VALERO ENERGY CORP/TX
Form 10-Q
May 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o 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 1-13175
VALERO ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	74-1828067
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Valero Way
San Antonio, Texas
(Address of principal executive offices)
78249
(Zip Code)
(210) 345-2000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o
Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
The number of shares of the registrant's only class of common stock, $0.01 par value, outstanding as of April 30, 2018 was 431,023,418.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VALERO ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(millions of dollars, except par value)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and temporary cash investments	$ 4,658	$ 5,850
Receivables, net	6,814	6,922
Inventories	6,555	6,384
Prepaid expenses and other	233	156
Total current assets	18,260	19,312
Property, plant, and equipment, at cost	40,543	40,010
Accumulated depreciation	(12,812)	(12,530)
Property, plant, and equipment, net	27,731	27,480
Deferred charges and other assets, net	3,385	3,366
Total assets	$ 49,376	$ 50,158
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$ 871	$ 122
Accounts payable	7,966	8,348
Accrued expenses	590	712
Taxes other than income taxes payable	1,226	1,321
Income taxes payable	99	568
Total current liabilities	10,752	11,071
Debt and capital lease obligations, less current portion	8,086	8,750
Deferred income tax liabilities	4,711	4,708
Other long-term liabilities	2,902	2,729
Commitments and contingencies		
Equity:		
Valero Energy Corporation stockholders' equity:		
Common stock, $0.01 par value; 1,200,000,000 shares authorized; 673,501,593 and 673,501,593 shares issued	7	7
Additional paid-in capital	7,026	7,039
Treasury stock, at cost; 242,573,833 and 239,603,534 common shares	(13,588)	(13,315)
Retained earnings	29,415	29,200
Accumulated other comprehensive loss	(983)	(940)
Total Valero Energy Corporation stockholders' equity	21,877	21,991
Noncontrolling interests	1,048	909
Total equity	22,925	22,900
Total liabilities and equity	$ 49,376	$ 50,158

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(millions of dollars, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues (a)	$26,439	$21,772
Cost of sales:		
Cost of materials and other	23,756	19,428
Operating expenses (excluding depreciation and amortization expense reflected below)	1,136	1,124
Depreciation and amortization expense	485	488
Total cost of sales	25,377	21,040
Other operating expenses	10	—
General and administrative expenses (excluding depreciation and amortization expense reflected below)	238	192
Depreciation and amortization expense	13	12
Operating income	801	528
Other income, net	51	26
Interest and debt expense, net of capitalized interest	(121)	(121)
Income before income tax expense	731	433
Income tax expense	149	112
Net income	582	321
Less: Net income attributable to noncontrolling interests	113	16
Net income attributable to Valero Energy Corporation stockholders	$469	$305
Earnings per common share	$1.09	$0.68
Weighted-average common shares outstanding (in millions)	431	448
Earnings per common share – assuming dilution	$1.09	$0.68
Weighted-average common shares outstanding – assuming dilution (in millions)	432	451
Dividends per common share	$0.80	$0.70

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Supplemental information:		
(a) Includes excise taxes on sales by certain of our international operations	$1,464	$1,272

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(millions of dollars)
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	$582	$321
Other comprehensive income:		
Foreign currency translation adjustment	45	74
Net gain on pension and other postretirement benefits	8	3
Other comprehensive income before income tax expense	53	77
Income tax expense related to items of other comprehensive income	2	1
Other comprehensive income	51	76
Comprehensive income	633	397
Less: Comprehensive income attributable to noncontrolling interests	116	16
Comprehensive income attributable to Valero Energy Corporation stockholders	$517	$381

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions of dollars)
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$582	$321
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	498	500
Deferred income tax expense (benefit)	2	(4)
Changes in current assets and current liabilities	(1,026)	151
Changes in deferred charges and credits and other operating activities, net	82	20
Net cash provided by operating activities	138	988
Cash flows from investing activities:		
Capital expenditures	(356)	(279)
Deferred turnaround and catalyst costs	(220)	(245)
Investments in joint ventures	(55)	(117)
Acquisition of undivided interests	(85)	(72)
Capital expenditures of certain variable interest entities	(28)	—
Other investing activities, net	(8)	(1)
Net cash used in investing activities	(752)	(714)
Cash flows from financing activities:		
Proceeds from issuance of Valero Energy Partners LP debt	498	—
Repayments of debt and capital lease obligations	(415)	(5)
Purchase of common stock for treasury	(320)	(314)
Common stock dividends	(345)	(315)
Proceeds from issuance of Valero Energy Partners LP common units	—	35
Contribution from noncontrolling interest	32	—
Distributions to noncontrolling interests	(11)	(34)
Other financing activities, net	(12)	(19)
Net cash used in financing activities	(573)	(652)
Effect of foreign exchange rate changes on cash	(5)	25
Net decrease in cash and temporary cash investments	(1,192)	(353)
Cash and temporary cash investments at beginning of period	5,850	4,816
Cash and temporary cash investments at end of period	$4,658	$4,463

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

General

As used in this report, the terms “Valero,” “we,” “us,” or “our” refer to Valero Energy Corporation, one or more of its consolidated subsidiaries, or all of them taken as a whole.

These unaudited financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The balance sheet as of December 31, 2017 has been derived from our audited financial statements as of that date. For further information, refer to our financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017.

Reclassifications

Certain amounts reported for the three months ended March 31, 2017 have been reclassified in order to conform to the 2018 presentation.

Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, we review our estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Revenue Recognition

We adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers,” (Topic 606) on January 1, 2018, as described below in “Accounting Pronouncements Adopted On January 1, 2018.” Accordingly, our revenue recognition accounting policy has been revised to reflect the adoption of this standard.

Our revenues are primarily generated from contracts with customers. We generate revenue from contracts with customers from the sale of products by our refining and ethanol segments. Our VLP segment generates intersegment revenues from transportation and terminaling activities provided to our refining segment that are eliminated in consolidation. Revenues are recognized when we satisfy our performance obligation to transfer products to our customers, which typically occurs at a point in time upon shipment or delivery of the products, and for an amount that reflects the transaction price that is allocated to the performance obligation.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The customer is able to direct the use of, and obtain substantially all of the benefits from, the products at the point of shipment or delivery. As a result, we consider control to have transferred upon shipment or delivery because we have a present right to payment at that time, the customer has legal title to the asset, we have transferred physical possession of the asset, and the customer has significant risks and rewards of ownership of the asset.

Our contracts with customers state the final terms of the sale, including the description, quantity, and price for goods sold. Payment is typically due in full within two to ten days of delivery. In the normal course of business, we generally do not accept product returns.

The transaction price is the consideration that we expect to be entitled to in exchange for our products. The transaction price for substantially all of our contracts is generally based on commodity market pricing (i.e., variable consideration). As such, this market pricing may be constrained (i.e., not estimable) at the inception of the contract but will be recognized based on the applicable market pricing, which will be known upon transfer of the goods to the customer. Some of our contracts also contain variable consideration in the form of sales incentives to our customers, such as discounts and rebates. For contracts that include variable consideration, we estimate the factors that determine the variable consideration in order to establish the transaction price.

We have elected to exclude from the measurement of the transaction price all taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction and collected by us from a customer (e.g., sales tax, use tax, value-added tax, etc.). We continue to include in the transaction price excise taxes that are imposed on certain inventories in our international operations. The amount of such taxes is provided in supplemental information in a footnote on the statements of income.

There are instances where we provide shipping services in relation to the goods sold to our customer. Shipping and handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are included in cost of materials and other. We have elected to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfillment activities rather than as a promised service and we have included these activities in cost of materials and other.

Accounting Pronouncements Adopted On January 1, 2018
Topic 606
Effective January 1, 2018, we adopted the provisions of Topic 606, which clarifies the principles for recognizing revenue and supersedes previous revenue recognition requirements under “Revenue Recognition (Topic 605),” using the modified retrospective method of adoption as permitted by the standard. Under this method, the cumulative effect of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings, and revenues reported in the periods prior to the date of adoption are not changed. We elected to apply the transition guidance only to contracts that were not completed as of the date of adoption. There was no material impact to our financial position as a result of adopting Topic 606; therefore, there was no cumulative-effect adjustment to retained earnings as of January 1, 2018. Additionally, there was no material impact to our financial position or results of operations as of and for the three months ended March 31, 2018. See “Revenue Recognition” above for a discussion of our accounting policy affected by our adoption of Topic 606. Also see Note 10 for further information on our revenues. We implemented new processes in order to monitor ongoing compliance with accounting and disclosure requirements.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ASU No. 2016-01
In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10)," (ASU No. 2016-01) to enhance the reporting model for financial instruments regarding certain aspects of recognition, measurement, presentation, and disclosure. Effective January 1, 2018, we adopted the provisions of ASU No. 2016-01 using the cumulative-effect method of adoption as required by the ASU. The adoption of this ASU did not affect our financial position or our results of operations as of or for the three months ended March 31, 2018, but it resulted in reduced disclosures as it eliminated the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments.

ASU No. 2017-07
In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)," (ASU No. 2017-07) which requires employers to report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost (non-service cost components) to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Effective January 1, 2018, we retrospectively adopted the provisions of ASU No. 2017-07. The adoption of this ASU did not affect our financial position or results of operations. However, for the three months ended March 31, 2017, we reclassified the non-service cost components out of operating expenses (excluding depreciation and amortization expense) and general and administrative expenses (excluding depreciation and amortization expense) of $7 million and $2 million, respectively, and into other income, net.

ASU No. 2017-09
In May 2017, the FASB issued ASU No. 2017-09, "Compensation—Stock Compensation (Topic 718)," (ASU No. 2017-09) to reduce diversity in practice, as well as reduce cost and complexity regarding a change to the terms or conditions of a share-based payment award. Effective January 1, 2018, we adopted ASU No. 2017-09. The adoption of this ASU did not have an immediate effect on our financial position or results of operations as it is applied prospectively to an award modified on or after adoption.

