EXELIXIS, INC.
Form 10-Q
August 11, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 3, 2015
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to
Commission File Number: 000-30235
EXELIXIS, INC.
(Exact name of registrant as specified in its charter)

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

210 East Grand Ave.
South San Francisco, CA 94080
(650) 837-7000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days). Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of August 3, 2015, there were 225,431,074 shares of the registrant's common stock outstanding.

Table of Contents

EXELIXIS, INC.
QUARTERLY REPORT ON FORM 10-Q
INDEX

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
EXELIXIS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2015 (unaudited)	December 31, 2014*
ASSETS		
Current assets:		
Cash and cash equivalents	$61,949	$80,395
Short-term investments	14,648	63,890
Short-term restricted cash and investments	6,109	12,212
Trade and other receivables	3,758	4,882
Inventory	2,608	2,381
Prepaid expenses and other current assets	2,731	3,481
Total current assets	91,803	167,241
Long-term investments	81,598	81,579
Long-term restricted cash and investments	2,684	4,684
Property and equipment, net	1,812	2,432
Goodwill	63,684	63,684
Other assets	7,197	8,340
Total assets	$248,778	$327,960
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$3,398	$6,413
Accrued clinical trial liabilities	32,572	41,545
Accrued compensation and benefits	3,249	3,350
Other accrued liabilities	15,803	12,282
Current portion of convertible notes	—	98,880
Current portion of loans payable	—	381
Current portion of restructuring	5,294	6,426
Deferred revenue	—	2,583
Total current liabilities	60,316	171,860
Long-term portion of convertible notes	291,225	182,395
Long-term portion of loans payable	80,000	80,000
Long-term portion of restructuring	3,080	4,365
Other long-term liabilities	2,345	4,169
Total liabilities	436,966	442,789
Commitments		
Stockholders' deficit:		
Preferred stock	—	—
Common stock, $0.001 par value; 400,000,000 shares authorized; issued and outstanding: 196,381,220 and 195,895,769 shares at June 30, 2015 and December 31, 2014, respectively	196	196
Additional paid-in capital	1,657,626	1,652,400
Accumulated other comprehensive loss	(174)	(121)
Accumulated deficit	(1,845,836)	(1,767,304)

Total stockholders' deficit	(188,188)	(114,829)
Total liabilities and stockholders' deficit	$248,778	$327,960

* The condensed consolidated balance sheet as of December 31, 2014 has been derived from the audited financial statements as of that date.

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Net product revenues	$7,992	$6,562	$17,380	$11,467
Operating expenses:				
Cost of goods sold	686	477	1,452	786
Research and development	24,506	50,976	46,788	105,823
Selling, general and administrative	12,789	16,466	22,320	31,157
Restructuring charge	1,291	331	860	377
Total operating expenses	39,272	68,250	71,420	138,143
Loss from operations	(31,280)	(61,688)	(54,040)	(126,676)
Other income (expense), net:				
Interest income and other, net	(123)	359	(130)	2,490
Interest expense	(11,959)	(12,081)	(24,362)	(23,843)
Total other income (expense), net	(12,082)	(11,722)	(24,492)	(21,353)
Net loss	$(43,362)	$(73,410)	$(78,532)	$(148,029)
Net loss per share, basic and diluted	$(0.22)	$(0.38)	$(0.40)	$(0.77)
Shares used in computing basic and diluted net loss per share	196,201	194,929	196,052	193,323

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(43,362)	$(73,410)	$(78,532)	$(148,029)
Other comprehensive (loss) income (1)	(113)	24	(53)	31
Comprehensive loss	$(43,475)	$(73,386)	$(78,585)	$(147,998)

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

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

Table of Contents

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(78,532)	$(148,029)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	684	1,093
Stock-based compensation expense	3,394	7,740
Accretion of debt discount	14,891	14,316
Gain on sale of equity investment	(95)	—
Change in the fair value of warrants	549	(1,854)
Other	1,093	2,615
Changes in assets and liabilities:		
Trade and other receivables	746	(1,093)
Inventory	(227)	(136)
Prepaid expenses and other assets	953	226
Accounts payable, accrued compensation, and other accrued liabilities	405	(4,905)
Clinical trial liabilities	(8,973)	6,409
Restructuring liability	(3,321)	(3,003)
Other long-term liabilities	(903)	(479)
Deferred revenue	(2,583)	(323)
Net cash used in operating activities	(71,919)	(127,423)
Cash flows from investing activities:		
Purchases of property and equipment	(94)	(344)
Proceeds from sale of property and equipment	1,295	281
Proceeds from sale of equity investment	95	—
Proceeds from maturities of restricted cash and investments	12,247	10,777
Purchase of restricted cash and investments	(4,184)	(4,643)
Proceeds from maturities of investments	94,438	181,258
Purchases of investments	(46,217)	(82,280)
Net cash provided by investing activities	57,580	105,049
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	—	75,646
Proceeds from exercise of stock options and warrants	—	120
Proceeds from employee stock purchase plan	274	928
Principal payments on debt	(4,381)	(10,958)
Net cash (used in) provided by financing activities	(4,107)	65,736
Net (decrease) increase in cash and cash equivalents	(18,446)	43,362
Cash and cash equivalents at beginning of period	80,395	103,978
Cash and cash equivalents at end of period	$61,949	$147,340

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

Table of Contents

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

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Exelixis, Inc. ("Exelixis," "we," "our" or "us") is a biopharmaceutical company committed to developing small molecule therapies for the treatment of cancer. Our two most advanced assets are cabozantinib, our wholly-owned inhibitor of multiple receptor tyrosine kinases, and cobimetinib (GDC-0973/XL518), a selective inhibitor of MEK, a dual-specificity kinase, which we out-licensed to Genentech, Inc. (a member of the Roche Group), ("Genentech").

Our development and commercialization efforts are focused primarily on cabozantinib. Cabozantinib was approved by the United States Food and Drug Administration ("FDA") on November 29, 2012, for the treatment of progressive, metastatic medullary thyroid cancer ("MTC"), in the United States under the brand name COMETRIQ®. COMETRIQ became commercially available in the United States in January 2013. In March 2014, the European Commission granted cabozantinib conditional marketing authorization for the treatment of adult patients with progressive, unresectable locally advanced or metastatic MTC, also under the brand name COMETRIQ. We are evaluating cabozantinib in a broad development program comprising over forty-five clinical trials across multiple indications, including two ongoing phase 3 pivotal trials focusing on advanced renal cell carcinoma ("RCC"), and advanced hepatocellular carcinoma ("HCC"). On July 20, 2015, we announced positive top-line results from the primary analysis of METEOR, the phase 3 pivotal trial comparing cabozantinib to everolimus in 658 patients who experienced disease progression following treatment with a VEGF receptor tyrosine kinase inhibitor. Based on the data from the trial, we expect to complete U.S. and EU regulatory filings in early 2016.

Our second most advanced oncology asset, cobimetinib, is being evaluated by Genentech in a broad development program, including coBRIM, a phase 3 pivotal trial evaluating cobimetinib in combination with vemurafenib versus vemurafenib alone in previously untreated patients with unresectable locally advanced melanoma harboring a BRAF V600 mutation. On September 29, 2014, positive results from this trial were reported at the European Society for Medical Oncology ("ESMO") 2014 Congress. The trial met its primary endpoint of demonstrating a statistically significant increase in investigator-determined progression free survival for cobimetinib in combination with vemurafenib versus vemurafenib alone. Roche has completed the Marketing Authorization Application for cobimetinib in combination with vemurafenib in the European Union. In the United States, Genentech submitted its New Drug Application ("NDA") in December 2014, and the FDA granted the NDA priority review with a projected action date of August 11, 2015. On June 30, 2015, Genentech informed us that, in order to accommodate its review of a supplemental data submission, the FDA extended the projected action date for its review of the cobimetinib NDA by the standard extension period of three months, to November 11, 2015.

Basis of Consolidation

The consolidated financial statements include the accounts of Exelixis and those of our wholly-owned subsidiaries. These entities' functional currency is the U.S. dollar. All intercompany balances and transactions have been eliminated.

Basis of Presentation

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

Exelixis adopted a 52- or 53-week fiscal year that generally ends on the Friday closest to December 31st. Fiscal year 2015, a 52-week year, will end on January 1, 2016, and fiscal year 2014, a 53-week year, ended on January 2, 2015. For convenience, references in this report as of and for the fiscal periods ended July 3, 2015 and June 27, 2014, and as of and for the fiscal years ended January 1, 2016 and January 2, 2015, are indicated as being as of and for the periods ended June 30, 2015, June 30, 2014, December 31, 2015, and December 31, 2014, respectively.

Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2016 or for any future period. These financial statements and notes should be

Table of Contents

read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the SEC on March 2, 2015.

Segment Information

We operate as a single reportable segment.

