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

FORM 10-Q

(Mark One)

[x] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005

or

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

For the transition period from _____ to _____ .

Commission file number: 1-9813

GENENTECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-2347624**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1 DNA Way, South San Francisco, California 94080-4990
(Address of principal executive offices and Zip Code)

(650) 225-1000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [x] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Number of Shares Outstanding**
Common Stock $0.02 par value	1,064,282,776 Outstanding at July 21, 2005

GENENTECH, INC.
TABLE OF CONTENTS

In this report, "Genentech," "we," "us" and "our" refer to Genentech, Inc. "Common Stock" refers to Genentech's common stock, par value $0.02 per share, "Special Common Stock" refers to Genentech's callable putable common stock, par value $0.02 per share, all of which was redeemed by Roche Holdings, Inc. on June 30, 1999.

We own or have rights to various copyrights, trademarks and trade names used in our business including the following: Activase® (alteplase, recombinant) tissue-plasminogen activator; Avastin™ (bevacizumab) anti-VEGF antibody; Cathflo® Activase® (alteplase for catheter clearance); Herceptin® (trastuzumab) anti-HER2 antibody; Lucentis™ (ranibizumab, rhuFab V2) anti-VEGF antibody fragment; Nutropin® (somatropin (rDNA origin) for injection) growth hormone; Nutropin AQ® and Nutropin AQ Pen® (somatropin (rDNA origin) for injection) liquid formulation growth hormone; Nutropin Depot® (somatropin (rDNA origin) for injectable suspension) encapsulated sustained-release growth hormone; Omnitarg™ (pertuzumab) HER dimerization inhibitor; Protropin® (somatrem for injection) growth hormone; Pulmozyme® (dornase alfa, recombinant) inhalation solution; Raptiva® (efalizumab) anti-CD11a antibody; and TNKase™ (tenecteplase) single-bolus thrombolytic agent. Rituxan® (rituximab) anti-CD20 antibody is a registered trademark of Biogen Idec Inc.; Tarceva® (erlotinib HC1) is a registered trademark of OSI Pharmaceuticals, Inc.; and Xolair® (omalizumab) anti-IgE antibody is a trademark of Novartis AG. This report also includes other trademarks, service marks and trade names of other companies.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GENENTECH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Operating revenues				
Product sales (including amounts from related parties: three months - 2005-$28,234; 2004-$27,668; six months - 2005-$82,355; 2004-$55,492)	$1,274,115	$ 913,366	$2,460,117	$1,677,066
Royalties (including amounts from related party: three months - 2005-$107,199; 2004-$84,071; six months - 2005-$212,258; 2004-$155,368)	200,321	151,860	432,236	305,957
Contract revenue (including amounts from related parties: three months - 2005-$30,425; 2004-$33,891; six months - 2005-$56,885; 2004-$70,512)	52,443	62,852	96,104	120,190
Total operating revenues	1,526,879	1,128,078	2,988,457	2,103,213
Costs and expenses				
Cost of sales (including amounts for related parties: three months - 2005-$38,826; 2004-$26,019; six months - 2005-$88,856; 2004-$48,664)	269,481	186,683	520,522	301,163
Research and development (including amounts for related parties: three months - 2005-$41,367; 2004-$49,457; six months - 2005-$82,078; 2004-$88,818) (including contract related: three months - 2005-$37,136; 2004-$34,571; six months - 2005-$63,711; 2004-$71,495)	278,124	212,886	521,364	403,231
Marketing, general and administrative	356,638	276,654	671,852	523,968
Collaboration profit sharing (including amounts for related party: three months - 2005-$28,727; 2004-$14,827; six months - 2005-$52,375; 2004-$26,649)	198,798	145,221	375,075	271,652
Recurring charges related to redemption	34,482	38,209	68,964	76,418
Special items: litigation-related	19,527	13,458	30,784	26,857
Total costs and expenses	1,157,050	873,111	2,188,561	1,603,289
Operating margin	369,829	254,967	799,896	499,924
Other income, net	31,502	15,444	47,899	37,765
Income before taxes	401,331	270,411	847,795	537,689
Income tax provision	105,165	99,640	267,455	190,331
Net income	$ 296,166	$ 170,771	$ 580,340	$ 347,358
Earnings per share				
Basic	$ 0.28	$ 0.16	$ 0.55	$ 0.33
Diluted	$ 0.27	$ 0.16	$ 0.54	$ 0.32
Weighted-average shares used to compute earnings per share				
Basic	1,057,564	1,060,619	1,052,228	1,057,955
Diluted	1,083,841	1,087,087	1,076,519	1,084,618

See Notes to Condensed Consolidated Financial Statements

GENENTECH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2005	**2004**
Cash flows from operating activities		
Net income	$ 580,340	$ 347,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	181,454	178,516
Deferred income taxes	(54,352)	(17,715)
Deferred revenue	(21,760)	(18,846)
Litigation-related liabilities	25,712	25,712
Tax benefit from employee stock options	326,600	231,305
Loss (gain) on sales of securities available-for-sale and other, net	2,115	(605)
Changes in assets and liabilities:		
Receivables, prepaid expenses, and other current assets	(121,276)	(157,758)
Inventories	(10,520)	(58,009)
Investments in trading securities	(8,051)	(28,496)
Accounts payable, other accrued liabilities, and other long-term liabilities	(82,092)	(64,447)
Net cash provided by operating activities	818,170	437,015
Cash flows from investing activities		
Purchases of securities available-for-sale	(313,468)	(684,109)
Proceeds from sales and maturities of securities available-for-sale	398,576	624,227
Capital expenditures	(729,810)	(196,633)
Change in other assets	(30,780)	(28,933)
Transfer to restricted cash	-	(52,000)
Net cash used in investing activities	(675,482)	(337,448)
Cash flows from financing activities		
Stock issuances	465,194	366,737
Stock repurchases	(160,655)	(575,749)
Net cash provided by (used in) financing activities	304,539	(209,012)
Net increase (decrease) in cash and cash equivalents	447,227	(109,445)
Cash and cash equivalents at beginning of period	270,123	372,152
Cash and cash equivalents at end of period	$ 717,350	$ 262,707
Supplemental disclosure of cash flow information		
Non-cash investing and financing activities		
Capitalization of construction in progress related to financing lease transaction	$ 73,000	$ -
Exchange of XOMA note receivable for a prepaid royalty	29,205	-

See Notes to Condensed Consolidated Financial Statements.

GENENTECH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	$ 717,350	$ 270,123
Short-term investments	1,293,191	1,394,982
Accounts receivable -- product sales (net of allowances: 2005-$65,854; 2004-$59,366; including amounts from related parties: 2005-$9,378; 2004-$11,237)	509,971	599,052
Accounts receivable -- royalties (including amounts from related party: 2005-$130,374; 2004-$119,080)	238,714	217,482
Accounts receivable -- other (net of allowances: 2005-$2,132; 2004-$2,191; including amounts from related parties: 2005-$93,989; 2004-$68,594)	165,133	140,838
Inventories	600,863	590,343
Prepaid expenses	196,985	45,864
Other current assets	213,598	164,073
Total current assets	3,935,805	3,422,757
Long-term marketable debt and equity securities	901,052	1,115,327
Property, plant and equipment, net	2,792,106	2,091,404
Goodwill	1,315,019	1,315,019
Other intangible assets	603,956	668,391
Restricted cash and investments	682,000	682,000
Other long-term assets	316,672	108,497
Total assets	$ 10,546,610	$ 9,403,395
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 45,629	$ 104,832
Taxes payable	-	134,937
Deferred revenue	44,845	45,989
Other accrued liabilities (including amounts to related parties: 2005-$133,266; 2004-$108,416)	1,051,261	957,508
Total current liabilities	1,141,735	1,243,266
Long-term debt	485,250	412,250
Deferred revenue	247,192	267,805
Litigation-related and other long-term liabilities	692,428	697,884
Total liabilities	2,566,605	2,621,205
Commitments and contingencies		
Stockholders' equity		
Preferred stock	-	-
Common stock	21,248	20,943
Additional paid-in capital	8,773,117	8,002,754
Accumulated other comprehensive income	272,967	290,948
Accumulated deficit, since June 30, 1999	(1,087,327)	(1,532,455)
Total stockholders' equity	7,980,005	6,782,190
Total liabilities and stockholders' equity	$ 10,546,610	$ 9,403,395

See Notes to Condensed Consolidated Financial Statements.

GENENTECH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

We prepared the condensed consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (or "GAAP") can be condensed or omitted. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2004. In the opinion of management, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those expected for the full year or any future period.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Genentech and all subsidiaries. Genentech also consolidates a variable interest entity in which Genentech is the primary beneficiary pursuant to Financial Accounting Standards Board (or "FASB") Interpretation No. 46 (or "FIN 46") "Consolidation of Variable Interest Entities," as amended, and recorded the noncontrolling interest in "litigation-related and other long-term liabilities" in the accompanying condensed consolidated balance sheets at June 30, 2005 and December 31, 2004. Material intercompany accounts and transactions have been eliminated.

Use of Estimates and Reclassifications

The preparation of financial statements in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Certain reclassifications of prior period amounts have been made to our condensed consolidated financial statements to conform to the current period presentation.

Recent Accounting Pronouncements

In December 2004, the FASB issued a revision of Statement of Financial Accounting Standards (or "FAS") No. 123, "Accounting for Stock-Based Compensation." The revision is referred to as "FAS 123R -- Share-Based Payment", which supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," (or "APB 25") and will require companies to recognize compensation expense, using a fair-value based method, for costs related to share-based payments including stock options and stock issued under our employee stock plans. We expect to adopt FAS 123R using the modified prospective basis on January 1, 2006. We expect that our adoption of FAS 123R will result in compensation expense comparable to those disclosed below, before the effect of capitalization of manufacturing related compensation expenses. We are currently evaluating option valuation methodologies and assumptions in light of FAS 123R; the methodologies and assumptions we ultimately use to adopt FAS 123R may be different than those currently used as discussed below in "Accounting for Stock-Based Compensation" section of this note. We currently expect that our adoption of FAS 123R will have a material impact on our consolidated results of operations.

Accounting for Stock-Based Compensation

Until we adopt FAS 123R, we will continue to follow APB 25 to account for employee stock options. Under APB 25, the intrinsic value method of accounting, no compensation expense is recognized because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant. We apply FAS 123 for disclosure purposes only.

The following proforma net income and earnings per share were determined as if we had accounted for our employee stock options and stock issued under our employee stock plan under the fair value method prescribed by FAS 123. The resulting effect on net income and earnings per share pursuant to FAS 123 is not likely to be representative of the effects in future periods, due to subsequent additional option grants and periods of vesting.

The Black-Scholes option valuation model was developed for use in estimating the fair value of publicly traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions and these assumptions can vary over time. Because our employee stock options and stock plan shares have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing valuation models do not provide a single reliable measure of the fair value of our employee stock options.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net income - as reported	$296,166	$ 170,771	$580,340	$ 347,358
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	41,033	45,611	81,422	90,316
Pro forma net income	$255,133	$ 125,160	$498,918	$ 257,042
Earnings per share:				
Basic-as reported	$ 0.28	$ 0.16	$ 0.55	$ 0.33
Basic-pro forma	$ 0.24	$ 0.12	$ 0.47	$ 0.24
Diluted-as reported	$ 0.27	$ 0.16	$ 0.54	$ 0.32
Diluted-pro forma	$ 0.23	$ 0.12	$ 0.45	$ 0.24

The fair value of options was estimated at the date of grant using a Black-Scholes option valuation model with the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Risk-free interest rate	3.7%	3.7%	3.8%	3.6%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Volatility factors of the expected market price of our Common Stock	32.0%	42.0%	32.0%	43.0%
Weighted-average expected life of option (years)	4.2	5	4.2	5

Due to the redemption of our special common stock in June 1999 (or "Redemption") by Roche Holdings, Inc. (or "Roche"), there is limited historical information available to determine the necessary inputs to value employee stock options and the stock issued under the employee stock plan. In 2004, having completed our first full four-year option vesting cycle on options issued after the Redemption, and having further analyzed economic data from marketable instruments and comparable companies, the assumptions for volatility and expected lives were further refined to reflect what management believes to be a better measure of fair value.

Earnings Per Share

The following is a reconciliation of the denominator used in basic and diluted earnings per share (or "EPS") computations *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Numerator:				
Net income	$ 296,166	$ 170,771	$ 580,340	$ 347,358
Denominator:				
Weighted-average shares outstanding used for basic earnings per share	1,057,564	1,060,619	1,052,228	1,057,955
Effect of dilutive stock options	26,277	26,468	24,291	26,663
Weighted-average shares and dilutive stock options used for diluted earnings per share	1,083,841	1,087,087	1,076,519	1,084,618

The following is a summary of the outstanding options to purchase common stock that were excluded from the computation of diluted EPS because such options were anti-dilutive *(in thousands, except for exercise prices)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Number of shares	338	390	598	962
Range of exercise prices	$75.90 - $82.47	$59.48 - $59.61	$69.35 - $82.47	$53.95 - $59.61

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (or "OCI"). OCI includes certain changes in stockholders' equity that are excluded from net income. Specifically, we include in OCI changes in the fair value of derivatives designated as effective cash flow hedges and unrealized gains and losses on our available-for-sale securities.

The components of accumulated OCI, net of income taxes, were as follows *(in millions)*:

	June 30, 2005	December 31, 2004
Unrealized gains on securities available-for-sale	$ 250.4	$ 305.1
Unrealized gains (losses) on derivatives	22.6	(14.2)
Accumulated other comprehensive income	$ 273.0	$ 290.9

The activity in comprehensive income, net of income taxes, was as follows *(in millions)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income	$ 296.2	$ 170.8	$ 580.3	$ 347.4
Change in unrealized gains (losses) on securities available-for-sale	22.1	(29.8)	(54.7)	(4.1)
Change in unrealized gains (losses) on derivatives	23.8	(4.2)	36.8	(0.8)
Comprehensive income	$ 342.1	$ 136.8	$ 562.4	$ 342.5

The activity in comprehensive income, net of income taxes, related to our available-for-sale securities and cash flow hedges was as follows *(in millions)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Unrealized gains (losses) on securities available-for-sale (net of tax effect for the second quarter of $14.7 in 2005, $(20.1) in 2004; for the first six months of $(36.6) in 2005, $(3.0) in 2004)	$ 22.1	$ (30.1)	$ (54.8)	$ (4.4)
Reclassification adjustment for net gains on securities available-for-sale included in net income (tax effect in 2005 and 2004 was not material)	-	0.3	0.1	0.3
Unrealized gains (losses) on derivatives (net of tax effect for the second quarter of $17.2 in 2005, $(3.3) in 2004; for the first six months of $25.5 in 2005, $(1.4) in 2004)	25.8	(5.0)	38.3	(2.1)
Reclassification adjustment for net (losses) gains on derivatives included in net income (net of tax effect for the second quarter of $(1.3) in 2005, $0.5 in 2004; for the first six months of $(1.0) in 2005, $1.0 in 2004)	(2.0)	0.8	(1.5)	1.3
Change in activity in OCI	$ 45.9	$ (34.0)	$ (17.9)	$ (4.9)

Derivative Financial Instruments

At June 30, 2005, net gains on derivative instruments expected to be reclassified from accumulated OCI to "other income, net" during the next twelve months are $13.0 million.

In June 2005, we entered into a series of forward start interest rate swap locks with a total notional value of $1.05 billion as a hedge against increases in interest rates. In these swaps, we pay a fixed rate and receive a floating-rate. The objective of these swaps was to protect the future semi-annual interest rate payments resulting from our planned debt issuance in July 2005 of 10-year and 30-year fixed-rate notes. These swap locks were designated and qualify as cash flow hedges and the effective portion of the loss on the swap locks was included as a component of accumulated OCI. The ineffective portion of the loss on the swap locks for the three months ended June 30, 2005 was not material.

Note 2. Consolidated Financial Statement Detail

Inventories

The components of inventories were as follows *(in millions)*:

	June 30, 2005	December 31, 2004
Raw materials and supplies	$ 62.8	$ 57.1
Work in process	363.3	451.8
Finished goods	174.8	81.5
Total	$ 600.9	$ 590.4

Other Intangible Assets

The components of our other intangible assets, including those that are acquisition-related and arising from the Redemption and push-down accounting were as follows *(in millions)*:

	June 30, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$ 1,194.1	$ 886.7	$ 307.4	$ 1,194.1	$ 847.7	$ 346.4
Core technology	443.5	361.6	81.9	443.5	351.0	92.5
Developed science technology	467.5	467.5	-	467.5	452.9	14.6
Tradenames	144.0	79.5	64.5	144.0	74.7	69.3
Patents	150.6	58.7	91.9	138.0	53.2	84.8
Other intangible assets	103.6	45.3	58.3	101.3	40.5	60.8
Total	$ 2,503.3	$ 1,899.3	$ 604.0	$ 2,488.4	$ 1,820.0	$ 668.4

Amortization expense of our other intangible assets was $39.7 million and $61.5 million for the second quarters of 2005 and 2004, respectively, and $79.3 million and $104.5 million in the first six months of 2005 and 2004, respectively.

The expected future annual amortization expense of our other intangible assets is as follows *(in millions)*:

For the Year Ending December 31,	Amortization Expense
2005 (remaining six months)	$ 64.5
2006	124.2
2007	122.8
2008	121.0
2009	72.0
Thereafter	99.5
Total expected future annual amortization	$ 604.0

Note 3. Leases and Contingencies

Leases

During the six months ended June 30, 2005, there were no significant changes to our synthetic lease arrangements, or our assessment of those arrangements under the provisions of FIN 46R, a revision of Interpretation 46, as discussed in Note 6, "Leases, Commitments and Contingencies" of our Annual Report on Form 10-K for the year ended December 31, 2004. See also Note 7, "Subsequent Events -- Buyout of a Synthetic Lease" below.

In December 2004, we entered into a Master Lease Agreement with Slough SSF, LLC for the lease of property adjacent to our South San Francisco campus. The property will be developed into eight buildings and two parking structures. The lease of the property will take place in two phases pursuant to separate lease agreements for each building as contemplated by the Master Lease Agreement. Phase I building leases will begin throughout 2006 and Phase II building leases may begin as early as 2008. For accounting purposes, due to the nature of our involvement with the construction of the buildings subject to the Master Lease Agreement, we are considered to be the owner of the assets during the construction period through the lease commencement date, even though the funds to construct the building shell and some infrastructure costs are paid by the lessor. As such, in the first six months of 2005, we have capitalized $73.0 million of construction costs in property, plant and equipment, and have also recognized a corresponding amount as a construction financing obligation in "long-term debt" in the accompanying condensed

consolidated balance sheets. We expect at the time of completion of the project, if all the buildings and infrastructure were completed by the lessor, our construction asset and related obligation will be in excess of $365.0 million. Our aggregate lease payments as contemplated by the Master Lease Agreement through 2020 (if there is no acceleration or delay in the rent commencement date for the second phase of the buildings) will be approximately $540.1 million.

Contingencies

We are a party to various legal proceedings, including patent infringement litigation and licensing and contract disputes, and other matters.

On October 4, 2004, we received a subpoena from the United States (or "U.S.") Department of Justice, requesting documents related to the promotion of Rituxan, a prescription treatment approved for the treatment of relapsed or refractory, low-grade or follicular, CD20 positive, B-cell non-Hodgkin's lymphoma. We are cooperating with the associated investigation, which we have been advised is both civil and criminal in nature. The outcome of this matter cannot be determined at this time.

We and the City of Hope National Medical Center (or "COH") are parties to a 1976 agreement relating to work conducted by two COH employees, Arthur Riggs and Keiichi Itakura, and patents that resulted from that work, which are referred to as the "Riggs/Itakura Patents." Since that time, Genentech has entered into license agreements with various companies to make, use and sell the products covered by the Riggs/Itakura Patents. On August 13, 1999, the COH filed a complaint against us in the Superior Court in Los Angeles County, California, alleging that we owe royalties to the COH in connection with these license agreements, as well as product license agreements that involve the grant of licenses under the Riggs/Itakura Patents. On June 10, 2002, a jury voted to award the COH approximately $300 million in compensatory damages. On June 24, 2002, a jury voted to award the COH an additional $200 million in punitive damages. Such amounts were accrued as an expense in the second quarter of 2002 and were included in the accompanying condensed consolidated balance sheets in "litigation-related and other long-term liabilities" at June 30, 2005 and December 31, 2004. Genentech filed a notice of appeal of the verdict and damages awards with the California Court of Appeal. On October 21, 2004, the California Court of Appeal affirmed the verdict and damages awards in all respects. On November 22, 2004, the California Court of Appeal modified its opinion without changing the verdict and denied Genentech's request for rehearing. On November 24, 2004, Genentech filed a petition seeking review by the California Supreme Court. On February 2, 2005, the California Supreme Court granted that petition. The amount of cash paid, if any, or the timing of such payment in connection with the COH matter will depend on the outcome of the California Supreme Court's review of the matter; however, we expect that it may take longer than one year to further resolve the matter.

We recorded accrued interest and bond costs related to the COH trial judgment of $13.5 million in the second quarters of 2005 and 2004, and $27.0 million and $26.9 million in the first six months of 2005 and 2004, respectively. In conjunction with the COH judgment, we posted a surety bond and were required to pledge cash and investments of $682.0 million at June 30, 2005 and December 31, 2004 to secure the bond. These amounts are reflected in "restricted cash and investments" in the accompanying condensed consolidated balance sheets. We expect that we will continue to incur interest charges on the judgment and service fees on the surety bond each quarter through the process of appealing the COH trial results.

On August 12, 2002, the U.S. Patent and Trademark Office (or "Patent Office") declared an interference between U.S. Patent No. 6,054,561, owned by Chiron Corporation (or "Chiron"), and a patent application exclusively licensed by Genentech from a university relating to anti-HER2 antibodies. On October 24, 2002, the Patent Office redeclared the interference to include, in addition to the above-referenced Chiron patent and university patent application, a number of patents and patent applications owned by either Chiron or Genentech, including Chiron's U.S. Patent No. 4,753,894 that is also at issue in the separate patent infringement lawsuit described below. On November 30, 2004, the Patent Office's Board of Patent Appeals and Interferences issued rulings on several preliminary motions. These rulings terminated both interferences involving the patent application referenced above that Genentech licensed from a university, redeclared interferences between the Genentech and Chiron patents and patent applications, and made several determinations which could affect the validity of the Genentech and Chiron

patents and patent applications involved in the remaining interferences. On January 28, 2005, Genentech filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit. On June 1, 2005, we and Chiron agreed to a settlement of both these interference proceedings and the below-referenced lawsuit. Under the settlement agreement, Chiron has abandoned the contest as to each count in both of the redeclared interferences referenced above. Because our own patents and patents applications are still before the Patent Office's Board of Patent Appeals and Interferences and the appeal process of the prior rulings is still ongoing, the outcome of this matter with respect to our patents and patent applications cannot be determined at this time.

On March 13, 2001, Chiron filed a patent infringement lawsuit against us in the U.S. District Court in the Eastern District of California, alleging that the manufacture, use, sale and/or offer for sale of our Herceptin antibody product infringes Chiron's U.S. Patent No. 4,753,894. Chiron was seeking compensatory damages for the alleged infringement, additional damages, and attorneys' fees and costs. Genentech filed a motion to dismiss this lawsuit, which was denied. On November 1, 2002, the parties filed a proposed stipulation to stay all proceedings in this lawsuit until (1) the interference involving U.S. Patent No. 4,753,894 is resolved or two years from entry of the proposed stipulation, whichever is sooner. On or about November 13, 2002, the Court entered the stipulation, staying the proceedings as requested by the parties. On November 10, 2004, the Court extended the stay until the resolution of all proceedings before the U.S. Supreme Court in a separate Chiron suit that has now been concluded. This lawsuit was separate from and in addition to the Chiron interference mentioned above. On June 1, 2005, we and Chiron agreed to a settlement of both the above-referenced interference proceedings and this lawsuit, pursuant to which all pending claims in this lawsuit were dismissed with prejudice. The settlement resolves and ends all the patent infringement claims that Chiron made against Genentech in this lawsuit.

On April 11, 2003, MedImmune, Inc. filed a lawsuit against Genentech, COH, and Celltech R & D Ltd. in the U.S. District Court for the Central District of California (Los Angeles). The lawsuit relates to U.S. Patent No. 6,331,415 (or "the '415 patent" or "Cabilly patent") that is co-owned by Genentech and COH and under which MedImmune and other companies have been licensed and are paying royalties to Genentech. The lawsuit includes claims for violation of antitrust, patent, and unfair competition laws. MedImmune is seeking to have the '415 patent declared invalid and/or unenforceable, a determination that MedImmune does not owe royalties under the '415 patent on sales of its Synagis® antibody product, an injunction to prevent Genentech from enforcing the '415 patent, an award of actual and exemplary damages, and other relief. On January 14, 2004 (amending a December 23, 2003 Order), the U.S. District Court granted summary judgment in Genentech's favor on all of MedImmune's antitrust and unfair competition claims. MedImmune sought to amend its complaint to reallege certain claims for antitrust and unfair competition. On February 19, 2004, the Court denied this motion in its entirety and final judgment was entered in favor of Genentech and Celltech and against MedImmune on March 15, 2004 on all antitrust and unfair competition claims. MedImmune filed a notice of appeal of this judgment with the U.S. Court of Appeals for the Federal Circuit. Concurrently, in the District Court litigation, Genentech filed a motion to dismiss all remaining claims in the case. On April 23, 2004, the District Court granted Genentech's motion and dismissed all remaining claims. Final judgment was entered in Genentech's favor on May 3, 2004, thus concluding proceedings in the District Court. MedImmune filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit. Oral argument of MedImmune's appeal was held on February 10, 2005. Because the appeal process is ongoing, the final outcome of this matter cannot be determined at this time.

On May 13, 2005, a request was filed by a third party for reexamination of the '415 or Cabilly patent. The request sought reexamination on the basis of non-statutory double patenting over U.S. Patent No. 4,816,567. On July 7, 2005, the U.S. Patent Office ordered reexamination of the '415 patent. Because the reexamination process is ongoing, the final outcome of this matter cannot be determined at this time. The '415 patent, which expires in 2018, relates to methods we and others use to make certain antibodies or antibody fragments, as well as cells and DNA used in these methods. We have licensed the '415 patent to other companies and derive substantial royalties from those licenses.