ASU No. 2018-02
In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)," (ASU No. 2018-02) which allows for the stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (Tax Reform) to be reclassified from accumulated other comprehensive income to retained earnings. The provisions of ASU No. 2018-02 are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual periods, with early adoption permitted. This ASU shall be applied either at the beginning of the annual or interim period of adoption or retrospectively to each period in which the income tax effects of Tax Reform affects the items remaining in accumulated other comprehensive income (loss). We elected to reclassify the stranded income tax effects of Tax Reform from accumulated other comprehensive loss to retained earnings as of the beginning of the interim period of adoption. Effective January 1, 2018, we adopted ASU No. 2018-02 and such adoption did not affect our financial position or results of operations but resulted in the reclassification of $91 million of income tax benefits related to Tax Reform from accumulated other comprehensive loss to retained earnings as presented in Note 5 under "Accumulated Other Comprehensive Loss." We release stranded income tax

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

effects from accumulated other comprehensive income (loss) to retained earnings on an individual item basis as those items are reclassified into income.

ASU No. 2018-05
In March 2018, the FASB issued ASU No. 2018-05, “Income Taxes (Topic 740)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118,” (ASU No. 2018-05) which amends certain Securities and Exchange Commission (SEC) material in Topic 740 for the income tax accounting implications of the recently issued Tax Reform. This guidance clarifies the application of Topic 740 in situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under Topic 740 for certain income tax effects of Tax Reform for the reporting period in which Tax Reform was enacted. See Note 8 for a discussion of the impacts of this ASU.

Accounting Pronouncements Not Yet Adopted
Topic 842
In February 2016, the FASB issued “Leases (Topic 842),” (Topic 842) to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual periods, with early adoption permitted. We will adopt this new standard on January 1, 2019, and we expect to use the modified retrospective method of adoption. We are enhancing our contracting and lease evaluation systems and related processes, and we are developing a new lease accounting system to capture our leases and support the required disclosures. During 2018, we will continue to monitor the adoption process to ensure compliance with accounting and disclosure requirements. We also continue the integration of our lease accounting system with our general ledger, and we will make modifications to the related procurement and payment processes. We anticipate this standard will have a material impact on our financial position by increasing our assets and liabilities by equal amounts through the recognition of right-of-use assets and lease liabilities for our operating leases. However, we do not expect adoption to have a material impact on our results of operations or liquidity. We expect our accounting for capital leases to remain substantially unchanged.

ASU No. 2017-12
In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815),” (ASU No. 2017-12) to improve and simplify accounting guidance for hedge accounting. The provisions of this ASU are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual periods, with early adoption permitted. We use economic hedges to manage commodity price risk; however, we have not designated these hedges as fair value or cash flow hedges. As a result, the adoption of ASU No. 2017-12 effective January 1, 2019 is not expected to affect our financial position or results of operations.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. INVENTORIES

Inventories consisted of the following (in millions):

	March 31, 2018	December 31, 2017
Refinery feedstocks	$ 2,471	$ 2,427
Refined petroleum products and blendstocks	3,569	3,459
Ethanol feedstocks and products	258	242
Materials and supplies	257	256
Inventories	$ 6,555	$ 6,384

As of March 31, 2018 and December 31, 2017, the replacement cost (market value) of LIFO inventories exceeded their LIFO carrying amounts by $3.1 billion and $3.0 billion, respectively, and our non-LIFO inventories accounted for $905 million and $1.0 billion, respectively, of our total inventories.

3. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt

During the three months ended March 31, 2018, VLP issued in a public offering $500 million aggregate principal amount of its 4.5 percent Senior Notes due March 15, 2028. Gross proceeds from this debt issuance were $498 million before deducting the underwriting discount and other debt issuance costs totaling $5 million. The proceeds are available only to the operations of VLP and were used to repay the outstanding balance of $410 million on VLP's $750 million senior unsecured revolving credit facility (the VLP Revolver) and $85 million of its notes payable to us, which is eliminated in consolidation.

During the three months ended March 31, 2017, we had no significant debt activity.

We had outstanding borrowings, letters of credit issued, and availability under our credit facilities as follows (amounts in millions and currency in U.S. dollars, except as noted):

	March 31, 2018				
	Facility Amount	Maturity Date	Outstanding Borrowings	Letters of Credit Issued	Availability
Committed facilities:					
Valero Revolver	$ 3,000	November 2020	$ —	$ 138	$ 2,862
VLP Revolver	750	November 2020	—	—	750
Canadian Revolver	C$75	November 2018	C$—	C$6	C$ 69
Accounts receivable sales facility	1,300	July 2018	100	n/a	1,200
Letter of credit facility	100	November 2018	n/a	—	100
Uncommitted facilities:					
Letter of credit facilities	n/a	n/a	n/a	273	n/a

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Letters of credit issued as of March 31, 2018 expire at various times in 2018 through 2020.

As of March 31, 2018 and December 31, 2017, the variable interest rate on the accounts receivable sales facility was 2.3616 percent and 2.0387 percent, respectively.

Other Disclosures
Interest and debt expense, net of capitalized interest is comprised of the following (in millions):

	Three Months Ended March 31,	
	2018	2017
Interest and debt expense	$139	$134
Less capitalized interest	18	13
Interest and debt expense, net of capitalized interest	$121	$121

4. COMMITMENTS AND CONTINGENCIES

Commitments
MVP Terminal
We have a 50 percent membership interest in MVP Terminalling, LLC (MVP), a Delaware limited liability company formed in September 2017 with a subsidiary of Magellan Midstream Partners LP (Magellan), to construct, own, and operate the Magellan Valero Pasadena marine terminal (MVP Terminal) located adjacent to the Houston Ship Channel in Pasadena, Texas. Construction of phases one and two of the project began in 2017 with a total estimated cost of $840 million of which we have committed to contribute 50 percent (approximately $420 million). The project could expand up to four phases with a total project cost of approximately $1.4 billion if warranted by additional demand and agreed to by Magellan and us. Since inception, we have contributed $123 million to MVP, of which $42 million was contributed during the three months ended March 31, 2018.

Concurrent with the formation of MVP, we entered into a terminaling agreement with MVP to utilize the MVP Terminal upon completion of phase two, which is expected to occur in early 2020. The terminaling agreement has an initial term of 12 years with two five-year automatic renewals, and year-to-year renewals thereafter.

Due to our membership interest in MVP and because the terminaling agreement was determined to be a capital lease, we are the accounting owner of the MVP Terminal during the construction period. Accordingly, as of March 31, 2018, we recorded an asset of $271 million in property, plant, and equipment representing 100 percent of the construction costs incurred by MVP, as well as capitalized interest incurred by us, and a long-term liability of $150 million payable to Magellan. The amounts recorded for the portion of the construction costs associated with the payable to Magellan are noncash investing and financing items, respectively.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Central Texas Pipeline
We have committed to a 40 percent undivided interest in a project with a subsidiary of Magellan to jointly build an estimated 135-mile, 20-inch refined petroleum products pipeline with a capacity of up to 150,000 barrels per day from Houston to Hearne, Texas. The pipeline is expected to be completed in mid-2019. Our estimated cost to acquire our 40 percent undivided interest in this pipeline is $170 million. Since inception, capital expenditures totaled $24 million, of which $17 million was spent during the three months ended March 31, 2018.

Sunrise Pipeline System
Effective January 31, 2018, we entered into a joint ownership agreement with Sunrise Pipeline LLC, a subsidiary of Plains All American Pipeline, L.P. (Plains), to acquire a 20 percent undivided interest in the expanded Sunrise Pipeline System to be constructed by Plains. The Sunrise Pipeline System is expected to contain (i) an estimated 255-mile, 24-inch crude oil pipeline (the Sunrise Pipeline) to originate at Plains’ terminal in Midland, Texas and end at Plains’ station in Wichita Falls, Texas with throughput capacity of approximately 500,000 barrels per day, and (ii) two 270,000 shell barrel capacity tanks located at the Colorado City, Texas station. The Sunrise Pipeline System expansion is currently under construction and is expected to be placed in service in 2019. The cost to acquire our 20 percent undivided interest in the Sunrise Pipeline System is $135 million. We expect to incur approximately $101 million during 2018. Capital expenditures totaled $68 million for the three months ended March 31, 2018.

Environmental Matters
We are involved, together with several other companies, in an environmental cleanup in the Village of Hartford, Illinois (the Village) and during 2015, one of these companies assumed the ongoing remediation in the Village pursuant to a federal court order. We had previously conducted an initial response in the Village, along with other companies, pursuant to an administrative order issued by the U.S. Environmental Protection Agency (EPA). The parties involved in the initial response may have further claims among themselves for costs already incurred. We also continue to be engaged in site assessment and interim measures at the adjacent shutdown refinery site, which we acquired as part of an acquisition in 2005, and we are in litigation with other potentially responsible parties and the Illinois EPA relating to the remediation of the site. In each of these matters, we have various defenses, limitations, and potential rights for contribution from the other responsible parties. We have recorded a liability for our expected contribution obligations. Progress is being made with the Illinois EPA on remediation standards in certain areas. While we are actively working with the Illinois EPA to identify end points, because of the unpredictable nature of these cleanups, the methodology for allocation of liabilities, and the State of Illinois’ failure to directly sue third parties responsible for historic contamination at the site, it is reasonably possible that we could incur a loss in a range of $0 to $200 million in excess of the amount of our accrual to ultimately resolve these matters. Factors underlying this estimated range are expected to change from time to time, and actual results may vary significantly from this estimate.

Litigation Matters
We are party to claims and legal proceedings arising in the ordinary course of business. We have not recorded a loss contingency liability with respect to some of these matters because we have determined that it is remote that a loss has been incurred. For other matters, we have recorded a loss contingency liability where we have determined that it is probable that a loss has been incurred and that the loss is reasonably estimable. These loss contingency liabilities are not material to our financial position. We re-evaluate and update our loss

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contingency liabilities as matters progress over time, and we believe that any changes to the recorded liabilities will not be material to our financial position, results of operations, or liquidity.

Texas City Refinery Fire
In April 2018, our Texas City Refinery experienced a fire in its alkylate fractionator. As of the filing of this quarterly report, the Texas City Refinery is running at reduced rates while efforts are underway to determine the cause of the accident, assess damages, and establish a plan for making repairs. Although we are in the preliminary stages of assessing the extent of damages, we do not believe that this incident will have a material adverse effect on our results of operations.

