	15.43	12/02/2011	
	01/29/2003	11,459	—	—	6.45	01/28/2013	
	12/10/2003	22,917	—	—	6.15	12/09/2013	
	12/13/2004	52,500	17,500(2)	—	8.92	12/12/2014	
	12/12/2005	100,000	100,000(3)	—	8.90	12/11/2015	
	12/08/2006	18,750	56,250(4)	—	8.99	12/07/2016	
	12/06/2007	—	100,000(5)	—	9.91	12/05/2017	

(1) Options were granted under our 2000 Equity Incentive Plan. The options expire 10 years from the date of grant or earlier upon termination of service. The options vest as to 1/4 of the original number of shares subject to the option on the one-year anniversary of the vesting commencement date and thereafter as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting

commencement date. Vesting is subject to acceleration as described under the caption “—Potential Payments Upon Termination or Change-In-Control” below.

- (2) Options vest as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting commencement date with a final vesting date of December 13, 2008 (assuming that such options are not accelerated).
- (3) Options vest as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting commencement date with a final vesting date of December 12, 2009 (assuming that such options are not accelerated).
- (4) Options vest as to 1/4 of the original number of shares subject to the option on the one-year anniversary of the vesting commencement date and thereafter as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting commencement date with a final vesting date of December 8, 2010 (assuming that such options are not accelerated).
- (5) Options vest as to 1/4 of the original number of shares subject to the option on the one-year anniversary of the vesting commencement date and thereafter as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting commencement date with a final vesting date of December 6, 2011 (assuming that such options are not accelerated).
- (6) Options vest as to 1/4 of the original number of shares subject to the option on the one-year anniversary of the vesting commencement date and thereafter as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting commencement date with a final vesting date of July 9, 2011 (assuming that such options are not accelerated).
- (7) Options vest as to 1/4 of the original number of shares subject to the option on the one-year anniversary of the vesting commencement date and thereafter as to 1/48th of the original number of shares subject to the option on each monthly anniversary of the vesting commencement date with a final vesting date of September 1, 2010 (assuming that such options are not accelerated).

Potential Payments Upon Termination or Change in Control

In December 2005, the Board, upon recommendation of the Compensation Committee, adopted a Change in Control and Severance Benefit Plan that provides for certain severance benefits to our officers in connection with specified termination events. Eligible plan participants may include any employee having a rank of vice president or above, which includes the Named Executive Officers.

If a Named Executive Officer's employment terminates due to an involuntary termination without cause or a constructive termination during a period starting one month prior to and ending 13 months following a change in control, then the Named Executive Officer would be entitled to the following benefits under the plan:

- a cash payment equal to the sum of the Named Executive Officer's base salary and target bonus for (i) 18 months for Named Executive Officers (other than the Chief Executive Officer) and (ii) 24 months for the Chief Executive Officer;
- the vesting of up to all of the Named Executive Officer's options will accelerate in full and the exercise period of such options will be extended to the later of (i) twelve months after the change in control and (ii) the post-termination exercise period provided for in the applicable option agreement. The plan also provides that any reacquisition or repurchase rights held by us in respect of common stock issued or issuable pursuant to any stock awards granted under our 2000 Equity Incentive Plan will lapse;
- payment of COBRA premiums for any health, dental or vision plan sponsored by the Company for a period of up to (i) 18 months for Named Executive Officers (other than the Chief Executive Officer) and (ii) 24 months for the Chief Executive Officer; and
- payment of outplacement services for (i) 18 months for Named Executive Officers (other than the Chief Executive Officer), subject to a \$30,000 limit and (ii) 24 months for the Chief Executive Officer, subject to a \$50,000 limit.

The payments and benefits described above are subject to certain reductions and offsets if, for example, the Named Executive Officer received other severance benefits from us pursuant to a written employment

agreement. In addition, if any of the severance benefits payable under the plan would constitute a "parachute payment" subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, a Named Executive Officer may receive a reduced amount of the affected severance benefits (the plan does not provide for the gross up of any excise taxes imposed by Section 4999 of the Internal Revenue Code). No Named Executive Officer would receive benefits under the plan if (i) the Named Executive Officer has entered into an individually negotiated employment agreement that provides for severance or change in control benefits, (ii) the Named Executive Officer voluntarily terminates employment with us to accept employment with another entity that is controlled by us or is otherwise affiliated with us or (iii) the Named Executive Officer does not confirm in writing that he or she is subject to agreements with us relating to proprietary and confidential information.