Note 4. Relationship with Roche and Related Party Transactions

Relationship with Roche

Roche's Ability to Maintain Its Percentage Ownership Interest in Our Stock

We expect from time to time to issue additional shares of common stock in connection with our stock option and stock purchase plans, and we may issue additional shares for other purposes. Our affiliation agreement with Roche provides, among other things, that we establish a stock repurchase program designed to maintain Roche's percentage ownership interest in our common stock. The affiliation agreement provides that we will repurchase a sufficient number of shares pursuant to this program such that, with respect to any issuance of common stock by Genentech in the future, the percentage of Genentech common stock owned by Roche immediately after such issuance will be no lower than Roche's lowest percentage ownership of Genentech common stock at any time after the offering of common stock occurring in July 1999 and prior to the time of such issuance, except that Genentech may issue shares up to an amount that would cause Roche's lowest percentage ownership to be no more than 2% below the "Minimum Percentage." The Minimum Percentage equals the lowest number of shares of Genentech common stock owned by Roche since the July 1999 offering (to be adjusted in the future for dispositions of shares of Genentech common stock by Roche as well as for stock splits or stock combinations) divided by 1,018,388,704 (to be adjusted in the future for stock splits or stock combinations), which is the number of shares of Genentech common stock outstanding at the time of the July 1999 offering, as adjusted for the two-for-one splits of Genentech common stock in November 1999, October 2000 and May 2004. We repurchased shares of our common stock in 2005 and 2004 (see discussion below in "Liquidity and Capital Resources -- Cash Provided by or Used in Financing Activities" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Form 10-Q). As long as Roche's percentage ownership is greater than 50%, prior to issuing any shares, the affiliation agreement provides that we will repurchase a sufficient number of shares of our common stock such that, immediately after our issuance of shares, Roche's percentage ownership will be greater than 50%. The affiliation agreement also provides that, upon Roche's request, we will repurchase shares of our common stock to increase Roche's ownership to the Minimum Percentage. In addition, Roche will have a continuing option to buy stock from us at prevailing market prices to maintain its percentage ownership interest. The Minimum Percentage at June 30, 2005 was 57.7% and, under the terms of the affiliation agreement, Roche's lowest ownership percentage is to be 55.7%. At June 30, 2005, Roche's ownership percentage was 55.3%. We expect that future share repurchases under our share repurchase program will increase Roche's ownership percentage.

Related Party Transactions

We enter into transactions with our related parties, Roche and other Roche affiliates (including F. Hoffmann-La Roche (or "Hoffmann-La Roche")) and Novartis Pharma AG (or "Novartis"), in the ordinary course of business. The accounting policies we apply to our transactions with our related parties are consistent with those applied in transactions with independent third-parties and all related party agreements are negotiated on an arm's-length basis.

Hoffmann-La Roche

Under our existing arrangements with Hoffmann-La Roche, including our licensing and marketing agreements, we recognized contract revenue from Hoffmann-La Roche, including amounts earned related to ongoing development activities, of $18.5 million and $23.7 million in the second quarters of 2005 and 2004, respectively, and $35.0 million and $49.6 million in the first six months of 2005 and 2004, respectively. All other revenues from Hoffmann-La Roche and their affiliates, principally royalties and product sales, were $133.7 million and $111.7 million in the second quarters of 2005 and 2004, respectively, and $289.5 million and $210.6 million in the first six months of 2005 and 2004, respectively. Cost of sales included amounts related to Hoffmann-La Roche of $26.5 million and $25.9 million in the second quarters of 2005 and 2004, respectively, and $73.8 million and $48.4 million in the first six months of 2005 and 2004, respectively. Research and development (or "R&D") expenses included amounts related to Hoffmann-La Roche of $35.7 million and $43.5 million in the second quarters of 2005 and 2004, respectively, and $66.7 million and $76.4 million in the first six months of 2005 and 2004, respectively.

Novartis

We understand that the Novartis Group holds approximately 33.3% of the outstanding voting shares of Roche Holding Ltd. As a result of this ownership, the Novartis Group is deemed to have an indirect beneficial ownership

interest under FAS 57 "Related Party Disclosures" of more than 10% of Genentech's voting stock.

Under an arrangement with Novartis, a holding company of the Novartis Group, and Tanox, Inc., we currently supply Xolair and receive cost plus a mark-up similar to other supply arrangements. Novartis will be manufacturing all future worldwide bulk supply of Xolair at their Huningue production facility in France, upon U.S. Food and Drug Administration licensure, expected in early 2006. Future production costs of Xolair may initially be higher than those currently reflected in our cost of sales as a result of any production shift from Genentech to Novartis until production economies of scale can be achieved by that manufacturing party.

Contract revenue from Novartis related to manufacturing, commercial and ongoing development activities, was $11.9 million and $10.2 million in the second quarters of 2005 and 2004, respectively, and $21.9 million and $20.9 million in the first six months of 2005 and 2004, respectively. Revenue from Novartis related to product sales was not material in the second quarter and the first six months of 2005 and 2004. Cost of sales was $12.3 million in the second quarter of 2005 and $15.1 million in the first six months of 2005, which included a one-time payment in the second quarter of 2005 related to our release from future manufacturing obligations. Cost of sales was not material in the second quarter and first six months on 2004. R&D expenses include amounts related to Novartis of $5.7 million and $6.0 million in the second quarters of 2005 and 2004, respectively, and $15.4 million and $12.4 million in the first six months of 2005 and 2004, respectively. Collaboration profit sharing expenses were $28.7 million and $14.8 million in the second quarters of 2005 and 2004, respectively, and $52.4 million and $26.6 million in the first six months of 2005 and 2004, respectively.

Note 5. Manufacturing Plant Acquisition

In June 2005, we acquired Biogen Idec Inc.'s Oceanside, California biologics manufacturing facility (or "Oceanside plant") for $408.1 million in cash plus $9.3 million in closing costs. The purchase price allocation for this purchase is preliminary, pending the receipt of final asset appraisals and the completion of certain other analyses, and is as follows (*in millions*):

Land and land improvements	$	42.2
Building		110.2
Equipment		36.7
Construction in progress		228.3
Total	$	417.4

Note 6. Income Taxes

The effective income tax rate was 26% in the second quarter of 2005 compared to 37% in the second quarter of 2004, and was 32% in the first six months of 2005 compared to 35% in the first six months of 2004. The decrease in the income tax rate from 2004 primarily relates to a one-time benefit of approximately $39.0 million from recognizing additional R&D tax credits resulting from new income tax regulations issued by the U.S. Department of Treasury during the second quarter of 2005.

Note 7. Subsequent Events

Debt Issuance

On July 18, 2005, we completed a private placement of the following debt instruments: $500.0 million principal amount of 4.40% Senior Notes due 2010, $1.0 billion principal amount of 4.75% Senior Notes due 2015 and $500.0 million principal amount of 5.25% Senior Notes due 2035. Interest on each series of notes is payable on January 15 and July 15 of each year, beginning on January 15, 2006. The 2010 notes, 2015 notes and 2035 notes are referred to collectively as the "Notes." Net proceeds resulting from issuance of the Notes, after debt discount and issuance

costs, were approximately $1.99 billion. We intend to use approximately $585.0 million of the net proceeds to repay our obligations under our existing synthetic lease arrangements. We also intend to use part of the proceeds to fund capital expenditures, including modifications plus start-up and validation costs at our recently acquired biologics manufacturing facility in Oceanside, California. We intend to use the balance of the net proceeds for general corporate purposes, which may include working capital requirements, stock repurchases, R&D expenses and acquisitions of or investments in products, technologies, facilities and businesses. Pending the use of the remaining funds in this manner, we intend to invest them in interest-bearing or other yield producing investments. The Notes are unsecured, non-convertible obligations and will rank equally in right of payment with all of our other unsecured unsubordinated indebtedness. The Notes have not been registered under the Securities Act or any state securities laws, however; we have committed to the buyers of such Notes that we will do so within 240 days of July 18, 2005.

Contemporaneous with the issuance of our fixed-rate 5 year Notes due in 2010, we entered into a series of interest rate swaps with a total notional value of $500.0 million. In these swaps, we pay a floating rate and receive a fixed rate that matches the coupon rate of the 5 year Notes. The objective of these swaps is to protect a portion of the debt against changes in fair value due to changes in interest rates.

Restricted Cash and Investments

Upon request by COH, on July 16, 2005, we increased the surety bond value by $50.0 million from $650.0 million to $700.0 million. As part of this arrangement, we have correspondingly increased the pledged amount to secure the bond from $682.0 million to $735.0 million.

Buyout of a Synthetic Lease

On August 1, 2005, we paid $160.0 million to buyout our synthetic lease obligation on a research facility in South San Francisco, California. As a result, we will include the value of this building in our consolidated balance sheet from August 1, 2005 onward and record depreciation expense in accordance with our accounting policies.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Genentech, Inc.

We have reviewed the condensed consolidated balance sheet of Genentech, Inc. as of June 30, 2005, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2005 and 2004, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2005 and 2004. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Genentech, Inc. as of December 31, 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended not presented herein and in our report dated February 18, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Palo Alto, California
July 8, 2005,
except for Note 7, as to which the date is
August 1, 2005

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

GENENTECH, INC.
FINANCIAL REVIEW

Overview

The Company

Genentech is a leading biotechnology company that discovers, develops, manufactures, and commercializes biotherapeutics for significant unmet medical needs. We manufacture and commercialize multiple biotechnology products directly in the United States (or "U.S.") and also receive royalties from companies that are licensed to market products based on our technology.

Recent Developments

In the second quarter of 2005, our total operating revenues were $1,526.8 million and our net income was $296.2 million. In the first six months of 2005, our total operating revenues were $2,988.5 million and our net income was $580.3 million. For the remainder of 2005, we expect the growth of our business to continue to be driven by sales of our oncology products, Rituxan, Avastin, Herceptin and Tarceva. We also expect sales of our other products, royalties and contract revenues to continue to contribute to the bottom-line.

In the first half of 2005, we announced positive Phase III clinical trials for Avastin, Rituxan and Herceptin, as described more fully under the Product Sales discussions for each of those products below. In addition, on May 23, 2005, we announced that a Phase III trial of our investigational drug Lucentis in patients with minimally classic/occult wet age-related macular degeneration (or "AMD") met its primary efficacy endpoint of increasing the percentage of patients who maintained vision compared to patients receiving a sham control injection.

As part of our efforts to increase manufacturing capacity, in June 2005, we acquired Biogen Idec Inc.'s (or "Biogen Idec") Oceanside, California biologics manufacturing facility (or "Oceanside plant") for $408.1 million in cash plus $9.3 million in closing costs. The 60-acre, 500,000 square-foot Oceanside plant has 90,000 liters of bioreactor capacity. We expect manufacturing of Avastin bulk drug substance at the plant to commence in 2006 with U.S. Food and Drug Administration (or "FDA") licensure anticipated in the first half of 2007. Additionally, in order to increase our internally available manufacturing capacity, in the second quarter of 2005 we entered into agreements with two of our collaborators to cancel and amend certain of our future manufacturing obligations, resulting in payments totaling $41.0 million. For our Porriño, Spain facility, we filed a supplemental Biologics License Application (or "sBLA") on June 30, 2005, for licensure of two 10,000-liter bioreactors at that facility to produce Avastin bulk drug substance for commercial use, and we are planning for licensure by the end of 2005. In the second quarter we also filed a sBLA seeking licensure of Lonza Biologic's (or "Lonza") Portsmouth, New Hampshire manufacturing plant for the production of Rituxan bulk drug substance. Increasing our manufacturing capacity and supply output continues to be a key business challenge for us (see below in "Difficulties or delays in product manufacturing or in obtaining materials from our suppliers could harm our business and/or negatively impact our financial performance" of "Forward-Looking Information and Cautionary Factors That May Affect Future Results").

On July 18, 2005, we completed a private placement of the following debt instruments: $500.0 million principal amount of 4.40% Senior Notes due 2010, $1.0 billion principal amount of 4.75% Senior Notes due 2015 and $500.0 million principal amount of 5.25% Senior Notes due 2035. We received approximately $1.99 billion in net proceeds from this offering, after deducting estimated selling and offering expenses.

Our Strategy

We are in the final year of our 5x5 plan, our current 5-year business plan. We expect to exceed our most important goal of average annual non-GAAP EPS growth. We believe that we are well-positioned to exceed our goal of five

significant products/indications in late stage development and have already exceeded our goal of five new products or indications approved through 2005. We expect to have substantive progress against our goal of $500 million in new revenue from alliances and/or acquisitions; however it is uncertain whether we will meet this goal since we have changed our strategic focus to pursue earlier stage opportunities. We do not expect to meet our non-GAAP net income as a percentage of total operating revenues goal, due primarily to the success of Rituxan and the associated profit split with Biogen Idec. Information on our 5x5 plan can be found on our website at http://www.gene.com.

We have a long-term plan (Horizon 2010) and the key elements of Horizon 2010 include:

- aim to become the number one U.S. oncology company (measured by U.S. sales) by 2010;

- position ourselves for continued leadership in our oncology business by bringing five new oncology products or indications for existing products into clinical development and into the market by 2010;

- build a leading immunology business by expanding the fundamental understanding of immune disorders, bringing at least five new immunology products or indications into clinical development, and obtaining FDA approval of at least five new indications or products by 2010;

- increase our leadership in developing biotherapeutics for disorders of tissue growth and repair, with a major focus on angiogenic disorders, and to move at least three new projects into late-stage research or developmental research and three or more new projects into clinical development by 2010; and

- achieve average annual non-GAAP EPS growth rates through 2010 sufficient to be considered a growth company.

Achieving these goals depends on our ability to make and capitalize on advances in basic research, to rapidly complete clinical development while designing high-quality trials, to shape the markets for our products, to increase our manufacturing capabilities and to maintain our unique corporate culture.

Economic and Industry-wide Factors

Our goals and objectives are further challenged by economic and industry-wide factors that affect our business. Some of the most important factors are discussed below:

- Successful development of biotherapeutics is highly difficult and uncertain. Our long-term business growth depends upon our ability to commercialize important new therapeutics to treat unmet medical needs such as cancer. Since the underlying biology of these diseases is not completely understood, it is very challenging to discover and develop safe and effective treatments, and the majority of potential new therapeutics fail to generate the safety and efficacy data required to obtain regulatory approval. In addition, there is tremendous competition in the diseases of interest to us. Our business requires significant investments in research and development (or "R&D") over many years, often for products that fail during the R&D process. In addition, after our products receive FDA approval, they remain subject to ongoing FDA regulation, including changes to the product label, new or revised regulatory requirements for manufacturing practices, written advisement to physicians, or product recalls. We believe that our continued focus on excellent science, compelling biological mechanisms, and designing high quality clinical trials to address significant medical needs positions us well to deliver sustainable growth.

- Intellectual property protection of our products is crucial to our business. Loss of effective intellectual property protection on one or more products could result in lost sales to competing products and negatively affect our sales, royalty revenues and operating results. We are often involved in disputes over contracts and intellectual property and we work to resolve these disputes in confidential negotiations or litigation. We expect legal challenges in this area to continue. We plan to continue to build upon and defend our intellectual property position.

- Manufacturing biotherapeutics is difficult and complex, and requires facilities specifically designed and validated to run biotechnology production processes where protein biotherapeutics are involved. The manufacture of a biotherapeutic requires proper formulation of the product involved, executing on and scaling the manufacturing process used for that product, obtaining regulatory approval to manufacture the product, and is subject to changes in regulatory requirements or standards that may require modifications to the involved manufacturing process or to a manufacturing process used by our contract-manufacturers (see below in "Difficulties or delays in product manufacturing or in obtaining materials from our suppliers could harm our business and/or negatively impact our financial performance" of "Forward-Looking Information and Cautionary Factors That May Affect Future Results").

- The Medicare Modernization Act was enacted into law in December 2003. On November 3, 2004, the 2005 Physician Fee Schedule and Hospital Outpatient Prospective Payment System Final Rules were announced and were in-line with our expectations. As Centers for Medicare and Medicaid Services (or "CMS") is our single largest payer, the new rules represent an important area of focus in 2005. We will be monitoring the situation closely and, in 2005, we continue to anticipate minimal impact to our revenues. To date, we have not seen any detectable effects of the new rules on our product sales. On July 1, 2005, CMS released its Interim Final Rule (or "IFR") with comment on the Medicare Part B Competitive Acquisition Program (or "CAP"). The CAP option, required under the Medicare Modernization Act, will be offered to physicians providing services under Part B of Medicare, beginning January 1, 2006. Under the CAP, physicians could choose to either obtain drugs directly from qualified CAP vendors, or continue to purchase drugs directly and be reimbursed by the Medicare program at the Average Selling Price + 6% rate. Although final details of the program will not be made public until later this year, we anticipate that the impact of the program on Genentech will be minimal.

- With respect to follow-on biologics, we believe that current technology cannot prove a follow-on biotechnology product to be safe and effective outside the New Drug Application and Biologics License Application process. We filed a Citizen Petition with the FDA in April 2004 requesting that the agency re-assess its approach to approvals of follow-on biologics and put processes in place to protect trade secrets and confidential commercial data and information from use and disclosure by others. The FDA initiated a public process to discuss the complex scientific issues surrounding follow-on biologics and we participated in the FDA Stakeholder meeting in September 2004. Following this meeting, the FDA and Drug Information Association held a scientific workshop in February 2005, which we hope will be followed by a similar public discussion of the critical legal issues involved with establishing an approval pathway for follow-on biologics.

- Our ability to attract and retain highly qualified and talented people in all areas of the company, and our ability to maintain our unique culture, will be critical to our success over the long-term. In 2004 we experienced a 23% growth in the number of employees to approximately 7,600 employees and we have since grown to approximately 8,300 employees company-wide as of June 30, 2005. This significant growth in employees is challenging to manage and we are working diligently across the company to make sure that we successfully hire, train and integrate new employees into the Genentech culture and environment. Consistent with our desire to maintain and protect our culture, we have made a decision to continue with a broad based stock option program in 2005. We believe our broad-based stock option program is critical to attracting, retaining, and motivating our employees in the marketplace where we compete for talent, and we believe that employee ownership drives commitment to meeting our corporate goals.

Marketed Products

We commercialize in the U.S. the biotechnology products listed below.

Oncology

Rituxan (rituximab) anti-CD20 antibody, which we commercialize with Biogen Idec, is approved for the treatment of patients with relapsed or refractory, low-grade or follicular, CD20-positive, B-cell non-Hodgkin's lymphoma.

Avastin (bevacizumab) is a humanized antibody that binds to vascular endothelial growth factor (or "VEGF") approved for use in combination with intravenous 5-fluorouracil-based chemotherapy as a treatment for patients with first-line (or previously untreated) metastatic cancer of the colon or rectum.

Herceptin (trastuzumab) anti-HER2 antibody is a humanized antibody for the treatment of certain patients with metastatic breast cancer. Herceptin is approved for use as a first-line therapy in combination with Taxol® (paclitaxel), a product made by Bristol-Myers Squibb Company, and as a single agent in second- and third-line therapy in patients with metastatic breast cancer who have tumors that overexpress the HER2 protein.

Tarceva (erlotinib HC1), which we commercialize with OSI Pharmaceuticals, Inc. (or "OSI"), is a small molecule designed to block tumor cell growth by inhibiting the tyrosine kinase activity of HER1/epidermal growth factor receptor (or "EGFR") signaling pathway, approved for the treatment of patients with locally advanced or metastatic non-small cell lung cancer (or "NSCLC") after failure of at least one prior chemotherapy regimen.

Specialty Biotherapeutics

Nutropin (somatropin [rDNA origin] for injection) is a growth hormone approved for the treatment of growth hormone deficiency in children and adults, growth failure associated with chronic renal insufficiency prior to kidney transplantation, short stature associated with Turner syndrome and long-term treatment of idiopathic short stature (or "ISS").

Nutropin AQ (somatropin [rDNA origin] for injection) is a liquid formulation growth hormone approved for the same indications as Nutropin.

Activase (alteplase, recombinant) is a tissue plasminogen activator (or "t-PA") approved for the treatment of acute myocardial infarction (heart attack), acute ischemic stroke (blood clots in the brain) within three hours of the onset of symptoms and acute massive pulmonary embolism (blood clots in the lungs).

Cathflo Activase (alteplase, recombinant) is a t-PA approved in adult and pediatric patients for the restoration of function to central venous access devices that have become occluded due to a blood clot.

TNKase (tenecteplase) is a single-bolus thrombolytic agent approved for the treatment of acute myocardial infarction (heart attack).

Pulmozyme (dornase alfa, recombinant) is an inhalation solution of recombinant human deoxyribonuclease (rhDNase) I approved for the treatment of cystic fibrosis.

Xolair (omalizumab) is a humanized anti-IgE antibody, which we commercialize with Novartis in the U.S., approved for the treatment of moderate-to-severe persistent asthma in adults and adolescents.

Raptiva (efalizumab) is a humanized anti-CD11a antibody approved for the treatment of chronic moderate-to-severe plaque psoriasis in adults age 18 or older who are candidates for systemic therapy or phototherapy.

Licensed Products

We receive royalties from F. Hoffmann-La Roche (or "Hoffmann-La Roche") on sales of:

- Herceptin, Pulmozyme, and Avastin outside of the U.S.,
- Rituxan outside of the U.S., excluding Japan, and
- Nutropin products, Activase, Cathflo Activase and TNKase in Canada.

Available Information

The following information can be found on our website at http://www.gene.com or can be obtained free of charge by contacting our Investor Relations Department at (650) 225-1599 or by sending an e-mail message to investor.relations@gene.com:

- our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission;

- our policies related to corporate governance, including Genentech's Principles of Corporate Governance, Good Operating Principles (Genentech's code of ethics applying to Genentech's directors, officers and employees) as well as Genentech's Code of Ethics applying to our Chief Executive Officer, Chief Financial Officer and senior financial officials; and

- the charter of the Audit Committee of our Board of Directors.

Critical Accounting Policies and the Use of Estimates

The accompanying discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements and the related disclosures, which have been prepared in accordance with accounting principles generally accepted in the United States (or "GAAP"). The preparation of these condensed consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts in our condensed consolidated financial statements and accompanying notes. These estimates form the basis for making judgments about the carrying values of assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates.

We believe the following policies to be the most critical to an understanding of our financial condition and results of operations because they require us to make estimates, assumptions and judgments about matters that are inherently uncertain.

Legal Contingencies

We are currently involved in certain legal proceedings as discussed in Note 3, "Leases and Contingencies," in the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q. We assess the likelihood of any adverse judgments or outcomes to these legal matters as well as potential ranges of probable losses. As of June 30, 2005, we have accrued $651.0 million in "litigation-related and other long-term liabilities" in the accompanying condensed consolidated balance sheets, which represents our estimate of the costs for the current resolution of these matters. The nature of these matters is highly uncertain and subject to change; as a result, the amount of our liability for certain of these matters could exceed or be less than the amount of our current estimates, depending on the final outcome of these matters. An outcome of such matters different than previously estimated could materially impact our financial position or our results of operations in any one quarter.

Revenue Recognition

We recognize revenue from the sale of our products, royalties earned and contract arrangements. Our revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

- We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, title passes, the price is fixed and determinable, and collectibility is reasonably assured. Allowances are established for estimated discounts, product returns, bad debts, and rebates.

- We recognize revenue from royalties based on licensees' sales of our products or technologies. Royalties are recognized as earned in accordance with the contract terms when royalties from licensees can be reliably measured and collectibility is reasonably assured. Royalty estimates are made in advance of amounts collected using historical information and forecasted trends.

- Contract revenue generally includes upfront and continuing licensing fees, manufacturing fees, milestone payments and reimbursements of development and post-marketing costs.

    - Nonrefundable upfront fees, including product opt-ins, for which no further performance obligations exist are recognized as revenue on the earlier of when payments are received or collection is assured.

    - Nonrefundable upfront licensing fees, including product opt-ins, and certain guaranteed, time-based payments that require continuing involvement in the form of development, manufacturing or other commercialization efforts by us are recognized as revenue:

        - ratably over the development period if development risk is significant, or

        - ratably over the manufacturing period or estimated product useful life if development risk has been substantially eliminated.

    - Manufacturing fees are recognized as revenue as the related manufacturing services are rendered, generally on a straight-line basis over the longer of the manufacturing obligation period or the expected product life.

    - Milestone payments are recognized as revenue when milestones, as defined in the contract, are achieved.

    - Reimbursements of development and post-marketing costs are recognized as revenue as the related costs are incurred.

Income Taxes

Income tax expense is based on pretax financial accounting income under the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Significant estimates are required in determining our provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Various internal and external factors may have favorable or unfavorable effects on our future effective tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of R&D spending, and changes in overall levels of pretax earnings.

Inventories

Inventories consist of currently marketed products, products manufactured under contract and product candidates awaiting regulatory approval, which are capitalized based on management's judgment of probable near term commercialization. The valuation of inventory requires us to estimate obsolete or excess inventory. The determination of obsolete or excess inventory requires us to estimate the future demands for our products, and in the case of pre-approval inventories, an estimate of the regulatory approval date for the product. We may be required to expense previously capitalized costs related to pre-approval inventory upon a change in such judgment, due to,

among other potential factors, a denial or delay of approval by the necessary regulatory bodies. In the event that a pre-approval product candidate receives regulatory approval, subsequent sales of previously reserved inventory will result in increased gross margins.

Results of Operations
(In millions)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2005	2004	% Change*	2005	2004	% Change*
Product sales	$ 1,274.1	$ 913.4	39 %	$ 2,460.1	$ 1,677.1	47 %
Royalties	200.3	151.9	32	432.3	305.9	41
Contract revenue	52.4	62.9	(17)	96.1	120.2	(20)
Total operating revenues	1,526.8	1,128.2	35	2,988.5	2,103.2	42
Cost of sales	269.5	186.7	44	520.5	301.2	73
Research and development	278.1	212.9	31	521.4	403.2	29
Marketing, general and administrative	356.6	276.7	29	671.8	523.9	28
Collaboration profit sharing	198.8	145.2	37	375.1	271.7	38
Recurring charges related to redemption	34.5	38.2	(10)	69.0	76.4	(10)
Special items: litigation-related	19.5	13.5	44	30.8	26.8	15
Total costs and expenses	1,157.0	873.2	33	2,188.6	1,603.2	37
Operating margin	369.8	255.0	45	799.9	500.0	60
Other income, net	31.5	15.4	105	47.9	37.7	27
Income before taxes	401.3	270.4	48	847.8	537.7	58
Income tax provision	105.1	99.6	6	267.5	190.3	41
Net income	$ 296.2	$ 170.8	73	$ 580.3	$ 347.4	67
Operating margin as a % of operating revenues	24 %	23 %		27 %	24 %	
COS as a % of product sales	21	20		21	18	
R&D as a % of operating revenues	18	19		17	19	
MG&A as a % of operating revenues	23	25		22	25	
NI as a % of operating revenues	19	15		19	17	

* Percentages in this table and throughout our discussion and analysis of financial condition and results of operations may reflect rounding adjustments.

Total Operating Revenues

Total operating revenues increased 35% in the second quarter of 2005 and 42% in the first six months of 2005 from the comparable periods in 2004. This increase was primarily due to higher product sales and royalty income. This increase is further discussed below.