Use of Estimates

The preparation of our consolidated financial statements is in conformity with accounting principles generally accepted in the United States which requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. On an ongoing basis, management evaluates its estimates including, but not limited to, those related to inventory, revenue recognition, valuation of long-lived assets, certain accrued liabilities including clinical trial accruals and restructuring liability, valuation of warrants, share-based compensation and the valuation of the debt and equity components of our convertible debt at issuance. We base our estimates on historical experience and on various other market-specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

Need to Access Additional Capital

We have incurred net losses since inception through June 30, 2015, with the exception of the 2011 fiscal year. We anticipate net losses and negative operating cash flow for the foreseeable future. For the six months ended June 30, 2015, we incurred a net loss of $78.5 million and as of June 30, 2015, we had an accumulated deficit of $1.8 billion. These losses have had, and will continue to have, an adverse effect on our stockholders' deficit and working capital. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses or whether or when we will become profitable, if at all. Our research and development expenditures and selling, general and administrative expenses have exceeded our revenues for each fiscal year other than the 2011 fiscal year, and we expect to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. As a result, we expect to continue to incur substantial operating expenses and, consequently, we will need to generate significant additional revenues to achieve future profitability.

We commercially launched COMETRIQ for the treatment of progressive, metastatic MTC in the United States in late January 2013, and from the commercial launch through June 30, 2015 we have generated $57.5 million in net revenues from the sale of COMETRIQ. Other than revenues from COMETRIQ, we have derived substantially all of our revenues since inception from collaborative research and development agreements, which depend on research funding, the achievement of milestones, and royalties we earn from any future products developed from the collaborative research.

The amount of our net losses will depend, in part, on the rate of growth, if any, in our sales of COMETRIQ; our share of the net profits and losses for the commercialization for cobimetinib in the U.S., if any; the receipt of royalties from cobimetinib sales outside the U.S., if any; partnering activities for cabozantinib; other license and contract revenues; and, the level of expenses primarily with respect to development and commercialization activities for cabozantinib.

As of June 30, 2015, we had $167.0 million in cash and investments, which included $76.6 million available for operations, $6.1 million of short-term restricted investments available for public debt service obligations, $81.6 million of compensating balance investments that we are required to maintain on deposit with Silicon Valley Bank, and $2.7 million of long-term restricted investments. We anticipate that our current cash and cash equivalents, and short-term investments available for operations, and product revenues, together with the proceeds from our July 2015 public offering, will enable us to maintain our operations for a period of at least 12 months following the end of the second quarter of 2015. See "Note 11 - Subsequent Events" for more information on our July 2015 sale of shares of common stock. While a forecast of future events is inherently uncertain, our ability to sustain our business operations for this time period is highly dependent on the commercial success of COMETRIQ and the revenues we generate, as well as the commercial success of cobimetinib and our share of related net profits and losses, and royalties under our collaboration with Genentech. Consistent with the actions we have taken in the past, we will prioritize necessary and appropriate steps to ensure the continued operation of our business and preservation of the value of our assets. However, our future capital requirements will be substantial, and we may need to raise additional capital in the future.

Our capital requirements will depend on many factors, and we may need to use available capital resources and raise additional capital significantly earlier than we currently anticipate.

Revenue Recognition

We recognize revenue from the sale of COMETRIQ and have historically recognized revenue from license fees and

Table of Contents

milestones earned on research and collaboration arrangements. See “Note 1 - Organization and Summary of Significant Accounting Policies” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 for a description of our policies for revenue recognition on research and collaboration agreements. We did not enter into any new collaboration agreements during the six months ended June 30, 2015. See “Note 2 - Research and Collaboration Agreements” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 for a description of our existing collaboration agreements.

Net Product Revenues

We recognize revenue when it is both realized or realizable and earned, meaning persuasive evidence of an arrangement exists, delivery has occurred, title has transferred, the price is fixed or determinable, there are no remaining customer acceptance requirements, and collectability of the resulting receivable is reasonably assured. For product sales in the United States, this generally occurs upon delivery of the product at the specialty pharmacy. For product sales in Europe, this generally occurs when our European distribution partner has accepted the product, at which time they are no longer able to return the product.

We sell our product, COMETRIQ, in the United States to a specialty pharmacy that benefits from customer incentives and has a right of return. Prior to 2015, COMETRIQ had limited sales history and we could not reliably estimate expected future returns, discounts and rebates of the product at the time the product was sold to the specialty pharmacy, therefore we recognized revenue when the specialty pharmacy provided the product to a patient based on the fulfillment of a prescription, frequently referred to as the “sell-through” revenue recognition model. Recently we have established sufficient historical experience and data to reasonably estimate expected future returns of the product and the discounts and rebates due to payors at the time of shipment to the specialty pharmacy. Accordingly, beginning in January 2015 we began to recognize revenue upon delivery to our U.S. specialty pharmacy. This approach is frequently referred to as the “sell-in” revenue recognition model. In connection with the change in the timing of recognition of U.S. COMETRIQ sales, we recorded a one-time adjustment to recognize revenue and related costs that had previously been deferred at December 31, 2014, resulting in additional gross product revenues of $2.6 million and a nominal amount of cost of goods sold for the six months ended June 30, 2015; there were no such adjustments recorded for the three months ended June 30, 2015.

We also utilize the “sell-in” revenue recognition model for sales to our European distribution partner for all periods presented. Once the European distributer has accepted the product, the product is no longer subject to return; therefore, we record revenue at the time our European distribution partner has accepted the product.

Product Sales Discounts and Allowances

We calculate gross product revenues based on the price that we charge our United States specialty pharmacy and our European distribution partner. We estimate our domestic net product revenues by deducting from our gross product revenues (a) trade allowances, such as discounts for prompt payment, (b) estimated government rebates and chargebacks, and (c) estimated costs of patient assistance programs. We estimate our European net product revenues by deducting from our gross product revenues an estimated credit for product originally delivered with expiry of 18 months or less. European net product revenues for the six months ended June 30, 2015 also included the remaining $0.1 million of the $2.4 million project management fee payable to our European distributor upon their achievement of a cumulative revenue goal; no such fees or credits were recognized during the three months ended June 30, 2015 or the comparable periods in 2014. We first determined that the achievement of the revenue goal was probable in the third quarter of 2014 and therefore we recorded project management fees beginning in that period.

We initially record estimates for these deductions at the time we recognize the gross revenue. We update our estimates on a recurring basis as new information becomes available. See “Note 1 - Organization and Summary of Significant Accounting Policies” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 for a further description of our discounts and allowances.

Cost of Goods Sold

Cost of goods sold is related to our product revenues and consists primarily of a 3% royalty on net sales of any product incorporating cabozantinib payable to GlaxoSmithKline, and to a lesser extent, indirect labor costs, the cost of manufacturing and other third party logistics costs of our product. A portion of the manufacturing costs for product

sales were incurred prior to regulatory approval of COMETRIQ for the treatment of progressive, metastatic MTC and, therefore, were expensed as research and development costs when those costs were incurred, rather than capitalized as inventory. See “Note 2 - Research and Collaboration Agreements” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 for additional information related to the 3% royalty payable to GlaxoSmithKline.

Table of Contents

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements of FASB Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition and most industry-specific guidance throughout the Accounting Standards Codification, resulting in the creation of FASB ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. On July 9, 2015, the FASB deferred the effective date by one year for public entities for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted for periods after December 15, 2016. We are currently evaluating the impact of adopting ASU 2014-09, inclusive of available transitional methods on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and earlier application is permitted. The adoption of this guidance will not have any impact on the Company's financial position and results of operations and, at this time, we do not expect any impact on its disclosures.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs which Changes the Presentation of Debt Issuance Costs in Financial Statements ("ASU 2015-03"), which requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. ASU 2015-03 will be effective for annual reporting periods beginning after December 15, 2015 and interim periods within fiscal years beginning after December 15, 2016, with early adoption permitted. The new guidance will be applied retrospectively to each prior period presented. If we had adopted ASU 2015-03, as of June 30, 2015, it would have resulted in a reduction of Other assets and total debt by $3.8 million and $4.7 million as June 30, 2015 and December 31, 2014, respectively.

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"), which provide that if a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses, and if a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 will be effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. We are currently evaluating the impact of adopting ASU 2015-05, inclusive of available transitional methods on our consolidated financial statements and related disclosures.

NOTE 2: RESTRUCTURINGS

The restructuring charges that we expect to incur in connection with our restructurings are subject to a number of assumptions, including facility exit activity, sublease activity, the results of asset sales and the timing of employee terminations, and actual results may materially differ. We may also incur other material charges not currently contemplated due to events that may occur as a result of, or associated with, the restructurings.

2014 Restructuring

On September 2, 2014, as a consequence of the failure of COMET-1, one of our two phase 3 pivotal trials of cabozantinib in metastatic castration-resistant prostate cancer, we initiated the 2014 Restructuring to reduce our workforce. Personnel reductions were initiated across our entire organization that resulted in an aggregate reduction in headcount of 143 full-time employees as of June 30, 2015. The principal objective of the 2014 Restructuring was to enable us to focus our financial resources on the phase 3 pivotal trials of cabozantinib in advanced RCC and advanced

HCC.