5. EQUITY

Reconciliation of Balances
The following is a reconciliation of the beginning and ending balances of equity attributable to our stockholders, equity attributable to noncontrolling interests, and total equity (in millions):

	Three Months Ended March 31,					
	2018			2017		
	Valero Stockholders' Equity	Non-controlling Interests (a)	Total Equity	Valero Stockholders' Equity	Non-controlling Interests (a)	Total Equity
Balance as of beginning of period	$21,991	$ 909	$22,900	$20,024	$ 830	$20,854
Net income	469	113	582	305	16	321
Dividends	(345)	—	(345)	(315)	—	(315)
Stock-based compensation expense	14	—	14	13	—	13
Transactions in connection with stock-based compensation plans	(46)	—	(46)	(10)	—	(10)
Stock purchases under purchase programs	(256)	—	(256)	(292)	—	(292)
Contribution from noncontrolling interest	—	30	30	—	—	—
Distributions to noncontrolling interests	—	(11)	(11)	—	(34)	(34)
Other	2	4	6	24	14	38
Other comprehensive income	48	3	51	76	—	76
Balance as of end of period	$21,877	$ 1,048	$22,925	$19,825	$ 826	$20,651

(a) The noncontrolling interests relate to third-party ownership interests in VIEs for which we are the primary beneficiary and therefore consolidate. See Note 6 for information about our consolidated VIEs.

Share Activity

There was no significant share activity during the three months ended March 31, 2018 and 2017.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common Stock Dividends
On May 3, 2018, our board of directors declared a quarterly cash dividend of $0.80 per common share payable on June 5, 2018 to holders of record at the close of business on May 17, 2018.

Accumulated Other Comprehensive Loss
Changes in accumulated other comprehensive loss by component, net of tax, were as follows (in millions):

	Three Months Ended March 31,					
	2018			2017		
	Foreign Currency Translation Adjustment	Defined Benefit Plans Items	Total	Foreign Currency Translation Adjustment	Defined Benefit Plans Items	Total
Balance as of beginning of period	$(507)	$(433)	$(940)	$(1,021)	$(389)	$(1,410)
Other comprehensive income before reclassifications	42	—	42	74	—	74
Amounts reclassified from accumulated other comprehensive loss	—	6	6	—	2	2
Other comprehensive income	42	6	48	74	2	76
Reclassification of stranded income tax effects of Tax Reform to retained earnings per ASU 2018-02 (see Note 1)	—	(91)	(91)	—	—	—
Balance as of end of period	$(465)	$(518)	$(983)	$(947)	$(387)	$(1,334)

6. VARIABLE INTEREST ENTITIES

Consolidated VIEs
In the normal course of business, we have financial interests in certain entities that have been determined to be VIEs. Our significant consolidated VIE’s include:

- VLP, a publicly traded master limited partnership formed to own, operate, develop, and acquire crude oil and refined petroleum products pipelines, terminals, and other transportation and logistics assets;

- Diamond Green Diesel Holdings LLC (DGD), a joint venture formed to construct and operate a biodiesel plant that processes animal fats, used cooking oils, and other vegetable oils into renewable green diesel; and

- terminaling agreements with three subsidiaries of Infraestructura Energetica Nova, S.A.B. de C.V. (IEnova), a Mexican subsidiary of Sempra Energy, a U.S. public company (the three subsidiaries are collectively referred to as VPM Terminals).

The VIEs’ assets can only be used to settle their own obligations and the VIEs’ creditors have no recourse to our assets. We do not provide financial guarantees to our VIEs. Although we have provided credit facilities

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to some of our VIEs in support of their construction or acquisition activities, these transactions are eliminated in consolidation. Our financial position, results of operations, and cash flows are impacted by our consolidated VIEs' performance, net of intercompany eliminations, to the extent of our ownership interest in each VIE.

The following tables present summarized balance sheet information for the significant assets and liabilities of our VIEs, which are included in our balance sheets (in millions).

	March 31, 2018				
	VLP	DGD	VPM Terminals	Other	Total
Assets					
Cash and temporary cash investments	$71	$ 41	$ 1	$ 17	$130
Other current assets	1	243	9	—	253
Property, plant, and equipment, net	1,416	475	57	123	2,071
Liabilities					
Current liabilities	$26	$ 34	$ 3	$ 9	$72
Debt and capital lease obligations, less current portion	989	—	—	41	1,030

	December 31, 2017				
	VLP	DGD	VPM Terminals	Other	Total
Assets					
Cash and temporary cash investments	$42	$123	$ 1	$ 13	$179
Other current assets	2	66	4	—	72
Property, plant, and equipment, net	1,416	435	51	127	2,029
Liabilities					
Current liabilities	$27	$33	$ 26	$ 9	$95
Debt and capital lease obligations, less current portion	905	—	—	43	948

Non-Consolidated VIEs

We hold variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary. These non-consolidated VIEs are not material to our financial position or results of operations and are primarily accounted for as equity investments. MVP is one of our non-consolidated VIEs and is accounted for under owner accounting as described in Note 4. As of March 31, 2018, our maximum exposure to loss was $122 million, which represents our equity investment in MVP. We have not provided any financial support to MVP other than amounts previously required by our membership interest.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost (credit) related to our defined benefit plans were as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	2018	2017	2018	2017
Three months ended March 31:				
Service cost	$34	$31	$ 1	$ 1
Interest cost	23	21	2	3
Expected return on plan assets	(41)	(37)	—	—
Amortization of:				
Net actuarial (gain) loss	16	13	—	(1)
Prior service credit	(5)	(5)	(3)	(4)
Special charges	2	—	—	—
Net periodic benefit cost (credit)	$29	$23	$ —	$ (1)

The components of net periodic benefit cost (credit) other than the service cost component (i.e., the non-service cost components) are included in the line item “other income, net” in the statements of income.

Our anticipated contributions to our pension and other postretirement benefit plans during 2018 have not changed from amounts previously disclosed in our financial statements for the year ended December 31, 2017. We contributed $8 million and $7 million, respectively, to our pension plans and $4 million and $5 million, respectively, to our other postretirement benefit plans during the three months ended March 31, 2018 and 2017.

8. INCOME TAXES

On December 22, 2017, Tax Reform was enacted, which resulted in significant changes to the U.S. Internal Revenue Code of 1986, as amended (the Code), and was effective beginning on January 1, 2018. Tax Reform introduced significant and complex changes to the Code, and regulatory guidance from the Internal Revenue Service (IRS) is needed in order to properly account for many of the changes. In response, the SEC issued Staff Accounting Bulletin No. 118, “Income Tax Accounting Implications of the Tax Cuts and Jobs Act,” that was codified through the issuance of ASU No. 2018-05 as described in Note 1, which requires that the effects of Tax Reform be recorded for items where the accounting is complete, as well as for items where a reasonable estimate can be made (referred to as provisional amounts). For items where reasonable estimates cannot be made, provisional amounts should not be recorded and those items would continue to be accounted for under the Code prior to changes from Tax Reform until a reasonable estimate can be made.

We recorded an overall income tax benefit of $1.9 billion associated with the effects of Tax Reform for the year ended December 31, 2017, and in accordance with ASU No. 2018-05, that benefit included provisional amounts associated with the one-time transition tax on the deemed repatriation of previously undistributed

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accumulated earnings and profits of our international subsidiaries. We also identified items where reasonable estimates could not be made at that time.

We did not revise our initial provisional estimate during the three months ended March 31, 2018, and we have not completed our accounting for the income tax effects of Tax Reform. We continue to gather additional information in order to revise our initial estimates and await regulatory guidance from the IRS. We anticipate this information and guidance will be available in the second half of 2018 and that any adjustments will be recorded at that time.

The lower effective tax rate during the three months ended March 31, 2018 is due to the reduction in the U.S. statutory income tax rate from 35 percent to 21 percent effective January 1, 2018 as a result of Tax Reform.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. EARNINGS PER COMMON SHARE

Earnings per common share were computed as follows (dollars and shares in millions, except per share amounts):

	Three Months Ended March 31,			
	2018		2017	
	Participating Securities	Common Stock	Participating Securities	Common Stock
Earnings per common share:				
Net income attributable to Valero stockholders		$ 469		$ 305
Less dividends paid:				
Common stock		344		314
Participating securities		1		1
Undistributed earnings (excess distributions over earnings)		$ 124		$ (10)
Weighted-average common shares outstanding	1	431	2	448
Earnings per common share:				
Distributed earnings	$0.80	$ 0.80	$0.70	$ 0.70
Undistributed earnings (excess distributions over earnings)	0.29	0.29	—	(0.02)
Total earnings per common share	$1.09	$ 1.09	$0.70	$ 0.68
Earnings per common share – assuming dilution:				
Net income attributable to Valero stockholders		$ 469		$ 305
Weighted-average common shares outstanding		431		448
Common equivalent shares		1		3
Weighted-average common shares outstanding – assuming dilution		432		451
Earnings per common share – assuming dilution		$ 1.09		$ 0.68

Participating securities include restricted stock and performance awards granted under our 2011 Omnibus Stock Incentive Plan.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. REVENUES AND SEGMENT INFORMATION

Revenue from Contracts with Customers

Disaggregation of Revenue

Revenue is presented in the table below under “Segment Information” disaggregated by product because this is the level of disaggregation that management has determined to be beneficial to users of the financial statements.

Receivables from Contracts with Customers

Our receivables from contracts with customers are included in “receivables, net.” These balances were $5.1 billion and $5.7 billion as of March 31, 2018 and January 1, 2018, respectively.

Remaining Performance Obligations

The majority of our contracts with customers are spot contracts and therefore have no remaining performance obligations. All of our remaining contracts with customers are primarily term contracts, the majority of which expire by 2020. The transaction price for these term contracts includes an immaterial fixed amount and variable consideration (i.e., a commodity price). The variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a distinct good that forms part of a single performance obligation; therefore, the variable consideration is not included in the remaining performance obligation. As of March 31, 2018, after excluding contracts with an original expected duration of one year or less, the aggregate amount of the transaction price allocated to our remaining performance obligations was immaterial as the transaction price for these contracts includes only an immaterial fixed amount.