Total Product Sales
(In millions)

Product Sales	Three Months Ended June 30, 2005	2004	% Change	Six Months Ended June 30, 2005	2004	% Change
Net U.S. Product Sales						
Rituxan	$ 450.3	$ 390.0	15 %	$ 890.8	$ 751.8	18 %
Avastin	245.7	133.0	85	448.6	171.1	162
Herceptin	152.4	118.0	29	282.0	226.7	24
Tarceva	70.2	-	-	117.8	-	-
Nutropin products	97.1	88.0	10	187.0	172.0	9
Thrombolytics	51.6	50.0	3	102.2	94.3	8
Pulmozyme	46.9	36.5	28	90.9	74.5	22
Xolair	80.4	43.6	84	145.7	73.4	99
Raptiva	21.3	13.4	59	37.9	19.7	92
Total U.S. product sales	1,215.9	872.5	39	2,302.9	1,583.5	45
Net product sales to collaborators	58.2	40.9	42	157.2	93.6	68
Total product sales	$ 1,274.1	$ 913.4	39	$ 2,460.1	$ 1,677.1	47

Total product sales increased 39% to $1,274.1 million in the second quarter and 47% to $2,460.1 million in the first six months of 2005 from the comparable periods in 2004. Net U.S. sales increased 39% to $1,215.9 million in the second quarter and 45% to $2,302.9 million in the first six months of 2005 from the comparable periods in 2004. These increases in net U.S. sales were due to higher sales across all products, in particular sales of our new product, Tarceva, launched in November 2004, and higher sales of Avastin, Rituxan and Xolair. Net U.S. oncology sales accounted for 76% of net U.S. product sales in the second quarter of 2005 compared to 73% in the second quarter of 2004, and 76% in the first six months of 2005 compared to 73% in the first six months of 2004. Increased U.S. sales volume, including new product shipments, accounted for 90%, or $308.1 million, of the increase in U.S. net product sales in the second quarter of 2005, and 91%, or $644.3 million, of the increase in the first six months of 2005. Changes in net U.S. sales prices across the portfolio accounted for substantially all of the remainder of the increases in U.S. net product sales in the second quarter of 2005 and in the first six months of 2005.

Rituxan

Net U.S. sales of Rituxan increased 15% to $450.3 million in the second quarter and 18% to $890.8 million in the first six months of 2005 from the comparable periods in 2004. Net U.S. sales in the first six months of 2005 included $9.6 million for a reorder to replace a shipment that was destroyed while in transit to a wholesaler in the first quarter of 2005. Net U.S. sales growth was primarily driven by increased sales volumes resulting from greater adoption in the non-Hodgkin's lymphoma (or "NHL") and chronic lymphocytic leukemia (or "CLL") markets, specifically front line indolent NHL, front line CLL, and indolent maintenance, which are all unapproved uses. With respect to indolent maintenance, we are working with the FDA toward a nomenclature that the FDA feels better describes this approach to treating patients with Rituxan. Also contributing to the increase in the second quarter and first six months of 2005 over the comparable periods in 2004, to a lesser extent, was a price increase that was effective on September 9, 2004.

In the recently published 2005 Centers for Medicare and Medicaid Services Final Rules for Medicare Reimbursement, there is minimal change in the overall reimbursement for Rituxan in 2005 when compared to that in 2004. To date, we have not seen any detectable effects of the new rules on our product sales, but we are closely monitoring the situation. We anticipate that this change will have a limited impact on Rituxan sales in 2005.

While adoption in the main hematological uses of Rituxan may be approaching peak levels, we believe there may be continued growth in the use of Rituxan in the maintenance setting (an unapproved use) in treating NHL. We are in

discussions with the FDA on the filing strategy for this indication. Opportunities for long-term Rituxan sales growth lie in other potential new indications, particularly in immunologic diseases such as rheumatoid arthritis.

On April 5, 2005, we, Biogen Idec and Hoffmann-La Roche announced that a Phase III clinical study of Rituxan met its primary endpoint of a greater proportion of Rituxan-treated patients achieving an American College of Rheumatology 20 response at week 24, compared to those patients receiving a placebo. The study included patients with active rheumatoid arthritis who have had an inadequate response or were intolerant to prior treatment with one or more anti-TNF therapies.

Avastin

Net U.S. sales of Avastin increased 85% to $245.7 million in the second quarter and 162% to $448.6 million in the first six months of 2005 from the comparable periods in 2004, mainly driven by increased use in colorectal cancer, which represents approximately 90% of current Avastin use. In both the first-line (our approved indication) and relapsed/refractory (an unapproved indication) settings, Avastin is being combined with a wide range of 5FU-based chemotherapies. While there has been rapid uptake in the colorectal market, there remains potential for increased sales in this indication driven mainly by increased duration of therapy. We also anticipate longer-term growth to be driven by use in potential new indications, including non-small-cell lung and breast cancers. Our market research conducted after the annual meeting of the American Society of Clinical Oncology (or "ASCO") in May 2005, indicates that approximately 10% of patients receiving Avastin in the second quarter of 2005 are outside of metastatic colorectal cancer, compared to approximately 5% in the first quarter of 2005. Adoption has been seen across several tumor types, particularly in metastatic renal cell carcinoma and metastatic NSCLC, which are unapproved uses.

On January 28, 2005, CMS published its final National Coverage Decision which had a positive outcome for Avastin. Specifically, the final decision provides Medicare coverage of drugs used in nine specified clinical trials, seven of which include Avastin. At present, all Medicare carriers and all of our targeted commercial payers are covering Avastin and reimbursement has proceeded as expected.

On March 14, 2005, we and Roche announced that an interim analysis of a Phase III study of Avastin plus paclitaxel and carboplatin chemotherapies in first-line non-squamous, NSCLC met its primary efficacy endpoint of improving overall survival, or a reduction in the risk of death, compared to chemotherapy alone.

On April 14, 2005, we and Roche announced that an interim analysis of a Phase III study of Avastin plus paclitaxel chemotherapy in first-line metastatic breast cancer met its primary efficacy endpoint of showing a statistically significant improvement in progression-free survival, compared to chemotherapy alone.

Herceptin

Net U.S. sales of Herceptin increased 29% to $152.4 million in the second quarter and 24% to $282.0 million in the first six months of 2005 from the comparable periods in 2004. This growth was driven by multiple factors including increased first-line penetration and longer treatment duration for metastatic breast cancer. We also have anecdotal evidence of increased use in the second quarter of 2005 in the adjuvant setting, which is an unapproved use. Also contributing to our increase in the first six months of 2005 and our future sales growth was a price increase that was effective on February 22, 2005. We currently believe there will be limited impact on Herceptin's usage under the new Medicare Act. Additionally, we believe that the opportunity for long-term Herceptin sales growth will be in the adjuvant setting, an unapproved use.

On April 25, 2005, we announced that two Phase III trials of Herceptin were stopped early after a preliminary joint interim analysis in early-stage HER2 positive breast cancer demonstrated an improvement in the primary endpoint of disease-free survival and in the secondary endpoint of overall survival.

Tarceva

Net U.S. sales of Tarceva were $70.2 million in the second quarter and $117.8 million in the first six months of

2005, as compared to $13.3 million in the fourth quarter of 2004. Tarceva was approved by the FDA on November 18, 2004. The increase in net U.S. product sales was driven primarily by rapid growth in patient market share in second-line and third-line NSCLC. Tarceva's share of the oral EGFR market continues to increase. New patient share reached 95 percent in the second quarter of 2005, while total patient share reached 76 percent for the same period. In light of the share levels already achieved and the recent changes to the labeling for Iressa™ (gefitinib), a competing product, we expect that Tarceva's total prescription share of the oral EGFR class will near 100 percent over time. Future sales growth in NSCLC will therefore be driven by gains in penetration within second-line and third-line NSCLC against chemotherapy. Also impacting our product sales was a price increase that was effective on April 5, 2005.

In April 2005, OSI submitted a supplemental New Drug Application (or "sNDA") with the FDA for use of Tarceva plus gemcitabine chemotherapy for the treatment of advanced pancreatic cancer in patients who have not received any previous treatment. OSI received notification from the FDA that Tarceva was granted priority review and we anticipate FDA action by November 2005.

Nutropin Products

Combined net U.S. sales of our Nutropin products increased 10% to $97.1 million in the second quarter and 9% to $187.0 million in the first six months of 2005 from the comparable periods in 2004, primarily as a result of price increases.

On June 28, 2005, the FDA approved Nutropin and Nutropin AQ for the treatment of the long-term treatment of ISS, also called non-growth hormone-deficient short stature.

Thrombolytics

Combined net U.S. sales of our three thrombolytics products, Activase, Cathflo Activase, and TNKase, increased 3% to $51.6 million in the second quarter and 8% to $102.2 million in the first six months of 2005 from the comparable periods in 2004. The increases were primarily driven by growth in our catheter clearance and stroke markets, as well as price increases. Sales of our thrombolytic products used to treat acute myocardial infarction continue to be impacted by the adoption by physicians of mechanical reperfusion strategies; however, the decline in the use of thrombolytics in the acute myocardial infarction market has been offset by growth in our other markets. Our sales in the first six months of 2005 and 2004 were impacted by continued competition from Retavase® (reteplase), a competing product, and its aggressive price discounting.

Pulmozyme

Net U.S. sales of Pulmozyme increased 28% to $46.9 million in the second quarter and 22% to $90.9 million in the first six months of 2005 from the comparable periods in 2004. The increases primarily reflect an increased focus on aggressive treatment of cystic fibrosis early in the course of the disease and a price increase in April 26, 2005.

Xolair

Net U.S. sales of Xolair increased 84% to $80.4 million in the second quarter and 99% to $145.7 million in the first six months of 2005 from the comparable periods in 2004. This overall growth was driven by an increase of our patient and prescriber base.

Raptiva

Net U.S. sales of Raptiva increased 59% to $21.3 million in the second quarter and 92% to $37.9 million in the first six months of 2005 from the comparable periods in 2004. Contributing to the increase in product sales was a price increase that was effective on April 21, 2005.

Sales to Collaborators

Product sales to collaborators, the majority of which were in non-U.S. markets, were $58.2 million in the second quarter and $157.2 million in the first six months of 2005, compared with $40.9 million and $93.6 million for the comparable periods in 2004, respectively. The increases were primarily due to sales of product manufactured under a contract with a third party and sales of Avastin to Hoffman-La Roche.

For the full year 2005, we expect sales to collaborators to increase by approximately 50% relative to sales of $197.7 million in 2004.

Royalties

Royalty revenues increased 32% to $200.3 million in the second quarter and 41% to $432.3 million in the first six months of 2005 from the comparable periods in 2004. The increases were due to higher sales by Hoffmann-La Roche primarily on our Herceptin and Rituxan products, a new license arrangement with ImClone under which we receive royalties on sales of ERBITUX®, and to higher sales by various other licensees on other products. The increase in the first six months included a one-time payment to us in the first quarter of 2005, relating to ERBITUX® sales from the period between launch of the product last year and the signing of the agreement in January 2005. For the full year 2005, we expect royalties to increase by approximately 35% compared to $641.1 million in 2004. See "Related Party Transactions" below for more information on royalties from Hoffmann-La Roche.

Cash flows from royalty income include revenues denominated in foreign currencies. We currently purchase simple foreign currency put option contracts (or "options") and forwards to hedge these foreign royalty cash flows. The terms of these options and forwards are generally one to five years. See also Note 1, "Summary of Significant Accounting Policies -- Derivative Financial Instruments" in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Contract Revenues

Contract revenues decreased 17% to $52.4 million in the second quarter and 20% to $96.1 million in the first six months of 2005 from the comparable periods in 2004. The decreases were primarily due to lower contract revenues from our collaborators, including Hoffmann-La Roche. See "Related Party Transactions" below for more information on contract revenue from Hoffmann-La Roche.

Contract revenues vary each quarter and are dependent on a number of factors, including the timing and level of reimbursements from ongoing development efforts, milestones and opt-in payments received, and new contract arrangements. For the full year 2005, we expect contract revenues to decrease by approximately 15% as compared to $231.2 million in 2004.

Cost of Sales

Cost of sales (or "COS") as a percentage of product sales were 21% in the second quarter of 2005 and 20% in the second quarter of 2004. COS as a percentage of product sales were 21% for the first six months of 2005 and 18% for the same period in 2004. These increases were primarily driven by: (i) one-time charges of $41.0 million in the second quarter of 2005, representing payments to Amgen Inc. and another collaborator to cancel and amend certain future manufacturing obligations, and (ii) higher production costs and inventory reserves. These increases were partially offset by higher sales volume of our higher margin products (primarily Avastin and Rituxan products), prior year charges of $18.8 million related to Nutropin Depot inventory and our decision to discontinue its commercialization, and a provision of $21.3 million related to filling failures for other products. Also contributing to the increase for the six month period, as compared to the prior year, was the impact of lower costs in the first quarter of 2004 related to sales of previously reserved pre-launch products and lower production costs due to manufacturing efficiencies primarily related to Herceptin and Rituxan products.

For the full year 2005, we expect COS to be approximately 19% of net product sales, up from 18% in 2004. We

expect continued quarter-to-quarter variability based on product volume and mix changes, acknowledging that there is always potential for an increase in COS if we have unforeseen manufacturing, contract manufacturing, or inventory related issues.

Research and Development

R&D expenses increased 31% to $278.1 million in the second quarter and 29% to $521.4 million in the first six months of 2005 from the comparable periods in 2004. These increases reflect increased activity across our entire product portfolio, including late-stage clinical development of our Lucentis, Rituxan Immunology, Tarceva and Avastin products, ongoing development of various other pipeline products and an increase in new early-stage projects. Also contributing to the increases were post-marketing studies for new and existing indications on Avastin, Rituxan and Tarceva and increased in-licensing activity. R&D as a percentage of revenues was 18% in the second quarter and 17% in the first six months of 2005 as compared to 19% in the comparable periods of 2004, primarily due to higher revenues.

We expect R&D absolute dollar expenses to continue to rise in the second half of 2005 due to continued growth in headcount and outside services to support increased activity in our late-stage clinical trials including the preparation of 9 potential regulatory filings, higher clinical production costs, increased activity on early-stage research projects, and higher expenses related to in-licensing. For the full year 2005, we expect R&D as a percentage of operating revenues to be approximately 20%.

The major components of R&D expenses were as follows *(in millions)*:

	Three Months Ended June 30,			Six Months Ended June 30,		
Research and Development	**2005**	**2004**	**% Change**	**2005**	**2004**	**% Change**
Product development	$ 169.6	$ 127.5	33 %	$ 315.5	$ 239.8	32 %
Post-marketing studies	40.1	30.4	32	74.5	58.6	27
Total development	209.7	157.9	33	390.0	298.4	31
Research	55.2	48.9	13	105.9	92.3	15
In-licensing	13.2	6.1	116	25.5	12.5	104
Total	$ 278.1	$ 212.9	31	$ 521.4	$ 403.2	29

Marketing, General and Administrative

Overall marketing, general and administrative (or "MG&A") expenses increased 29% to $356.6 million in the second quarter and 28% to $671.8 million in the first six months of 2005 from the comparable periods in 2004. The increase in 2005 was primarily due to: (i) an increase of $35.0 million in the second quarter and $64.3 million in the first six months of 2005 in commercial activities primarily in support of the launch of Tarceva and increased Avastin marketing costs; (ii) an increase of $14.4 million in the second quarter and $39.2 million in the first six months of 2005, primarily due to increased headcount and promotional costs for other recent product launches, including Xolair and Raptiva, and pre-launch costs associated with pipeline products, including Rituxan Immunology and Lucentis; and (iii) an increase of $27.6 million in the second quarter and $35.5 million in the first six months of 2005 in general corporate expenses to support our continued growth and higher legal costs.

MG&A as a percentage of operating revenues was 23% in the second quarter and 22% for the first six months of 2005 as compared to 25% for both periods in 2004. For the full year 2005, we expect MG&A expenses to be approximately 22-23% of operating revenues.

Collaboration Profit Sharing

Collaboration profit sharing expenses increased 37% to $198.8 million in the second quarter and 38% to $375.1 million in the first six months of 2005 from the comparable periods in 2004 due to higher sales of Rituxan, Xolair and Tarceva and the related profit sharing expenses. For the full year 2005, our collaboration profit sharing

expenses are expected to grow as our Rituxan, Xolair and Tarceva sales grow.

Recurring Charges Related to Redemption

We record recurring charges related to the June 1999 redemption of our special common stock and push-down accounting (see discussion below in "Relationship with Roche -- Redemption of Our Special Common Stock"). These charges were $34.5 million in the second quarter of 2005 and $38.2 million in the second quarter of 2004; and $69.0 million in the first six months of 2005 and $76.4 million for the same period in 2004. These charges were comprised of the amortization of Redemption-related other intangible assets in the periods presented.

Special Items: Litigation-Related

We recorded accrued interest and bond costs related to the City of Hope National Medical Center (or "COH") trial judgment of $13.5 million for the second quarters of 2005 and 2004, and $27.0 million for the first six months of 2005 and $26.9 million for the same period in 2004. We expect that we will continue to incur interest charges on the judgment and service fees on the surety bond each quarter through the process of appealing the COH trial results. The amount of cash paid, if any, or the timing of such payment in connection with the COH matter will depend on the outcome of the California Supreme Court's review of the matter; however, we expect that it may take longer than one year to resolve this matter. See Note 3, "Leases and Contingencies," in the Notes to the Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q for further information regarding our litigation. Also included in this line is a charge in the second quarter of 2005 related to a litigation settlement and amounts received during the first quarter of 2005 for a litigation settlement.

Other Income, Net

	Three Months Ended June 30,			Six Months Ended June 30,		
Other Income, Net *(in millions)*	**2005**	**2004**	**% Change**	**2005**	**2004**	**% Change**
			(In millions)			
Gains on sales of biotechnology equity securities and other	$ 0.5	$ 0.4	25 %	$ 1.4	$ 1.1	27 %
Write-downs of biotechnology debt, equity securities and other	-	(0.1)	(100)	(3.5)	(0.1)	3,400
Interest income	34.9	16.5	112	56.7	39.5	44
Interest expense	(3.9)	(1.4)	179	(6.7)	(2.8)	139
Total other income, net	$ 31.5	$ 15.4	105	$ 47.9	$ 37.7	27

Other income, net increased 105% to $31.5 million in the second quarter and 27% to $47.9 million in the first six months of 2005 from the comparable periods in 2004 primarily due to higher investment income as a result of the bond market rally which resulted in market value gains in some of our fixed income investments.

Income Tax Provision

The effective income tax rate was 26% in the second quarter and 32% for first six months of 2005, as compared to 37% in the second quarter and 35% for the first six months of 2004. The decrease in the income tax rate from 2004 primarily relates to a one-time benefit of approximately $39.0 million from recognizing additional R&D tax credits resulting from new income tax regulations issued by the U.S. Department of Treasury during the second quarter of 2005.

We expect the effective tax rate for the remaining quarters in 2005 to be higher than the current quarter, which benefited from the one-time benefit. We anticipate that our annual 2005 effective income tax rate will be approximately 35%. Various factors may have favorable or unfavorable effects on our effective tax rate during the remainder of 2005 and in subsequent years. These factors include, but are not limited to, interpretations of existing tax laws, changes in tax laws and rates, future levels of R&D spending, and changes in overall levels of pretax earnings.

Liquidity and Capital Resources

Liquidity and Capital Resources	June 30, 2005	December 31, 2004
	(In millions)	
Cash, cash equivalents, short-term investments and long-term marketable debt and equity securities	$ 2,911.6	$ 2,780.4
Net receivable - equity hedge instruments	109.2	21.3
Total cash, cash equivalents, short-term investments, long-term marketable debt and equity securities, and equity hedge instruments	3,020.8	2,801.7
Working capital	2,794.1	2,179.5
Current ratio	3.4:1	2.8:1

Cash, cash equivalents, short-term investments and long-term marketable securities, excluding restricted cash, were approximately $2.9 billion at June 30, 2005, an increase of $131.2 million, or 5%, from December 31, 2004. This increase primarily reflects cash generated from operations, which includes income from investments, and proceeds from activity related to our employee stock plans; partially offset by cash used for capital expenditures, purchase of marketable securities and repurchase of our common stock, and a net decrease in unrealized gains in our biotechnology and investment portfolios. To mitigate the risk of market value fluctuation, certain of our biotechnology equity securities are hedged with zero-cost collars and forward contracts, which are carried at fair value. Cash, cash equivalents, short-term investments, long-term marketable debt and equity securities, net of the equity hedge instruments were approximately $3.0 billion at June 30, 2005, an increase of $219.1 million from December 31, 2004. See Note 1, "Summary of Significant Accounting Policies -- Comprehensive Income," in the Notes to the Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q for further information regarding activity in our marketable investment portfolio and derivative instruments.

On July 18, 2005, we completed a private placement of $2.0 billion aggregate principal amount of five-year, 10-year and 30-year senior notes pursuant to exemptions from the registration requirements of the Securities Act of 1933 (the "Securities Act"). We intend to use approximately $585.0 million of the net proceeds to repay our obligations under our existing synthetic lease arrangements. We also intend to use part of the proceeds to fund capital expenditures, including modifications plus start-up and validation costs at our recently acquired biologics manufacturing facility in Oceanside, California. We intend to use the balance of the net proceeds for general corporate purposes, which may include working capital requirements, stock repurchases, R&D expenses and acquisitions of or investments in products, technologies, facilities and businesses. Pending the use of the remaining funds in this manner, we intend to invest them in interest-bearing or other yield producing investments.

See "Leases" below for a discussion of our leasing arrangements. See "Our affiliation agreement with Roche Holdings, Inc. (or "Roche") could limit our ability to make acquisitions and could have a material negative impact on our liquidity" below in the "Forward-Looking Information and Cautionary Factors" section and Note 3, "Leases and Contingencies," in the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q for factors that could negatively affect our cash position.

Cash Provided by Operating Activities

Cash provided by operating activities is primarily driven by increases in our net income. However, operating cash flows differ from net income as a result of non-cash charges or differences in the timing of cash flows and earnings recognition. Significant components of cash provided by operating activities are as follows:

Our "accounts receivable -- product sales" was $510.0 million at June 30, 2005, a decrease of $89.1 million from December 31, 2004. The average collection period of our "accounts receivable -- product sales" as measured in days sales outstanding (or "DSO") was 36 days for the second quarter 2005, as compared to 43 days in the second quarter of 2004 and 52 days in the first quarter of 2005. The decline in the accounts receivable balance and the DSO reflect the termination of the extended payment term incentive program in the first quarter of 2005. The level of accounts receivable with extended dating has declined steadily as customer payments have been received. The payment of the

remaining accounts receivables with extended dating is anticipated in the third quarter of 2005; as a result, we expect our near term DSO to be consistent with our second quarter 2005 DSO of 36 days. For future new product launches, we may offer, for a limited period, extended payment terms to allow customers and doctors purchasing the drug sufficient time to process reimbursements.

On January 12, 2005, we and XOMA Ltd. (or "XOMA") restructured our collaboration agreement related to Raptiva, effective January 1, 2005. Under this restructured agreement, the previous costs and profit sharing arrangement in the U.S. was modified to a royalty arrangement. As a result of restructuring the XOMA collaboration agreement, in the first quarter of 2005 we reclassified the former development loan receivable (approximately $29.2 million) to a prepaid royalty, of which $4.5 million was included in "prepaid expenses" and $24.7 million was included in "other long-term assets" in the accompanying condensed consolidated balance sheets. The prepaid royalty is being amortized to cost of sales associated with the related Raptiva revenues.

Cash Used in Investing Activities

Cash used in investing activities primarily relate to purchases, sales and maturities of investments and capital expenditures. Capital expenditures were $729.8 million during the first six months of 2005 compared to $196.6 million during the first six months of 2004. Capital expenditures in the first six months of 2005 included the purchase of the Oceanside plant for $408.1 million in cash plus $9.3 million in closing costs, ongoing construction of our manufacturing facility in Vacaville, California, the purchase of land, equipment and information systems, and ongoing construction costs in support of our manufacturing and corporate infrastructure needs. We expect to incur additional capital costs at the Oceanside plant over the next 24 months, including modifications, and start-up and validation costs.

We currently anticipate that our capital expenditures for the full year 2005 will be approximately **$**1.7 billion, which includes the June 2005 purchase of the Oceanside plant and $160.0 million for the buyout of our synthetic lease obligation on a research facility in South San Francisco, California.

Cash Provided by or Used in Financing Activities

Cash provided by or used in financing activities is primarily related to activity under our employee stock plans and our stock repurchase program. We received $465.2 million during the first six months of 2005 and $366.7 million during the first six months of 2004, related to stock option exercises and stock issuances under our employee stock plans. We also used cash for stock repurchases of $160.7 million during the first six months of 2005 and $575.7 million during the first six months of 2004 pursuant to our stock repurchase program approved by our Board of Directors.

As a result of our recently completed debt offering, we plan to extinguish our remaining $425.0 million total lease obligation with respect to our Vacaville manufacturing facility synthetic lease during 2005.

On June 15, 2005, the Board of Directors approved an extension of our stock repurchase program for the repurchase of up to an additional $2.0 billion of our common stock for a total of $4.0 billion through June 30, 2006. The Board also amended the current repurchase program by increasing the maximum number of shares that can be repurchased from 50 million to 80 million shares. Under this stock repurchase program, purchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. Genentech also may engage in transactions in other Genentech securities in conjunction with the repurchase program, including certain derivative securities. Genentech intends to use the repurchased stock to offset dilution caused by the issuance of shares in connection with Genentech's employee stock plans. Although there are currently no specific plans for the shares that may be purchased under the program, our goals for the program are (i) to make prudent investments of our cash resources; (ii) to allow for an effective mechanism to provide stock for our employee stock plans; and (iii) to address provisions of our affiliation agreement with Roche relating to maintaining Roche's minimum ownership percentage. See below in "Relationship with Roche" for more information on Roche's minimum ownership percentage. We have entered into Rule 10b5-1 trading plans to repurchase shares in the open market during those periods each quarter when trading in our stock is restricted under our insider trading policy. The current trading plan

covers approximately 1.5 million shares and will run through December 31, 2005.

Our shares repurchased during the first six months of 2005 were as follows *(shares in millions)*:

	Total Number of Shares Purchased in 2005	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2005	1.4	$ 48.98		
February 1-28, 2005	1.3	47.13		
March 1-31, 2005	0.5	48.90		
April 1-30, 2005	0.1	56.83		
Total	3.3	48.46	29.0	51.0

The par value method of accounting is used for common stock repurchases. The excess of the cost of shares acquired over the par value is allocated to additional paid-in capital with the amounts in excess of the estimated original sales price charged to accumulated deficit.

Off-Balance Sheet Arrangements

We have certain contractual arrangements that create risk for Genentech and are not recognized in our condensed consolidated balance sheets, as prescribed by generally accepted accounting principles. Discussed below are those off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operation, liquidity, capital expenditures or capital resources.

Leases

Our existing synthetic leases are discussed in Note 6, "Leases, Commitments and Contingencies" and "Off-Balance Sheet Arrangements" in Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2004 (or "Annual Report"). During the six months ended June 30, 2005, there were no significant changes to our synthetic lease arrangements, or our assessment of those arrangements under the provisions of FIN 46R, a revision of Interpretation 46, as discussed in the Annual Report. See also Note 7, "Subsequent Events -- Buyout of a Synthetic Lease," in the Notes to the Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q.