For the six months ended June 30, 2015, we recorded restructuring charges of $0.3 million for the 2014 Restructurings. The restructuring charge included $1.2 million in additional charges due to the partial termination of one of our building leases and additional facility-related charges related to the decommissioning and exit of certain buildings. The restructuring charge was partially offset by $0.9 million in recoveries recorded in connection with the sale of excess equipment

Table of Contents

and other assets. Employee severance and other benefits are recognized ratably during the period from the implementation date of the 2014 Restructuring through the employees' termination dates.

The restructuring liability related to the 2014 Restructuring is included in the current and long-term portion of restructuring on the accompanying Consolidated Balance Sheets. The components of and changes to these liabilities during the six months ended June 30, 2015 are summarized in the following table (in thousands):

	Employee Severance and Other Benefits	Facility Charges	Asset Sales	Legal and Other Fees	Total
Restructuring liability as of December 31, 2014	$1,290	$—	$—	$47	$1,337
Restructuring charge (recovery)	(28)	1,220	(905)	—	287
Cash (payments) receipts, net	(1,022)	(207)	1,284	—	55
Other non-cash items	—	278	(379)	3	(98)
Restructuring liability as of June 30, 2015	$240	$1,291	$—	$50	$1,581

We expect to pay the accrued facility charges of $1.3 million through April 2017.

2010 Restructurings

Between March 2010 and May 2013, we implemented five restructurings (referred to collectively as the "2010 Restructurings") to manage costs and as a consequence of our decision in 2010 to focus our proprietary resources and development efforts on the development and commercialization of cabozantinib. The aggregate reduction in headcount from the 2010 Restructurings was 429 employees. Charges and recoveries related to the 2010 Restructurings were recorded in periods other than those in which the 2010 Restructurings were implemented as a result of sublease activities for certain of our buildings in South San Francisco, California, changes in assumptions regarding anticipated sublease activities, the effect of the passage of time on our discounted cash flow computations, previously planned employee terminations, and sales of excess equipment and other assets.

For the six months ended June 30, 2015 and 2014, we recorded restructuring charges of $0.6 million and $0.4 million, respectively, for the 2010 Restructurings. The charges for both periods presented were related to the effect of the passage of time on our discounted cash flow computations ("accretion expense") for the exit, in prior periods, of certain of our South San Francisco buildings. During the six months ended June 30, 2015, the restructuring charge also included the impact of a new sublease executed in June 2015 and additional changes in assumptions regarding anticipated sublease activities. During the six months ended June 30, 2014 restructuring charges were partially offset by $0.1 million in recoveries recorded in connection with the sale of excess equipment and other assets.

The total outstanding restructuring liability related to the 2010 Restructurings is included in the current and long-term portion of restructuring on the accompanying Consolidated Balance Sheets. The changes to this liability during the six months ended June 30, 2015 is summarized in the following table (in thousands):

	Facility Charges
Restructuring liability as of December 31, 2014	$9,454
Restructuring charge	573
Cash payments	(3,559)
Adjustments or non-cash credits	325
Restructuring liability as of June 30, 2015	$6,793

We expect to pay accrued facility charges of $6.8 million, net of cash received from our subtenants, through the end of our lease terms of the buildings, the last of which ends in 2017. We expect to incur additional restructuring charges of approximately $0.5 million relating to the effect of accretion expense through to the end of the building lease terms.

Table of Contents

NOTE 3: CASH AND INVESTMENTS

The following tables summarize cash and cash equivalents, investments, and restricted cash and investments by balance sheet line item as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents	$61,949	$—	$—	$61,949
Short-term investments	14,780	8	(140)	14,648
Short-term restricted cash and investments	6,041	68	—	6,109
Long-term investments	81,600	—	(2)	81,598
Long-term restricted cash and investments	2,684	—		2,684
Total cash and investments	$167,054	$76	$(142)	$166,988

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents	$80,395	$—	$—	$80,395
Short-term investments	63,988	37	(135)	63,890
Short-term restricted cash and investments	12,105	107	—	12,212
Long-term investments	81,600	1	(22)	81,579
Long-term restricted cash and investments	4,684	—	—	4,684
Total cash and investments	$242,772	$145	$(157)	$242,760

Under our loan and security agreement with Silicon Valley Bank, we are required to maintain compensating balances on deposit in one or more investment accounts with Silicon Valley Bank or one of its affiliates. The total collateral balances as of June 30, 2015 and December 31, 2014 were $81.6 million and $82.0 million, respectively, and are reflected in our Consolidated Balance Sheets in short- and long-term investments. See “Note 8 - Debt” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, for more information regarding the collateral balance requirements under our Silicon Valley Bank loan and security agreement.

All of our cash equivalents and investments are classified as available-for-sale. The following tables summarize our cash equivalents and investments by security type as of June 30, 2015 and December 31, 2014. The amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$67,922	$—	$—	$67,922
Commercial paper	30,354	—	—	30,354
Corporate bonds	60,646	8	(142)	60,512
U.S. Treasury and government sponsored enterprises	6,041	68	—	6,109
Total investments	$164,963	$76	$(142)	$164,897

Table of Contents

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$23,376	$—	$—	$23,376
Commercial paper	56,714	—	—	56,714
Corporate bonds	143,444	35	(157)	143,322
U.S. Treasury and government sponsored enterprises	12,105	107	—	12,212
Municipal bonds	2,659	3	—	2,662
Total investments	$238,298	$145	$(157)	$238,286

There were no sales of investments during the six months ended June 30, 2015 and 2014.

All of our investments are subject to a quarterly impairment review. During the six months ended June 30, 2015 and 2014, we did not record any other-than-temporary impairment charges on our available-for-sale securities. As of June 30, 2015, there were 23 investments in an unrealized loss position with an aggregate fair value $43.4 million. Investments in an unrealized loss position are all corporate bonds. All of our investments in an unrealized loss position have been so for less than one year and the unrealized losses were not attributed to credit risk, but rather associated with the changes in interest rates. Based on the scheduled maturities of our investments, we concluded that the unrealized losses in our investment securities are not other-than-temporary, as it is more likely than not that we will hold these investments for a period of time sufficient for a recovery of our cost basis.

The following table summarizes the fair value of securities classified as available-for-sale by contractual maturity as of June 30, 2015 (in thousands):

	Mature within One Year	After One Year through Two Years	Fair Value
Money market funds	$67,922	$—	$67,922
Commercial paper	30,354	—	30,354
Corporate bonds	59,190	1,322	60,512
U.S. Treasury and government sponsored enterprises	6,109	—	6,109
Total investments	$163,575	$1,322	$164,897

Cash is excluded from the table above. The classification of certain compensating balances and restricted investments are dependent upon the term of the underlying restriction on the asset and not the maturity date of the investment. Therefore, certain long-term investments and long-term restricted cash and investments have contractual maturities within one year.

NOTE 4. INVENTORY

Inventory consists of the following (in thousands):

	June 30, 2015	December 31, 2014
Raw materials	$1,030	$1,118
Work in process	2,605	2,845
Finished goods	890	559
Total	4,525	4,522
Less: non-current portion included in Other assets	(1,917)	(2,141)
Inventory	$2,608	$2,381

We generally relieve inventory on a first-expiry, first-out basis. Write-downs related to expiring inventory are charged to cost of goods sold. Such write-downs were $0.2 million for the six months ended June 30, 2015 and were nominal for the six months ended June 30, 2014. The non-current portion of inventory is recorded within Other assets on the accompanying Condensed Consolidated Balance Sheets and is comprised of a portion of the active pharmaceutical ingredient that is included in raw materials and work in process inventories. There were no other write-downs for

obsolete or excess inventory.

Table of Contents

NOTE 5. DEBT

The amortized carrying amount of our debt consists of the following (in thousands):

	June 30, 2015	December 31, 2014
Convertible Senior Subordinated Notes due 2019	$191,597	$182,395
Secured Convertible Notes due 2018	99,627	98,880
Silicon Valley Bank term loan	80,000	80,000
Silicon Valley Bank line of credit	—	381
Total debt	371,224	361,656
Less: current portion	—	(99,261)
Long-term debt	$371,224	$262,395

See “Note 8 - Debt” to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, for additional information on the terms of our debt, including a description of the conversion features of the of 4.25% Convertible Senior Subordinated Notes due 2019 (the “2019 Notes”) and our Secured Convertible Notes due June 2018 (the “Deerfield Notes”).