Segment Information

We have three reportable segments – refining, ethanol, and VLP. Each segment is a strategic business unit that offers different products and services by employing unique technologies and marketing strategies and whose operations and operating performance are managed and evaluated separately. Operating performance is measured based on the operating income generated by the segment, which includes revenues and expenses that are directly attributable to the management of the respective segment. Intersegment sales are generally derived from transactions made at prevailing market rates. The following is a description of each segment’s business operations.

- The refining segment includes the operations of our 15 petroleum refineries, the associated marketing activities, and certain logistics assets that support our refining operations that are not owned by VLP. The principal products manufactured by our refineries and sold by this segment include gasolines and blendstocks (e.g., conventional gasolines, premium gasolines, and gasoline meeting the specifications of the California Air Resources Board (CARB)), distillates (e.g., diesel, low-sulfur diesel, ultra-low-sulfur diesel, CARB diesel, jet fuel, and other distillates), and other products (e.g., asphalt, petrochemicals, lubricants, and other refined petroleum products).
- The ethanol segment includes the operations of our 11 ethanol plants, the associated marketing activities, and logistics assets that support our ethanol operations. The principal products manufactured by our ethanol plants are ethanol and distillers grains. Some ethanol is sold to our refining segment, which is blended into gasoline and sold to that segment’s customers as a finished gasoline product.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- The VLP segment includes the results of VLP. VLP generates revenue from transportation and terminaling activities provided to our refining segment. All of VLP’s revenues are intersegment revenues that are generated under commercial agreements with our refining segment. Revenues generated under these agreements are eliminated in consolidation.

Operations that are not included in any of the reportable segments are included in the corporate category.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects the components of operating income by reportable segment (in millions):

	Refining	Ethanol	VLP	Corporate and Eliminations	Total
Three months ended March 31, 2018:					
Revenues:					
Revenues from external customers	$25,561	$ 877	$—	$1	$26,439
Intersegment revenues	4	46	132	(182)	—
Total revenues	25,565	923	132	(181)	26,439
Cost of sales:					
Cost of materials and other	23,188	749	—	(181)	23,756
Operating expenses (excluding depreciation and amortization expense reflected below)	997	111	29	(1)	1,136
Depreciation and amortization expense	448	18	19	—	485
Total cost of sales	24,633	878	48	(182)	25,377
Other operating expenses	10	—	—	—	10
General and administrative expenses (excluding depreciation and amortization expense reflected below)	—	—	—	238	238
Depreciation and amortization expense	—	—	—	13	13
Operating income by segment	$922	$ 45	$84	$(250)	$801
Three months ended March 31, 2017:					
Revenues:					
Revenues from external customers	$20,887	$ 885	$—	$—	$21,772
Intersegment revenues	—	60	106	(166)	—
Total revenues	20,887	945	106	(166)	21,772
Cost of sales:					
Cost of materials and other	18,807				

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders Equity (Deficit)
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	104,744,732	105	863,127		499		(791,650)		72,081
Net loss							(162,854)		(162,854)
Change in unrealized gains on available-for-sale securities					(499)				(499)
Comprehensive loss									(163,353)
Issuance of common stock under stock plans	1,586,451	1	7,951						7,952
Issuance of warrants to Deerfield			3,438						3,438
Stock-based compensation expense			22,907						22,907
Balance at December 31, 2008	106,331,183	$ 106	$ 897,423	$		$	(954,504)	$	(56,975)

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

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EXELIXIS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2008	**2007**	**2006**
Cash flows from operating activities:			
Net loss	$ (162,854)	$ (86,381)	$ (101,492)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	13,227	11,130	16,090
Loss attributed to noncontrolling interest	(12,716)	(24,641)	(21,697)
Stock-based compensation expense	22,907	20,168	17,613
Amortization of intangibles		202	820
Gain on sale of plant trait business and Artemis Pharmaceuticals	(4,570)	(36,936)	
Other	946	951	772
Changes in assets and liabilities:			
Other receivables	201	17,698	(15,090)
Prepaid expenses and other current assets	(1,562)	(2,965)	(645)
Other assets	(2,775)	(175)	644
Accounts payable and other accrued expenses	6,963	23,658	12,164
Other long-term liabilities	(2,304)	4,433	6,015
Deferred revenue	132,780	4,119	39,467
Net cash used in operating activities	(9,757)	(68,739)	(45,339)
Cash flows from investing activities:			
Purchases of investments held by Symphony Evolution, Inc.	(707)	(2,280)	(42,338)
Proceeds on sale of investments held by Symphony Evolution, Inc.	16,939	26,433	21,290
Purchases of property and equipment	(15,132)	(17,399)	(11,610)
Proceeds from sale of equipment			10
Proceeds on sale of plant trait business	9,000	18,000	
Proceeds on sale of Artemis Pharmaceuticals, net		17,309	
Decrease in restricted cash and investments	3,223	2,396	3,048
Proceeds on sale of marketable securities	58,818		
Proceeds from maturities of marketable securities	51,181	156,339	99,641
Purchases of marketable securities	(1,954)	(203,817)	(91,742)
Net cash provided (used) in investing activities	121,368	(3,019)	(21,701)
Cash flows from financing activities:			
Proceeds from the issuance of common stock, net of offering costs		71,890	90,482
Proceeds from exercise of stock options and warrants	310	8,301	3,275
Proceeds from employee stock purchase plan	4,154	3,567	2,783
Payments on capital lease obligations			(98)
Proceeds from notes payable and bank obligations	13,619	12,632	14,791
Principal payments on notes payable and bank obligations	(17,453)	(12,142)	(41,889)
Proceeds from purchase of noncontrolling interest by preferred shareholders in Symphony Evolution, Inc., net of fees			40,000
Net cash provided by financing activities	630	84,248	109,344
Effect of foreign exchange rates on cash and cash equivalents		(402)	(263)

Net increase in cash and cash equivalents	112,241	12,088	42,041
Cash and cash equivalents, at beginning of year	135,457	123,369	81,328
Cash and cash equivalents, at end of year	$ 247,698	$ 135,457	$ 123,369
Supplemental cash flow disclosure:			
Cash paid for interest	$ 355	$ 597	$ 2,634
Warrants issued in conjunction with the Symphony Evolution, Inc. financing			3,984
Warrants issued in conjunction with Deerfield financing agreement	3,438		

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

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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 molecule drugs for cancer.

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, was 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, fiscal year 2008, a 53-week year, ended on January 2, 2009, and fiscal year 2009, a 52-week year, will end on January 1, 2010. For convenience, references in this report as of and for the fiscal years ended December 29, 2006, December 28, 2007, and January 2, 2009 are indicated on a calendar year basis, ending December 31, 2006, 2007 and 2008, 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, 2008 and 2007, we had investments held by Symphony Evolution, Inc. of $14.7 million and $30.9 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 investments as short-term marketable securities, even though the stated maturity date may be one year or more

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 and restricted cash and investments as of December 31, 2008 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 270,147	$	$	$ 270,147
Total	$ 270,147	$	$	$ 270,147

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As reported:				
Cash equivalents	$ 266,132	$	$	$ 266,132
Restricted cash and investments	4,015			4,015
Total	$ 270,147	$	$	$ 270,147

As of December 31, 2008, we did not have any short-term or long-term marketable securities.

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 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	$ 268,767	$ 524	$ (25)	$ 269,266

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	$ 268,767	$ 524	$ (25)	$ 269,266

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2008, there were no unrealized gains and losses on investments. During 2008, we recognized gross gains and losses of $0.4 million and $0.1 million, respectively, on sales of our investments.

Fair Value Measurements

As of January 1, 2008, we adopted FASB Statement of Financing Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 established a framework for measuring fair value in GAAP and clarified the definition of fair value within that framework. SFAS 157 does not require any new fair value measurements in GAAP. SFAS 157 introduced, or reiterated, a number of key concepts which form the foundation of the fair value measurement approach to be utilized for financial reporting purposes. The fair value of our financial instruments reflect the amounts that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS 157 also established a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 quoted prices in active markets for identical assets and liabilities.

Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 unobservable inputs.

The adoption of SFAS 157 did not have a material effect on our financial condition and results of operations, but SFAS 157 introduced new disclosures about how we value certain assets and liabilities. Much of the disclosure requirement is focused on the inputs used to measure fair value, particularly in instances where the measurement uses significant unobservable (Level 3) inputs. Our financial instruments are valued using quoted prices in active markets or based upon other observable inputs. The following table sets forth the fair value of our financial assets that were measured on a recurring basis as of December 31, 2007 and 2008, respectively (in thousands):

As of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 270,147	$	$	$ 270,147
Investments held by Symphony Evolution, Inc.	14,703			14,703
Total	$ 284,850	$	$	$ 284,850

As of December 31, 2007:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 79,360	$ 189,906	$	$ 269,266
Investments held by Symphony	30,935			30,935
Total	$ 110,295	$ 189,906	$	$ 300,201

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.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Our cash equivalents and marketable securities are carried at fair value. 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 $32.4 million as of December 31, 2008. These items are described in further detail in Note 9 of the Notes to the Consolidated Financial Statements. We estimated the fair value of our convertible loan with GlaxoSmithKline to be $77.1 million and $73.4 million as of December 31, 2008 and 2007, respectively. We estimated the fair value of our equipment lines of credit to be $30.4 million and $30.6 million as of December 31, 2008 and 2007, respectively.

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

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2008, 2007 and 2006:

Collaborator	2008	2007	2006
Bristol-Myers Squibb	46%	35%	22%
GlaxoSmithKline	37%	24%	28%
Genentech	17%	16%	6%
Daiichi-Sankyo	0%	10%	15%
Wyeth	0%	2%	14%

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 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.

Collaborative agreement reimbursement revenue is recorded as earned based on the performance requirements under the respective contracts. For arrangements in which we and our collaborative partner are active participants in the agreement and for which both parties are exposed to significant risks and rewards depending on the commercial success of the activity, we present payments between the parties on a net basis. On an annual basis, to the extent that net research and development funding payments are received, Exelixis will record the net cash inflow as revenue. In annual periods when the net research and development funding payments result in a payable, these amounts are presented as collaboration cost-sharing expense.