In December 2004, we entered into a Master Lease Agreement with Slough SSF, LLC for the lease of property adjacent to our South San Francisco campus. The property will be developed into eight buildings and two parking structures. The lease of the property will take place in two phases pursuant to separate lease agreements for each building as contemplated by the Master Lease Agreement. Phase I building leases will begin throughout 2006 and Phase II building leases may begin as early as 2008. For accounting purposes, due to the nature of our involvement with the construction of the buildings subject to the Master Lease Agreement, we are considered to be the owner of the assets during the construction period through the lease commencement date, even though the funds to construct the building shell and some infrastructure costs are paid by the lessor. As such, in the first six months of 2005, we have capitalized $73.0 million of construction costs in property, plant and equipment, and have also recognized a corresponding amount as a construction financing obligation in "long-term debt" in the accompanying condensed consolidated balance sheets. We expect at the time of completion of the project, if all the buildings and infrastructure were completed by the lessor, our construction asset and related obligation will be in excess of $365.0 million. Our aggregate lease payments as contemplated by the Master Lease Agreement through 2020 (if there is no acceleration or delay in the rent commencement date for the second phase of the buildings) will be approximately $540.1 million.

Contractual Obligations

During the first six months of 2005, there were no significant changes in our payments due under contractual obligations as disclosed in our Annual Report.

On July 18, 2005, we completed a private placement of the following debt instruments: $500.0 million principal amount of 4.40% Senior Notes due 2010, $1.0 billion principal amount of 4.75% Senior Notes due 2015 and $500.0 million principal amount of 5.25% Senior Notes due 2035 (collectively, the "Notes"). The Notes are unsecured, non-convertible obligations and will rank equally in right of payment with all of our other unsecured unsubordinated indebtedness. The Notes have not been registered under the Securities Act or any state securities laws, however, we have committed to the buyers of such Notes that we will do so within 240 days of July 18, 2005.

Contingencies

We are party to various legal proceedings, including patent infringement litigation and licensing and contract disputes, and other matters. See Note 3, "Leases and Contingencies," in the Notes to Condensed Consolidated Financial Statements of Part 1, Item 1 of this Form 10-Q for further information.

Relationship with Roche

Redemption of Our Special Common Stock

On June 30, 1999, we redeemed all of our outstanding Special Common Stock held by stockholders other than Roche Holdings, Inc. (or "Roche") at a price of $10.31 per share in cash with funds deposited by Roche for that purpose. We refer to this event as the "Redemption." As a result, on that date, Roche's percentage ownership of our outstanding Common Stock increased from 65% to 100%. Consequently, under GAAP, we were required to use push-down accounting to reflect in our financial statements the amounts paid for our stock in excess of our net book value. Push-down accounting required us to record $1,685.7 million of goodwill and $1,499.0 million of other intangible assets on our balance sheet on June 30, 1999. Refer to Note 2, "Consolidated Financial Statement Detail -- Other Intangible Assets," in the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q for further information about these intangible assets.

Roche's Ability to Maintain Its Percentage Ownership Interest in Our Stock

We expect from time to time to issue additional shares of common stock in connection with our stock option and stock purchase plans, and we may issue additional shares for other purposes. Our affiliation agreement with Roche provides, among other things, that we establish a stock repurchase program designed to maintain Roche's percentage ownership interest in our common stock. The affiliation agreement provides that we will repurchase a sufficient number of shares pursuant to this program such that, with respect to any issuance of common stock by Genentech in the future, the percentage of Genentech common stock owned by Roche immediately after such issuance will be no lower than Roche's lowest percentage ownership of Genentech common stock at any time after the offering of common stock occurring in July 1999 and prior to the time of such issuance, except that Genentech may issue shares up to an amount that would cause Roche's lowest percentage ownership to be no more than 2% below the "Minimum Percentage." The Minimum Percentage equals the lowest number of shares of Genentech common stock owned by Roche since the July 1999 offering (to be adjusted in the future for dispositions of shares of Genentech common stock by Roche as well as for stock splits or stock combinations) divided by 1,018,388,704 (to be adjusted in the future for stock splits or stock combinations), which is the number of shares of Genentech common stock outstanding at the time of the July 1999 offering, as adjusted for the two-for-one splits of Genentech common stock in November 1999, October 2000 and May 2004. We repurchased shares of our common stock in 2005 and 2004 (see discussion above in "Liquidity and Capital Resources -- Cash Provided by or Used in Financing Activities"). As long as Roche's percentage ownership is greater than 50%, prior to issuing any shares, the affiliation agreement provides that we will repurchase a sufficient number of shares of our common stock such that, immediately after our issuance of shares, Roche's percentage ownership will be greater than 50%. The affiliation agreement also provides that, upon Roche's request, we will repurchase shares of our common stock to increase Roche's ownership to the Minimum

Percentage. In addition, Roche will have a continuing option to buy stock from us at prevailing market prices to maintain its percentage ownership interest. The Minimum Percentage at June 30, 2005 was 57.7% and, under the terms of the affiliation agreement, Roche's lowest ownership percentage is to be 55.7%. At June 30, 2005, Roche's ownership percentage was 55.3%. We expect that future share repurchases under our share repurchase program will increase Roche's ownership percentage.

Related Party Transactions

We enter into transactions with our related parties, Roche and other Roche affiliates (including Hoffmann-La Roche) and Novartis, under existing agreements in the ordinary course of business. The accounting policies we apply to our transactions with our related parties are consistent with those applied in transactions with independent third-parties and all related party agreements are negotiated on an arm's-length basis.

Hoffmann-La Roche

Under our existing arrangements with Hoffmann-La Roche, including our licensing and marketing agreement, we recognized contract revenue from Hoffmann-La Roche, including amounts earned related to ongoing development activities, of $18.5 million in the second quarter of 2005 and $23.7 million in the second quarter of 2004, and $35.0 million in the first six months of 2005 and $49.6 million in the first six months of 2004. All other revenues from Hoffmann-La Roche and their affiliates, principally royalties and product sales, were $133.7 million in the second quarter of 2005 and $111.7 million in the second quarter of 2004, and $289.5 million in the first six months of 2005 and $210.6 million in the first six months of 2004. Cost of sales included amounts related to Hoffmann-La Roche of $26.5 million in the second quarter of 2005 and $25.9 million in the second quarter of 2004, and $73.8 million in the first six months of 2005 and $48.4 million in the first six months of 2004. R&D expenses included amounts related to Hoffmann-La Roche of $35.7 million in the second quarter of 2005 and $43.5 million in the second quarter of 2004, and $66.7 million in the first six months of 2005 and $76.4 million in the first six months of 2004.

Novartis

We understand that the Novartis Group holds approximately 33.3% of the outstanding voting shares of Roche Holding Ltd. As a result of this ownership, the Novartis Group is deemed to have an indirect beneficial ownership interest under FAS 57 "Related Party Disclosures" of more than 10% of Genentech's voting stock.

Under an arrangement with Novartis, a holding company of the Novartis Group, and Tanox, Inc., we currently supply Xolair and receive cost plus a mark-up similar to other supply arrangements. Novartis will be manufacturing all future worldwide bulk supply of Xolair at their Huningue production facility in France, upon FDA licensure, expected in early 2006. Future production costs of Xolair may initially be higher than those currently reflected in our cost of sales as a result of any production shift from Genentech to Novartis until production economies of scale can be achieved by that manufacturing party.

Contract revenue from Novartis related to manufacturing, commercial and ongoing development activities, was $11.9 million in the second quarter of 2005 and $10.2 million in the second quarter of 2004, and $21.9 million in the first six months of 2005 and $20.9 million in the first six months of 2004. Revenue from Novartis related to product sales was not material in the second quarters and the first six months of 2005 and 2004. Cost of sales was $12.3 million in the second quarter of 2005 and $15.1 million in the first six months of 2005, which included a one-time payment in the second quarter of 2005 related to our release from future manufacturing obligations. Cost of sales was not material in the second quarter and first six months on 2004. R&D expenses include amounts related to Novartis of $5.7 million in the second quarter of 2005 and $6.0 million in the second quarter of 2004, and $15.4 million in the first six months of 2005 and $12.4 million in the first six months of 2004. Collaboration profit sharing expenses were $28.7 million in the second quarter of 2005 and $14.8 million in the second quarter of 2004, and $52.4 million in the first six months of 2005 and $26.6 million in the first six months of 2004.

Stock Options

Option Program Description

Our stock option program is a broad-based, long-term retention program that is intended to attract and retain talented employees and to align stockholder and employee interests. Our program primarily consists of our amended and restated 1999 Stock Plan (the "Plan"), a broad-based plan under which stock options are granted to employees, directors and other service providers. Substantially all of our employees participate in our stock option program. In the past, we granted options under our amended and restated 1996 Stock Option/Stock Incentive Plan, our amended and restated 1994 Stock Option Plan and our amended and restated 1990 Stock Option/Stock Incentive Plan. Although we no longer grant options under these plans, exercisable options granted under these plans are still outstanding. In addition, our stockholders approved in April 2004 our 2004 Equity Incentive Plan under which stock options, restricted stock, stock appreciation rights and performance shares and units may be granted to our employees, directors and consultants in the future.

All stock option grants are made after a review by, and with the approval of, the Compensation Committee of the Board of Directors. See "The Compensation Committee Report" appearing in our 2005 Proxy Statement for further information concerning the policies and procedures of the Compensation Committee regarding the use of stock options.

General Option Information

Summary of Option Activity
(Shares in thousands)

		Options Outstanding	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
December 31, 2003	40,732	96,126	$ 25.18
Grants	(20,967)	20,967	53.04
Exercises	-	(21,484)	20.81
Cancellations	1,843	(1,843)	29.92
Additional shares reserved[(1)]	80,000	-	-
December 31, 2004	101,608	93,766	32.32
Grants	(1,645)	1,645	61.08
Exercises	-	(17,580)	24.25
Cancellations	1,324	(1,324)	39.70
June 30, 2005 (Year to date)	101,287	76,507	34.67

(1) Additional shares have been reserved for issuance under the 2004 Equity Incentive Plan approved by stockholders on April 16, 2004. No awards have been made under this Plan.

In-the-Money and Out-of-the-Money Option Information
(Shares in thousands)

	Exercisable		Unexercisable		Total	
As of June 30, 2005	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
In-the-Money	36,528	$ 25.70	39,689	$ 42.58	76,217	$ 34.49
Out-of-the-Money[(1)]	-	-	290	81.80	290	81.80
Total Options Outstanding	36,528		39,979		76,507	

(1) Out-of-the-money options are those options with an exercise price equal to or greater than the fair market value of Genentech Common Stock, $80.28, at the close of business on June 30, 2005.

Distribution and Dilutive Effect of Options

Employee and Executive Officer Option Grants

	2005**	2004	2003
Net grants during the year as % of outstanding shares	0.03 %	1.82 %	1.69 %
Grants to Named Executive Officers* during the year as % of outstanding shares	0.00 %	0.19 %	0.18 %
Grants to Named Executive Officers during the year as % of total options granted	0.00 %	9.63 %	8.54 %

* "Named Executive Officers" refers to our Chief Executive Officer and our four other most highly compensated executive officers as defined under Item 402(a) (3) of Regulation S-K of the federal securities laws.

** Reflects year to date activity.

Equity Compensation Plan Information

Our stockholders have approved all of our equity compensation plans under which options are outstanding.

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Our Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding achievement of our 5x5 goals, including growth in non-GAAP EPS, and the number of products/indications in late stage development; our Horizon 2010 goals, including becoming the number one U.S. oncology company by 2010, adding programs into research and clinical development and bringing products/indications to market, building a leading immunology business, increasing our leadership in tissue growth and repair, and achieving non-GAAP growth rates to be considered a growth company; Avastin, Rituxan, Herceptin, Tarceva and Xolair sales growth and growth opportunities, and our ability to deliver sustainable growth; the timeframe of construction or licensure of manufacturing facilities by us or our contract manufacturers, a fill line, and yield improvements; FDA action for Tarceva in pancreatic cancer; the impact of Medicare legislation on sales of our products; and sales to collaborators, royalties, contract revenues, cost of sales, R&D and MG&A expenses, collaboration profit-sharing expenses and capital expenditures. Actual results could differ materially.

For a discussion of the risks and uncertainties associated with achieving our 5x5 and Horizon 2010 goals of adding programs into research and clinical development and bringing products/indications to market, our estimates of our capital expenditures, cost of sales, R&D and MG&A expenses, collaboration profit-sharing expenses, and timeframe of construction or licensure of facilities, a fill line and yield improvements, and FDA action for Tarceva, see "The successful development of biotherapeutics is highly uncertain and requires significant expenditures," "We may be unable to obtain or maintain regulatory approvals for our products," "Difficulties or delays in product manufacturing or in obtaining materials from our suppliers could harm our business and/or negatively impact our financial performance," "Protecting our proprietary rights is difficult and costly," "If there is an adverse outcome in our pending litigation or other legal actions our business may be harmed," and "We may be unable to retain skilled personnel and maintain key relationships" sections of "Forward-Looking Information and Cautionary Factors That May Affect Future Results" below; for our Horizon 2010 goal of becoming number one in U.S. oncology sales and building a leading immunology business, increasing our leadership in tissue growth and repair, Avastin, Rituxan, Herceptin, Tarceva, and Xolair sales growth and growth opportunities, our ability to deliver sustainable growth, and expected revenues from sales to collaborators, see all of the foregoing and "We may be unable to manufacture certain of our products if there is BSE contamination of our bovine source raw material," "We face competition," "Other factors could affect our product sales," "We may incur material product liability costs," "Insurance coverage is increasingly more difficult to obtain or maintain," and "We are subject to environmental and other risks;" for royalties and contract revenues, see "Our royalty and contract revenues could decline;" for the impact of Medicare legislation on our product sales, see "Decreases in third party reimbursement rates may affect our product sales;" for non-GAAP EPS growth, see all of "Forward-Looking Information and Cautionary Factors That May Affect Future Results" below. We disclaim and do not undertake any obligation to update or revise any forward-looking statements in this Form 10-Q.

FORWARD-LOOKING INFORMATION AND CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

This Form 10-Q contains forward-looking information based on our current expectations. Because our actual results may differ materially from any forward-looking statements made by or on behalf of Genentech, this section includes a discussion of important factors that could affect our actual future results, including, but not limited to, our product sales, royalties, contract revenues, expenses, net income and earnings per share.

The successful development of biotherapeutics is highly uncertain and requires significant expenditures

Successful development of biotherapeutics is highly uncertain and is dependent on numerous factors, a number of which are beyond our control. Products that appear promising in research or early phases of development may fail to reach later stages of development or the market for several reasons including:

- Preclinical tests may show the product to be toxic or lack efficacy in animal models.

- Clinical trial results that may show the product to be less effective than desired (e.g., the trial failed to meet its primary or secondary objectives) or to have harmful or problematic side effects.

- Failure to receive the necessary regulatory approvals or a delay in receiving such approvals. Among other things, such delays may be caused by slow enrollment in clinical studies, extended length of time to achieve study endpoints, additional time requirements for data analysis or biologic licensing application (or "BLA") preparation, discussions with the U.S. Food and Drug Administration (or "FDA"), an FDA request for additional preclinical or clinical data, or unexpected safety, efficacy or manufacturing issues.

- Difficulties formulating the product, scaling the manufacturing process or in getting approval for manufacturing.

- Manufacturing costs, pricing or reimbursement issues, or other factors that make the product uneconomical.

- The proprietary rights of others and their competing products and technologies that may prevent the product from being developed or commercialized.

Success in preclinical and early clinical trials does not ensure that large-scale clinical trials will be successful. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. The length of time necessary to complete clinical trials and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly and may be difficult to predict. If our large-scale clinical trials are not successful, we will not recover our substantial investments in the product.

Factors affecting our research and development (or "R&D") productivity and the amount of our R&D expenses include, but are not limited to:

- The number of and the outcome of clinical trials currently being conducted by us and/or our collaborators. For example, our R&D expenses may increase based on the number of late-stage clinical trials being conducted by us and/or our collaborators.

- The number of products entering into development from late-stage research. For example, there is no guarantee that internal research efforts will succeed in generating sufficient data for us to make a positive development decision or that an external candidate will be available on terms acceptable to us. In the past, some promising candidates did not yield sufficiently positive preclinical results to meet our stringent development criteria.

- Decisions by F. Hoffmann-La Roche (or "Hoffmann-La Roche") whether to exercise its options to develop and sell our future products in non-U.S. markets and the timing and amount of any related development cost reimbursements.

- In-licensing activities, including the timing and amount of related development funding or milestone payments. For example, we may enter into agreements requiring us to pay a significant upfront fee for the purchase of in-process R&D, which we may record as an R&D expense.

- As part of our strategy, we invest in R&D. R&D as a percentage of revenues can fluctuate with the changes in future levels of revenue. Lower revenues can lead to more limited spending on R&D efforts.

- We participate in a number of collaborative research arrangements. On many of these collaborations, our share of expenses recorded in our financial statements is subject to volatility based on our collaborators' spending activities as well as the mix and timing of activities between the parties.

- We may incur charges associated with expanding our product manufacturing capabilities, as described in "Difficulties or delays in product manufacturing or in obtaining materials from our suppliers could harm our business and/or negatively impact our financial performance" below.

- Future levels of revenue.

We may be unable to obtain or maintain regulatory approvals for our products

We are subject to stringent regulation with respect to product safety and efficacy by various international, federal, state and local authorities. Of particular significance are the FDA's requirements covering R&D, testing, manufacturing, quality control, labeling and promotion of drugs for human use. A biotherapeutic cannot be marketed in the United States (or "U.S.") until it has been approved by the FDA, and then can only be marketed for the indications approved by the FDA. As a result of these requirements, the length of time, the level of expenditures and the laboratory and clinical information required for approval of a New Drug Application or a BLA, are substantial and can require a number of years. In addition, even if our products receive regulatory approval, they remain subject to ongoing FDA regulation, including, for example, changes to the product label, new or revised regulatory requirements for manufacturing practices, written advisements to physicians or a product recall.

We may not obtain necessary regulatory approvals on a timely basis, if at all, for any of the products we are developing or manufacturing or maintain necessary regulatory approvals for our existing products, and all of the following could have a material adverse effect on our business:

- Significant delays in obtaining or failing to obtain required approvals as described in "The successful development of biotherapeutics is highly uncertain and requires significant expenditures" above.

- Loss of, or changes to, previously obtained approvals.

- Failure to comply with existing or future regulatory requirements.

- Changes to manufacturing processes, manufacturing process standards or Good Manufacturing Practices following approval or changing interpretations of these factors.

In addition, the current regulatory framework could change or additional regulations could arise at any stage during our product development or marketing, which may affect our ability to obtain or maintain approval of our products or require us to make significant expenditures to obtain or maintain such approvals.

Difficulties or delays in product manufacturing or in obtaining materials from our suppliers could harm our business and/or negatively impact our financial performance

Manufacturing biotherapeutics is difficult and complex, and requires facilities specifically designed and validated for this purpose. It can take longer than five years to design, construct, validate, and license a new biotech manufacturing facility. We currently produce all of our products and we produce some products for others at our manufacturing facilities located in South San Francisco, California, Vacaville, California, Porriño, Spain, or through

various contract-manufacturing arrangements. Problems with any of our or our contractors' manufacturing processes could result in failure to produce adequate product supplies or product defects which could require us to delay shipment of products, recall products previously shipped or be unable to supply products at all. In addition, we may need to record period charges associated with manufacturing or inventory failures or other production-related costs that are not absorbed into inventory or incur costs to secure additional sources of capacity. Furthermore, there are inherent uncertainties associated with forecasting future demand, especially for newly introduced products of ours or of those for whom we produce products, and as a consequence we may have inadequate capacity to meet our own actual demands and/or the actual demands of those for whom we produce product.

In order to maintain adequate supply to keep up with growing demand for our products, we must successfully implement a number of manufacturing capacity enhancement projects on schedule, utilize nearly 100 percent of our production capacity in the next several years and obtain licensure or maintain a state of regulatory compliance at all of our production sites. If we for any reason fail to obtain licensure for our capacity enhancement projects on schedule, fail to operate at or near capacity, fail to maintain a state of regulatory compliance, or if actual demand significantly exceeds our internal forecasts, we may be unable to maintain an adequate supply of our product to meet all demand. Key capacity enhancement projects, which we must successfully implement, include the following: (i) licensure of our Lonza Biologics contract manufacturing facility to produce Rituxan bulk drug substance by late 2005; (ii) licensure of our Porriño, Spain facility to produce Avastin bulk drug substance for commercial use by early 2006; (iii) licensure of Novartis' plant in Huningue, France to product Xolair bulk drug substance by early 2006; (iv) licensure of our Wyeth Pharmaceuticals contract manufacturing facility to produce Herceptin bulk drug substance by the end of 2006; (v) licensure of yield improvement processes for Rituxan by the end of 2006 and for Avastin by early 2007; (vi) licensure of our recently acquired Oceanside, California manufacturing facility during the first half of 2007; (vii) construction, qualification and licensure of our new plant in Vacaville, California by 2009.

In the area of fill/finish, we are undertaking efforts to secure additional licensed filling capacity in order to mitigate the current risk associated with having a single licensed filling facility for many of our products. As part of this effort, we expect to begin constructing a new aseptic fill line in our South San Francisco facility in the third quarter of 2005 and anticipate licensure in 2007. We had equipment malfunctions in early 2004 in our filling facility, and consequently, several product lots were not able to be released and a scheduled facility maintenance shut-down was extended. If we experience another significant malfunction in our filling facility, we could experience a shortfall or stock out of one or more products, which, if it were to continue for a significant period of time, could result in a material adverse effect on our product sales and our business.

Furthermore, certain of our raw materials and supplies required for the production of our principal products or products we make for others are available only through sole source suppliers (the only recognized supplier available to us) or single source suppliers (the only approved supplier for us among other sources), and such raw materials cannot be obtained from other sources without significant delay or at all. If such sole source or single source suppliers were to limit or terminate production or otherwise fail to supply these materials for any reason, such failures could also have a material adverse impact on our products sales and our business.

Any prolonged interruption in the operations of our or our contractors' manufacturing facilities could result in cancellations of shipments, loss of product in the process of being manufactured, or a shortfall or stock-out of available product inventory, any of which could have a material adverse impact on our business. A number of factors could cause prolonged interruptions, including:

- the inability of a supplier to provide raw materials used for manufacture of our products;
- equipment obsolescence, malfunctions or failures;
- product contamination problems;
- damage to a facility, including our warehouses and distribution facility, due to natural disasters, including earthquakes as our South San Francisco, Oceanside and Vacaville facilities are located in areas where earthquakes could occur;

- changes in FDA regulatory requirements or standards that require modifications to our manufacturing processes;

- action by the FDA or by us that results in the halting or slowdown of production of one or more of our products or products we make for others due to regulatory issues;

- a contract manufacturer going out of business or failing to produce product as contractually required;

- other similar factors.

Because our manufacturing processes and those of our contractors are highly complex and are subject to a lengthy FDA approval process, alternative qualified production capacity may not be available on a timely basis or at all. Difficulties or delays in our or our contractors' manufacturing and supply of existing or new products could increase our costs, cause us to lose revenue or market share, damage our reputation and could result in a material adverse effect on our product sales, financial condition and results of operations.

We may be unable to manufacture certain of our products if there is BSE contamination of our bovine source raw material

Most biotechnology companies, including Genentech, have historically used bovine source raw materials to support cell growth in cell production processes. Bovine source raw materials from within or outside the U.S. are increasingly subject to greater public and regulatory scrutiny because of the perceived risk of contamination with bovine spongiform encephalopathy (or "BSE"). Should BSE contamination occur during the manufacture of any of our products that require the use of bovine source raw materials, it would negatively impact our ability to manufacture those products for an indefinite period of time (or at least until an alternative process is approved), negatively affect our reputation and could result in a material adverse effect on our product sales, financial condition and results of operations.

Decreases in third party reimbursement rates may affect our product sales, results of operations and financial condition

Sales of our products will depend significantly on the extent to which reimbursement for the cost of our products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Third party payers and governmental health administration authorities are increasingly attempting to limit and/or regulate the price of medical products and services, especially branded prescription drugs. For example, the Medicare Prescription Drug Improvement and Modernization Act, enacted in December 2003 (or "Medicare Act"), provides for, among other things, a reduction in the Medicare reimbursement rates for many drugs, including our oncology products. The Medicare Act as well as other changes in government legislation or regulation or in private third-party payers' policies toward reimbursement for our products may reduce or eliminate reimbursement of our products' costs to physicians. Decreases in third-party reimbursement for our products could reduce physician usage of the product and have a material adverse effect on our product sales, results of operations and financial condition.

Protecting our proprietary rights is difficult and costly

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. Accordingly, we cannot predict with certainty the breadth of claims allowed in these companies' patents. Patent disputes are frequent and can preclude the commercialization of products. We have in the past been, are currently, and may in the future be, involved in material litigation and other legal proceedings relating to our proprietary rights, such as the matters discussed in Note 3, "Leases and Contingencies," in the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q. Such litigation and other legal proceedings are costly in their own right and could subject us to significant liabilities to third-parties. An adverse decision could force us to either obtain third-party licenses at a material cost or cease using the technology or commercializing the product in dispute. An adverse decision with respect to one or more of our patents or other

intellectual property rights could cause us to incur a material loss of royalties and other revenue from licensing arrangements that we have with third-parties, and could significantly interfere with our ability to negotiate future licensing arrangements.

The presence of patents or other proprietary rights belonging to other parties may lead to our termination of the R&D of a particular product, a loss of our entire investment in the product and subject us to infringement claims.

If there is an adverse outcome in our pending litigation or other legal actions our business may be harmed

Litigation to which we are currently or have been subjected relates to, among other things, our patent and other intellectual property rights, licensing arrangements with other persons, product liability and financing activities. We cannot predict with certainty the eventual outcome of pending litigation, which may include an injunction against the manufacture or sale of a product or potential product or a judgment with significant monetary award, including the possibility of punitive damages, or a judgment that certain of our patent or other intellectual property rights are invalid or unenforceable. Furthermore, we may have to incur substantial expense in defending these lawsuits and these lawsuits could divert management's attention from ongoing business concerns.

Our activities relating to the sale and marketing of our products are subject to regulation under the Federal Food, Drug and Cosmetic Act and other federal statutes, including those relating to government program fraud and abuse. Violations of these laws may be punishable by criminal and/or civil sanctions, including fines and civil monetary penalties, as well as the possibility of exclusion from federal health care programs (including Medicare and Medicaid). In 1999 we agreed to pay $50 million to settle a federal investigation relating to our past clinical, sales and marketing activities associated with human growth hormone. We are currently being investigated by the Department of Justice with respect to our promotional practices of Rituxan, and may in the future be investigated for our promotional practices relating to any of our products. If the government were to bring charges against or convict us of violating these laws, or if we were subject to third party litigation relating to the same promotional practices, there could be a material adverse effect on our business, including our financial condition and results of operations.