Convertible Senior Subordinated Notes due 2019

In August 2012, we issued and sold $287.5 million aggregate principal amount of the 2019 Notes. As of June 30, 2015, the entire principal balance remains outstanding. The following is a summary of the liability component of the 2019 Notes (in thousands):

	June 30, 2015	December 31, 2014
Net carrying amount of the liability component	$191,597	$182,395
Unamortized discount of the liability component	95,903	105,105
Face amount of the 2019 Notes	$287,500	$287,500

The debt discount and debt issuance costs will be amortized as interest expense through August 2019. The following is a summary of interest expense for the 2019 Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stated coupon interest	$3,055	$3,054	$6,110	$6,143
Amortization of debt discount and debt issuance costs	4,833	4,397	9,554	8,692
Total interest expense	$7,888	$7,451	$15,664	$14,835

The balance of unamortized fees and costs was $2.9 million and $3.3 million as of June 30, 2015 and December 31, 2014, respectively, which is included in Other assets on the accompanying Condensed Consolidated Balance Sheets.

Secured Convertible Notes due June 2018

In June 2010, we entered into a note purchase agreement with Deerfield Private Design Fund, L.P. and Deerfield Private Design International, L.P., (the “Original Deerfield Purchasers”), pursuant to which, on July 1, 2010, we sold to the Original Deerfield Purchasers an aggregate of $124.0 million principal amount of our Secured Convertible Notes due July 1, 2015, which we refer to as the Original Deerfield Notes, for an aggregate purchase price of $80.0 million, less closing fees and expenses of approximately $2.0 million. On July 1, 2015, we made a $4.0 million principal payment and then extended the maturity date of the Original Deerfield Notes from July 1, 2015 to July 1, 2018. In connection with the extension, Deerfield Partners, L.P. and Deerfield International Master Fund, L.P. (the “New Deerfield Purchasers”) acquired the $100.0 million principal amount of the Original Deerfield Notes and we entered into the Restated Deerfield Notes with each of the New Deerfield Purchasers, representing the $100.0 million principal amount. We refer to the Original Deerfield Purchasers and the New Deerfield Purchasers collectively as “Deerfield”, and to the Original Deerfield Notes and Restated Deerfield Notes, collectively as the “Deerfield Notes”.

Table of Contents

As of June 30, 2015 and December 31, 2014, the outstanding principal balance on the Deerfield Notes was $100.0 million and $104.0 million, respectively, which, subject to certain limitations, is payable in cash or in stock at our discretion. Beginning on July 2, 2015, the outstanding principal amount of the Deerfield Notes bears interest at the rate of 7.5% per annum to be paid in cash, quarterly in arrears, and 7.5% per annum to be paid in kind, quarterly in arrears, for a total interest rate of 15% per annum. Through July 1, 2015, the outstanding principal amount of the Deerfield Notes bore interest in the annual amount of $6.0 million, payable quarterly in arrears.

The following is a summary of interest expense for the Deerfield Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stated coupon interest	$1,496	$1,495	$2,975	$2,975
Amortization of debt discount and debt issuance costs	2,373	2,931	5,320	5,626
Total interest expense	$3,869	$4,426	$8,295	$8,601

The balance of unamortized fees and costs was $0.9 million and $1.4 million as of June 30, 2015 and December 31, 2014, respectively, which is included in Other assets on the accompanying Condensed Consolidated Balance Sheets. Prior to March 4, 2015, the unamortized discount, fees and costs were amortized into interest expense as a yield adjustment through July 1, 2015. Effective March 4, 2015, upon notification of our election to require the New Deerfield Purchasers to acquire the Deerfield Notes and extend the maturity date to July 1, 2018, we began to amortize the remaining unamortized discount, fees and costs through July 1, 2018 using the effective interest method and an effective interest rate of 15.26%.

In connection with the amendment to the note purchase agreement, on January 22, 2014 we issued to the New Deerfield Purchasers two-year warrants (the “2014 Deerfield Warrants”) to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of $9.70 per share. Upon the March 4, 2015 notification of our election to extend the maturity date of the Deerfield Notes, the exercise price of the 2014 Deerfield Warrants was reset to $3.445 per share and the term was extended by two years to January 22, 2018. See “Note 6 - Common Stock and Warrants” for further information on the 2014 Deerfield Warrants.

NOTE 6. COMMON STOCK AND WARRANTS

Sale of Shares of Common Stock

On July 29, 2015 we completed a registered underwritten public offering of 28,750,000 shares of our common stock, including 3,750,000 shares issued under the underwriters’ 30-day option to buy shares, at a price of $5.40 per share. We received $145.5 million in net proceeds from the offering after deducting the underwriting discount and other estimated expenses. See “Note 11 - Subsequent Events” for more information on our July 2015 sale of shares of common stock.

Warrants

On January 22, 2014, in connection with the amendment to the note purchase agreement to provide us with the Extension Option, we issued to the New Deerfield Purchasers the 2014 Deerfield Warrants to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of $9.70 per share. Under the terms of the Extension Option, the term of the 2014 Deerfield Warrants would be extended by two years and the exercise price would be reset to the lower of (i) the existing exercise price and (ii) 120% of the volume weighted average price of our common stock for the ten trading days immediately following the date of such extension election. Due to the potential increase in term and decrease of the exercise price, the 2014 Deerfield Warrants were recorded as a liability upon issuance which was included in Other long-term liabilities. The 2014 Deerfield Warrants were recorded at their estimated fair value, on a recurring basis, which was $1.5 million and $0.9 million as of March 18, 2015 and December 31, 2014, respectively. Upon our election to extend the maturity date of the Deerfield Notes, the exercise price of the 2014 Deerfield Warrants was reset to $3.445 per share and the term was extended by two years to January 22, 2018. Subsequent to our notification of our election to require the New Deerfield Purchasers to acquire the Deerfield Notes and extend the maturity date to July 1, 2018, the terms of the 2014 Deerfield Warrants became fixed on March 18, 2015. The 2014 Deerfield Warrants were transferred to Additional paid-in capital as of that date at their then estimated fair value of $1.5 million. We recorded an unrealized loss of $0.5 million and an unrealized gain of $1.9 million on the

2014 Deerfield Warrants during the six months ended June 30, 2015 and June 30, 2014, respectively, which is included in Interest income and other, net. See “Note 7 - Fair Value Measurements” for more information on the valuation of the 2014 Deerfield Warrants. The 2014 Deerfield Warrants are participating securities. The warrant holders do not have a contractual obligation to share in our losses.

Table of Contents

NOTE 7. FAIR VALUE MEASUREMENTS

The following table sets forth the fair value of our financial assets and liabilities that were measured and recorded on a recurring basis as of June 30, 2015 and December 31, 2014. We did not have any financial liabilities that were measured and recorded on a recurring basis or Level 3 investments as of June 30, 2015. The amounts presented exclude cash, but include investments classified as cash equivalents (in thousands):

	June 30, 2015		
	Level 1	Level 2	Total
Money market funds	$67,922	$—	$67,922
Commercial paper	—	30,354	30,354
Corporate bonds	—	60,512	60,512
U.S. Treasury and government sponsored enterprises	—	6,109	6,109
Total financial assets	$67,922	$96,975	$164,897

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Money market funds	$23,376	$—	$—	$23,376
Commercial paper	—	56,714	—	56,714
Corporate bonds	—	143,322	—	143,322
U.S. Treasury and government sponsored enterprises	—	12,212	—	12,212
Municipal bonds	—	2,662	—	2,662
Total financial assets	$23,376	$214,910	$—	$238,286
Financial liabilities:				
Warrants	$—	$—	$921	$921
Total financial liabilities	$—	$—	$921	$921

The following is a reconciliation of changes in the fair value of warrants which are classified as Level 3 in the fair value hierarchy (in thousands):

Balance at December 31, 2014	$921
Unrealized loss at final re-measurement of warrants on March 18, 2015, included in Interest income and other, net	549
Transfer of warrant from Other long-term liabilities to Additional paid-in capital at their estimated fair value upon warrant repricing on March 18, 2015	(1,470)
Balance at June 30, 2015	$—

The estimated fair value of our financial instruments that are carried at amortized cost for which it is practicable to determine a fair value was as follows (in thousands):

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2019 Notes	$191,597	$245,180	$182,395	$156,889
Silicon Valley Bank term loan	$80,000	$79,926	$80,000	$79,943
Silicon Valley Bank line of credit	$—	$—	$381	$381

As of June 30, 2015, we estimated fair value of our Deerfield Notes as $95.2 million. As of December 31, 2014, we had determined that it was not practicable to determine the fair value of the Deerfield Notes due to the unique structure of the instrument, including the Extension Option, which was exercised in March 2015, and was financed by entities affiliated with Deerfield.