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

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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:

	2008	2007	2006
Options to purchase common stock	24,141,186	20,718,661	17,210,626
Conversion of loans	32,133,864	11,315,160	10,769,781
Warrants	2,500,000	1,500,000	1,500,000
	58,775,050	33,533,821	29,480,407

Foreign Currency Translation

Exelixis former 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 were 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.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation

We account for stock based compensation under Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123R). Stock-based compensation expense for all stock-based compensation awards 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.

We have employee and director stock option plans that are more fully described in Note 11 of the Notes to the Consolidated Financial Statements.

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):

	Year Ended December 31,		
	2008	**2007**	**2006**
Net loss	$ (162,854)	$ (86,381)	$ (101,492)
(Decrease)/increase in net unrealized gains on available-for-sale securities	(185)	514	331
Reclassification for unrealized losses/(gains) on marketable securities recognized in earnings	(314)	28	74
Decrease in cumulative translation adjustment		(162)	(233)
Reclassification adjustment for the cumulative translation adjustment upon the sale of Artemis Pharmaceuticals		(1,026)	
Comprehensive loss	$ (163,353)	$ (87,027)	$ (101,320)

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

	December 31,		
	2008	**2007**	**2006**
Unrealized gains (losses) on available-for-sale securities	$	$ 499	$ (44)
Cumulative translation adjustment			1,189
Accumulated other comprehensive income	$	$ 499	$ 1,145

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In December 2007, the FASB issued EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires that transactions with third parties that do not participate in the arrangement be reported in the appropriate income statement line items pursuant to the guidance in EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent.* Income statement classification of payments made between participants of a collaborative arrangement are to be based on other applicable authoritative accounting literature. If the payments are not within the scope or analogy of other authoritative accounting literature, a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 is to be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. The Company does not anticipate that the adoption of this statement will have a material impact on its financial position, results of operations, or cash flows.

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. Under current accounting standards, we do not allocate losses to the noncontrolling interest in SEI such that the carrying value of the noncontrolling interest is reduced below zero. Under SFAS 160, we could allocate losses to the noncontrolling interest in SEI such that the noncontrolling interest could have a negative carrying value.

NOTE 2. DISPOSITIONS

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 upon execution and $4.5 million in September 2008, for an aggregate of $22.5 million. 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. In addition to the $22.5 million consideration above, in September 2008, we received $4.5 million from Agrigenetics as contingent consideration upon development of a designated additional asset. We recognized this payment as additional gain on the sale of the business. We are also entitled to receive additional payments of up to $9.0 million from Agrigenetics if we

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

achieve the development of up to two designated assets during the term of the CRA. If development of either of the 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 and we initially 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.

Artemis Pharmaceuticals

On November 20, 2007 (the Taconic Closing Date), we entered into a share sale and transfer agreement with Taconic Farms, Inc., or 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, located in Cologne, Germany. Artemis activities are directed toward providing transgenic mouse generation services, tools and related licenses to the industrial and academic community. In December 2008, we recognized an additional $70,000 purchase price adjustment resulting in additional gain on the 2007 sale of Artemis.

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. In December 2008, we received a final purchase price adjustment of approximately $0.1 million which we recognized as additional gain on sale. 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 Taconic Closing Date. As of December 31, 2008, the carrying value of our investment in Artemis was approximately $151,000 and we recognized approximately $121,000 in annual income as a result of our 19.9% equity interest.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	For the Year Ended December 31		
	2008	**2007(1)**	**2006**
Revenues	$	$ 11,234	$ 7,920
Net income (loss)	$	$ 1,210	$ (1,036)

(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

2008 Cancer Collaboration

In December 2008, we entered into a worldwide collaboration with Bristol-Myers Squibb on two of our novel cancer programs: one associated with XL184 and the other associated with XL281. Upon effectiveness of the agreement in December 2008, Bristol-Myers Squibb paid us an upfront cash payment of $195.0 million for the development and commercialization rights to both programs. Bristol-Myers Squibb is also required to make additional license payments of $45.0 million in 2009.

We and Bristol-Myers Squibb have agreed to co-develop XL184, which may include a backup program for XL184. The companies will share worldwide (except for Japan) development costs for XL184. We are responsible for 35% of such costs and Bristol-Myers Squibb is responsible for 65% of such costs, except that we are responsible for funding the initial $100.0 million of combined costs and have the option to defer payments for development costs above certain thresholds. In return, we will share 50% of the commercial profits and losses (including pre-launch commercialization expenses) in the United States and have the option to co-promote XL184 in the United States. We have the right to defer payment for certain early commercialization and other related costs above certain thresholds. We are eligible to receive sales performance milestones of up to $150.0 million and double-digit royalties on sales on XL184 outside the United States. The clinical development of XL184 is directed by a joint committee. It is anticipated that we will conduct certain clinical development activities for XL184. We may opt out of the co-development for XL184, in which case we would instead be eligible to receive development and regulatory milestones of up to $295.0 million, double-digit royalties on XL184 product sales worldwide and sales performance milestones. Our co-development and co-promotion rights may be terminated in the event that we have cash reserves below $80.0 million and we are unable to increase such cash reserves to $80.0 million or more within 90 days, in which case we would receive development and regulatory milestones, sales milestones and double-digit royalties, instead of sharing product profits on XL184 in the United States. Cash reserves includes our total cash, cash equivalents and investments (excluding any restricted cash), plus the amount then available for borrowing by us under the Facility Agreement with the Deerfield Entities, as the same may be amended from time to time, and any other similar financing arrangements. Our co-promotion rights on XL184 in the United States, and possibly our right to share product profits on XL184, may be terminated in the event we undergo certain change of control transactions. Bristol-Myers Squibb may, upon certain prior notice to us, terminate the agreement as to products containing XL184 or XL281. 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 such products.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Bristol-Myers Squibb received an exclusive worldwide license to develop and commercialize XL281. We will carry out certain clinical trials of XL281 which may include a backup program on XL281. Bristol-Myers Squibb is responsible for funding all future development on XL281, including our activities. We are eligible for development and regulatory milestones of up to $315.0 million on XL281, sales performance milestones of up to $150.0 million and double-digit royalties on worldwide sales of XL281.

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. We are recognizing the upfront payment as revenue over the estimated four-year research term.

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 (except for Japan), with the remaining 65% to be paid by Bristol-Myers Squibb. We have the right to defer payment for certain development costs above certain thresholds. 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 and November 2008, Bristol-Myers Squibb exercised its option under the collaboration to develop and commercialize XL139 and XL413, respectively. Under the terms of the collaboration agreement, the selection of XL139 and XL413 by Bristol-Myers Squibb entitled us to a milestone payment of $20.0 million each, which we received in February 2008 and December 2008, respectively. In addition, we exercised our option under the collaboration agreement to co-develop and co-commercialize each of XL139 and XL413 in the United States. Bristol-Myers Squibb is leading all global activities with respect to XL139 and XL413. The parties will co-develop and co-commercialize each of XL139 and XL413 in the United States and expect to, subject to exercising our co-promotion option, share those profits 50/50. The parties will share U.S. commercialization expenses 50/50 and we will be responsible for 35% of global (except for Japan) development costs, with the remaining 65% to be paid by Bristol-Myers Squibb. We have the right to defer payment for certain development costs above certain thresholds. We will be entitled to receive double-digit royalties on product sales outside of the United States.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. In September 2007, the collaboration was extended at Bristol-Myers Squibb s request through January 12, 2009, and in November 2008, the collaboration was extended at Bristol-Myers Squibb s request through January 12, 2010. The upfront payment and the research and development funding will be recognized as revenue over the research period.

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 paid us additional research funding of approximately $7.7 million, and in connection with the extension of the collaboration through January 2010, Bristol-Myers Squibb is obligated to pay us additional research funding totaling approximately $5.8 million, which is payable in quarterly installments over the additional research term. 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.

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.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Genentech

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 expect to recognize the upfront and milestone payments as revenue over the estimated research term of three years. 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. In March 2008, Genentech exercised its option, triggering a payment to us of $3.0 million, which we received in April 2008. We will continue to be responsible for the phase 1 clinical trial until the point that a maximum tolerated dose, or MTD, is determined. After MTD is achieved, we will be required grant to Genentech an exclusive worldwide revenue-bearing license to XL518 and Genentech will be responsible for completing the phase 1 clinical trial and subsequent clinical development. We reached the MTD for XL518 in early 2009 and expect to transfer the compound to Genentech in March 2009. Another $7.0 million is due to us when a phase 2 program is initiated by Genentech. 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. We also have the option to co-promote in the United States. 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.

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 was 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 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. In May 2008, the research term under the collaboration expired, at which time we had 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. In June 2008, we elected to share a portion of the costs and profits associated with the development, manufacturing and commercialization of a therapeutic to treat tissue growth and repair. For all products under the collaboration agreement that were not elected as cost or profit sharing products, we may receive milestone and royalty payments.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Daiichi-Sankyo is 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 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. In June 2007, our collaboration agreement with Daiichi-Sankyo was amended to extend the research term by six months over which Daiichi-Sankyo was 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 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 agreement.

Wyeth

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 granted to Wyeth an exclusive, worldwide license with respect to certain intellectual property primarily relating to compounds that modulate FXR. Wyeth 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 paid us $2.5 million for achieving a second development milestone. Wyeth 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 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 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 has the option to terminate the license agreement.

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.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 (2) a stock purchase and stock issuance agreement; and (3) a loan and security agreement. During the term of the collaboration, we 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. In connection with the collaboration, GlaxoSmithKline purchased a total of three million shares of our common stock.

In October 2008, the development term under the collaboration concluded as scheduled. Under the terms of the collaboration, GlaxoSmithKline had the right to select up to two of the compounds in the collaboration for further development and commercialization. GlaxoSmithKline selected XL880 and had the right to choose one additional compound from a pool of compounds, which consisted of XL184, XL281, XL228, XL820 and XL844 as of the end of the development term. For periods prior to the quarter ended June 30, 2008, revenues from upfront payments, premiums paid on equity purchases and milestones had been recognized assuming that the development term would be extended through the longest contractual period of October 27, 2010. However, as a result of the development term concluding on the earliest scheduled end date, the remaining deferred revenues was recognized through October 27, 2008. The change in the estimated development term increased our total revenues by $18.5 million for the period ended December 31, 2008.