We may be unable to retain skilled personnel and maintain key relationships

The success of our business depends, in large part, on our continued ability to (i) attract and retain highly qualified management, scientific, manufacturing and sales and marketing personnel, (ii) successfully integrate large number of new employees into our corporate culture, and (iii) develop and maintain important relationships with leading research and medical institutions and key distributors. Competition for these types of personnel and relationships is intense.

Roche has the right to maintain its percentage ownership interest in our common stock. Our affiliation agreement with Roche provides that, among other things, we will establish a stock repurchase program designed to maintain Roche's percentage ownership in our common stock if we issue or sell any shares. In addition, changes in stock option accounting rules which will require us to recognize all stock-based compensation costs as expenses could adversely effect the number of shares management and our board of directors choose to grant under our stock option plans. We therefore cannot assure you that we will be able to attract or retain skilled personnel or maintain key relationships or that the costs of retaining such personnel or maintaining such relationships will not materially increase.

We face competition

We face competition from pharmaceutical companies, pharmaceutical divisions of chemical companies, and biotechnology companies of various sizes. Some competitors have greater clinical, regulatory and marketing resources and experience than we do. Many of these companies have commercial arrangements with other companies in the biotechnology industry to supplement their own research capabilities.

The introduction of new products or follow-on biologics or the development of new processes by competitors or new information about existing products may result in price reductions or product replacements, even for products

protected by patents. Over the longer term, our and our collaborators' abilities to successfully market current products, expand their usage and bring new products to the marketplace will depend on many factors, including but not limited to the effectiveness and safety of the products, FDA and foreign regulatory agencies' approvals of new products and indications, the degree of patent protection afforded to particular products, and the effect of managed care as an important purchaser of pharmaceutical products.

We face competition in certain of our therapeutic markets. In the thrombolytic market, Activase and TNKase have lost market share and could lose additional market share to competing thrombolytic therapies and to the use of mechanical reperfusion therapies to treat acute myocardial infarction. We expect that the use of mechanical reperfusion in lieu of thrombolytic therapy for the treatment of acute myocardial infarction will continue to grow.

In the growth hormone market, we face competition from other companies currently selling growth hormone products and delivery devices. Competitors have also received approval to market their existing growth hormone products for additional indications beyond those that our products are currently are approved. As a result of that competition, we have experienced and may continue to experience a loss in market share.

Raptiva competes with established therapies for moderate-to-severe psoriasis including oral systemics such as methotrexate and cyclosporin, as well as ultraviolet light therapies. In addition, Raptiva competes with FDA-approved biologic agents Amevive® and ENBREL®, which are marketed by Biogen Idec and Amgen Inc., respectively.

Avastin may compete with ImClone/Bristol-Myers Squibb's ERBITUX®; an EGFR-inhibitor approved for the treatment of irinotecan refractory or intolerant metastatic colorectal cancer patients. We are also aware of products in development at other biotechnology or pharmaceutical companies that, if successful in clinical trials, may compete with Avastin for the indication for which we have approval or for indications for which we are seeking, or may seek, approval.

Tarceva faces competition from new and established chemotherapy regimens. Specifically, Tarceva competes with the chemotherapeutic products Taxotere® and Alimta®, both of which are indicated for the treatment of relapsed non-small cell lung cancer.

In addition to the commercial products listed above, there are numerous products in development at other biotech and pharmaceutical company that, if successful in clinical trials, may compete with our products.

Other factors could affect our product sales

Other factors that could affect our product sales include, but are not limited to:

- The timing of FDA approval, if any, of competitive products.
- Our pricing decisions, including a decision to increase or decrease the price of a product, and the pricing decisions of our competitors.
- Government and third-party payer reimbursement and coverage decisions that affect the utilization of our products and competing products.
- Negative safety or efficacy data from new clinical studies could cause the utilization and sales of our products to decrease.
- Negative safety or efficacy data from post-approval marketing experience could cause sales of our products to decrease or for a product to be recalled.
- The degree of patent protection afforded our products by patents granted to us and by the outcome of litigation involving our patents.

- The outcome of litigation involving patents of other companies concerning our products or processes related to production and formulation of those products or uses of those products.

- The increasing use and development of alternate therapies.

- The rate of market penetration by competing products.

- The termination of, or change in, an existing arrangement with any of the wholesalers who supply our products.

Any of these factors could have a material adverse effect on our sales and results of operations.

Our results of operations are affected by our royalty and contract revenues

Royalty and contract revenues in future periods could vary significantly. Major factors affecting these revenues include, but are not limited to:

- Hoffmann-La Roche's decisions whether to exercise its options and option extensions to develop and sell our future products in non-U.S. markets and the timing and amount of any related development cost reimbursements.

- Variations in Hoffmann-La Roche's sales and other licensees' sales of licensed products.

- The expiration or termination of existing arrangements with other companies and Hoffmann-La Roche, which may include development and marketing arrangements for our products in the U.S., Europe and other countries outside the U.S.

- The timing of non-U.S. approvals, if any, for products licensed to Hoffmann-La Roche and to other licensees.

- Fluctuations in foreign currency exchange rates.

- The initiation of new contractual arrangements with other companies.

- Whether and when contract benchmarks are achieved.

- The failure of or refusal of a licensee to pay royalties.

- The expiration or invalidation of our patents or licensed intellectual property. For example, patent litigations, interferences, oppositions, and other proceedings involving our patents often include claims by third-parties that such patents are invalid or unenforceable. If a court, patent office, or other authority were to determine that a patent under which we receive royalties and/or other revenues is invalid or unenforceable, that determination could cause us to suffer a loss of such royalties and/or revenues, and could cause us to incur other monetary damages.

- Decreases in licensees' sales of product due to competition, manufacturing difficulties or other factors that affect the sales of product.

We may incur material product liability costs

The testing and marketing of medical products entail an inherent risk of product liability. Liability exposures for biotherapeutics could be extremely large and pose a material risk. Our business may be materially and adversely affected by a successful product liability claim or claims in excess of any insurance coverage that we may have.

Insurance coverage is increasingly more difficult and costly to obtain or maintain

While we currently have insurance for our business, property and our products first- and third-party insurance is increasingly more costly and narrower in scope, and we may be required to assume more risk in the future or make significant expenditures to maintain our current levels of insurance. If we are subject to third-party claims or suffer a loss or damage in excess of our insurance coverage, we may be required to share that risk in excess of our insurance limits. Furthermore, any first- or third-party claims made on our insurance policy may impact our ability to obtain or maintain insurance coverage at reasonable costs or at all in the future.

We are subject to environmental and other risks

We use certain hazardous materials in connection with our research and manufacturing activities. In the event such hazardous materials are stored, handled or released into the environment in violation of law or any permit, we could be subject to loss of our permits, government fines or penalties and/or other adverse governmental or private actions. The levy of a substantial fine or penalty, the payment of significant environmental remediation costs or the loss of a permit or other authorization to operate or engage in our ordinary course of business could materially adversely affect our business.

We also have acquired, and may continue to acquire in the future, land and buildings as we expand our operations. Some of these properties are "brownfields" for which redevelopment or use is complicated by the presence or potential presence of a hazardous substance, pollutant or contaminant. Certain events could occur which may require us to pay significant clean-up or other costs in order to maintain our operations on those properties. Such events include, but are not limited to, changes in environmental laws, discovery of new contamination, or unintended exacerbation of existing contamination. The occurrence of any such event could materially affect our ability to continue our business operations on those properties.

Fluctuations in our operating results could affect the price of our common stock

Our operating results may vary from period to period for several reasons including:

- The overall competitive environment for our products as described in "We face competition" above.
- The amount and timing of sales to customers in the U.S. For example, sales of a product may increase or decrease due to pricing changes, fluctuations in distributor buying patterns or sales initiatives that we may undertake from time to time.
- The amount and timing of our sales to Hoffmann-La Roche and our other collaborators of products for sale outside of the U.S. and the amount and timing of sales to their respective customers, which directly impacts both our product sales and royalty revenues.
- The timing and volume of bulk shipments to licensees.
- The availability and extent of government and private third-party reimbursements for the cost of therapy.
- The extent of product discounts extended to customers.
- The effectiveness and safety of our various products as determined both in clinical testing and by the accumulation of additional information on each product after the FDA approves it for sale.
- The rate of adoption by physicians and use of our products for approved indications and additional indications. Among other things, the rate of adoption by physicians and use of our products may be affected by results of clinical studies reporting on the benefits or risks of a product.
- The potential introduction of new products and additional indications for existing products.

- The ability to successfully manufacture sufficient quantities of any particular marketed product.

- The number and size of any product price increases we may issue.

Our integration of new information systems could disrupt our internal operations, which could harm our revenues and increase our expenses

Portions of our information technology infrastructure may experience interruptions, delays or cessations of service or produce errors. As part of our Enterprise Resource Planning efforts, we are in the process of implementing new general ledger, financial reporting, order management, procurement and data warehouse systems to replace our current systems, but we may not be successful in implementing the new systems, and transitioning data and other aspects of the process could be expensive, time consuming, disruptive and resource intensive. Any disruptions that may occur in the implementation of new systems or any future systems could adversely affect our ability to report in an accurate and timely manner the results of our consolidated operations, our financial position and cash flows. Disruptions to these systems also could adversely impact our ability to fulfill orders and interrupt other operational processes. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect our financial results.

Our stock price, like that of many biotechnology companies, is highly volatile

The market prices for securities of biotechnology companies in general have been highly volatile and may continue to be highly volatile in the future. In addition, the market price of our common stock has been and may continue to be highly volatile.

In addition, the following factors may have a significant impact on the market price of our common stock.

- Announcements of technological innovations or new commercial products by us or our competitors.

- Publicity regarding actual or potential medical results relating to products under development or being commercialized by us or our competitors.

- Developments or outcome of litigation, including litigation regarding proprietary and patent rights.

- Regulatory developments or delays concerning our products in the U.S. and foreign countries.

- Issues concerning the safety of our products or of biotechnology products generally.

- Economic and other external factors or a disaster or crisis.

- Period to period fluctuations in our financial results.

Our affiliation agreement with Roche Holdings, Inc. (or "Roche") could adversely affect our cash position

Our affiliation agreement with Roche provides that we establish a stock repurchase program designed to maintain Roche's percentage ownership interest in our common stock based on an established Minimum Percentage. For more information on our stock repurchase program, see discussion above in "Liquidity and Capital Resources -- Cash Provided by or Used in Financing Activities." See Note 4, "Relationship with Roche and Related Party Transactions," in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for information regarding the Minimum Percentage.

While the dollar amounts associated with future stock repurchase programs cannot currently be determined, future stock repurchases could have a material adverse impact on our liquidity, credit rating and ability to access additional capital in the financial markets, and may have the effect of limiting our ability to use our capital stock as consideration for acquisitions.

Future sales of our common stock by Roche could cause the price of our common stock to decline

As of June 30, 2005, Roche owned 587,189,380 shares of our common stock or 55.3% of our outstanding shares. All of our shares owned by Roche are eligible for sale in the public market subject to compliance with the applicable securities laws. We have agreed that, upon Roche's request, we will file one or more registration statements under the Securities Act in order to permit Roche to offer and sell shares of our common stock. Sales of a substantial number of shares of our common stock by Roche in the public market could adversely affect the market price of our common stock.

Roche Holdings, Inc., our controlling stockholder, may have interests that are adverse to other stockholders

Roche as our majority stockholder controls the outcome of most actions requiring the approval of our stockholders. Our bylaws provide, among other things, that the composition of our board of directors shall consist of at least three directors designated by Roche, three independent directors nominated by the nominating committee and one Genentech executive officer nominated by the nominating committee. Currently, three of our directors, Mr. William Burns, Dr. Erich Hunziker and Dr. Jonathan K.C. Knowles, also serve as officers and employees of Roche Holding Ltd and its affiliates. As long as Roche owns in excess of 50% of our common stock, Roche directors will comprise two of the three members of the nominating committee. However, at any time until Roche owns less than 5% of our stock, Roche will have the right to obtain proportional representation on our board. We cannot assure you that Roche will not seek to influence our business operations in a manner that is contrary to our goals or strategies.

Our affiliation agreement with Roche could limit our ability to make acquisitions and could have a material negative impact on our liquidity

The affiliation agreement between us and Roche contains provisions that:

- Require the approval of the directors designated by Roche to make any acquisition or any sale or disposal of all or a portion of our business representing 10% or more of our assets, net income or revenues.

- Enable Roche to maintain its percentage ownership interest in our common stock.

- Require us to establish a stock repurchase program designed to maintain Roche's percentage ownership interest in our common stock based on an established Minimum Percentage. For information regarding Minimum Percentage, see Note 4, "Relationship with Roche and Related Party Transactions," in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for a discussion of our relationship with Roche and Roche's ability to maintain its percentage ownership interesting our stock. For more information on our stock repurchase program, see discussion above in "Liquidity and Capital Resources -- Cash Provided by or Used in Financing Activities."

These provisions may have the effect of limiting our ability to make acquisitions and while the dollar amounts associated with our future stock repurchases cannot currently be estimated, stock repurchases could have a material adverse impact on our liquidity, credit rating and ability to access additional capital in the financial markets.

Our stockholders may be unable to prevent transactions that are favorable to Roche but adverse to us

Our certificate of incorporation includes provisions relating to the following matters:

- Competition by Roche affiliates with us.

- Offering of corporate opportunities.

- Transactions with interested parties.

- Intercompany agreements.

- Provisions limiting the liability of specified employees

Our certificate of incorporation provides that any person purchasing or acquiring an interest in shares of our capital stock shall be deemed to have consented to the provisions in the certificate of incorporation relating to competition with Roche, conflicts of interest with Roche, the offer of corporate opportunities to Roche and intercompany agreements with Roche. This deemed consent might restrict the ability to challenge transactions carried out in compliance with these provisions.

Potential conflicts of interest could limit our ability to act on opportunities that are favorable to us but adverse to Roche

Persons who are directors and/or officers of Genentech and who are also directors and/or officers of Roche may decline to take action in a manner that might be favorable to us but adverse to Roche. Three of our directors currently serve as officers and employees of Roche Holding Ltd and its affiliates.

Our effective tax rate may vary significantly

Various internal and external factors may have favorable or unfavorable effects on our future effective tax rate. These factors include but are not limited to changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of R&D spending, and changes in overall levels of pretax earnings.

Recent accounting pronouncements may impact our future financial position and results of operations

Under Financial Accounting Standards Board (or "FASB") Interpretation No. 46R (or "FIN 46R"), a revision to Interpretation 46, "Consolidation of Variable Interest Entities," we are required to assess new business development collaborations as well as to reassess, upon certain events, some of which are outside our control, the accounting treatment of our existing business development collaborations based on the nature and extent of our variable interests in the entities as well as the extent of our ability to exercise influence in the entities with which we have such collaborations. Our continuing compliance with FIN 46R may result in our consolidation of companies or related entities with which we have a collaborative arrangement and this may have a material impact on our financial condition and/or results of operations in future periods.

There may be potential new accounting pronouncements or regulatory rulings, which may have an impact on our future financial position and results of operations. In December 2004, the FASB issued a revision of Statement of Financial Accounting Standards (or "FAS") No. 123, "Accounting for Stock-Based Compensation." The revision is referred to as "FAS 123R -- Share-Based Payment", which supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and will require companies to recognize compensation expense, using a fair-value based method, for costs related to share-based payments including stock options and stock issued under our employee stock plans. We expect to adopt FAS 123R using the modified prospective basis on January 1, 2006. We expect that our adoption of FAS 123R will result in compensation expense comparable, before the effect of capitalization of manufacturing related compensation expenses, to those disclosed in Note 1, "Summary of Significant Accounting Policies -- Accounting for Stock-Based Compensation," in the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of our Form 10-Q. We are currently evaluating option valuation methodologies and assumptions in light of FAS 123R; the methodologies and assumptions we ultimately use to adopt FAS 123R may be different than those currently used as discussed in Note 1, "Summary of Significant Accounting Policies -- Accounting for Stock-Based Compensation," in the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of our Form 10-Q. We currently expect that our adoption of FAS 123R will have a material impact on our consolidated results of operations.

To pay our indebtedness will require a significant amount of cash and may adversely affect our operations and financial results

Our ability to make payments on and to refinance our indebtedness, including our long-term debt obligations, and to fund planned capital expenditures, R&D, as well as stock repurchases and expansion efforts will depend on our

ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are and will remain beyond our control. Additionally, our indebtedness may increase our vulnerability to general adverse economic and industry conditions, require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which would reduce the availability of our cash flow to fund working capital, capital expenditures, R&D, expansion efforts and other general corporate purposes, and limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at June 30, 2005 have not changed significantly from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2004 on file with the Securities and Exchange Commission. See also Note 1, "Summary of Significant Accounting Policies -- Derivative Financial Instruments" section in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* The Company's principal executive and financial officers reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15(d)-15(e)) as of the end of the period covered by this Form 10-Q. Based on that evaluation, the Company's principal executive and financial officers concluded that the Company's disclosure controls and procedures are effective in providing them with material information relating to the Company in a timely manner, as required to be disclosed in the reports the Company files under the Exchange Act.

(b) *Changes in internal control over financial reporting.* There was no change in the Company's internal control over financial reporting that occurred during the period covered by this Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In connection with the Chiron patent infringement lawsuit and interference proceedings relating to United States (or "U.S.") Patent No. 6,054,561, on June 1, 2005, we and Chiron agreed to a settlement of both these interference proceedings and the lawsuit. All pending claims in the lawsuit were dismissed with prejudice, and Chiron has abandoned the contest in the redeclared interferences. The settlement resolves and ends all the patent infringement claims in the lawsuit. The outcome of the interference with respect to our patents and patent applications cannot be determined at this time.

On May 13, 2005, a request was filed by a third party for reexamination of the '415 or Cabilly patent. The request sought reexamination on the basis of non-statutory double patenting over U.S. Patent No. 4,816,567. On July 7, 2005, the U.S. Patent Office ordered reexamination of the '415 patent. Because the reexamination process is ongoing, the final outcome of this matter cannot be determined at this time. The '415 patent, which expires in 2018, relates to methods we and others use to make certain antibodies or antibody fragments, as well as cells and DNA used in these methods. We have licensed the '415 patent to other companies and derive substantial royalties from those licenses.

See also Note 3, "Leases and Contingencies," in the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q.

See also Item 3 of our report on Form 10-K for the year ended December 31, 2004, and Part II, Item 1 of our report on Form 10-Q for the quarter ended March 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 15, 2005, the Board of Directors approved an extension of our stock repurchase program for the repurchase of up to an additional $2.0 billion of our common stock for a total of $4.0 billion through June 30, 2006. The Board also amended the current repurchase program by increasing the maximum number of shares that can be repurchased from 50 million to 80 million shares. Under this stock repurchase program, purchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. Genentech also may engage in transactions in other Genentech securities in conjunction with the repurchase program, including certain derivative securities. Genentech intends to use the repurchased stock to offset dilution caused by the issuance of shares in connection with Genentech's employee stock plans. Although there are currently no specific plans for the shares that may be purchased under the program, our goals for the program are (i) to make prudent investments of our cash resources; (ii) to allow for an effective mechanism to provide stock for our employee stock plans; and (iii) to address provisions of our affiliation agreement with Roche relating to maintaining Roche's minimum ownership percentage. See above in "Relationship with Roche" for more information on Roche's minimum ownership percentage. We have entered into Rule 10b5-1 trading plans to repurchase shares in the open market during those periods each quarter when trading in our stock is restricted under our insider trading policy. The current trading plan covers approximately 1.5 million shares and will run through December 31, 2005.

Our shares repurchased for the three months ended June 30, 2005 were as follows *(shares in millions)*:

	Total Number of Shares Purchased in 2005	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1-30, 2005	0.1	$ 56.83		
May 1-31, 2005	-	-		
June 1-30, 2005	-	-		
Total	0.1	56.83	29.0	51.0

The par value method of accounting is used for common stock repurchases. The excess of the cost of shares acquired over the par value is allocated to additional paid-in capital with the amounts in excess of the estimated original sales price charged to accumulated deficit.

Item 4. Submission of Matters to a Vote of Security Holders

At Genentech's Annual Meeting of Stockholders held on April 14, 2005, two matters were voted upon. A description of each matter and a tabulation of the votes for each of the matters follows:

1. To elect six director nominees to hold office until the 2006 Annual Meeting of Stockholders or until their successors are duly elected and qualified:

	Votes	
Nominee	**For**	**Withheld**
Herbert W. Boyer, Ph.D.	888,986,813	116,574,155
William M. Burns	889,053,464	116,507,504
Erich Hunziker, Ph.D.	887,880,218	117,680,750
Jonathan K.C. Knowles, Ph.D.	887,958,614	117,602,354
Arthur D. Levinson, Ph.D.	911,755,385	93,805,583
Charles A. Sanders, M.D.	971,312,485	34,248,483

2. To ratify Ernst & Young LLP as our independent auditor for 2005.

Votes		
For	**Against**	**Abstain**
997,406,006	7,114,559	1,040,403

Item 6. Exhibits

(i)	10.29*	Purchase and Sale Agreement and Joint Escrow Instruction, dated as of June 16, 2005, between Genentech and Biogen Idec Inc.
(ii)	15.1	Letter regarding Unaudited Interim Financial Information.
(iii)	31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
(iv)	31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
(v)	32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Pursuant to a request for confidential treatment, portions of this Exhibit have been redacted from the publicly filed document and have been furnished separately to the Securities and Exchange Commission as required by Rule 24b-2 under the Securities Exchange Act of 1934.

SIGNATURES

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

GENENTECH, INC.

Date: August 2, 2005

/s/ARTHUR D. LEVINSON
Arthur D. Levinson, Ph.D.
Chairman and Chief Executive Officer

Date: August 2, 2005

/s/DAVID A. EBERSMAN
David A. Ebersman
Senior Vice President and
Chief Financial Officer

Date: August 2, 2005

/s/JOHN M. WHITING
John M. Whiting
Vice President, Controller and
Chief Accounting Officer

EXHIBIT 10.29

PURCHASE AND SALE AGREEMENT AND

JOINT ESCROW INSTRUCTIONS

by and between

BIOGEN IDEC INC.,
a Delaware corporation

"SELLER"

and

GENENTECH, INC.,
a Delaware corporation

"BUYER"

TABLE OF CONTENTS

EXHIBITS

PURCHASE AND SALE AGREEMENT AND JOINT ESCROW INSTRUCTIONS

TO: First American Title Insurance Company
411 Ivy Street San Diego, CA 92101

Escrow No. NCS-164829-SD
Escrow Officer: Lynn Graham
Title Order No. NCS-164829-SD
Title Officer: Ralph M. Snyder

THIS PURCHASE AND SALE AGREEMENT AND JOINT ESCROW INSTRUCTIONS (the "**Agreement**") is made and entered into as of June 16, 2005 (the "**Agreement Date**"), by and between BIOGEN IDEC INC., a Delaware corporation ("**Seller**"), and GENENTECH, INC., a Delaware corporation ("**Buyer**"), with reference to the facts set forth in the Recitals below:

R E C I T A L S :

A. Seller is the owner of the approximately sixty (60) acre parcel of real property located at 1 Antibody Way, Oceanside, California, as legally described in Exhibit A attached hereto and made a part hereof (the "**Real Property**"), together with (i) all improvements, structures and other property which is affixed to the Real Property so as to constitute fixtures under California law (collectively, the "**Improvements**"), (ii) all goods, equipment (including all plans, specifications, drawings, documents, manuals, maintenance and service logs and the like relating to the operation, care, validation, maintenance and repair thereof), materials, inventory, supplies and other personal property owned by Seller and located on the Real Property on May 25, 2005, including, without limitation, the items identified on Exhibit B-1 attached hereto and made a part hereof (but expressly excluding the personal property identified on Exhibit B-2 attached hereto and made a part hereof, which shall not constitute a portion of the Personal Property and which shall be retained by Seller) and all plans, specifications and drawings of the Improvements owned by Seller (collectively, the "**Personal Property**") (iii) all of Seller's right, title, and interest, in and to any development rights, entitlements, permits, easements, tenements, hereditaments, mineral rights, oil and gas rights, water, water rights, air rights, and privileges appurtenant to the Real Property, (collectively, the "**Appurtenances**"), (iv) all warranties, guarantees (including, without limitation, all contractor, builder, subcontractor, manufacturer, and vendor/supplier warranties and guarantees), indemnities, bonds, licenses, permits, approvals, intangible rights and privileges and other intangible property related exclusively to the Real Property, the Personal Property and/or the Improvements and rights relating to the construction or design of the Improvements and/or Personal Property (collectively, the "**Intangibles**"), provided that Intangibles shall not include any intellectual property whatsoever, (v) a non-exclusive, royalty free (as between Buyer or any successive owner of the Property and Seller) right as to those intellectual property rights which are (a) inherent in and/or readily discoverable by Buyer (or any successive owner of the Property) in the actual items of equipment and/or systems (including any design or configuration of such equipment and/or systems) constituting Personal Property or Improvements (as well as any software installed or embedded thereon as of immediately prior to the Closing), (b) owned by or licensed to Seller as of immediately prior to the Agreement Date, (c) transferable without the consent of any third party, and (d) specifically required and necessary for Buyer (or any successive owner of the Property) to operate the actual items of equipment and/or systems constituting Personal Property or Improvements (as well as any software installed or embedded thereon as of immediately prior to the Closing) (collectively, the "**Intellectual Property**" and for purposes of this definition, "Buyer" and "Seller" shall include their respective affiliates), (vi) rights to use the construction or design drawings relating to the Improvements (the "**Drawings**"), and (vii) all of Seller's right, title and interest, to the extent transferable pursuant to their terms, in the contracts listed on the attached Exhibit C (the "**Assumed Contracts**"). The Real Property, the Improvements, the Personal Property, the Appurtenances, the Intangibles, the Drawings, the Intellectual Property and the Assumed Contracts are collectively referred to herein as the "**Property.**"

B. Seller desires to sell to Buyer and Buyer desires to purchase from Seller the Property, in accordance with the terms and provisions hereinafter contained in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and other

good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer hereby agree that the terms and conditions of this Agreement and the instructions to First American Title Insurance Company (**"Escrow Holder"**) with regard to the escrow created pursuant hereto are as follows:

1. Sale of the Property. Seller shall sell to Buyer and Buyer shall purchase from Seller the Property at the Closing (defined in Section 6.2 below), subject to and on the terms and conditions contained herein. Buyer acknowledges that title to the Real Property is subject to certain covenants, conditions and agreements recorded against title to the Real Property in the Official Records (defined below) (collectively, the **"Master Developer Instruments"**) in favor of Ivey Ranch Development Company, LLC (**"Master Developer"**), all of which shall continue to affect title to the Real Property after the Closing. The Master Developer Instruments impose certain obligations on the owner of the Real Property, including, without limitation, a certain right of first refusal (the **"Master Developer Option"**) to purchase the Real Property on the terms and conditions more particularly described in a certain Agreement of Covenants dated as of September 1, 2000, by and between Master Developer and Seller and recorded in the Official Records of San Diego County, California (**"Official Records"**) on September 1, 2000 as Document No. 2000-0473723. The Master Developer Option is prior and superior to any rights to purchase the Property granted to Buyer hereunder and it shall be a condition to the Closing that the Master Developer Option not have been exercised by Master Developer. As of the Agreement Date, Master Developer has provided a written waiver of the Master Developer Option to Seller and Buyer in form and content satisfactory to the parties. Notwithstanding such waiver, in the event of any purported exercise by Master Developer of the Master Developer Option prior to the Closing, Buyer may, by written notice delivered to Seller and Escrow Holder within three (3) business days of Buyer's receipt of such written notice of Master Developer Option exercise, elect to terminate this Agreement. Upon delivery of such termination election notice, this Agreement shall be deemed terminated and the parties shall have no further obligations hereunder except for Seller's and Buyer's Post-Termination Obligations (as defined in Section 4.1.3 below).