Table of Contents

The carrying amounts of cash, trade and other receivables, accounts payable, accrued clinical trial liabilities, accrued compensation and benefits, and other accrued liabilities approximate their fair values and are excluded from the tables above.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value:

- When available, we value investments based on quoted prices for those financial instruments, which is a Level 1 input. Our remaining investments are valued using third-party pricing sources, which use observable market prices, interest rates and yield curves observable at commonly quoted intervals of similar assets as observable inputs for pricing, which is a Level 2 input.
- The 2019 Notes are valued using a third-party pricing model that is based in part on average trading prices, which is a Level 2 input. The 2019 Notes are not marked-to-market and are shown at their initial fair value less the unamortized discount; the portion of the value allocated to the conversion option is included in Stockholders' deficit on the accompanying Condensed Consolidated Balance Sheets.
- We estimate the fair value of our other debt instruments, where possible, using the net present value of the payments. For the Silicon Valley Bank term loan and line of credit, we use an interest rate that is consistent with money-market rates that would have been earned on our non-interest-bearing compensating balances as our discount rate, which is a Level 2 input. For the Deerfield Notes, we used a discount rate of 18%, which we estimate as our current borrowing rate for similar debt, which is a Level 3 input.
- The 2014 Deerfield Warrants were valued using a Monte Carlo simulation model until December 31, 2014 and the Black-Scholes Merton option pricing model on March 18, 2015. The expected life is based on the contractual terms of the 2014 Deerfield Warrants, and in certain simulations, assumes the two year extension that would result from our exercise of the Extension Option; as of and subsequent to September 30, 2014, we estimated that it was probable that we would exercise this two-year extension. We consider implied volatility as well as our historical volatility in developing our estimate of expected volatility. The fair value of the 2014 Deerfield Warrants was estimated using the following assumptions, which, except for risk-free interest rate, are Level 3 inputs (dollars in thousands):

	March 18, 2015	December 31, 2014	January 22, 2014 (issuance date)
Risk-free interest rate	0.87 %	1.07 %	0.95 %
Dividend yield	— %	— %	— %
Volatility	95 %	96 %	57 %
Average expected life	2.8 years	3.1 years	3.2 years

NOTE 8. STOCK-BASED COMPENSATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Research and development expense	$746	$1,471	$1,373	$3,036
Selling, general and administrative expense	988	2,511	2,021	4,704
Total employee stock-based compensation expense	$1,734	$3,982	$3,394	$7,740

Table of Contents

We use the Black-Scholes Merton 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 stock option awards and ESPP purchases was estimated using the following assumptions and resulted in the following weighted average fair values:

	Stock Options			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted average grant-date fair values	$2.41	$2.33	$1.28	$3.65
Assumptions:				
Risk-free interest rate	1.27%	1.75%	1.20%	1.66%
Dividend yield	—%	—%	—%	—%
Volatility	106%	80%	89%	81%
Expected life	4.5 years	5.8 years	4.5 years	5.6 years

	Employee Stock Purchase Plan			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted average grant-date fair values	$1.11	$1.32	$0.85	$1.44
Assumptions:				
Risk-free interest rate	0.07%	0.06%	0.10%	0.07%
Dividend yield	—%	—%	—%	—%
Volatility	104%	67%	99%	64%
Expected life	6 months	6 months	6 months	6 months

A summary of all stock option activity for the six months ended June 30, 2015 is presented below (dollars in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2014	27,811,992	$5.00		
Granted	4,940,850	$2.11		
Forfeited	(510,043)	$4.72		
Expired	(3,692,827)	$6.08		
Options outstanding at June 30, 2015	28,549,972	$4.37	4.70 years	$21,476
Exercisable June 30, 2015	12,605,226	$6.83	2.75 years	$31

As of June 30, 2015, a total of 10,063,358 shares were available for grant under our stock option plans.

As of June 30, 2015, $20.9 million of total unrecognized compensation expense related to employee stock options was expected to be recognized over a weighted-average period of 2.41 years.

Of the stock options outstanding as of June 30, 2015, 13,255,165 were granted subject to performance objectives tied to the achievement of clinical goals set by the Compensation Committee of our Board of Directors and will vest in full or part based on achievement of such goals. As of June 30, 2015, we did not consider achievement of those performance objectives to be probable and therefore we did not include any stock-based compensation expense for those stock options. As of June 30, 2015, the grant date fair value of awards outstanding for which we determined that it was not probable that we will achieve the goals was $17.3 million. On July 20, 2015, as a result of positive top-line results from the primary analysis of METEOR, the Compensation Committee of the Board of Directors of Exelixis convened to determine we had met certain of the performance objectives for those performance-based stock options. See “Note 11 - Subsequent Events” for additional information on our achievement of those performance goals.

17

Table of Contents

A summary of all restricted stock unit ("RSU") activity for the six months ended June 30, 2015 is presented below (dollars in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Awards outstanding at December 31, 2014	961,469	$3.82		
Awarded	205,253	$3.08		
Released	(268,400)	$2.11		
Forfeited	(89,773)	$5.29		
Awards outstanding at June 30, 2015	808,549	$4.04	1.79 years	$2,781

As of June 30, 2015, $2.1 million of total unrecognized compensation expense related to employee RSUs was expected to be recognized over a weighted-average period of 1.79 years.

NOTE 9. NET LOSS PER SHARE

The following table sets forth a reconciliation of basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net loss	$(43,362)	$(73,410)	$(78,532)	$(148,029)
Denominator:				
Shares used in computing basic and diluted net loss per share	196,201	194,929	196,052	193,323
Net loss per share, basic and diluted	$(0.22)	$(0.38)	$(0.40)	$(0.77)

The 28,750,000 shares of our common stock that were issued July 29, 2015 pursuant to a registered underwritten public offering were not included in the computation of diluted net loss per share for the periods presented. See "Note 6 - Common Stock and Warrants" for more information on our July 2015 sale of shares of common stock. The following table sets forth outstanding potentially dilutive shares of common stock that are not included in the computation of diluted net loss per share because, to do so would be anti-dilutive (in thousands):

	June 30	
	2015	2014
Convertible debt	88,008	54,123
Outstanding stock options, unvested RSUs and ESPP contributions	29,049	26,308
Warrants	1,000	1,000
Total potentially dilutive shares	118,057	81,431

NOTE 10. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk are primarily trade and other receivables and investments. Investments consist of money market funds, taxable commercial paper, corporate bonds with high credit quality, U.S. Treasury and government sponsored enterprises, and municipal bonds. All investments are maintained with financial institutions that management believes are creditworthy.

Trade and other receivables are 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. As of June 30, 2015, 85% of our trade and other receivables are with the specialty pharmacy that sells COMETRIQ in the United States and 8% are with our European distribution partner. Both of these customers pay promptly and within their respective payment terms. All of our long-lived assets are located in the United States.

Table of Contents

We have operations primarily in the United States, while some of our collaboration partners have headquarters outside of the United States and some of our clinical trials for cabozantinib are also conducted outside of the United States. During the second quarter of 2013, we initiated a Named Patient Use program through our distribution partner, Swedish Orphan Biovitrum ("Sobi"), to support the distribution and commercialization of COMETRIQ for metastatic MTC primarily in the European Union and potentially other countries. In March 2014, the European Commission approved cabozantinib for the treatment of adult patients with progressive, unresectable locally advanced or metastatic MTC, also under the brand name COMETRIQ. In June 2014, we began selling COMETRIQ to Sobi in preparation for commercial sales in certain countries in the European Union. The following table shows the percentage of revenues earned in the United States and the European Union.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Percentage of revenues earned in the United States	88 %	93 %	87 %	96 %
Percentage of revenues earned in the European Union	12 %	7 %	13 %	4 %

We recorded a $54 thousand gain and a $34 thousand loss relating to foreign exchange fluctuations for the six months ended June 30, 2015 and 2014, respectively.

The following table sets forth the percentage of revenues recognized to the specialty pharmacies that represent 10% or more of total revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Diplomat Specialty Pharmacy	88 %	93 %	87 %	96 %
Swedish Orphan Biovitrum	12 %	7 %	13 %	4 %

NOTE 11. SUBSEQUENT EVENTS

Positive Top-Line Results from METEOR Trial and Vesting of Performance-Based Stock Options

On July 20, 2015, we announced positive top-line results from the primary analysis of METEOR, our phase 3 pivotal trial comparing cabozantinib to everolimus in patients with advanced RCC who have experienced disease progression following treatment with at least one prior VEGF receptor tyrosine kinase inhibitor. On July 20, 2015, the Compensation Committee of the Board of Directors of Exelixis convened to determine that top-line efficacy data received from METEOR met its primary endpoint at the level specified and within the time period permitted by the performance goals set by the Compensation Committee for performance-based stock options granted to employees in 2013, 2014 and 2015. As a result of this determination, 6,982,603 performance-based stock options granted to Exelixis employees, including executive officers, vested on July 20, 2015 and we will therefore record $9.7 million in employee stock-based compensation expense related to those options in the third quarter of 2015.

Sale of Shares of Common Stock

On July 29, 2015 we completed a registered underwritten public offering of 28,750,000 shares of our common stock, including 3,750,000 shares issued under the underwriters' 30-day option to buy shares, at a price of $5.40 per share pursuant to a shelf registration statement previously filed with the SEC, which was filed and automatically became effective on July 1, 2015. We received $145.5 million in net proceeds from the offering after deducting the underwriting discount and other estimated expenses. We estimate that the expenses of the offering, excluding underwriting discount, will be approximately $0.4 million, and are payable by us. The shares of common stock were listed on The NASDAQ Global Select Market. All of the shares in the offering were sold by the Company.