In July 2008, we achieved proof-of-concept for XL184 and submitted the corresponding data report to GlaxoSmithKline. GlaxoSmithKline notified us in writing that it decided not to select XL184 for further development and commercialization and that it waived its right to select XL281, XL228, XL820 and XL844 for further development and commercialization. As a result, Exelixis retained the rights to develop, commercialize, and/or license all of the compounds, subject to payment to GSK of a 3% royalty on net sales of any product incorporating XL184. As described under Bristol-Myers Squibb 2008 Cancer Collaboration, in December 2008, we entered into a worldwide collaboration with Bristol-Myers Squibb for XL184 and XL281. We discontinued development of XL820 and XL844 in December 2008.

The $85.0 million loan we received from GlaxoSmithKline bears interest at a rate of 4.0% per annum and is secured by certain intellectual property, technology and equipment created or utilized pursuant to the collaboration. Principal and accrued interest under the loan becomes due in three annual installments, beginning on October 27, 2009. 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. As of December 31, 2008, the aggregate principal and interest outstanding under the loan was $102.2 million.

NOTE 4. SYMPHONY EVOLUTION

On June 9, 2005 (the Symphony 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

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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 in the consolidated balance sheet was $0.7 million as of December 31, 2008. Prior to 2009, under the old standards, we would not allocate losses to the noncontrolling interest in SEI such that the carrying value of the noncontrolling interest would be reduced below zero. However, with the adoption of Statement of Financial Accounting Standards No 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 or SFAS 160 in fiscal year 2009, we could allocate losses to the noncontrolling interest in SEI such that the noncontrolling interest could have a negative carrying value. We expect to see the impact of this new standard to result in a negative carrying value by the end of the first quarter, 2009. For the years ended December 31, 2008, 2007 and 2006, the losses attributed to the noncontrolling interest holders were $12.7 million, $24.6 million and $21.7 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 Symphony 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, or on 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 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.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2007, we discontinued the development of XL999 and completed the phase 2 trial for XL784; the phase 2 clinical development program for XL647 is ongoing. We are in discussions with SEI regarding the future clinical development of XL647 and XL784 and related funding. We do not intend to further develop XL647 or XL784 on our own or invest any further Exelixis resources in the development of these compounds. In light of the foregoing, in the absence of a partner, we do not anticipate using our own funds or common stock to exercise the Purchase Option.

NOTE 5. DEERFIELD CREDIT FACILITY

On June 4, 2008, we entered into a Facility Agreement with Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P., Deerfield Partners, L.P. and Deerfield International Limited (collectively, the Deerfield Entities), pursuant to which the Deerfield Entities agreed to loan to us up to $150.0 million. We may draw down on the loan facility in $15.0 million increments through December 4, 2009, with any amounts drawn being due on June 4, 2013. We are under no obligation to draw down on the loan facility and at any time prior to any draw downs, we may terminate the loan facility without penalty. Pursuant to the Facility Agreement, we paid the Deerfield Entities a one time transaction fee of $3.8 million, or 2.5% of the loan facility. In addition, we are obligated to pay an annual commitment fee of $3.4 million, or 2.25% of the loan facility, that is payable quarterly and will be recognized as interest expense as incurred. Any outstanding balances under the loan facility will accrue interest at a rate of 6.75% per annum compounded annually and can be repaid at any time with shares of our common stock, subject to certain restrictions, or in cash. If our cash and cash equivalents and marketable securities on the last day of any calendar quarter are less than $75.0 million, then we would be in default under the Facility Agreement with the Deerfield Entities, and the Deerfield Entities would have the right, among other remedies, to cancel our right to request disbursements and declare immediately due and payable any amounts accrued or payable under the Facility Agreement.

Pursuant to the Facility Agreement, we issued six-year warrants to the Deerfield Entities to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of $7.40 per share. In addition, upon drawing on the loan facility, we must issue additional warrants as follows: (a) for each disbursement, warrants to purchase an aggregate of 800,000 shares of our common stock at an exercise price equal to 120% of the average of the Volume Weighted Average Price (as defined in the Facility Agreement) of our common stock for each of the 15 trading days beginning with the trading day following receipt by the Deerfield Entities of a disbursement request and (b) for each of the first through fifth disbursements, warrants to purchase an aggregate of an additional 400,000 shares of our common stock at an exercise price equal of $7.40 per share. If we were to draw the entire loan facility, we would be required to grant warrants to purchase an aggregate of 11,000,000 shares of our common stock.

Warrants issued upon signing of the Facility Agreement were assigned a value of $3.4 million using the Black-Scholes option pricing model. The related assumptions were as follows: risk-free interest rate of 3.41%, expected life of six years, volatility of 62% and expected dividend yield of 0%. The value of the warrants and the one time transaction fee of $3.8 million have been included as deferred charges under Other assets on the accompanying consolidated balance sheet and will be expensed as interest expense over the five year term of the loan facility.

As of December 31, 2008, we had not drawn down under the Facility Agreement.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. PROPERTY AND EQUIPMENT

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

	December 31, 2008	December 31, 2007
Laboratory equipment	$ 71,914	$ 66,974
Computer equipment and software	24,420	21,027
Furniture and fixtures	6,564	4,577
Leasehold improvements	26,162	22,593
Construction-in-progress	926	2,357
	129,986	117,528
Less accumulated depreciation and amortization	(93,739)	(82,864)
	$ 36,247	$ 34,664

For the years ended December 31, 2008, 2007 and 2006, we recorded depreciation expense of $13.6 million, $13.7 million and $15.3 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.

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, 2008 and 2007 we had no recorded intangible assets, apart from goodwill.

NOTE 8: RESTRUCTURING CHARGE

In November 2008, we implemented a restructuring plan that resulted in a reduction in force of 78 employees, or approximately 10% of our workforce. We anticipate that the actions associated with the restructuring plan will be completed during the first quarter of 2009.

In connection with the restructuring plan, we recorded a charge of approximately $2.9 million during the year ended December 31, 2008 in accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities . This charge consisted primarily of severance, health care benefits and legal and outplacement services fees. The current balance of the liability is included in Other Accrued Expenses on the balance sheet and the components are summarized in the following table (in thousands):

	Employee Severance and Other Benefits	Legal and Other Fees	Total
Restructuring Charges Accrued	$ 2,784	$ 106	$ 2,890
Cash Payments	(1,152)	(55)	(1,207)
Adjustments/Non-Cash Credits	56		56

December 31, 2008 Balance	$ 1,688	$ 51	$ 1,739

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. DEBT

Our debt consists of the following (in thousands):

	December 31,	
	2008	2007
GlaxoSmithKline convertible loans	$ 85,000	$ 85,000
Bank equipment lines of credit	32,680	36,514
	117,680	121,514
Less: current portion	(42,961)	(15,767)
Long-term debt	$ 74,719	$ 105,747

Under the loan and security agreement 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 three annual installments, beginning on October 27, 2009. 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, which excludes restricted cash and deferred revenue, but includes amounts available for borrowing under the Facility Agreement with the Deerfield Entities described in Note 5 of the Notes to the Consolidated Financial Statements) 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, 2008, 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 and was fully paid off as of December 31, 2007.

In December 2004, we entered into a loan modification agreement 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 provided 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, 2008, the collateral balance was $5.9 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, 2008 and 2007 was $5.5 million and $10.9 million, respectively.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2006, we entered into a second loan modification agreement 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 provided 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, 2008. The collateral balance of $15.7 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, 2008 and 2007 was $15.2 million and $21.9 million, respectively.

In December 2007, we entered into a third loan modification agreement 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. In June 2008, we drew down $13.6 million under this agreement. The collateral balance of $11.9 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, 2008 and 2007 was $11.7 million and zero, respectively.

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%. 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, 2008, the collateral balance was $0.3 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, 2008 and 2007 was $0.3 million and $3.6 million, respectively.

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Aggregate future principal payments of our total long-term debt as of December 31, 2008 are as follows (in thousands):

Year Ending December 31,	
2009	$ 42,961
2010	38,017
2011	35,265
2012	1,437
2013	
	117,680
Less current portion	(42,961)
	$ 74,719

NOTE 10. 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.

In addition, in June 2008 pursuant to the Facility Agreement, we issued six-year warrants to the Deerfield Entities pursuant to the Facility Agreement as described in Note 5 Deerfield Credit Facility .

At December 31, 2008, the following warrants to purchase common stock were outstanding and exercisable:

Date Issued	Exercise Price per Share	Expiration Date	Number of Shares
June 9, 2005	$ 8.90	June 9, 2010	750,000
June 9, 2006	$ 8.90	June 9, 2011	750,000
June 4, 2008	$ 7.40	June 4, 2014	1,000,000
			2,500,000

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11. 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 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. Effective December 23, 2008, we amended and restated the Plan to bring it into compliance with Section 409A of the Internal Revenue Code of 1986, as amended.

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, $1.3 million and $0.9 million for 2008, 2007 and 2006, respectively. As of December 31, 2008, we had 27,934 shares available for grant under our ESPP. We issued 1,054,808 shares, 411,121 shares, and 376,544 shares of common stock during 2008, 2007, and 2006, respectively, pursuant to the ESPP at an average price per share of $3.94, $8.68, and $7.42, respectively.