2. Purchase Price. The purchase price for the Property is Four Hundred Eight Million One Hundred Thirty Thousand Dollars ($408,130,000.00) (the **"Purchase Price"**). At the Closing, the Purchase Price, as adjusted for the prorations referenced in Section 14 below and the other costs to be paid by Buyer pursuant to this Agreement, shall be paid by Buyer to Seller in cash, in immediately available funds via wire transfer in accordance with Section 4.2.2.1 below. Prior to Closing, Buyer and Seller shall, for purposes of determining the sales tax and real property transfer tax applicable to the transactions contemplated under this Agreement at Closing, use their best efforts to agree upon an allocation of the Purchase Price among the (i) Real Property, Improvements and Appurtenances, (ii) Personal Property, and (iii) other Property. Buyer and Seller hereby agree that the minimum aggregate amount of the Purchase Price allocable to the Real Property, Improvements and Appurtenances for the above purposes shall not be less than the currently assessed value for each component of the Property on the tax rolls of the San Diego County Tax Assessor's Office. The allocation mutually agreed to by Buyer and Seller (if such mutual agreement is reached) shall be conclusive and binding upon Buyer and Seller for the purposes described in this Section 2.

3. Retention Amount. Buyer and Seller acknowledge that the design and construction of certain of the Improvements is not completed and is not expected to be completed prior to the Closing Date and that performance remains under the construction contracts, architect's agreements and other agreements related to the design and construction of the Improvements (collectively, the **"Construction Contracts"**), including, without limitation, certain design/build construction contracts and other contracts (collectively, as amended, the **"DPR Design/Build Agreements"**) between Seller and DPR Construction, Inc. (**"DPR"**). The scope of all work under the Construction Contracts which is to be completed under this Agreement is identified on the attached Schedule 3 (the **"Remaining Work"**). At Closing, a portion of the Purchase Price, equal to the balance of all amounts remaining to be paid by Seller under the Construction Contracts (the **"Retention Amounts"**) will be retained in Escrow (defined below) with Escrow Holder after the Closing Date to pay for the Remaining Work. Buyer has no right, title or interest in the Retention Amounts. Seller shall cause the Remaining Work to be completed, at its sole cost and expense, in accordance with the terms of the Construction Contracts in effect as of the Agreement Date, and Seller shall perform its obligations under the Construction Contracts in accordance with the terms of the Construction Contracts. The actual Retention Amounts to be withheld in Escrow at Closing shall be identified by Seller in writing to Escrow Holder. The Retention Amounts shall be paid to the person entitled thereto under the Construction Contracts (each, a **"Retention Amount Payee"**) in whole or, from time-to-time, in part after the Closing upon satisfaction of the requirements under the Construction Contracts for such payment(s). Escrow Holder shall pay to each Retention

Amount Payee within five (5) days after receipt of written instruction from Seller to Escrow Holder, together with a copy of such Retention Amount Payee's applicable application for payment, such amounts identified by Seller in such written instruction. All Retention Amounts shall be released by Escrow Holder to Seller upon: (i) Escrow Holder's receipt of an unconditional waiver and release upon final payment, or conditional waiver and release upon final payment (conditioned only upon disbursement to the applicable Retention Amount Payee of the portion of the Retention Amounts represented by such waiver, meeting the requirements of California Civil Code Sections 3262(3) and 3262(4), as applicable), in each case executed by the applicable Retention Amount Payee, provided, however, that such waivers shall only be required from those Retention Amount Payees who are entitled to a statutory claim of lien under California Civil Code Section 3110; and (ii) Escrow Holder's receipt of Seller's written approval of such disbursement. Disbursements for Remaining Work shall be subject to retainage in accordance with the terms of the Construction Contracts. Effective as of the Closing, Seller reserves a license for itself, DPR, each Retention Amount Payee and their respective agents and subcontractors to enter onto the Real Property, upon reasonable prior written notice to Buyer (provided, however, that for purposes of this sentence only, such notice shall be delivered to the attention of David Broad at Buyer's address set forth in Section 17 hereof, with a copy to Patrick Yang as set forth in Section 17 hereof or such other person or address as may otherwise be indicated by Buyer to Seller in writing in accordance with Section 17 hereof) and in accordance with Buyer's reasonable security, health and safety, and operational requirements, for the purpose of completing, or verifying the completion of, the work under the Construction Contracts. Seller shall use reasonable efforts, and shall cause DPR, each Retention Amount Payee and their respective agents and subcontractors to use reasonable efforts, to minimize any disruption of Buyer's operations at the Property. Seller shall indemnify, defend and hold harmless Buyer and its agents, contractors and representatives against all losses, costs, claims, liabilities and damages (including reasonable attorney's fees) for any injury to persons and damage to property caused by the acts or omissions of Seller, DPR, each Retention Amount Payee and their respective agents and subcontractors in completing such work under the Construction Contracts other than arising out of the negligence or intentional misconduct of Buyer, its employees or agents. Buyer and Seller shall cooperate reasonably to record a notice of completion upon completion of said work. In the event Seller exercises any right under the Construction Contracts to take over completion of the Remaining Work, Seller shall be entitled to disbursement of the Retention Amounts to pay the cost of such work, substantially on the disbursement terms under subsections (i) and (ii) above. The parties agree to act reasonably and in good faith in connection with the matters identified in this Section 3. The provisions of this Section 3 shall survive the Closing.

4. Conditions to Parties' Obligations.

4.1 Buyer's Pre-Closing Conditions. Notwithstanding anything to the contrary contained in this Agreement, but subject to the provisions below of this Section 4.1 and the express representations and warranties set forth in Section 26 hereof, Buyer hereby acknowledges and agrees that Buyer has satisfied itself as to, and has waived its right to terminate this Agreement based upon, each and every one of the following: (i) all aspects of the physical condition of the Property, including, without limitation, the presence or absence of any Hazardous Materials (as defined below) thereon or therein and/or any defects in the design, construction, manufacturing or operation of any element or portion of the Property; (ii) except as provided below in Section 4.1.2 below, the status of title to the Property; (iii) the economic feasibility of the Property for Buyer's intended use; and (iv) the terms and conditions of the Master Developer Instruments and any agreements, instruments or undertakings between Seller and the City of Oceanside, California (**"City"**) pertaining in any way to the use, development or operation of the Real Property and/or the Improvements, as the same are of public record; and (v) the terms and conditions of the Assumed Contracts.

4.1.1 Approval of Title. Seller has delivered or caused to be delivered to Buyer, and Buyer has approved, with the exception of any delinquent supplemental real property taxes shown on Schedule B, Item 2, First American Title Insurance Company's (the **"Title Company"**) Commitment for Title Insurance for the Property, Order No. NCS-164829-SD dated May 26, 2005, together with all documents evidencing exceptions to title referred to therein issued by Title Company (such preliminary title commitment and the underlying documents thereto shall be collectively referred to herein as the **"Title Report"**).

4.1.2 Title Supplements. Seller has ordered an ALTA survey of the Property (the **"Survey"**) to be prepared by a licensed surveyor, at Buyer's sole cost and expense. If, after the Agreement Date, the Title Company issues any supplement to the Title Report (**"Title Supplement"**) which discloses any material title exceptions for

matters shown in the Survey and not previously disclosed in the Title Report or any prior supplement thereto, then Buyer shall have until the date that is five (5) business days after receipt of such Title Supplement to either approve of the exceptions contained therein, or to notify Seller in writing, specifying such new, material exceptions to which Buyer objects and the basis for such objection (**"Title Objection Notice"**). Buyer's failure to timely deliver a Title Objection Notice shall be deemed to be Buyer's approval of the matters shown in or disclosed by the Title Supplement. Seller shall have a period of five (5) business days after Seller's receipt of the Title Objection Notice (a) to remove, or agree to remove prior to the Closing, some or all of those exceptions to which Buyer has objected in the Title Objection Notice, and to inform Buyer of the same, or (b) to advise Buyer, in writing, that Seller will not agree to remove some or all of those exceptions to which Buyer has objected in the Title Objection Notice; the foregoing election by Seller being at Seller's sole option and discretion (**"Title Response Notice"**). If Buyer elects to deliver a Title Objection Notice, the scheduled Closing Date shall be adjusted as necessary to permit the time periods specified above with respect to Buyer's election to deliver any applicable Title Objection Notice, and for Seller's election to deliver any Title Response Notice, as contemplated hereinabove.

4.1.3 Effect of Failure to Cure. If Seller fails to timely deliver to Buyer the Title Response Notice, it shall be conclusively deemed that Seller has elected not to remove any of those exceptions to which Buyer has objected as specified in the Title Objection Notice. If Seller advises Buyer in its Title Response Notice that it will not remove or agree to remove some or all of those exceptions to which Buyer has objected in the Title Objection Notice (or Seller is deemed to have so advised Buyer), then Buyer shall have until 5:00 p.m. (Pacific Time) on the date that is three (3) business days after Buyer's receipt of the Title Response Notice (or the expiration of the period in which Seller may deliver the Title Response Notice if Seller fails to timely deliver the same) to advise Seller, in writing, whether Buyer elects to terminate this Agreement or to waive such objections and proceed with the acquisition of the Property. Buyer's failure to timely notify Seller of Buyer's election to terminate this Agreement within the period provided in the immediately preceding sentence shall be deemed to be Buyer's election to waive its objections and proceed with the acquisition of the Property. Failure by Seller to remove (which may include "bonding around" such matters or obtaining endorsements to Buyer's title policy, in each case at Seller's cost, to remove such matters from Buyer's title policy) those specified exceptions which Seller has expressly agreed to remove in the Title Response Notice within the specified period shall be deemed to be a failure of this condition, in which event, unless Buyer withdraws its objections in writing, this Agreement shall terminate, and the parties shall have no further obligations hereunder except for the indemnities contained in Sections 4.4 and 16 below, Buyer's covenants made herein which are expressly intended to survive any such termination and Buyer's obligations under Section 4.3 below to deliver to Seller the Seller's Documents (defined below) (collectively, **"Buyer's Post-Termination Obligations"**) and Seller's continuing obligations under the Confidentiality Agreement (as defined in Section 22 below), or with respect to Section 16 (Brokers), and Section 25 (Dispute Costs) (collectively **"Seller's Post-Termination Obligations"**). If Buyer elects to deliver a Title Objection Notice, the scheduled Closing Date shall be adjusted as necessary to permit the time periods specified above to elapse as contemplated hereinabove. Notwithstanding the foregoing, on or prior to Closing, Seller shall (i) remove or cause to be removed any liens affecting the Property securing repayment of borrowed monies or mechanics' liens which Seller has created or suffered to exist, excluding, however, any liens securing payment of non-delinquent real or personal property taxes and assessments (ii) provide such reasonable assurances as the Title Company shall reasonably require to issue the CLTA 101.4 title insurance endorsement referenced in Section 4.2.1.2 below.

4.2 Closing Conditions.

4.2.1 Buyer's Closing Conditions. Buyer's obligation to consummate the purchase of the Property shall be subject to the satisfaction or waiver by Buyer of the following conditions (collectively, the **"Buyer's Closing Conditions"**):

4.2.1.1 Seller shall have delivered to Escrow Holder or Buyer, as appropriate, all of the documents referred to in Section 6.4.1 below.

4.2.1.2 At the Closing, the Title Company shall be irrevocably committed to issue to Buyer the CLTA Title Policy (defined below) in the form required under Section 4.1 above, including a CLTA 101.4 endorsement; provided, however, Buyer may elect to obtain additional endorsements to the CLTA Title Policy and/or the ALTA Policy (as defined below) but such election shall not be a condition to the Close of Escrow or

result in any delay therein, as more fully provided in Section 15 below.

4.2.1.3 Seller's representations contained in Section 26 of this Agreement shall have been true and correct in all material respects when made and shall be true and correct in all material respects as of the Closing Date.

4.2.1.4 Seller shall not be in default of its obligations hereunder.

4.2.2 Seller's Closing Conditions. Seller's obligation to consummate the sale of the Property is conditioned upon the satisfaction or Seller's written waiver on or prior to the Closing Date of the following conditions (collectively, the **"Seller's Closing Conditions"**):

4.2.2.1 Not later than 10:00 a.m. on the Closing Date, Buyer shall deliver into the escrow with Escrow Holder (for payment to Seller), in immediately available funds, cash in an amount of the Purchase Price, as adjusted for the costs, expenses and prorations required to be paid by Buyer hereunder.

4.2.2.2 Buyer shall not be in material default of its obligations hereunder.

4.2.2.3 Each of the documents required to be delivered by Buyer pursuant to Section 6.4.2 shall have been timely delivered as provided therein.

4.2.2.4 All of Buyer's representations and warranties contained herein shall be true and correct in all material respects when made and shall be true and correct in all material respects as of the Closing Date.

4.3 Failure of Conditions.

4.3.1 Seller's Cure Right. If any or all of the Buyer's Closing Conditions are not satisfied or waived by Buyer on or before the date established for the Closing, then Buyer shall notify Seller in writing of those Buyer's Closing Conditions which have not been satisfied or otherwise waived by Buyer (the **"Buyer's Closing Conditions Failure Notice"**). Seller shall have three (3) business days after Buyer has delivered to Seller the Buyer's Closing Conditions Failure Notice (and the Closing shall be extended, if necessary to give Seller such three (3) business day period) to notify Buyer in writing of Seller's election either to (a) take such actions as may be necessary to cure such matters to Buyer's reasonable satisfaction prior to the date of Closing (as same may be extended), or (b) advise Buyer that Seller will not cure such matters (the **"Seller's Conditions Notice"**). If Seller elects not to cure such matters (or fails to timely deliver Seller's Conditions Notice), then within two (2) business days after Buyer's receipt of the Seller's Conditions Notice or the expiration of the period during which Seller may deliver Seller's Conditions Notice (and the Closing shall be extended, if necessary to give Buyer such two (2) business day period), Buyer, at its sole option, may elect to do any of the following: (1) Buyer may elect to terminate this Agreement by delivering written notice thereof to Seller, in which event the parties shall have no further obligations hereunder except for Buyer's and Seller's Post-Termination Obligations; (2) if the Buyer's Closing Condition in question is either of those conditions specified in Sections 4.2.1.2 or 4.2.1.3 and Seller is not in any material manner responsible for the deviation or failure of such Buyer's Closing Condition, then Buyer may elect to terminate this Agreement by delivering written notice thereof to Seller, in which event the parties shall have no further obligations hereunder except for Buyer's and Seller's Post-Termination Obligations; (3) if the Buyer's Closing Condition in question is either of those conditions specified in Sections 4.2.1.1 or 4.2.1.4, or if the Buyer's Closing Condition in question is either of those conditions specified in Sections 4.2.1.2 or 4.2.1.3 and Seller is actually responsible for the deviation or failure of such Closing Condition, then Buyer may pursue the remedies available to it pursuant to Section 5.2 below; or (4) Buyer may elect to waive Buyer's Closing Condition(s) in question and proceed with the purchase of the Property. If Seller elects to cure such matters as set forth in the Buyer's Closing Conditions Failure Notice, Seller shall promptly take any and all actions as may be necessary to cure same and the date of the Closing may be extended for a period of time reasonably acceptable to both Seller and Buyer to enable Seller to accomplish same. Failure by Buyer to notify Seller within the specified time periods set forth herein, shall be deemed an approval by Buyer of each such matter, in which event all such conditions and contingencies shall be conclusively deemed to be satisfied and approved. If any of the Seller's Closing Conditions

are not satisfied or otherwise waived by Seller prior to the Closing Date, Seller may elect, in its sole and absolute discretion, to terminate this Agreement and, to the extent the same is the result of a default by Buyer hereunder, Seller may pursue its rights and remedies under Section 5.1 hereof.

4.3.2 Return of Documents. Notwithstanding anything to the contrary contained herein, if Buyer terminates this Agreement pursuant to Section 4.1 or for any other reason, Buyer shall destroy all materials, tests, audits, surveys, reports, studies and the results of any and all investigations and inspections conducted by Buyer (collective, the "**Buyer's Documents**") with respect to the Property and Buyer shall also return to Seller any and all documents, leases, agreements, reports and other materials given to Buyer by or on behalf of Seller (collectively, the "**Seller's Documents**") within ten (10) days after such termination of this Agreement. The foregoing covenants of Buyer shall survive any such termination of this Agreement.

4.4 Investigations; Indemnity. Prior to the Closing, Buyer shall be entitled to conduct inspections and investigations into the physical condition of the Property in accordance with this Section 4.4. Prior to entering the Property (and on each and every occasion), Buyer shall deliver to Seller prior written notice thereof or verbal notice wherein Buyer actually speaks with a representative of Seller (not a voicemail message) and shall afford Seller a reasonable opportunity to have a representative of Seller present to accompany Buyer while Buyer performs its evaluations, inspections, tests and other investigations of the physical condition of the Property. Prior to any entry to perform any necessary on-site inspections, tests or investigations, Buyer shall give Seller prior written notice thereof or verbal notice wherein Buyer actually speaks with a representative of Seller (not a voicemail message), including the identity of the company or party(s) who will perform such inspections, tests or investigations and the proposed scope of the inspections, tests or investigations. Seller shall approve or disapprove any proposed inspections, tests or investigations and the party(s) performing the same promptly after receipt of such notice, which approval shall not be unreasonably withheld. Seller's failure to advise Buyer of its disapproval of any proposed inspections, tests or investigations and the party(s) performing the same prior to the time for such entry onto the Property identified in Buyer's notice shall be deemed Seller's approval thereof. Notwithstanding anything to the contrary contained herein, Buyer shall not be permitted to undertake any intrusive or destructive testing of the Property, including without limitation a "Phase II" environmental assessment, without in each instance first obtaining Seller's written consent thereto, which consent shall not be unreasonably withheld. Upon request, Buyer shall promptly deliver to Seller copies of any reports relating to any inspections, tests or investigations of the Property performed by or on behalf of Buyer. Buyer shall keep the Property free from all liens and shall indemnify, defend (with counsel reasonably satisfactory to Seller), protect, and hold Seller and each of the parties comprising Seller and each of their members, officers, trustees, employees, representatives, agents, lenders, related and affiliated entities, successors and assigns harmless from and against any and all claims, demands, liabilities, judgments, penalties, losses, costs, damages, and expenses (including, without limitation, attorneys' and experts' fees and costs) relating to or arising in any manner whatsoever from the negligence or willful misconduct by Buyer or Buyer's agents or representatives in performing or undertaking any studies, evaluations, inspections, investigations or tests relating to or in connection with the Property (exclusive of the financial effects of the discovery of the presence of any Hazardous Materials (as defined in Section 12 below) or any other defect), or entries by Buyer or its agents or representatives in, on or about the Property. Notwithstanding any provision to the contrary in this Agreement, the indemnity obligations of Buyer under this Agreement shall survive any termination of this Agreement or the delivery of the Grant Deed and the transfer of title. In addition to the foregoing indemnity, if there is any damage to the Property caused by Buyer's and/or its agents' or representatives' entry in or on the Property, Buyer shall immediately restore the Property substantially to the same condition existing prior to Buyer's and its agents' or representatives' entry in, on or about the Property.

4.5 Transition Services Agreement. Seller and Buyer shall execute and deliver at the Closing a Transition Services Agreement incorporating substantially the terms as attached hereto as Schedule 4.5.

5. Remedies/Liquidated Damages.

5.1 Buyer's Default. IF BUYER FAILS TO COMPLETE THE PURCHASE OF THE PROPERTY AS PROVIDED IN THIS AGREEMENT BY REASON OF ANY MATERIAL DEFAULT OF BUYER, SELLER SHALL BE RELEASED FROM ITS OBLIGATION TO SELL THE PROPERTY TO BUYER AND THE AMOUNT OF FIFTY MILLION DOLLARS ($50,000,000) SHALL BE PAID BY BUYER TO SELLER AND

RETAINED BY SELLER AS LIQUIDATED DAMAGES. THE PARTIES ACKNOWLEDGE THAT SELLER'S ACTUAL DAMAGES IN THE EVENT THAT THE SALE IS NOT CONSUMMATED WOULD BE EXTREMELY DIFFICULT OR IMPRACTICABLE TO DETERMINE. THEREFORE, BY SEPARATELY EXECUTING THIS SECTION, THE PARTIES ACKNOWLEDGE THAT THE AFORESAID AMOUNT HAS BEEN AGREED UPON, AFTER NEGOTIATION, AS THE PARTIES' REASONABLE ESTIMATE OF SELLER'S DAMAGES AND AS SELLER'S EXCLUSIVE REMEDY IN LAW OR IN EQUITY AGAINST A BUYER IN THE EVENT THE CLOSING DOES NOT OCCUR AND AS SELLER'S SOLE AND EXCLUSIVE REMEDY AGAINST BUYER ARISING FROM SUCH FAILURE OF THE SALE TO CLOSE. IN ADDITION, BUYER SHALL PAY ALL TITLE, SURVEY AND ESCROW CANCELLATION CHARGES. NOTWITHSTANDING THE FOREGOING, IN NO EVENT SHALL THIS SECTION LIMIT THE DAMAGES RECOVERABLE BY EITHER PARTY AGAINST THE OTHER PARTY DUE TO (A) THE OTHER PARTY'S OBLIGATION TO INDEMNIFY SUCH PARTY IN ACCORDANCE WITH THIS AGREEMENT, OR (B) THIRD PARTY CLAIMS. BY THEIR SEPARATELY EXECUTING THIS SECTION BELOW, BUYER AND SELLER ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTOOD THE ABOVE PROVISION COVERING LIQUIDATED DAMAGES, AND THAT EACH PARTY WAS REPRESENTED BY COUNSEL WHO EXPLAINED THE CONSEQUENCES OF THIS LIQUIDATED DAMAGES PROVISION AT THE TIME THIS AGREEMENT WAS EXECUTED.

SELLER'S INITIALS: WHR **BUYER'S INITIALS:** ADL

5.2 Seller's Default. The term **"Permitted Event"** shall mean the occurrence of the following on the Closing Date: Buyer shall be ready, willing, and able to complete the subject transaction in accordance with this Agreement (including having proof of the satisfaction of all of the conditions precedent in Section 4.2.2 above, and evidence of available funds); and Seller, notwithstanding the foregoing, shall have defaulted in its obligation to complete the subject transaction in accordance with this Agreement or is otherwise in material default under this Agreement. Except upon the occurrence of the Permitted Event, Buyer agrees that Buyer shall not (and hereby waives any right to) ever file or assert any lis pendens against the Real Property, nor shall Buyer commence or maintain any action against Seller for specific performance under this Agreement nor for a declaratory judgment as to Buyer's rights under this Agreement. If the sale of the Property is not consummated because of a default under this Agreement on the part of Seller and Buyer is ready, willing, and able to consummate its purchase of the Property as provided herein, Buyer, as its sole and exclusive remedy, may either (i) terminate this Agreement in its entirety by delivery of notice of termination to Seller, whereupon if Seller's default was willful, Buyer shall be entitled to be reimbursed by Seller for actual third-party costs (as evidenced by paid invoices therefor) incurred by Buyer in connection with this Agreement and Buyer's due diligence activities hereunder, up to a maximum reimbursement of One Hundred Thousand Dollars ($100,000), or (ii) enforce Seller's obligations under this Agreement by means of an action for specific performance and continue this Agreement pending Buyer's action for specific performance hereunder provided appropriate proceedings are promptly commenced by Buyer and prosecuted with diligence and continuity. In the event of any termination by Buyer pursuant to this Section, this Agreement shall be and become null and void, neither party shall have any further rights or obligations hereunder (other than obligations which by the express terms of this Agreement are to survive termination hereof), and all executed counterparts of this Agreement shall be returned to Seller.

IN FURTHERANCE OF THE PROVISIONS OF SECTION 5.2 OF THIS AGREEMENT GRANTING TO BUYER THE REMEDY OF SPECIFIC PERFORMANCE, SELLER ACKNOWLEDGES AND AGREES THAT (1) DUE TO THE UNIQUE AND IRREPLACEABLE CHARACTER OF THE PROPERTY, BUYER CAN NOT BE ADEQUATELY COMPENSATED FOR SELLER'S BREACH OF THIS AGREEMENT BY THE AWARD OF MONEY DAMAGES, (2) THE GRANTING OF THE REMEDY OF SPECIFIC PERFORMANCE TO BUYER WOULD NOT WORK AN UNDUE HARDSHIP ON SELLER AND WOULD BE A JUST AND REASONABLE REMEDY FOR SELLER'S BREACH OF THIS AGREEMENT, (3) SUPERVISION BY A COURT OVER PERFORMANCE OF SELLER'S OBLIGATIONS UNDER THIS AGREEMENT WOULD NOT BE IMPRACTICAL OR IMPOSSIBLE AND (4) THE TERMS OF THIS AGREEMENT ARE NOT UNCONSCIONABLE OR ILLEGAL AND ARE NOT THE RESULT OF FRAUD, UNFAIR PRACTICES OR MISTAKE. ACCORDINGLY, SELLER HEREBY EXPRESSLY WAIVES ANY DEFENSES OR PLEADINGS AVAILABLE TO SELLER IN CONNECTION WITH THE EXERCISE OF BUYER'S REMEDY OF SPECIFIC PERFORMANCE, INCLUDING, WITHOUT LIMITATION, THE ADEQUACY OF MONEY DAMAGES, AND

AGREES THAT BUYER'S REMEDY OF SPECIFIC PERFORMANCE IS A JUST AND REASONABLE REMEDY COMMENSURATE WITH THE INTENTIONS OF THE PARTIES HEREUNDER. BY SEPARATELY EXECUTING THIS SECTION BELOW, SELLER ACKNOWLEDGES THAT IT HAS READ AND UNDERSTOOD THE ABOVE PROVISIONS REGARDING SPECIFIC PERFORMANCE, AND THAT SELLER WAS REPRESENTED BY COUNSEL WHO EXPLAINED THE CONSEQUENCES OF SUCH PROVISIONS AT THE TIME THIS AGREEMENT WAS EXECUTED.