The Underwriting Agreement contains customary representations, warranties and agreements by the Company, indemnification obligations of the Company and the Underwriter, including for liabilities under the Securities Act of 1933, as amended, other obligations of the parties and termination provisions. The representations, warranties and covenants contained in the Underwriting Agreement were made only for purposes of such agreement and as of specific dates, were solely for the benefit of the parties to such agreement and may be subject to limitations agreed upon by the contracting parties.

19

Table of Contents

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

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

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the financial statements and accompanying notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission, or SEC, on March 2, 2015. Operating results are not necessarily indicative of results that may occur in future periods. We undertake no obligation to update any forward-looking statement to reflect events after the date of this report.

Overview

We are a biopharmaceutical company committed to developing small molecule therapies for the treatment of cancer. Our two most advanced assets are cabozantinib, our wholly-owned inhibitor of multiple receptor tyrosine kinases, and cobimetinib (GDC-0973/XL518), a selective inhibitor of MEK, a dual-specificity kinase, which we out-licensed to Genentech, Inc. (a member of the Roche Group), or Genentech.

Our development and commercialization efforts are focused primarily on cabozantinib. We are evaluating cabozantinib in a broad development program comprising over forty-five clinical trials across multiple indications, including two ongoing phase 3 pivotal trials focusing on advanced renal cell carcinoma, or RCC, and advanced hepatocellular carcinoma, or HCC.

On April 8, 2015, the United States Food and Drug Administration, or FDA, granted Fast Track designation to cabozantinib for the treatment of patients with advanced RCC, who have received one prior therapy. On July 20, 2015, we announced positive top-line results from the primary analysis of METEOR, the phase 3 pivotal trial comparing cabozantinib to everolimus in 658 patients who experienced disease progression following treatment with a VEGF receptor tyrosine kinase inhibitor, or TKI. The trial demonstrated a statistically significant increase in progression free survival, or PFS, for cabozantinib, reduced the risk of disease progression or death by 42 percent compared to everolimus, and showed a positive trend for a secondary endpoint of overall survival, or OS. The trial will continue to the final analysis of OS, anticipated in 2016. A review of serious adverse event, or SAE, data demonstrated that the frequency of SAEs of any Grade regardless of causality was approximately balanced between study arms, and the rate of treatment discontinuation due to adverse events was low (10%) in both study arms. Detailed results will be submitted for presentation at an upcoming medical conference. Based on the data from the trial, we expect to complete U.S. and EU regulatory filings in early 2016.

Enrollment continues in CELESTIAL, our phase 3 pivotal trial in advanced HCC, from which we expect top-line results in 2017.

Cabozantinib was approved by the FDA on November 29, 2012, for the treatment of progressive, metastatic medullary thyroid cancer, or MTC, in the United States under the brand name COMETRIQ®. COMETRIQ became commercially available in the United States in January 2013. In March 2014, the European Commission granted cabozantinib conditional marketing authorization for the treatment of adult patients with progressive, unresectable locally advanced or metastatic MTC, also under the brand name COMETRIQ.

Our second most advanced oncology asset, cobimetinib, is being evaluated by Genentech in a broad development program, including coBRIM, a phase 3 pivotal trial evaluating cobimetinib in combination with vemurafenib versus vemurafenib alone in previously untreated patients with unresectable locally advanced melanoma harboring a BRAF V600 mutation. On September 29, 2014, positive results from this trial were reported at the European Society for Medical Oncology, or ESMO, 2014 Congress. The trial met its primary endpoint of demonstrating a statistically

significant increase in investigator-determined PFS for cobimetinib in combination with vemurafenib versus vemurafenib alone. Roche has completed the Marketing Authorization Application, or MAA, for cobimetinib in combination with vemurafenib in the European Union. In the United States, Genentech submitted its New Drug Application, or NDA, in December 2014, and the FDA granted the NDA priority review with a projected action date of August 11, 2015. On June 30, 2015, Genentech informed us that, in order to accommodate its review of a supplemental data submission, the FDA extended the projected action date for its review of the cobimetinib NDA by the standard extension period of three months, to November 11, 2015.

Our Strategy

Our business strategy focuses predominantly on two Exelixis discovered compounds, cabozantinib and cobimetinib. Cabozantinib is wholly owned by Exelixis. We are pursuing development and commercialization of these compounds in multiple tumor indications. Cobimetinib is partnered with Genentech, which is solely responsible for its development and commercialization, although we have exercised our option to co-promote the drug with Genentech in the U.S.

Cabozantinib is an inhibitor of tyrosine kinases, including MET, VEGF receptors, AXL and RET. These receptor tyrosine kinases are involved in both normal cellular function and in pathologic processes such as oncogenesis, metastasis, tumor angiogenesis, and maintenance of the tumor microenvironment. We believe that cabozantinib has the potential to make a meaningful difference in the lives of patients and that the emerging clinical data support such a view. Our objective, therefore, is to build cabozantinib into a significant oncology franchise as a single agent, and potentially in combination with other therapies.

Cabozantinib's first regulatory approvals, both in the U.S. and EU as COMETRIQ capsules for MTC, presented us with a valuable opportunity to gain experience commercializing this new compound. The results of METEOR in advanced RCC now offer an opportunity to commercialize cabozantinib more broadly with a tablet formulation in a significantly larger market. We are seeking to partner cabozantinib with a global pharmaceutical organization whose international resources will permit us to explore and exploit the potential opportunity cabozantinib presents on its own and in combination with other agents, in RCC, HCC, and other potential indications.

On the development front, our Cooperative Research and Development Agreement, or CRADA, with the National Cancer Institute's Cancer Therapy Evaluation Program, or NCI-CTEP, and investigator sponsored trials, or ISTs, have permitted us to engage with leading clinicians to expand our collective understanding of cabozantinib's potential, while also conserving our internal resources for late stage trials. We believe this staged approach to building cabozantinib's value with a far lesser upfront expenditure of funds has been rational and cost-effective.

A second Exelixis discovered compound, cobimetinib, a selective inhibitor of MEK, is being developed under a collaboration with Genentech. Following the positive results from the coBRIM phase 3 trial of cobimetinib plus vemurafenib versus vemurafenib alone in BRAF mutation positive metastatic melanoma patients, we exercised our option to co-promote cobimetinib in the U.S. to provide the opportunity for us to further build our commercialization experience in oncology. Genentech continues to pursue a broad development program for cobimetinib in combination with multiple agents in its oncology pipeline, including immuno-oncology agents. These studies seek to expand the potential use of cobimetinib in additional melanoma patient populations and into other significant tumor types including non-small cell lung cancer, or NSCLC, and KRAS mutant metastatic colorectal cancer. We believe that cobimetinib has the potential to provide us with a second significant source of revenue.

Beyond our efforts regarding cabozantinib and cobimetinib, we are working with our corporate partners under the terms of our various collaboration agreements to realize the potential value of the compounds and programs we have out-licensed to them. In the aggregate, these partnered compounds could potentially be of significant value to us if their development programs progress successfully.

Collaborations

We have established a collaboration with Genentech for cobimetinib, and other collaborations with leading pharmaceutical companies including Bristol-Myers Squibb Company, or Bristol-Myers Squibb, Sanofi, Merck (known as MSD outside of the United States and Canada) and Daiichi Sankyo Company Limited, or Daiichi Sankyo, for compounds and programs in our portfolio. Pursuant to these collaborations, we have fully out-licensed compounds or programs to a partner for further development and commercialization. We have no further development cost obligations under our collaborations and may be entitled to receive milestones and royalties, or in the case of cobimetinib, a share of profits (or losses) from commercialization.

Cobimetinib Collaboration

Our collaboration with Genentech for cobimetinib continues to be of increasing importance to us as cobimetinib is our most advanced partnered compound in development and has the greatest near-term commercial potential. In addition to the coBRIM trial, of which data has been submitted for regulatory approval and marketing authorizations in the U.S. and EU, the following clinical trials of cobimetinib in combination with other agents are active, as disclosed on clinicaltrials.gov:

Table of Contents

- A Study of MEHD7945A and Cobimetinib (GDC-0973) in Patients with Locally Advanced or Metastatic Cancers with Mutant KRAS (NCT01986166);
- A Phase 1b Study of MPDL3280A (an Engineered Anti-PDL1 Antibody) in Combination with Cobimetinib in Patients with Locally Advanced or Metastatic Solid Tumors (NCT01988896);
- Trial of Vemurafenib/Cobimetinib with or without Bevacizumab in Patients with Stage IV BRAF V600 Mutant Melanoma (NCT01495988);
- A Phase 1b Study of MPDL3280A (an Engineered Anti-PDL1 Antibody) in Combination with Vemurafenib (Zelboraf®) or Vemurafenib Plus Cobimetinib in Patients with Previously Untreated BRAF V600-Mutation Positive Metastatic Melanoma (NCT01656642);
- A Study of Cobimetinib in Combination with Paclitaxel as First-line Treatment for Patients with Metastatic Triple-negative Breast Cancer (NCT02322814);
- A Study of Neo-adjuvant Use of Vemurafenib Plus Cobimetinib for BRAF Mutant Melanoma with Palpable Lymph Node Metastases (NCT02036086);
- A Phase II Study of Cobimetinib in Combination with Vemurafenib in Active Melanoma Brain Metastases (CoBRIM-B) (NCT02230306);
- Neoadjuvant Vemurafenib + Cobimetinib in Melanoma: NEO-VC (NCT02303951);
- Vemurafenib Plus Cobimetinib in Metastatic Melanoma (REPOSIT) (NCT02414750);
- A Phase Ib, Open-Label, Dose-Escalation Study Of The Safety, Tolerability, and Pharmacokinetics of Cobimetinib and GDC-0994 In Patients with Locally Advanced or Metastatic Solid Tumors (NCT02457793);
- A trial of Vemurafenib and Cobimetinib in Patients with Advanced BRAF V500 Mutant Melanoma (NCT2427893);
- A Study of GDC-0973/XL518 in Patients With Solid Tumors (NCT00467779);
- A Study to Evaluate the Pharmacokinetics and Safety of Cobimetinib in Volunteers With and Without Liver Damage (NCT02300025); and
- A Study of Vemurafenib And GDC-0973 in Patients With BRAF-Mutation Positive Metastatic Melanoma (NCT01271803).

Under the terms of our collaboration agreement with Genentech for cobimetinib, we are entitled to an initial equal share of U.S. profits and losses for cobimetinib, with our share decreasing as sales increase, and we will share equally in the U.S. marketing and commercialization costs. The profit share has multiple tiers: we are entitled to 50% of profits from the first $200 million of U.S. actual sales, decreasing to 30% of profits from U.S. actual sales in excess of $400 million. The tiers for the profit share reset each calendar year. We are entitled to low double-digit royalties on ex-U.S. net sales. In November 2013, we exercised an option under the collaboration agreement to co-promote in the U.S. As a result of exercising our option to co-promote, we may provide up to 25% of the total sales force for cobimetinib in the United States if commercialized, and will call on customers and otherwise engage in promotional activities using that sales force, consistent with the terms of the collaboration agreement and a co-promotion agreement to be entered into by the parties.

Other Collaborations

With respect to our partnered compounds, other than cobimetinib, we are eligible to receive potential contingent payments totaling approximately $2.3 billion in the aggregate on a non-risk adjusted basis, of which 10% are related to clinical development milestones, 42% are related to regulatory milestones and 48% are related to commercial milestones, all to be achieved by the various licensees, which may not be paid, if at all, until certain conditions are met.

Business Highlights for the Three Months Ended June 30, 2015 and Recent Developments

Completion of Underwritten Public Offering

On July 29, 2015 we completed a registered underwritten public offering of 28,750,000 shares of our common stock, including 3,750,000 shares issued under the underwriters' 30-day option to buy shares, at a price of $5.40 per share. We

Table of Contents

received $145.5 million in net proceeds from the offering after deducting the underwriting discount and other estimated expenses. We estimate that the expenses of the offering, excluding underwriting discount, will be approximately $0.4 million, and are payable by us.

Positive Top-Line Results from METEOR, the Phase 3 Pivotal Trial of Cabozantinib vs. Everolimus in Patients with Advanced RCC

On July 20, 2015, we announced positive top-line results from the primary analysis of METEOR, our phase 3 pivotal trial comparing cabozantinib to everolimus in patients with advanced RCC who have experienced disease progression following treatment with at least one prior VEGF receptor TKI. The trial met its primary endpoint of demonstrating a statistically significant increase in PFS for cabozantinib versus everolimus in the first 375 randomized patients as determined by an independent radiology committee. Cabozantinib reduced the risk of disease progression or death by 42 percent compared to the everolimus arm (hazard ratio [HR]=0.58, 95 percent CI 0.45 - 0.75, p<0.0001). Data pertaining to OS in the entire study population of 658 patients, a secondary endpoint of the trial, were immature at the data cutoff. A prespecified interim analysis, triggered by the primary analysis for PFS, showed a trend in OS favoring cabozantinib (HR = 0.67, unadjusted 95 percent CI 0.51 - 0.89; p = 0.005). At the time of the interim analysis, the pre-specified p-value of 0.0019 to achieve statistical significance was not reached. The trial will continue to the final analysis of OS anticipated in 2016. METEOR's primary analysis included a review of SAE data. Based on this analysis the frequency of SAEs of any Grade regardless of causality was approximately balanced between study arms. The rate of treatment discontinuation due to adverse events was low (10%) in both study arms. Detailed results of the METEOR trial will be submitted for presentation at an upcoming medical conference. Based on the data from the trial, we expect to complete U.S. and EU regulatory filings in early 2016.

Appointment of Executive Vice President and Chief Financial Officer

On July 15, 2015, Christopher J. Senner was appointed as our Executive Vice President and Chief Financial Officer. Concurrent with Mr. Senner's appointment, we mutually agreed with Deborah Burke that Ms. Burke would cease to be our Chief Financial Officer, but would continue to serve as our Senior Vice President, Finance and Controller.

Initiation of Phase 1 Trial of Cabozantinib in Combination with Nivolumab or Nivolumab Plus Ipilimumab in Patients with Advanced/Metastatic Urothelial Carcinoma and Other Genitourinary Tumors

On July 13, 2015, we announced the initiation of a phase 1 trial of cabozantinib in combination with nivolumab alone or in combination with nivolumab plus ipilimumab in patients with genitourinary tumors, including advanced/metastatic urothelial (bladder) cancer and RCC. The study is being sponsored through our CRADA with NCI-CTEP with our support and support from Bristol-Myers Squibb. The study was initiated based upon preliminary data on objective tumor responses presented at the Annual Meeting of the American Society of Clinical Oncology, or ASCO, conference in June 2014. The primary endpoint of the trial is the determination of dose-limiting toxicities and a recommended phase 2 dose for the combination of cabozantinib and nivolumab, and separately, for the combination of cabozantinib, nivolumab and ipilimumab, in patients with genitourinary solid tumors. Secondary endpoints include evaluating the activity of the two combinations by objective response rate, as well as PFS and OS, in cohorts of patients with urothelial carcinoma of the bladder, urethra, ureter or renal pelvis.

Extension of Maturity Date of our Indebtedness under our Note Purchase Agreement with Deerfield

On July 1, 2015, we extended the maturity date of the Deerfield Notes (as defined in "--Certain Factors Important to Understanding Our Financial Condition and Results of Operations - Deerfield Facility" below) from July 1, 2015 to July 1, 2018. In connection with the extension, Deerfield Partners, L.P. and Deerfield International Master Fund, L.P., or the New Deerfield Purchasers, acquired the $100 million principal amount of the Deerfield Notes and we entered into amended and restated secured convertible notes, or the Restated Deerfield Notes, with each of the New Deerfield Purchasers, representing the $100 million principal amount. The Restated Deerfield Notes will bear interest on and after July 2, 2015, at the rate of 7.5% per annum to be paid in cash, quarterly in arrears, and 7.5% per annum to be paid in kind, quarterly in arrears, for a total interest rate of 15% per annum and will mature on July 1, 2018.

Extension of Action Date for NDA for Cobimetinib in Combination with Vemurafenib

On June 30, 2015, our partner Genentech informed us that the FDA extended the action date for its review of Genentech's NDA for cobimetinib by the standard extension period of three months, from August 11, 2015 to November 11, 2015. The FDA extended its review after Genentech submitted, at FDA request, additional analysis of

previously submitted data from coBRIM, the phase 3 registrational trial of cobimetinib and vemurafenib in patients with BRAF V600 mutation-positive advanced melanoma.

Table of Contents

Data Presented at the 2015 Annual Meeting of the American Society of Clinical Oncology

In May and June 2015, clinical data from cabozantinib and cobimetinib were the subject of fourteen separate data presentations at the 2015 ASCO Annual Meeting. Clinical data from cabozantinib, included, among others, oral presentations from a phase 2 trial of cabozantinib in patients with EGFR wild-type NSCLC conducted under our CRADA with NCI-CTEP and from a phase 2 IST of cabozantinib in patients with advanced RET-rearranged lung cancers. Clinical data from cobimetinib, included, among others, an oral presentation updating the PFS from coBRIM, a phase 3 pivotal trial evaluating cobimetinib in combination with vemurafenib versus vemurafenib alone in previously untreated patients with unresectable locally advanced melanoma harboring a BRAF V600 mutation and a poster presentation covering extended follow-up results from BRIM7, an ongoing phase 1b clinical trial, conducted by Roche and Genentech of vemurafenib in combination with cobimetinib in patients with locally advanced/unresectable or metastatic melanoma carrying a BRAFV600 mutation.