Stock-Based Compensation

Under SFAS 123R, we recognized stock-based compensation at a fair value in our consolidated statements of operations. We recognize compensation expense on a straight-line basis over the requisite service period, net of estimated. Employee stock-based compensation expense under SFAS 123R was allocated as follows (in thousands):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Research and development expense	$ 14,845	$ 11,547	$ 11,170
General and administrative expense	8,054	7,306	6,278
Total employee stock-based compensation expense	$ 22,899	$ 18,853	$ 17,448

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. 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:

	Stock Options		
	2008	2007	2006
Weighted average grant-date fair value	$ 3.95	$ 5.26	$ 5.26
Risk-free interest rate	2.57%	4.36%	4.42%
Dividend yield	0%	0%	0%
Volatility	63%	59%	64%
Expected life	5.2 years	4.9 years	4.7 years

	ESPP		
	2008	2007	2006
Weighted average grant-date fair value	$ 2.78	$ 3.29	$ 2.72
Risk-free interest rate	2.61%	4.49%	4.69%
Dividend yield	0%	0%	0%
Volatility	57%	53%	53%
Expected life	6 months	6 months	6 months

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2005	13,157,431	$ 10.73		
Granted	5,441,225	9.40		
Exercised	(426,221)	7.46		
Cancelled	(961,809)	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	(1,072,814)	10.01		
Options outstanding at December 31, 2007	20,718,661	$ 10.32		
Granted	5,199,068	7.08		
Exercised	(50,201)	5.98		
Cancelled	(1,726,342)	10.01		
Options outstanding at December 31, 2008	24,141,186	$ 9.67	6.6 years	$ 530,449
Exercisable at December 31, 2008	14,986,417	$ 10.53	5.6 years	$ 69,531

At December 31, 2008, a total of 16,001,971 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 2008 and the exercise prices, multiplied by the number of

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. Total intrinsic value of options exercised was $0.1 million, $3.4 million and $1.3 million for 2008, 2007 and 2006, respectively. Total fair value of employee options vested and expensed in 2008, 2007 and 2006 was $21.4 million, $17.5 million and $16.5 million, respectively. In addition, we recognized stock-based compensation expense of $0.1 million, $1.3 million and $0.2 million relating to nonemployees in 2008, 2007 and 2006, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

	Options Outstanding			Options Outstanding and Exercisable	
Exercise Price Range	**Number**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number of Exercisable**	**Weighted Average Exercise Price**
$0.40 - $ 6.27	2,683,436	8.45	$ 5.25	592,240	$ 5.98
$6.32 - $ 7.97	2,734,901	5.47	7.21	2,242,263	7.22
$7.98 - $ 8.74	2,872,470	7.86	8.64	1,067,677	8.49
$8.80 - $ 8.92	3,186,829	6.53	8.90	2,664,273	8.90
$8.99 - $ 9.00	3,298,646	7.50	9.00	1,705,228	9.00
$9.01 - $ 9.42	2,730,979	6.61	9.40	2,031,917	9.41
$9.50 - $ 10.05	2,430,524	7.71	9.79	1,149,857	9.70
$10.09 - $ 15.75	2,504,893	5.10	12.16	1,834,454	12.51
$15.85 - $ 45.00	1,678,508	2.31	21.32	1,678,508	21.32
$47.00	20,000	1.56	47.00	20,000	47.00
	24,141,186	6.60	$ 9.67	14,986,417	$ 10.53

We had 10.9 million stock options exercisable with a weighted average exercise price of $11.11 at December 31, 2007 and 9.2 million stock options exercisable with a weighted average exercise price of $11.35 at December 31, 2006.

As of December 31, 2008, $35.8 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 2.6 years. Cash received from option exercises and purchases under the ESPP in 2008 and 2007 was $4.5 million and $11.8 million respectively.

Stock Bonus

We granted 298,539, 180,555 and 143,128 fully vested shares of common stock during 2008, 2007, and 2006, respectively, pursuant to the 2000 Equity Incentive Plan and recorded expense of $2.4 million, $1.8 million and $1.5 million, respectively.

401(k) Retirement 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) Retirement 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) Retirement Plan in the form of Exelixis common stock. We recorded expense of $1.1 million, $0.8 million and $0.6 million related to the stock match for the years ended December 31, 2008, 2007 and 2006, respectively.

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. 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, 2008 and 2007.

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

	Year Ending December 31, 2008	2007	2006
Domestic	$ (162,854)	$ (87,980)	$ (102,136)
Foreign		1,599	644
Total	$ (162,854)	$ (86,381)	$ (101,492)

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, 2008	2007	2006
U.S. federal taxes (benefit) at statutory rate	$ (54,228)	$ (29,369)	$ (34,507)
Unutilized net operating losses	50,319	26,109	32,296
Stock based compensation	3,692	3,165	2,717
Other	217	95	(506)
Total	$	$	$

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

	December 31, 2008	2007
Deferred tax assets:		
Net operating loss carryforwards	$ 292,581	$ 244,670
Tax credit carryforwards	64,514	59,110
Capitalized research and development costs	4,137	5,290
Deferred revenue	17,429	12,920
Accruals and reserves not currently deductible	6,988	2,460
Book over tax depreciation	5,583	2,240
Amortization of deferred stock compensation non-qualified	12,352	7,870
Total deferred tax assets	403,584	334,560
Valuation allowance	(403,584)	(334,540)
Net deferred tax assets		20

Deferred tax liabilities:		
Other identified intangible assets		(20)
Net deferred taxes	$	$

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 $69.0 million, $39.3 million, and $45.4 million during 2008, 2007 and 2006, respectively.

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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, 2008, we had federal net operating loss carryforwards of approximately $768.0 million, which expire in the years 2009 through 2028 and federal research and development tax credits of approximately $73.0 million which expire in the years 2010 through 2028. We also had net operating loss carryforwards for California of approximately $543.0 million, which expire in the years 2010 through 2028 and California research and development tax credits of approximately $28.0 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 $26.6 million of unrecognized tax benefits as of January 1, 2008. The following table summarizes the activity related to our unrecognized tax benefits for the year ending December 31, 2008 (in thousands):

	Year Ending December 31, 2008	
Balance at January 1, 2007	$	20,282
Increase relating to prior year provision		6,363
Ending Balance at December 31, 2007	$	26,645
Decrease relating to prior year provision		(2,642)
Increase relating to current year provision		6,439
Ending Balance at December 31, 2008	$	30,442

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, 2008 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.

NOTE 13. 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 71,746 square feet in South San Francisco,

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EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

California that commenced in May 2008 and expires in 2015, with one three-year option to extend the term prior to expiration. Under the terms of this lease, we have the right to rent all of the remaining 57,775 rentable square feet of the building. This expansion right expires on December 31, 2009. 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):

Year Ending December 31,	Operating Leases
2009	$ 19,615
2010	18,859
2011	19,009
2012	19,377
2013	19,116
Thereafter	67,003
	$ 162,979

The following is a summary of aggregate future minimum lease payments under operating leases at December 31, 2008 by material operating lease agreements (in thousands):

	Original Term (Expiration)	Renewal Option	Future Minimum Lease Payment
Building Lease #1	May 2017	2 additional periods of 5 years	$ 91,692
Building Lease #2	July 2018	1 additional period of 5 years	40,915
Building Lease #3	May 2015	1 additional period of 3 years	28,958
Other Building Leases			1,414
Total			$ 162,979

Rent expense under operating leases was $18.7 million, $16.7 million and $16.0 million for the years ended December 31, 2008, 2007 and 2006, 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, 2008, 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 in the form of a non-interest bearing certificate of deposit. The collateral as of December 31, 2008 and 2007 was $2.3 million and $1.1 million, respectively, and we recorded these amounts in the accompanying consolidated balance sheet as restricted cash and investments as the securities are restricted as to withdrawal.

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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):

Year Ending December 31,	
2009	$ 488
2010	150
Thereafter	
	$ 638

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. No milestone payments have been paid during 2008, 2007 or 2006.

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.

NOTE 14. 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):

	2008 Quarter Ended			
	March 31,	June 30,	September 30,(1)	December 31,(2)
Total revenues	$ 27,944	$ 30,412	$ 29,932	$ 29,571
Loss from operations	(46,720)	(48,685)	(44,605)	(39,303)
Net loss	(41,274)	(45,124)	(38,506)	(37,950)
Basic and diluted net loss per share	$ (0.39)	$ (0.43)	$ (0.36)	$ (0.36)

	2007 Quarter Ended			
	March 31,	June 30,	September 30,(1)	December 31,(3)
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)

EXELIXIS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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. In September 2008, we received an additional $4.5 million as contingent consideration upon development of a designated additional asset, which we recognized as additional gain in other income.

(2) In November 2008, we implemented a restructuring plan that resulted in a reduction in force of 78 employees and recorded a charge of approximately $2.9 million.

(3) 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.

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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 under Rules 13a-15(e) or 15d-15(e)) under the Securities Exchange Act of 1934, as amended) required by Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended, 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 2008 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, 2008 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.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Exelixis, Inc.

We have audited Exelixis, Inc. s internal control over financial reporting as of January 2, 2009, 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 January 2, 2009, 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 January 2, 2009 and December 28, 2007, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the three fiscal years in the period ended January 2, 2009, of Exelixis, Inc. and our report dated March 4, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California

March 4, 2009

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.

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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 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended January 2, 2009.

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 5.05 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 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended January 2, 2009.

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 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended January 2, 2009.

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Equity Compensation Plan Information

The following table provides certain information as of December 31, 2008 with respect to all of Exelixis equity compensation plans in effect as of December 31, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders:			
2000 Equity Incentive Plan[1]	23,168,619	$ 9.62	12,811,726
2000 Non-Employee Directors Stock Option Plan[2]	770,000	10.78	2,843,906
2000 Employee Stock Purchase Plan[3]			27,934
1994 Employee, Director and Consultant Stock Option Plan & 1997 Equity Incentive Plan[4]	198,167	10.43	
1997 Agritope Stock Award Plan[5]	4,400	16.87	
Equity compensation plans not approved by stockholders:			
401(k) Retirement Plan[6]			689,468
Total	24,141,186	$ 9.67	16,373,034

All of the above equity compensation plans, other than our 401(k) Retirement Plan, 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

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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.

[6] 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) Retirement Plan permits Exelixis to make matching contributions on behalf of all participants. Beginning in 2002, we match 50% of the first 4% of participant contributions into the 401(k) Retirement Plan in the form of Exelixis common stock.

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 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 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended January 2, 2009.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference to Exelixis Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended January 2, 2009.

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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:

(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 109 through 115 are incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of South San Francisco, State of California, on March 10, 2009.

EXELIXIS, INC.