If the employment of any Named Executive Officer, including the Chief Executive Officer, terminates due to (x) a termination without cause more than one month before a change in control or (y) a termination without cause or a constructive termination more than 13 months following a change in control, then the Named Executive Officer would be entitled to receive a cash severance benefit under the plan equal to six months of base salary. In such circumstances, we would also pay for a period of up to six months the Named Executive Officer's COBRA premiums for any health, dental or vision plan that we sponsored and that the Named Executive Officer is enrolled in.

Pursuant to our 2000 Equity Incentive Plan, in the event of an asset sale, merger or consolidation in which we are not the surviving corporation, or a reverse merger in which we are the surviving corporation but our common stock is converted by virtue of the merger into other property, then any surviving or acquiring corporation may assume outstanding stock awards or substitute similar stock awards for those under the plan. If any surviving or acquiring corporation refuses to assume such outstanding stock awards or substitute similar stock awards, stock awards held by participants whose service has not terminated will be accelerated in full. In addition, if any person, entity or group acquires beneficial ownership of more than 50% of our combined voting power, then stock awards held by participants whose service has not terminated will be accelerated in full.

The following table sets forth the potential severance payments and benefits under our Change in Control and Severance Benefit Plan to which the Named Executive Officers would be entitled in connection with specified termination events, as if such Named Executive Officers' employment terminated as of December 28, 2007, the last day of our last fiscal year. In addition, the table sets forth the amounts to which the Named Executive Officers would be entitled under our 2000 Equity Incentive Plan either (i) in connection with a change in control transaction in which the successor corporation did not assume or substitute outstanding stock awards, or (ii) an entity or group acquired more than 50% of our combined voting power, in each case, as of December 28, 2007. There are no other agreements, arrangements or plans that entitle any Named Executive Officers to severance, perquisites or other enhanced benefits upon termination of employment.

Potential Payments Upon Termination or Change in Control Table

Name	Benefit	Change in Control and Severance Benefit Plan		2000 Equity Incentive Plan
		Involuntary Termination Without Cause or Constructive Termination in Connection with a Change in Control (1)	Termination Without Cause Before Change in Control or Constructive Termination Following a Change in Control (2)	Certain Change of Control Transactions Without Termination (3)
George A. Scangos, Ph.D.	Base Salary	\$1,588,270	\$397,068	—
	Bonus	954,000	—	—
	Vesting Acceleration (4)	1,512,000	—	1,512,000
	COBRA Payments	22,918	5,729	—
	Outplacement Services	50,000	—	—
Benefit Total		4,127,188	402,797	1,512,000
Michael M. Morrissey, Ph.D.	Base Salary	659,703	219,901	—
	Bonus	330,429	—	—
	Vesting Acceleration (4)	613,700	—	613,700
	COBRA Payments	26,541	8,847	—
	Outplacement Services	30,000	—	—
Benefit Total		1,660,373	228,748	613,700
Frank L. Karbe	Base Salary	564,027	188,009	—
	Bonus	259,875	—	—
	Vesting Acceleration (4)	191,250	—	191,250
	COBRA Payments	8,492	2,831	—
	Outplacement Services	30,000	—	—
Benefit Total		1,053,645	190,840	191,250
Gisela M. Schwab, M.D.	Base Salary	550,746	183,582	—
	Bonus	192,938	—	—
	Vesting Acceleration (4)	0	—	0
	COBRA Payments	17,188	5,729	—
	Outplacement Services	30,000	—	—
Benefit Total		790,872	189,311	0
Pamela A. Simonton, J.D., LL.M.	Base Salary	506,984	168,995	—
	Bonus	177,606	—	—
	Vesting Acceleration (4)	90,065	—	90,065
	COBRA Payments	8,492	2,831	—
	Outplacement Services	30,000	—	—
Benefit Total		813,148	171,826	90,065

(1) These benefits would be payable under the Change in Control and Severance Benefit Plan if the involuntary termination without cause or constructive termination occurred during a period starting one month prior to and ending 13 months following the change in control.