SELLER'S INITIALS: WHR

6. Closing and Escrow.

6.1 Escrow Instructions. Upon execution of this Agreement, the parties hereto shall deposit a copy of an executed counterpart of this Agreement with Escrow Holder and this instrument shall serve as the instructions to Escrow Holder for consummation of the purchase and sale contemplated hereby. For purposes of this Agreement, the escrow (**"Escrow"**) shall be deemed opened on the date Escrow Holder shall have received a fully executed original or originally executed counterparts of this Agreement from Seller and Buyer (the **"Opening of Escrow"**), and Escrow Holder shall notify Buyer and Seller, in writing, of the date Escrow is opened. Seller and Buyer agree to execute such additional and supplementary escrow instructions as may be appropriate to enable the Escrow Holder to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplementary escrow instructions, the terms of this Agreement shall control.

6.2 Date of Closing. Unless otherwise agreed to in writing by the parties or as otherwise provided for herein, the closing of the Escrow (**"Closing"**) shall occur on June 23, 2005 (the **"Closing Date"** or **"Close of Escrow"**), with time being of the essence. Such Closing Date may not be extended without the prior written approval of both Seller and Buyer, except as otherwise expressly provided in this Agreement. In the event the Closing does not occur on or before the Closing Date, the Escrow Holder shall, unless it is notified by both parties to the contrary prior to the actual date on which the Closing occurs, return to the depositor thereof items which may have been deposited hereunder. Any such return shall not, however, relieve either party hereto of any liability it may have for its wrongful failure to close.

6.3 Conveyance. At Closing, Seller shall convey to Buyer fee simple title to the Property (excluding the Personal Property), by means of a grant deed in substantially the form of Exhibit D attached hereto and made a part hereof (**"Grant Deed"**), subject to all applicable laws, rules, regulations, codes, ordinances and orders, those title exceptions and survey matters approved (or deemed approved) by Buyer in accordance with the provisions of Section 4.1 and any title exceptions caused by Buyer, its agents, representatives or employees, all non-delinquent real estate taxes and assessments for the then applicable tax fiscal year in which the Closing occurs, and general real estate taxes and assessments for subsequent years not yet due and payable. The Closing shall mean the date that the Grant Deed is recorded in the Official Records, possession of the Property is made available to Buyer, and Buyer fulfills all of its obligations hereunder. Seller shall take such action as is reasonably necessary to convey fee title to the Property as required by this section, including removing liens and other matters as required by the last sentence of Section 4.1.3 and curing any defaults of Seller of its obligations under this Agreement and if after so doing Seller cannot so deliver title to the Property to Buyer, Buyer may, at its option, take title to the Property in such condition as Seller can then convey, without abatement of the Purchase Price or, at Buyer's option, Buyer may deliver the Buyer's Closing Conditions Failure Notice pursuant to Section 4.3 above.

6.4 Closing Documents.

6.4.1 Seller's Closing Payments and Documents. At Closing, in addition to the Grant Deed, Seller shall deliver to Buyer, or Escrow Holder for delivery to Buyer, all of the following documents: (i) four (4) counterparts of a Bill of Sale (the **"Bill of Sale"**) for the Personal Property in substantially the form attached hereto as Exhibit E and made a part hereof, duly executed by Seller; (ii) four (4) counterparts of the Assignment and Assumption of Intangibles, Intellectual Property and Assumed Contracts (the **"Assignment and Assumption of Intangibles, Intellectual Property and Assumed Contracts"**) in substantially the form attached hereto as Exhibit C, duly executed by Seller; (iii) a certificate of non-foreign status in accordance with the requirements of Internal Revenue Code Section 1445, as amended (the **"FIRPTA Certificate"**) and a California Form 593-W with respect

to the Property, duly executed by Seller; (iv) if applicable as provided in Section 7 below, the Personnel Agreement (as defined below); (v) the Allocation Agreement (as defined below); (vi) the Transition Services Agreement; and (vii) such other documents and instruments as may be reasonably required by the Title Company, the Master Developer or the City to consummate the transaction contemplated herein. At Closing, Escrow Holder shall pay all then-delinquent property taxes assessed against the Property out of proceeds of the Escrow allocated to Seller. At Closing, Seller shall tender possession to Buyer all of the Personal Property, which shall be located on the Real Property.

6.4.2 Buyer's Closing Payments and Documents. At Closing, in addition to Buyer's payment to Seller of the Purchase Price, Buyer shall deliver to Seller or Escrow Holder for delivery to Seller, as applicable, the following: (i) four (4) counterparts of the Assignment and Assumption of Intangibles, Intellectual Property and Assumed Contracts in substantially the form attached hereto as Exhibit C, duly executed by Buyer; (ii) four (4) counterparts of the Bill of Sale in substantially the form attached hereto as Exhibit E, duly executed by Buyer; (iii) if applicable, the Personnel Agreement; (iv) the Allocation Agreement; (v) the Transition Services Agreement; and (vi) such other documents and instruments as may be reasonably required by the Title Company, the Master Developer or the City to consummate the transaction contemplated herein.

7. Employees. The provisions of Sections 7.1 and 7.2 shall survive the Closing.

7.1 Hired Personnel. The parties intend that following the Closing, Seller shall terminate, and, subject to provisions of applicable law, Buyer shall offer employment, on an "at-will" basis, to those of Seller's employees identified on Exhibit G-1 attached hereto (the **"Hired Personnel"**). Provided, however, for any Hired Personnel on leave of absence on the Closing, Buyer shall not be required to offer employment unless and until such Employee returns to work within six months of the Closing. The Hired Personnel shall continue to be employed by Seller for a period after the Closing Date sufficient to satisfy the notice requirements of the California Workers Adjustment and Retraining Notification Act and/or any similar Federal statute (collectively, the **"WARN Act"**) and Seller shall make available or otherwise secund the services of such Hired Personnel to Buyer for such period, on the terms identified in and pursuant to the Agreement to Provide Personnel attached hereto as Exhibit H (the **"Personnel Agreement"**). Upon expiration of such period (the **"Hire Date"**), Seller shall terminate, and Buyer shall offer employment to, the Hired Personnel. Seller's employees identified on Exhibit G-2 shall remain employees of Seller following the Closing. Further, following the Closing, Buyer may offer employment to Seller's employees identified on Exhibit G-3 in accordance with the guidelines attached hereto as Schedule G-3-1.

7.2 Personnel Files. On or within seven (7) business days following the Closing, Seller shall deliver to Buyer copies of all personnel file documents relating to the Hired Personnel, including all I-9 documentation, but excluding any medical information relating to such Hired Personnel.

8. ADT Allocation and Incentive Amendment.

a. Pursuant to that certain Ocean Ranch Average Daily Trip Allocation Agreement dated December 18, 2002 and recorded in the Official Records on December 23, 2002 as Document No. 2002-1177095 (the **"ADT Agreement"**), the Real Property and certain other real property owned by Seller and located adjacent to the Real Property and commonly known as Lots 19 and 20 (collectively, **"Lots 19 /20"**) have been allocated, in the aggregate, 10,890 "average daily trips" relative to the development of the Real Property and Lots 19/20 (the **"ADTs"**). At Closing, the parties shall execute, deliver and cause to be recorded in the Official Records that certain Allocation Agreement in the form attached hereto as Exhibit I (the **"Allocation Agreement"**), pursuant to which the ADTs will be re-allocated between the Real Property and Lots 19/20.

b. Prior to Closing, but not as a condition thereto, Seller shall reasonably cooperate with Buyer to effect an amendment to the Incentive Agreement, or to obtain from the City such reasonable assurances, to the effect that, after Closing, the Incentive Agreement will apply only to the Real Property. Seller acknowledges that the Incentive Agreement was not intended to benefit Lots 19/20.

c. Each party shall be entitled to rebates fairly allocable to personal property taxes actually paid by such party pursuant to the terms of the Incentive Agreement. To the extent that a party receives a rebate properly

attributable to the other party, such rebate shall be promptly paid to the party entitled thereto. The provisions of this Section 8(c) shall expressly survive the Closing.

9. Seller's Maintenance of the Property. Between the Agreement Date and the Closing Date, Seller shall maintain the Property in substantially the same manner as prior hereto in accordance with Seller's normal course of business, subject to reasonable wear and tear and further subject to the occurrence of any damage or destruction to the Property by casualty or other causes or events beyond the control of Seller; provided, however, that such Seller's maintenance obligations under this Section 9 shall not include any obligation to make capital expenditures or any other expenditures not incurred in Seller's normal course of business. Notwithstanding the foregoing, in the event Seller makes emergency capital expenditures after the Agreement Date to the Property, Seller shall deliver to Buyer promptly following the occurrence of an event that would require Seller to make such emergency capital expenditure, a written notice describing in reasonable detail the nature and cost of such emergency capital expenditure, and Buyer shall be obligated to reimburse Seller for such emergency capital expenditures, and the Purchase Price payable at the Closing shall be increased by an amount equal to the amount spent by Seller in respect of such emergency capital expenditure. For purposes of this Agreement, **"emergency capital expenditures"** shall mean any emergency capital expenditures performed by Seller that are reasonably necessary to prevent an immediate threat to the health or safety of any person which must be commenced prior to the Closing in order to protect the health or safety of any person and which have been approved by Buyer which approval shall not be unreasonably withheld or delayed. Seller hereby agrees for the period through and including the Closing and at Seller's sole cost and expense, to use reasonable efforts to comply with all governmental regulations applicable to the Property. Seller will not, without the prior written consent of Buyer, convey any interest in the Property, and Seller will not subject the Property to any additional liens, encumbrances, covenants, conditions, easements, rights of way or similar matters after the date of this Agreement which will not be eliminated prior to Closing, except as required by law. Seller's obligations under this Section 9 shall survive the Closing. As set forth in the Transition Services Agreement, Seller agrees to diligently pursue in accordance with all laws, license requirements and regulations all actions necessary to decommission those areas of the Property which are subject to that certain Radioactive Materials License No. 4987.

10. Casualty and Condemnation. In the event there is any damage to the Real Property or destruction of any Improvements or condemnation of any portion of the Property after the Agreement Date, Buyer shall be required to purchase the Property with a credit against the Purchase Price otherwise due hereunder equal to the amount of any insurance proceeds or condemnation awards actually collected by Seller prior to the Closing as a result of any such damage or destruction or condemnation, plus the amount of any insurance deductible or any uninsured amount or retention, less any sums expended by Seller prior to the Closing for the restoration or repair of the Property and/or in collecting such insurance proceeds or condemnation awards. Seller agrees that it will maintain its present casualty insurance policy with respect to the Property in full force and effect until the Closing. If the insurance proceeds or condemnation awards have not been collected as of the Closing, then such proceeds or awards shall be assigned to Buyer, except to the extent needed to reimburse Seller for sums it expended prior to the Closing for the restoration or repair of the Property or in collecting such insurance proceeds or condemnation awards.

Notwithstanding the foregoing, if the Property shall be damaged or destroyed by a casualty or shall be condemned, and if either (i) the cost of repair or restoration to substantially the same condition existing prior to such casualty (or, in the case of a condemnation, the value of the Property or portion thereof so condemned) would exceed an amount equal to ten percent (10%) of the Purchase Price, or (ii) such repair or restoration to substantially the same condition existing prior to such casualty or condemnation is reasonably estimated by Buyer to take more than six (6) months from the date of the occurrence of such condemnation or casualty, and in the reasonable opinion of Buyer, such damage or condemnation would materially impede or delay the commencement of production operations for which the Property is intended to be used by Buyer in a manner that materially frustrates Buyer's business objectives for acquiring the Property, then Seller shall give Buyer prompt notice thereof and the Buyer may, at its option to be exercised by delivery of written notice to Seller within fifteen (15) business days of Seller's notice to the Buyer of the occurrence of such casualty or condemnation, elect not to purchase the Property under this Agreement. If Buyer so duly elects not to purchase the Property, this Agreement shall terminate and neither party shall have any further rights or obligations under this Agreement other than Buyer's and Seller's Post-Termination Obligations. Any dispute as to the costs of such repair or restoration or value of a condemned portion of the Property shall be referred

to a licensed general contractor experienced in constructing projects such as the Improvements jointly selected by Buyer and Seller for resolution, and the determination of such general contractor, which shall be made within a period of twenty (20) days after such submittal by the parties, shall be final, conclusive and binding on the parties. If the parties shall fail to agree upon the identity of such general contractor within five (5) business days after either party has notified the other of its choice of general contractor, then either party may at any time thereafter apply to a court of competent jurisdiction to immediately appoint such general contractor. The fees and expenses of such general contractor shall be paid equally by Buyer and Seller, and the parties shall cooperate with such general contractor by providing such information as such general contractor may reasonably require to resolve the dispute. If Buyer does not elect, in writing, not to purchase the Property, Buyer shall be obligated to consummate the purchase of the Property as required by the terms hereof.

11. Limited Liability. Buyer on its own behalf and on behalf of its agents, members, partners, employees, representatives, related and affiliated entities, successors and assigns (collectively, the "Buyer Parties") hereby agrees that in no event or circumstance shall any of the members, partners, employees, representatives, officers, directors, agents, property management company, affiliated or related entities of Seller, have any personal liability under this Agreement. Seller on its own behalf and on behalf of its agents, members, partners, employees, representatives, related and affiliated entities, successors and assigns (collectively, the "Seller Parties") hereby agrees that in no event or circumstance shall any of the members, partners, employees, representatives, officers, directors, agents, property management company, affiliated or related entities of Buyer, have any personal liability under this Agreement.

12. Release. Subject to the limitation stated in Section 13.3 effective upon the Closing, Buyer on its own behalf and on behalf of each of the Buyer Parties hereby agrees that each of Seller, Seller's partners or members, as the case may be, and each of their partners, members, trustees, directors, officers, employees, representatives, property managers, asset managers, agents, attorneys, affiliated and related entities, heirs, successors and assigns (collectively, the **"Releasees"**) shall be, and are hereby, fully and forever released and discharged from any and all liabilities, losses, claims (including third party claims), demands, damages (of any nature whatsoever), causes of action, costs, penalties, fines, judgments, attorneys' fees, consultants' fees and costs and experts' fees (collectively, the **"Claims"**) with respect to any and all Claims, whether direct or indirect, known or unknown, foreseen or unforeseen, that may arise on account of or in any way be connected with the design, physical, environmental and structural condition of the Property, or operation of the Property, or any law or regulation applicable thereto, including, without limitation, any Claim or matter (regardless of when it first appeared) relating to or arising from (i) the presence of any environmental problems, or the use, presence, storage, release, discharge, or migration of Hazardous Materials on, in, under or around the Property regardless of when such Hazardous Materials were first introduced in, on or about the Property, (ii) any patent or latent defects or deficiencies with respect to the Property, or (iii) the presence, release and/or remediation of asbestos and asbestos containing materials in, on or about the Property regardless of when such asbestos and asbestos containing materials were first introduced in, on or about the Property (the **"Released Claims"**). Effective as of the Closing, Buyer hereby waives and agrees not to commence any action, legal proceeding, cause of action or suits in law or equity, of whatever kind or nature, including, but not limited to, a private right of action under the federal superfund laws, 42 U.S.C. Sections 9601 et seq. and California Health and Safety Code Sections 25300 et seq. (as such laws and statutes may be amended, supplemented or replaced from time to time), directly or indirectly, against the Releasees or their agents in connection with the Released Claims described above and expressly waives the provisions of Section 1542 of the California Civil Code which provides:

> **"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR"**

and all similar provisions or rules of law. Buyer elects to and does assume all risk for such Released Claims heretofore and hereafter arising, whether now known or unknown by Buyer. In this connection and to the greatest extent permitted by law, Buyer hereby agrees, represents and warrants that Buyer realizes and acknowledges that factual matters now unknown to it may have given or may hereafter give rise to causes of action, claims, demands, debts, controversies, damages, costs, losses and expenses which are presently unknown, unanticipated and

unsuspected, and Buyer further agrees, represents and warrants that the waivers and releases herein have been negotiated and agreed upon in light of that realization and that Buyer nevertheless hereby intends to release, discharge and acquit Seller from any such unknown Claims, debts, and controversies which might in any way be included as a material portion of the consideration given to Seller by Buyer in exchange for Seller's performance hereunder. Without limiting the foregoing, if Buyer has actual knowledge of any breach or inaccuracy in any representation of Seller made in this Agreement, and Buyer nonetheless elects to proceed to Closing, then, upon the consummation of the Closing, Buyer shall be conclusively deemed to have waived any such default and/or breach or inaccuracy and shall have no Claim against Seller or hereunder with respect thereto. Notwithstanding anything to the contrary herein, Seller shall not have any liability whatsoever to Buyer with respect to any matter disclosed to or discovered by Buyer or its agents or representatives prior to the Closing Date.

Without limiting the generality of the foregoing, Buyer hereby expressly waives, releases and relinquishes any and all claims, causes of action, rights and remedies Buyer may now or hereafter have against Seller, and the affiliates, directors, officers, attorneys, employees, partners, shareholders and agents of Seller, whether known or unknown, under any Environmental Law(s) (as defined below), or common law, in equity or otherwise, with respect to (1) any past, present or future presence or existence of Hazardous Materials on, under or about the Property (including, without limitation, in the groundwater underlying the Property) or (2) any past, present or future violations of any Environmental Laws regarding the Property and any activities thereon. For the purposes of this Agreement, the term **"Environmental Laws"** means any and all federal, state and local statutes, ordinances, orders, rules, regulations, guidance documents, judgments, governmental authorizations, or any other requirements of governmental authorities, as may presently exist or as may be amended or supplemented, or hereafter enacted or promulgated, relating to the presence, release, generation, use, handling, treatment, storage, transportation or disposal of Hazardous Materials, or the protection of the environment or human, plant or animal health, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C.A. Section 9601 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. Section 1801 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. Section 6901 et seq.), the Federal Water Pollution Control Act (33 U.S.C. Section 1251 et seq.), the Clean Air Act (42 U.S.C. Section 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. Section 2601 et seq.), the Oil Pollution Act (33 U.S.C. Section 2701 et seq.), the Emergency Planning and Community Right-to-Know Act of 1986 (42 U.S.C. Section 11001 et seq.), the Porter-Cologne Water Quality Control Act (Cal. Wat. Code Section 13020 et seq.), the Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code Section 25249.5 et seq.), the Hazardous Waste Control Act (Cal. Health & Safe Code Section 25100 et seq.), the Hazardous Materials Release Response Plans & Inventory Act (Cal. Health & Safety Code Section 25500 et seq.), and the Carpenter-Presley-Tanner Hazardous Substances Account Act (Cal. Health & Safety Code, Section 25300 et seq.). As used herein, the term **"Hazardous Material(s)**" includes, without limitation, any hazardous or toxic material, substance, irritant, chemical or waste, which is (A) defined, classified, designated, listed or otherwise considered under any Environmental Law as a "hazardous waste," "hazardous substance," "hazardous material," "extremely hazardous waste," "acutely hazardous waste," "radioactive waste," "biohazardous waste," "pollutant," "toxic pollutant," "contaminant," "restricted hazardous waste," "infectious waste," "toxic substance," or any other term or expression intended to define, list, regulate or classify substances by reason of properties harmful to health, safety or the indoor or outdoor environment, (B) toxic, ignitable, corrosive, reactive, explosive, flammable, infectious, radioactive, carcinogenic or mutagenic, and which is or becomes regulated by any local, state or federal governmental authority, (C) asbestos, (D) an oil, petroleum, petroleum based product or petroleum additive, derived substance or breakdown product, (E) urea formaldehyde foam insulation, (F) polychlorinated biphenyls (PCBs), (G) freon and other chlorofluorocarbons, (H) any drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources, (I) lead-based paint and (J) mold, rot, fungi and bacterial matter.

Seller has given Buyer material concessions regarding this transaction in exchange for Buyer agreeing to the provisions of this Section 12. Seller and Buyer have each initialed this Section 12 to further indicate their awareness and acceptance of each and every provision hereof. The provisions of this Section 12 shall survive the Closing and shall not be deemed merged into any instrument or conveyance delivered at the Closing (if it occurs).

SELLER'S INITIALS: WHR **BUYER'S INITIALS:** ADL

13. AS-IS Condition of Property.

13.1 Buyer specifically acknowledges, represents and warrants that prior to Closing, it and its agents and representatives will have conducted such inspections of the Property as it determines are prudent and observed the physical characteristics and condition of the Property. Notwithstanding anything to the contrary contained in this Agreement, Buyer further acknowledges and agrees that Buyer is purchasing the Property subject to all applicable laws, rules, regulations, codes, ordinances and orders. By Buyer purchasing the Property and upon the occurrence of the Closing, but subject to the limitations contained in Section 13.3 and Seller's representations set forth in Section 26 hereof, Buyer waives any and all right or ability to make a claim of any kind or nature against any of the Releasees for any and all deficiencies or defects in the physical characteristics and condition of the Property which would be disclosed by such inspection and expressly agrees to acquire the Property with any and all of such deficiencies and defects and subject to all matters disclosed by Seller herein or in any separate writing with respect to the Property. Buyer further acknowledges and agrees that, subject to the limitations set forth in Section 13.3 and Seller's representations set forth in Section 26 hereof, neither Seller or any of Seller's employees, agents or representatives have made any representations, warranties or agreements by or on behalf of Seller of any kind whatsoever, whether oral or written, express or implied, statutory or otherwise, as to any matters concerning the Property, the condition of the Property, the size of the Real Property, the size of the Improvements, the present use of the Property or the suitability of the Property for Buyer's intended use thereof. Buyer hereby acknowledges, agrees and represents that, subject to the limitations set forth in Section 13.3 and Seller's representations set forth in Section 26 hereof, the Property is to be purchased, conveyed and accepted by Buyer in its present condition, "AS IS", "WHERE IS" AND WITH ALL FAULTS, and that no patent or latent defect or deficiency in the condition of the Property whether or not known or discovered, shall affect the rights of either Seller or Buyer hereunder nor shall the Purchase Price be reduced as a consequence thereof. Any and all information and documents furnished to Buyer by or on behalf of Seller relating to the Property shall be deemed furnished as a courtesy to Buyer but without any warranty of any kind from or on behalf of Seller. Buyer hereby represents and warrants to Seller that Buyer has performed an independent inspection and investigation of the Property and has also investigated and has knowledge of operative or proposed governmental laws and regulations including without limitation, land use laws and regulations to which the Property may be subject. Buyer further represents that, subject to the limitations set forth in Section 13.3 and Seller's representations set forth in Section 26 hereof, it shall acquire the Property solely upon the basis of its independent inspection and investigation of the Property, including without limitation, (i) the quality, nature, habitability, merchantability, use, operation, value, marketability, adequacy or physical condition of the Property or any aspect or portion thereof, including, without limitation, structural elements, foundation, roof, appurtenances, access, landscaping, parking facilities, electrical, mechanical, HVAC, plumbing, sewage, utility, manufacturing and pharmaceutical process systems, facilities and appliances, soils, geology and groundwater, or whether the Real Property lies within a special flood hazard area, an area of potential flooding, a very high fire hazard severity zone, a wildland fire area, an earthquake fault zone or a seismic hazard zone, (ii) the dimensions or lot size of the Real Property or the square footage of the Improvements thereon, (iii) the development or income potential, or rights of or relating to, the Real Property or its use, habitability, merchantability, or fitness, or the suitability, value or adequacy of such Real Property for any particular purpose, (iv) the zoning or other legal status of the Real Property or any other public or private restrictions on the use of the Real Property, (v) the compliance of the Property or its operation with any applicable codes, laws, regulations, statutes, ordinances, covenants, conditions and restrictions of any governmental or regulatory agency or authority or of any other person or entity (including, without limitation, the Americans With Disabilities Act), (vi) the ability of Buyer to obtain any necessary governmental approvals, licenses or permits for Buyer's intended use or development of the Property, (vii) the presence or absence of Hazardous Materials on, in, under, above or about the Real Property or any adjoining or neighboring property, (viii) the quality of any labor and materials used in any Improvements or equipment, (ix) the condition of title to the Property, (x) the Assumed Contracts or any other agreements affecting the Property, (xi) Seller's ownership of the Property or any portion thereof, or (xii) the economics of, or the income and expenses, revenue or expense projections or other financial matters, relating to the operation of the Property. Without limiting the generality of the foregoing, Buyer expressly acknowledges and agrees that Buyer is not relying on any representation or warranty of Seller, nor any member partner, officer, employee, attorney, property manager, agent or broker of Seller, whether implied, presumed or expressly provided at law or otherwise, arising by virtue of any statute, common law or other legally binding right or remedy in favor of Buyer, subject to the limitations set forth in Section 13.3 and Seller's representations set forth in Section 26 hereof. Buyer further acknowledges and agrees that

Seller is not under any duty to make any inquiry regarding any matter that may or may not be known to the Seller or any member, partner, officer, employee, attorney, property manager, agent or broker of Seller.

SELLER'S INITIALS: WHR **BUYER'S INITIALS:** ADL

13.2 Any reports, repairs or work required by Buyer are the sole responsibility of Buyer, and (except as may be required under Section 3 and Section 9 above) Buyer agrees that there is no obligation on the part of Seller to make any changes, alterations or repairs to the Property or to cure any violations of law or to comply with the requirements of any insurer. Buyer is solely responsible for obtaining any approval or permit necessary for transfer or occupancy of the Property and for any repairs or alterations necessary to obtain the same, all at Buyer's sole cost and expense. The provisions of this Section 13 shall survive the Closing and shall not be deemed merged into any instrument or conveyance delivered at the Closing (if it occurs).

13.3 No release or waiver by Buyer set forth in Sections 12 or 13.1 above shall be read, construed or interpreted as a release or waiver of: (a) Seller's performance of its covenants under this Agreement; (b) any fraud by Seller in connection with this Agreement; (c) Seller's continuing obligations under the Confidentiality Agreement (as defined in Section 22 below), or with respect to Section 16 (Brokers), and Section 25 (Dispute Costs); and (d) any obligations by Seller to Buyer pursuant to any other past, present or future agreement or contract between the parties which has not been integrated into this Agreement pursuant to Section 18 below.