Certain Factors Important to Understanding Our Financial Condition and Results of Operations

Successful development of drugs is inherently difficult and uncertain. Our business requires significant investments in research and development over many years, and products often fail during the research and development process. Our long-term prospects depend upon our ability, and the ability of our partners, to successfully commercialize new therapeutics in highly competitive areas such as cancer treatment. Our financial performance is driven by many factors, including those described below, and is subject to the risks set forth in Part II, Item 1A - Risk Factors.

Limited Sources of Revenues and the Need to Raise Additional Capital

We have incurred net losses since inception through June 30, 2015, with the exception of the 2011 fiscal year. We anticipate net losses and negative operating cash flow for the foreseeable future. For the six months ended June 30, 2015, we incurred a net loss of $78.5 million and as of June 30, 2015, we had an accumulated deficit of $1.8 billion. These losses have had, and will continue to have, an adverse effect on our stockholders' deficit and working capital. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses or whether or when we will become profitable, if at all. Our research and development expenditures and selling, general and administrative expenses have exceeded our revenues for each fiscal year other than the 2011 fiscal year, and we expect to spend significant additional amounts to fund the continued development and commercialization of cabozantinib. As a result, we expect to continue to incur substantial operating expenses and, consequently, we will need to generate significant additional revenues to achieve future profitability.

We commercially launched COMETRIQ for the treatment of progressive, metastatic MTC in the United States in late January 2013, and from the commercial launch through June 30, 2015 we have generated $57.5 million in net revenues from the sale of COMETRIQ. Other than revenues from COMETRIQ, we have derived substantially all of our revenues since inception from collaborative research and development agreements, which depend on research funding, the achievement of milestones, and royalties we earn from any future products developed from the collaborative research.

The amount of our net losses will depend, in part, on the rate of growth, if any, in our sales of COMETRIQ; our share of the net profits and losses for the commercialization for cobimetinib in the U.S., if any; the receipt of royalties from cobimetinib sales outside the U.S., if any; partnering activities for cabozantinib; other license and contract revenues; and, the level of expenses primarily with respect to development and commercialization activities for cabozantinib. As of June 30, 2015, we had $167.0 million in cash and investments, which included $76.6 million available for operations, $6.1 million of short-term restricted investments available for public debt service obligations, $81.6 million of compensating balance investments that we are required to maintain on deposit with Silicon Valley Bank, and $2.7 million of long-term restricted investments. We anticipate that our current cash and cash equivalents, and short-term investments available for operations, and product revenues, together with the proceeds from our July 2015 public offering, will enable us to maintain our operations for a period of at least 12 months following the end of the second quarter of 2015. While a forecast of future events is inherently uncertain, our ability to sustain our business operations for this time period is highly dependent on the commercial success of COMETRIQ and the revenues we generate, as well as the commercial success of cobimetinib and our share of related net profits and losses, and royalties under our collaboration with Genentech. Consistent with the actions we have taken in the past, we will prioritize necessary and appropriate steps to ensure the continued operation of our business and preservation of the

value of our assets. However, our future capital requirements will be substantial, and we may need to raise additional capital in the future. Our capital requirements will depend on many factors, and we may need to use available capital resources and raise additional capital significantly earlier than we currently anticipate.

For a description of the factors upon which our capital requirements depend, please see "– Liquidity and Capital Resources – Capital Requirements."

Table of Contents

Clinical Development and Commercialization of Cabozantinib

Our primary development and commercialization program is focused on cabozantinib, our wholly-owned inhibitor of multiple receptor tyrosine kinases, currently approved under the brand name COMETRIQ in the United States and the European Union for the treatment of metastatic MTC. However, cabozantinib may fail to show adequate safety or efficacy as an anti-cancer drug in clinical testing in other types of cancer. For example, our two phase 3 clinical trials (COMET-1 and COMET-2) of cabozantinib in metastatic castration-resistant prostate cancer, or mCRPC failed to meet their primary endpoints. Based on the outcomes of the COMET trials, we have terminated the clinical development of cabozantinib in mCRPC, and other studies in mCRPC sponsored by us, including a randomized phase 2 study of cabozantinib in combination with abiraterone, have been halted.

Furthermore, predicting the timing of the initiation or completion of clinical trials is difficult, and our trials may be delayed due to many factors, including factors outside of our control. The future development path of cabozantinib depends upon the results of each stage of clinical development. We continue to incur significant expenses for the development of cabozantinib as it advances in clinical development.

The commercial success of COMETRIQ depends upon the degree of market acceptance of COMETRIQ among physicians, patients, health care payers, and the medical community. Establishing and maintaining sales, marketing, and distribution capabilities are expensive and time-consuming. Such expenses may be disproportional compared to the revenues we may be able to generate on sales of COMETRIQ and have an adverse impact on our results of operations. Further, if cabozantinib is approved for the treatment of an indication beyond the approved MTC indication, including advanced RCC, we expect to incur an increase in commercialization expenses in connection with any such approval.

Convertible Senior Subordinated Notes

In August 2012, we issued and sold $287.5 million aggregate principal amount of the 4.25% Convertible Senior Subordinated Notes due 2019, or the 2019 Notes, for net proceeds of $277.7 million. The 2019 Notes mature on August 15, 2019, unless earlier converted, redeemed or repurchased, and bear interest at a rate of 4.25% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning February 15, 2013. Subject to certain terms and conditions, at any time on or after August 15, 2016, we may redeem for cash all or a portion of the 2019 Notes. The redemption price will equal 100% of the principal amount of the 2019 Notes to be redeemed plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Upon the occurrence of certain circumstances, holders may convert their 2019 Notes prior to the close of business on the business day immediately preceding May 15, 2019. On or after May 15, 2019, until the close of business on the second trading day immediately preceding August 15, 2019, holders may surrender their 2019 Notes for conversion at any time. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. The initial conversion rate of 188.2353 shares of common stock per $1,000 principal amount of the 2019 Notes is equivalent to a conversion price of approximately $5.31 per share of common stock and is subject to adjustment in connection with certain events. If a Fundamental Change, as defined in the indenture governing the 2019 Notes, occurs, holders of the 2019 Notes may require us to purchase for cash all or any portion of their 2019 Notes at a purchase price equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, if any, to, but excluding, the Fundamental Change purchase date. In addition, if certain specified bankruptcy and insolvency-related events of default occur, the principal of, and accrued and unpaid interest on, all of the then outstanding notes will automatically become due and payable. If an event of default other than certain specified bankruptcy and insolvency-related events of default occurs and is continuing, the Trustee by notice to us or the holders of at least 25% in principal amount of the outstanding 2019 Notes by notice to us and the Trustee, may declare the principal of, and accrued and unpaid interest on, all of the then outstanding 2019 Notes to be due and payable.

In connection with the offering of the 2019 Notes, $36.5 million of the proceeds were deposited into an escrow account which contains an amount of permitted securities sufficient to fund, when due, the total aggregate amount of the first six scheduled semi-annual interest payments on the 2019 Notes. As of June 30, 2015, we have used $30.6 million of the amount held in the escrow account to pay the required semi-annual interest payments. The amount held in the escrow account as of June 30, 2015, was $6.1 million and is included in short-term restricted cash and

investments. We have pledged our interest in the escrow account to the Trustee as security for our obligations under the 2019 Notes.

Deerfield Facility

In June 2010, we entered into a note purchase agreement with Deerfield Private Design Fund, L.P. and Deerfield Private Design International, L.P., or the Original Deerfield Purchasers, pursuant to which, on July 1, 2010, we sold to the Original Deerfield Purchasers an aggregate of $124.0 million principal amount of our Secured Convertible Notes due July 1, 2015, which we refer to as the Original Deerfield Notes, for an aggregate purchase price of $80.0 million, less closing fees and expenses of approximately $2.0 million. On July 1, 2015, we made a $4.0 million principal payment and then extended the

Table of Contents

maturity date of the Original Deerfield Notes from July 1, 2015 to July 1, 2018. In connection with the extension, the New Deerfield Purchasers acquired the $100.0 million principal amount of the Original Deerfield Notes and we entered into the Restated Deerfield Notes with each of the New Deerfield Purchasers, representing the $100.0 million principal amount. We refer to the Original Deerfield Purchasers and the New Deerfield Purchasers collectively as Deerfield, and to the Original Deerfield Notes and Restated Deerfield Notes, collectively as the Deerfield Notes.

As of June 30, 2015 and December 31, 2014, the outstanding principal balance on the Deerfield Notes was $100.0 million and $104.0 million, respectively, which, subject to certain limitations, is payable in cash or in stock at our discretion. Beginning on July 2, 2015, the outstanding principal amount of the Deerfield Notes bears interest at the rate of 7.5% per annum to be paid in cash, quarterly in arrears, and 7.5% per annum to be paid in kind, quarterly in arrears, for a total interest rate of 15% per annum. Through July 1, 2015, the outstanding principal amount of the Deerfield Notes bore interest in the annual amount of $6.0 million, payable quarterly in arrears.

The following is a summary of interest expense for the Deerfield Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stated coupon interest	$1,496	$1,495	$2,975	