By: /s/ GEORGE A. SCANGOS, PH.D.
George A. Scangos, Ph.D.
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints **GEORGE A. SCANGOS, JAMES B. BUCHER** and **FRANK KARBE**, and each or any one of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report on Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ GEORGE A. SCANGOS **George A. Scangos, Ph.D.**	Director, President and Chief Executive Officer (Principal Executive Officer)	March 10, 2009
/s/ FRANK KARBE **Frank Karbe**	Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2009
/s/ STELIOS PAPADOPOULOS **Stelios Papadopoulos, Ph.D.**	Chairman of the Board	March 10, 2009
/s/ CHARLES COHEN **Charles Cohen, Ph.D.**	Director	March 10, 2009
/s/ CARL B. FELDBAUM **Carl B. Feldbaum, Esq.**	Director	March 10, 2009
/s/ ALAN M. GARBER **Alan M. Garber, M.D., Ph.D.**	Director	March 10, 2009

/s/ VINCENT MARCHESI	Director	March 10, 2009
Vincent Marchesi, M.D., Ph.D.		

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Signatures	Title	Date
/s/ FRANK MCCORMICK **Frank McCormick, Ph.D.**	Director	March 10, 2009
/s/ GEORGE POSTE **George Poste, D.V.M., Ph.D.**	Director	March 10, 2009
/s/ LANCE WILLSEY **Lance Willsey, M.D.**	Director	March 10, 2009
/s/ JACK L. WYSZOMIERSKI **Jack L. Wyszomierski**	Director	March 10, 2009

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INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated September 27, 2004, by and among Exelixis, Inc., XBO Acquisition Corp., and X-Ceptor 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.(27)
2.3*	Share Sale and Transfer Agreement, dated November 20, 2007, by and between Taconic Farms, Inc. and Exelixis, Inc.(33)
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.(29)
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*	Form Warrant to Purchase Common Stock of Exelixis, Inc. issued or issuable to Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P., Deerfield Partners, L.P. and Deerfield International Limited(32)
4.6	Fourth Amended and Restated Registration Rights Agreement, dated February 26, 1999, among Exelixis, Inc. and certain Stockholders of Exelixis, Inc.(2)
4.7	Registration Rights Agreement, dated October 18, 2004, by and among Exelixis, Inc., X-Ceptor Therapeutics, Inc., and certain holders of capital stock of X-Ceptor Therapeutics, Inc. listed in Annex I thereto.(7)
4.8	Registration Rights Agreement, dated October 18, 2004, by and among Exelixis, Inc., X-Ceptor Therapeutics, Inc., and certain holders of capital stock of X-Ceptor Therapeutics, Inc. listed in Annex I thereto.(7)
4.9*	Registration Rights Agreement, dated June 9, 2005, between Exelixis, Inc. and Symphony Evolution Holdings LLC.(5)
4.10	Registration Rights Agreement between Exelixis, Inc. and Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P., Deerfield Partners, L.P. and Deerfield International Limited dated June 4, 2008.(32)
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.(25)
10.5	2000 Non-Employee Directors Stock Option Plan.(33)

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Exhibit Number	Description
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)
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	Consulting Agreement, effective as of January 12, 2007, between Exelixis, Inc. and Jeffrey Latts.(30)
10.13	Offer Letter Agreement, dated February 3, 2000, between Michael Morrissey, Ph.D., and Exelixis, Inc.(3)
10.14	Offer Letter Agreement, dated November 20, 2003, between Frank Karbe and Exelixis, Inc.(3)
10.15	Offer Letter Agreement, dated March 27, 2000, between Pamela Simonton, J.D., L.L.M. and Exelixis, Inc.(11)
10.16	Offer Letter Agreement, dated June 20, 2006, between Exelixis, Inc. and Gisela M. Schwab, M.D.(12)
10.17	Compensation Information for the Company s Named Executive Officers.(13)
10.18	Compensation Information for Non-Employee Directors.
10.19	Exelixis, Inc. Change in Control and Severance Plan.
10.20*	Amended and Restated Cancer Collaboration Agreement, dated as of December 15, 2003, by and between Exelixis, Inc. and Bristol-Myers Squibb Company.(15)
10.21*	Product Development and Commercialization Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc.(16)
10.22*	First Amendment to the Product Development and Commercialization Agreement, dated as of January 10, 2005, by and between SmithKlineBeecham Corporation and Exelixis, Inc.(11)
10.23*	Stock Purchase and Stock Issuance Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc.(16)
10.24	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)
10.25*	Loan and Security Agreement, dated as of October 28, 2002, by and between SmithKlineBeecham Corporation and Exelixis, Inc.(16)
10.26	Second Amendment to the Loan and Security Agreement, dated as of September 20, 2004, by and between SmithKlineBeecham Corporation and Exelixis, Inc.(17)
10.27*	Third Amendment to the Loan and Security Agreement, dated as of January 10, 2005, by and between SmithKlineBeecham Corporation and Exelixis, Inc.(11)
10.28*	License Agreement, dated June 10, 2005, between Exelixis, Inc. and Helsinn Healthcare, S.A.(5)

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Exhibit Number	Description
10.29*	Novated and Restated Technology License Agreement, dated June 9, 2005, between Exelixis, Inc. and Symphony Evolution, Inc.(5)
10.30*	Amended and Restated Research and Development Agreement, dated June 9, 2005, among Exelixis, Inc., Symphony Evolution, Inc. and Symphony Evolution Holdings LLC.(5)
10.31*	Purchase Option Agreement, dated June 9, 2005, among Exelixis, Inc., Symphony Evolution Holdings LLC and Symphony Evolution, Inc.(5)
10.32	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)
10.33*	Collaboration Agreement, dated December 5, 2005, between Exelixis, Inc. and Bristol-Myers Squibb Company.(19)
10.34*	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)
10.35*	License Agreement, December 21, 2005, between Exelixis, Inc. and Wyeth Pharmaceuticals Division.(19)
10.36*	Collaboration Agreement, dated March 20, 2006, between Exelixis, Inc. and Sankyo Company, Limited.(20)
10.37*	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)
10.38*	Collaboration Agreement, dated December 15, 2006, between Exelixis, Inc. and Bristol-Myers Squibb Company.(30)
10.39*	Amendment No. 1, dated January 11, 2007, to the Collaboration Agreement, dated December 15, 2006, between Exelixis, Inc. and Bristol-Myers Squibb Company.(27)
10.40*	Collaboration Agreement, dated December 22, 2006, between Exelixis, Inc. and Genentech, Inc.(30)
10.41	Lease, dated May 12, 1999, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.(2)
10.42	First Amendment to Lease, dated March 29, 2000, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.(21)
10.43	Second Amendment to Lease dated January 31, 2001, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.(36)
10.44	Lease Agreement, dated May 24, 2001, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.(3)
10.45	First Amendment to Lease, dated February 28, 2003, between Britannia Pointe Grand Limited Partnership and Exelixis, Inc.(36)
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)

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Exhibit Number	Description
10.49	Loan Modification Agreement, dated December 21, 2004, between Silicon Valley Bank and Exelixis, Inc.(23)
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.(33)
10.55*	First Amendment to the Collaboration Agreement, dated March 13, 2008, between Exelixis, Inc. and Genentech, Inc.(34)
10.56	Facility Agreement between Exelixis, Inc. and Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P., Deerfield Partners, L.P. and Deerfield International Limited dated June 4, 2008.(36)
10.57	First Amendment dated May 31, 2008 to Lease Agreement, dated September 14, 2007, between ARE-San Francisco No. 12, LLC and Exelixis, Inc.(35)
10.58*	Second Amendment to the Product Development and Commercialization Agreement, dated as of June 13, 2008, by and between SmithKlineBeecham Corporation d/b/a GlaxoSmithKline and Exelixis, Inc.(35)
10.59*	Fourth Amendment to the Loan and Security Agreement, dated as of July 10, 2008, by and between SmithKlineBeecham Corporation d/b/a GlaxoSmithKline and Exelixis, Inc.(35)
10.60*	Letter Agreement, dated June 26, 2008, between Exelixis, Inc. and Bristol-Myers Squibb Company.(35)
10.61**	First Amendment to the Contract Research Agreement, effective as of January 1, 2008, by and among Agrigenetics, Inc., Mycogen Corporation, Exelixis Plant Sciences, Inc. and Exelixis, Inc.
10.62	Second Amendment dated May 31, 2008 to Lease Agreement, dated October 23, 2008, between ARE-San Francisco No. 12, LLC and Exelixis, Inc.
10.63	Third Amendment dated May 31, 2008 to Lease Agreement, dated October 24, 2008, between ARE-San Francisco No. 12, LLC and Exelixis, Inc.
10.64**	Second Amendment to the Contract Research Agreement, effective as of October 27, 2008, by and among Agrigenetics, Inc., Mycogen Corporation, Exelixis Plant Sciences, Inc. and Exelixis, Inc.
10.65**	Collaboration Agreement, dated December 11, 2008, by and between Exelixis, Inc. and Bristol-Myers Squibb Company.
10.66**	Amendment No. 1 to the Collaboration Agreement, dated December 17, 2008, by and between Exelixis, Inc. and Bristol-Myers Squibb Company.
10.67**	Letter Agreement, dated December 11, 2008, between Exelixis, Inc. and Bristol-Myers Squibb Company.

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Exhibit Number	Description
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.

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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 March 3, 2009 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.

32. Filed as an Exhibit to Exelixis, Inc. s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 9, 2008 and incorporated herein by reference.

33. Filed as an Exhibit to Exelixis, Inc. s Annual Report on Form 10-K for the fiscal year ended December 28, 2007, filed with the Securities and Exchange Commission on February 25, 2008 and incorporated herein by reference.

34. Filed as an Exhibit to Exelixis, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 28, 2008, filed with the Securities and Exchange Commission on May 6, 2008 and incorporated herein by reference.

35. Filed as an Exhibit to Exelixis, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 27, 2008, filed with the Securities and Exchange Commission on August 5, 2008 and incorporated herein by reference.

36. Filed as an Exhibit to Exelixis, Inc. s Registration Statement on Form S-1 (File No. 333-152166), as filed with the Securities and Exchange Commission on July 7, 2008, as amended, and incorporated herein by reference.