- (2) These benefits would be payable under the Change in Control and Severance Benefit Plan if the termination without cause occurred more than one month before the change in control or if the termination without cause or a constructive termination occurred more than 13 months following the change in control.
- (3) These benefits would be payable under the 2000 Equity Incentive Plan if either (i) a successor corporation does not assume outstanding stock awards in a change of control transaction or (ii) a person, entity or group acquires beneficial ownership of more than 50% of our combined voting power, and, in each case, the Named Executive Officers do not terminate employment in connection with such a transaction or event.
- (4) Assumes that the triggering event occurred on December 28, 2007, the last business day of our last fiscal year, when the closing sale price per share of our common stock was \$8.87. The amount of the vesting acceleration is determined by aggregating for all accelerated options the amount equal to (i) the excess of \$8.87 over the relevant exercise price of the option, multiplied by (ii) the number of shares underlying unvested options at such exercise price as of December 28, 2007. There can be no assurance that a similar triggering event would produce the same or similar results as those estimated if such event occurs on any other date or at a time when our closing sale price is different.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Indemnification Agreements

As permitted by Delaware law, our Certificate of Incorporation provides that no director will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

Our Bylaws provide that we will indemnify our directors and executive officers and may indemnify our other officers and employees and other agents to the fullest extent permitted by law. We believe that indemnification under our Bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our Bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether the Bylaws would permit indemnification.

We have entered into agreements to indemnify our directors and executive officers, in addition to the indemnification provided for in our Bylaws. These agreements, among other things, indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by the Company, arising out of such person's services as a director or executive officer with respect to the Company, any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

Policies and Procedures with Respect to Related Party Transactions

The Board recognizes that related person transactions can present a heightened risk of potential or actual conflicts of interests. In December 2006, the Board adopted a Statement of Policy with respect to transactions entered into with related persons. Under this policy, the Audit Committee has been tasked with responsibility to review and approve related party transactions. The policy provides that management shall present related party transactions to the Audit Committee for approval. The policy does not prevent management from entering into any related party transaction without prior approval of the Audit Committee, so long as such related party transaction is thereafter presented to the Audit Committee for ratification. If ratification is not forthcoming, then management shall make all reasonable efforts to cancel or annul such transaction.

Under the policy, a "related person" includes: any senior officer (including each executive officer or officer subject to Section 16 of the Securities Exchange Act of 1934) or director of the Company; a person who is an immediate family member of a senior officer, director or director nominee; a security holder who is known to own of record or beneficially more than 5% percent of any class of our securities; a person who is an immediate family member of such security holder; or an entity which is owned or controlled by one of the aforementioned persons, or an entity in which one of the aforementioned persons has a substantial ownership interest in or control over of such entity.

All related party transactions shall be disclosed in our applicable filings with the SEC as required under SEC rules.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 28, 2007, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with. During fiscal 2002, Dr. Marchesi failed to file one report for one transaction, and during fiscal 2004, Dr. Marchesi failed to file four reports of nine transactions; a report for such transactions was filed during fiscal 2007.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as "householding," potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are stockholders will be "householding" proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement and annual report, please notify your broker or direct your written request to Investor Relations, Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511 or contact Exelixis, Inc., Investor Relations at (650) 837-7000. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request "householding" of their communications should contact their broker.

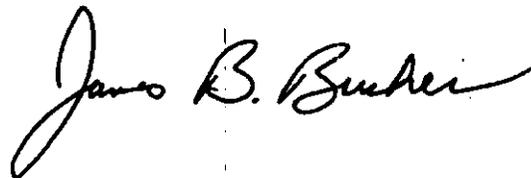
FORM 10-K

A copy of our Annual Report on Form 10-K for the fiscal year ended December 28, 2007, including the consolidated financial statements, schedules and list of exhibits, and any particular exhibit specifically requested, is available without charge upon written request to: Investor Relations, Exelixis, Inc., 170 Harbor Way, P.O. Box 511, South San Francisco, California 94083-0511.

OTHER MATTERS

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors



JAMES B. BUCHER
Secretary

April 10, 2008

EXELIXIS

Exelixis is a leading biopharmaceutical company focused on the development and commercialization of innovative cancer therapies. The company's pipeline includes several late-stage clinical programs, with a focus on precision medicine and targeted therapies. Exelixis is committed to advancing the health and well-being of patients through innovative research and development.

For more information, please visit our website at www.exelixis.com.

www.exelixis.com

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