14. Prorations. Seller shall be liable for all real and personal property taxes and assessments (**"Property Taxes"**), water, sewer and utility charges and amounts payable under the Assumed Contracts (calculated on the basis of the period covered), and other expenses normal to the operation and maintenance of the Property ("Property Expenses"), attributable to periods (or portions thereof) ending on or prior to the Closing Date and responsibility for property and sales tax filings, administration and examinations for such period shall rest with Seller, and Buyer shall be liable for any such Property Taxes and Property Expenses attributable to periods (or portions thereof) commencing on or after the Closing Date and responsibility for property and sales tax filings, administration and examinations for such period shall rest with Buyer. All such Property Taxes and Property Expenses shall be prorated for any period that includes the Closing Date on a per diem basis and on the basis of a 365-day year. The initial proration of Property Taxes will be based on the most recent official tax bills available to Seller for the fiscal year in which the Close of Escrow occurs, and to the extent that such tax bills do not accurately reflect the actual Property Taxes assessed against the Property (or any portion of the Property), then Buyer and Seller shall adjust such actual Property Taxes between Buyer and Seller, outside of Escrow, in accordance with this Section 14, as soon as reasonably possible following the Close of Escrow. The prorations and adjustments provided for above shall be made on the basis of a written statement prepared by Escrow Holder and approved by Buyer and Seller. At least three (3) business days prior to the Closing, Escrow Holder, using information provided by the parties, shall provide Buyer and Seller with a preliminary Escrow closing statement (the **"Escrow Closing Statement"**), together with backup documentation substantiating the prorations provided for and the calculations performed, in order that Buyer and Seller may verify Escrow Holder's methods and calculations. In the event any prorations made pursuant hereto shall prove incorrect for any reason whatsoever, either party shall be entitled to an adjustment to correct the same provided that it makes written demand on the other within thirty-six (36) months after the Closing, provided, however, that such limitation that demand be made within thirty-six (36) months after the Closing shall not apply to any adjustment requested by a party that is required based upon inaccurate or incomplete information provided by the other party to the taxing authorities. If and to the extent the Escrow Holder requires any information or instruction from Buyer and Seller in order to perform such prorations, then Buyer and Seller shall furnish Escrow Holder with further mutual instructions. In the event any of the aforesaid prorations and adjustments cannot be calculated accurately on the Closing Date, then the same shall be calculated as soon as reasonably practicable after the Closing and either party owing the other party a sum of money based on such subsequent prorations or adjustments shall pay said sum to the other party within thirty (30) days thereafter. Prorations under this Section 14 shall be made as of 12:01 a.m. on the Closing Date, as if Buyer was vested with title to the Property during the entire day upon which the Close of Escrow occurs. After Closing, Seller further agrees to cooperate with Buyer with respect to any of the prorations and sales tax filings, administration and examinations described herein and Seller and Buyer agree to cooperate and share information to the extent necessary for such prorations and sales tax filings, administration and examinations described herein. The provisions of this Section 14 shall survive the Closing.

15. Closing Costs. Except as expressly set forth herein, all costs associated with the transfer of title and the associated escrow shall be in accordance with the customary practices in San Diego County. Seller shall pay (i) one-half (1/2) of the escrow fee charged by Escrow Holder, (ii) the cost of the documentary county transfer taxes applicable to the transfer of the Real Property and Improvements, (iii) the premium charged by the Title Company for the CLTA Title Policy (excluding any endorsements thereto), and (iv) one-half (1/2) of any sales tax associated with the transfer of any Personal Property that constitutes tangible personal property for California sales and use tax purposes (which amount shall be determined prior to Closing). At Closing, Buyer shall obtain from the Title Company a CLTA Owner's Policy of Title Insurance in the amount of the Purchase Price insuring fee simple title to the Property in Buyer (the **"CLTA Title Policy"**). Buyer may elect to cause the Title Company to issue an ALTA Owner's Policy of Title Insurance (Form 1992) (the **"ALTA Policy"**) provided such election does not delay the Closing. At Closing, Buyer shall pay (i) one-half (1/2) of the escrow fee charged by Escrow Holder, (ii) the cost of any and all costs and incremental premiums or other charges related to the ALTA Policy (including all endorsements thereto) in excess of the cost of the CLTA Title Policy, and (iii) one-half (1/2) of any sales tax associated with the transfer of any Personal Property that constitutes tangible personal property for California sales and use tax purposes (which amount shall be determined prior to Closing). Each party shall be solely responsible for its own legal fees and costs. Upon the Closing, the Escrow Holder shall release to Seller the amounts deposited for payment of sales tax associated with the transfer of the Personal Property and Seller shall timely prepare and file all sales and use tax returns in connection with the purchase and sale of the Personal Property and shall timely pay all such sales and use taxes to the appropriate taxing authorities when due. Buyer and Seller shall use commercially reasonable efforts, to the extent permitted by law, to reduce any applicable sales and use taxes. Such cooperation shall include (i) the delivery of appropriate resale certificates by Buyer, (ii) the parties obtaining applicable exemption certificates, and (iii) Seller transferring Intangibles to Buyer by remote electronic transmission or other reasonable means of transferring Intangibles capable of being so transferred in other than tangible form.

16. Brokers. Seller and Buyer respectively represent that there are no brokers or other intermediaries entitled to receive brokerage commissions or fees or other compensation out of or with respect to the sale of the Property. Seller and Buyer shall indemnify and save and hold each other harmless from and against all claims, suits, damages and costs incurred or resulting from the claim of any person that a commission, fee or remuneration is due in connection with this transaction pursuant to a written agreement made with said claimant. The provisions of this Section 16 shall survive the Closing or any termination of this Agreement.

17. Notices. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered by U.S. mail, registered or certified, return receipt requested, postage prepaid, or by overnight delivery service showing receipt of delivery, or by personal delivery, or by facsimile transmission. Such notices shall be sent to the parties at the following addresses, or such other address as may otherwise be indicated by any such party in writing.

If to Seller:

Biogen Idec Inc.
14 Cambridge Center
Cambridge, Massachusetts 02142
Attention: Michael Kowolenko Senior Vice President - Pharmaceutical Operations & Technologies
Phone Number: 617 679-2420
Facsimile Number: 617 679-2615

with a copy to:

Biogen Idec Inc.
5200 Research Place
San Diego, California 92122
Attention: Jo Ann Taormina, Esq.
Associate General Counsel
Phone Number: 858 401-8219
Facsimile Number: 858 431-8887

If to Buyer:	Genentech, Inc. One DNA Way, Mail Stop 49 South San Francisco, CA 94080 Attention: Steve Juelsgaard, Corporate Secretary Phone number: 650 225-1000 Facsimile number: 650 225-8654
with a copy to:	Genentech, Inc One DNA Way, Mail Stop 87 South San Francisco, CA 94080 Attention: Patrick Yang, Senior Vice President Product Operations Phone number: 650 225-1000 Facsimile number: 650 225-5007

Notices as aforesaid shall be effective upon the earlier of actual receipt, or twenty-four (24) hours after deposit with the messenger or delivery service, or the next business day after delivery to an overnight delivery service, or within three (3) days after the deposit in the U.S. mail, or upon confirmation of transmission by facsimile, or when receipt is refused.

18. Drafting Ambiguities. The parties acknowledge that each party and/or its counsel have reviewed and revised this Agreement and that no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation or enforcement of this Agreement or any amendments or exhibits to this Agreement or any document executed and delivered by either party in connection with this Agreement.

19. Assignment. Buyer may not assign its rights, obligations and interest in this Agreement to any other person or entity without first obtaining Seller's prior written consent thereto, which consent may be withheld in its sole discretion. Buyer may assign its interest in this Agreement to an entity controlled by, under common control with, or controlling Buyer without Seller's consent. In no event shall any assignment relieve Buyer from any liability or its obligations under or in connection with this Agreement. Any attempted assignment not in compliance with the provisions of this Section 19 shall be null and void. This Agreement shall inure to the benefit of and be binding upon the parties to this Agreement and their respective successors and permitted assigns.

20. Severability. If for any reason, any provision of this Agreement shall be held to be unenforceable, it shall not affect the validity or enforceability of any other provision of this Agreement and to the extent any provision of this Agreement is not determined to be unenforceable, such provision, or portion thereof, shall be, and remain, in full force and effect.

21. California Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

22. Entire Agreement/Modifications/Survival. Any and all exhibits and schedules attached hereto shall be deemed a part hereof. Except for that certain Mutual Confidentiality Agreement dated May 6, 2005 between Buyer and Seller (the **"Confidentiality Agreement"**), this Agreement, including exhibits and schedules, expresses the entire agreement of the parties and supersedes any and all previous agreements between the parties with regard to the Property, including without limitation, that certain letter of intent, dated May 19, 2005. There are no other understandings, oral or written, which in any way alter or enlarge its terms, and there are no warranties or representations of any nature whatsoever, either expressed or implied, except for the Confidentiality Agreement and except as may expressly be set forth herein. Except as otherwise expressly provided in this Agreement to the contrary, at the Closing, all of Seller's representations (if any) made herein shall be deemed merged into the Grant Deed and shall be of no further force or effect. Any and all future modifications of this Agreement will be effective only if it is in writing and signed by the parties hereto. The terms and conditions of such future modifications of this Agreement shall supersede and replace any inconsistent provisions in this Agreement.

23. Confidentiality. The Confidentiality Agreement shall govern the confidentiality of the transaction

contemplated by, and the information disclosed in or pursuant to, this Agreement. Notwithstanding the foregoing, Seller acknowledges and agrees that Buyer may record a memorandum of this Agreement in the Official Records of San Diego County, California upon execution of this Agreement by Buyer and Seller on the condition that Buyer shall have delivered into Escrow prior to recording any such memorandum an executed and notarized quitclaim deed sufficient to terminate such memorandum, and, Buyer hereby authorizes Escrow Holder to release and record any such quitclaim deed, at Buyer's expense, upon any termination of this Agreement by Buyer or Seller pursuant to the provisions hereof.

24. Counterparts. This Agreement may be executed in counterparts. All executed counterparts shall constitute one agreement, and each counterpart shall be deemed an original. Buyer and Seller agree that the delivery of an executed copy of this Agreement by facsimile shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Agreement had been delivered.

25. Dispute Costs. In the event any dispute between the parties with respect to this Agreement result in litigation or other proceeding, the prevailing party shall be reimbursed by the party not prevailing in such proceeding for all reasonable costs and expenses, including, without limitation, reasonable attorneys' and experts' fees and costs incurred by the prevailing party in connection with such litigation or other proceeding and any appeal thereof. Such costs, expenses and fees shall be included in and made a part of the judgment recovered by the prevailing party, if any. The provisions of this Section 25 shall survive any termination of this Agreement or the Closing.

26. Seller's Representations. Seller hereby represents to Buyer that the following matters are true and correct as of the date of its execution of this Agreement and shall, except as otherwise disclosed in writing by Seller to Buyer, be true and correct as of the Closing:

26.1 Due Authorization. This Agreement and all documents executed by Seller that are to be delivered to Buyer at Closing (i) are, or at the time of Closing will be, duly authorized, executed and delivered by Seller, (ii) do not, and at the time of Closing will not, violate any provision of any judicial order to which Seller is a party or to which Seller or the Property is subject that would materially adversely affect or prevent the performance of Seller's obligations under this Agreement; and (iii) constitute (or in the case of Closing documents will constitute) a valid and legally binding obligation of Seller. Seller has full and complete power and authority to enter into this Agreement and, subject to obtaining the waiver of the Master Developer Option identified in Section 1 above, to perform its obligations hereunder. The individuals executing this Agreement and the instruments referenced herein on behalf of Seller have the legal power, right, and actual authority to bind Seller to the terms and conditions hereof and thereof.

26.2 Litigation. To Seller's actual knowledge, Seller has not received written notice of any pending or threatened judicial or administrative proceedings against Seller with respect to Seller's use or ownership of the Property that could reasonably be expected to materially adversely affect the Property or Seller's interest therein to be transferred pursuant to this Agreement.

26.3 Condemnation. To Seller's actual knowledge, Seller has received no written notice from the City, or any county, state or other government authority of any threat of impending actions in condemnation or eminent domain with respect to the Property (or any portion thereof).

26.4 Qualification/Validation Documents. To Seller's actual knowledge, all of the documents identified on the attached Exhibit J which represent the state of qualification and validation of the material equipment and systems located at or on the Real Property and which form a part of the Improvements or are included in the Personal Property to be transferred to Buyer under this Agreement are true and correct in all material respects, and all validation testing of such equipment and systems has been performed using Seller's "Quality Systems" methodology in all material respects.

26.5 Foreign Person. Seller is not a **"foreign person"** within the meaning of Section 1445(f)(3) of the Internal Revenue Code, as amended.

26.6 Bankruptcy. Seller is not presently the subject of a bankruptcy, insolvency or probate proceedings

and Seller does not anticipate nor intend to file or cause to be filed any bankruptcy or insolvency proceeding involving the Property during the pendency of this Agreement.

26.7 Violation of Law. To Seller's knowledge, Seller has received no notices from any governmental agencies pertaining to present, material violations of law or governmental regulations with respect to the Property.

26.8 No Other Sale Contracts. Seller has not entered into any other contracts for the sale of the Property.

26.9 Agreement of Covenants. To Seller's knowledge, Seller has not violated and is not currently in violation of any of the provisions of the Agreement of Covenants dated September 1, 2000 between Master Developer and Seller.

26.10 Documents and Materials. To Seller's actual knowledge, Seller has made available to Buyer those documents and materials that Seller reasonably believes are material to the ownership or operation of the Property to the extent of Seller's operation thereof, to the extent the same are in Seller's possession, custody or control.

Buyer and Seller each specifically acknowledge and agree that all references in this Agreement, in any of the exhibits attached hereto and in any document, certificate or statement to be delivered by Seller to Buyer hereunder to the phrases "to Seller's actual knowledge," or "known to Seller" (whether used in the phrase "to the actual knowledge of Seller," "actually known to Seller," "Seller's knowledge," or in similar or other contexts) (1) shall mean the actual (not constructive or imputed) personal knowledge of (i) Seller's executive officers holding positions of senior vice president or above with Seller as of the Agreement Date and (ii) David Broad and Johannes Roebers, after appropriate inquiry of those persons directly responsible for knowledge of such matters that are the subject of Seller's representations (collectively, the **"Seller's Personnel"**); (2) shall in no case mean or refer to the actual or constructive knowledge of any other employee, partner, member, officer, director, agent, trustee or member, partner, representative or employee of a partner, member, officer, director, agent or other representative of Seller or any investment advisor, attorney, management company, contractor or representative of Seller (together with Seller's Personnel, the **"Seller Representatives"**); and (3) except as provided clause (1)(ii) above, shall in no event or circumstance impose upon Seller or any of the Seller Representatives any duty or obligation to verify, inquire or make any independent inquiry or investigation of any such representation, warranty or statement, or to otherwise investigate the facts or circumstances relating or otherwise pertinent thereto. Buyer further acknowledges and agrees that none of the Seller Representatives shall be personally liable, or otherwise have any personal liability, under or in connection with this Agreement, including without limitation, in connection with any of the representations, warranties or statements made in connection with, or pursuant to, this Agreement. Notwithstanding anything to the contrary contained herein, the foregoing representations of Seller made hereinabove shall survive the Closing, and shall not be deemed merged into the Grant Deed at the Closing, for a period of one (1) year after the Closing Date, after which time such representations and warranties shall be null and void and of no further force or effect except with respect to claims made by Buyer in writing delivered to Seller before the expiration of such one (1) year period.

27. Buyer's Representations. Buyer hereby represents and warrants to Seller that the following matters are true and correct as of the date of its execution of this Agreement and shall be true and correct as of the Closing:

27.1 Authorization. This Agreement and all documents executed by Buyer that are to be delivered to Seller at Closing (a) are, or at the time of Closing will be, duly authorized, executed and delivered by Buyer, (b) do not, and at the time of Closing will not, violate any provision of any judicial order to which Buyer is a party or to which Buyer is subject and (c) constitute (or in the case of Closing documents will constitute) a valid and legally binding obligation of Buyer.

27.2 Authority. Buyer has full and complete power and authority to enter into this Agreement and, subject to obtaining any consents or waivers required to be obtained prior to Closing, to perform its obligations hereunder.

27.3 Bankruptcy. Buyer is not presently the subject of a bankruptcy, insolvency or probate proceedings and Buyer does not anticipate nor intend to file or cause to be filed any bankruptcy or insolvency proceeding involving Buyer or Buyer's assets during the pendency of this Agreement.

27.4 Inspections. Prior to Closing, Buyer and its agents will have inspected the Property, fully observed the physical characteristics and condition of the Property, and performed such investigations of the suitability of Buyer's intended use of the Property, as Buyer has determined are prudent, including without limitation, the suitability of the topography; the availability of water rights or utilities; any natural hazard of any kind or nature, including without limitation, flood hazard, earthquake fault or seismic hazard, or forest fire risk or hazard; the present and future zoning, subdivision and any and all other land use matters; the condition of the soil, subsoil or groundwater of the Property and any and all other environmental matters; the purpose(s) to which the Property is suited; drainage; flooding; access to public roads; and proposed routes or roads or extensions relative to the Property. The foregoing representations and warranties of Buyer shall survive the Closing.

28. Time of the Essence; and Business Days. Time is of the essence in the performance of each of the parties' respective obligations contained herein. Unless the context otherwise requires, all periods terminating on a given day, period of days, or date shall terminate at 5:00 p.m. (Pacific Time) on such date or dates and references to **"days"** shall refer to calendar days except if such references are to **"business days"** which shall refer to days which are not a Saturday, Sunday or legal holiday. Notwithstanding the foregoing, if any period terminates on a Saturday, Sunday or legal holiday, under the laws of the State of California, the termination of such period shall be on the next succeeding business day. The time in which any act provided under this Agreement is to be done, shall be computed by excluding the first day and including the last day, unless the last day is a Saturday, Sunday or legal holiday under the laws of the State of California, and then it is also so excluded.

29. Agreement Date. The parties hereby covenant and agree that the **"Agreement Date"** shall be the date set forth on the first page of this Agreement. Escrow Holder shall execute and deliver to each of Seller and Buyer its acceptance of, and agreement to be bound by the instructions set forth in, this Agreement, in the form attached hereto for the signature of Escrow Holder. If either party fails to submit a signed and initialed counterpart of this Agreement to Escrow Holder within five (5) business days after the delivery to Escrow Holder by the other party of a signed and initialed original counterpart of this Agreement, then the party which delivered to Escrow Holder said signed and initialed counterpart of this Agreement may, at its option, withdraw such signed and initialed counterpart therefrom without any obligation to resubmit same to Escrow Holder thereafter.

30. No Third Party Beneficiaries. Except as otherwise expressly set forth herein, Seller and Buyer do not intend, and this Agreement shall not be construed, to create a third-party beneficiary status or interest in, nor give any third-party beneficiary rights or remedies to, any other person or entity not a party to this Agreement.

31. Discharge of Seller's Bonds. With respect to any performance bonds or other bonds relating to work in progress at the Property, deferred improvement agreements or street improvement agreements that are identified on Exhibit K (collectively, **"Seller's Bonds"**) that were paid for or otherwise procured by Seller and remain in effect after the Closing Date, Buyer shall on or prior to the Closing Date replace such Seller's Bonds with equivalent bonds procured by Buyer and cause Seller to be fully discharged and released from any and all liability or obligation under the Seller's Bonds.

32. Drafts not an Offer to Enter into a Legally Binding Contract. The parties hereto agree that the submission of a draft of this Agreement by one party to another is not intended by either party to be an offer to enter into a legally binding contract with respect to the purchase and sale of the Property. The parties shall be legally bound with respect to the purchase and sale of the Property pursuant to the terms of this Agreement only if and when the parties have been able to negotiate all of the terms and provisions of this Agreement in a manner acceptable to each of the parties in their respective sole discretion, including without limitation, all of the exhibits hereto, and each of Seller and Buyer have fully executed and delivered (or caused the delivery) to each other a counterpart of this Agreement, including without limitation, all exhibits hereto.

33. Natural Hazard Disclosure Requirement Compliance. Buyer and Seller acknowledge that Seller may be

required to disclose if the Property lies within the following natural hazard areas or zones: (i) a special flood hazard area designated by the Federal Emergency Management Agency (California Civil Code Section 1103(c)(1)); (ii) an area of potential flooding (California Government Code Section 8589.4); (iii) a very high fire hazard severity zone (California Government Code Section 51178 et seq.); (iv) a wild land area that may contain substantial forest fire risks and hazards (Public Resources Code Section 4135); (v) earthquake fault zone (Public Resources Code Section 2622); or (vi) a seismic hazard zone (Public Resources Code Section 2694) (sometimes all of the preceding are herein collectively called the **"Natural Hazard Matters"**). Seller has engaged or will cause the Title Company or such other company selected by Seller to engage the services of a natural hazard disclosure expert (the **"Natural Hazard Expert"**), to examine the maps and other information specifically made available to the public by government agencies for the purposes of enabling Seller to fulfill its disclosure obligations, if and to the extent such obligations exist, with respect to the natural hazards referred to in California Civil Code Section 1102.6a and to report the result of its examination to Buyer and Seller in writing. The written report prepared by the Natural Hazard Expert regarding the results of its full examination will fully and completely discharge Seller from its disclosure obligations referred to herein, if and to the extent any such obligations exist, and, for the purpose of this Agreement, the provisions of Civil Code Section 1102.4 regarding non-liability of Seller for errors or omissions not within its personal knowledge shall be deemed to apply and the Natural Hazard Expert shall be deemed to be an expert, dealing with matters within the scope of its expertise with respect to the examination and written report regarding the natural hazards referred to above.

34. Retention of Certain Materials. Effective as of the Closing, Seller is hereby granted a non-exclusive, royalty-free, perpetual license to retain copies of written materials comprising portions of the Personal Property conveyed to Buyer under this Agreement, to the extent Seller reasonably determines that retention of such copies is necessary or convenient for purposes of Seller's record-keeping or reporting requirements relating to the Property and/or for purposes of documenting and evidencing any activities conducted by Seller at the Property during Seller's period of ownership thereof.

35. Non-Solicitation of Employees. Seller and Buyer each agree that, effective as of the date of this Agreement, except as expressly contemplated under Section 7 above, Buyer shall not, directly or indirectly, solicit or recruit, without Seller's express written consent, Seller's employees identified on Exhibit G-2 and any of Seller's employees identified on Exhibit G-3 who do not accept an offer of employment from Buyer, for a period of one (1) year following August 16, 2005. In addition, for a period of one (1) year following August 16, 2005, Seller shall not, directly or indirectly, solicit or recruit, without Buyer's express written consent, those employees identified on Exhibit G-1 and any of those employees identified on Exhibit G-3 who accept an offer of employment from Buyer. Seller and Buyer agree that the foregoing provisions on non-solicitation of employees shall apply to all undertakings, agreements and transactions arising out of this Agreement or any of the other instruments, agreements or undertakings between the parties in connection herewith. In the event either party violates any provision of this Section 35, the violating party shall promptly pay to the other party for any person hired by such party as a result of violation of the provisions hereof, an amount equal to twenty-five percent (25%) of the annual base salary paid or offered to be paid by the violating party to any such employee. The parties confirm that the penalty for violating this Section 35 as described herein is intended to be the sole remedy for such violation. Notwithstanding the foregoing, the prohibition on solicitation set forth in this Section 35 does not apply to actions taken by such party solely as a result of an employee's affirmative response to a general recruitment effort carried out through a public solicitation or general solicitation, or solely as a result of an employee's own initiative. As used in this Section 35, "Buyer" shall also refer to and include any subsidiary of Buyer. The provisions of this Section 35 shall survive the Closing.

36. Purchase of TD Equipment. Not later than the Closing, Buyer shall designate such items of the "Process Development Equipment" identified as excluded Personal Property on Exhibit "B-2" as Buyer desires to purchase from Seller. Seller agrees to sell to Buyer such items at a price equal to the replacement value of such equipment and on such terms which are substantially the same as the terms and conditions of this Agreement for the sale of the Personal Property by Seller to Buyer, all to be negotiated in good faith promptly following the full execution and delivery of this Agreement for a period not to exceed thirty (30) days following the Agreement Date. The provisions of this paragraph shall survive the Closing.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF the parties have caused this Purchase and Sale Agreement and Joint Escrow Instructions to be executed as of the day and year first above written.

SELLER:

BIOGEN IDEC INC.,
a Delaware corporation

By: /s/ W H RASTETTER
Name: W H Rastetter
Title: Executive Chairman

BUYER:

GENENTECH, INC.,
a Delaware corporation

By: /s/ ARTHUR D. LEVINSON
Name: Arthur D. Levinson, Ph.D.
Title: Chairman and Chief Executive Officer

Acceptance by Escrow Holder:

First American Title Insurance Company hereby acknowledges that it has received originally executed counterparts or a fully executed original of the foregoing Agreement of Purchase and Sale and Joint Escrow Instructions and agrees to act as Escrow Holder thereunder and to be bound by and perform the terms thereof as such terms apply to Escrow Holder.

Dated: 6-17- , 2005

First American Title Insurance Company

By: /s/ LYNN GRAHAM
Name: Lynn Graham
Its: Authorized Agent

EXHIBIT A

LEGAL DESCRIPTION OF THE REAL PROPERTY

[Attached]

LEGAL DESCRIPTION

Real property in the City of Oceanside, County of San Diego, State of California, described as follows:

Parcel 1:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 5 of Ocean Ranch -- Phase 1 as shown on Map No. 14168 filed March 15, 2001 in the Office of the County Recorder of said San Diego County, together with those portions of Lots 7, 8 and 9 of Ocean Ranch -- Phase 1A as shown on Map No. 14291 filed November 6, 2001, in said Office of the County Recorder, described as follows:

Beginning at a point on the Easterly line of said Lot 7 distant thereon South 06 degrees 00'53" East 449.74 feet from the Northeast corner of said Lot; thence South 89 degrees 18'19" East 1149.98 feet to a point on the Easterly line of said Lot 9 distant thereon South 00 degrees 59'59" West 486.01 feet from the Northeast corner of said Lot; thence along said Easterly line South 00 degrees 59'59" West 43.33 feet to an angle point therein; thence continuing along said Easterly line and the Easterly line of said Lot 5 South 00 degrees 53'14" West 770.28 feet; thence West 1075.48 feet; thence North 04 degrees 16'00" West 829.75 feet to the point of beginning.

Said property being described as "Parcel 1" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

Parcel 2:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 5 of Ocean Ranch -- Phase 1 as shown on Map No. 14168 filed March 15, 2001 in the Office of the County Recorder of said San Diego County, together with that portion of Lot 7 of Ocean Ranch -- Phase 1A as shown on Map No. 14291 filed November 6, 2001, in said Office of the County Recorder, described as follows:

Beginning at the Northeasterly corner of said Lot 7, said corner being on a non-tangent curve concave Southeasterly and having a radius of 1208.00 feet, a radial line of said curve from said corner bears South 13 degrees 58'05" East; thence along the Northwesterly and Southwesterly lines of said Lot 7 and the Westerly, Southerly and Easterly lines of said Lot 5 through the following courses: along said curve Westerly 318.33 feet through a central angle of 15 degrees 05'55"; thence tangent from said curve South 60 degrees 56'00" West 494.16 feet to the beginning of a tangent curve concave Southeasterly and having a radius of 17.00 feet; thence along said curve Southwesterly and Southerly 26.70 feet through a central angle of 90 degrees 00'00"; thence tangent from said curve South 29 degrees 04'00" East 581.97 feet to the beginning of a tangent curve concave Westerly and having a radius of 1042.00 feet; thence along said curve Southerly 826.92 feet through a central angle of 45 degrees 28'09" to a point of reverse curvature with a curve concave Northeasterly and having a radius of 20.00 feet, a radial line of said curve from said point bears South 73 degrees 35'51" East; thence along said curve Southerly and Southeasterly 31.81 feet through a central angle of 91 degrees 07'22"; thence tangent from said curve South 74 degrees 43'13" East 101.87 feet to the beginning of a tangent curve concave Northerly and having a radius of 458.00 feet; thence along said curve Easterly 113.88 feet through a central angle of 14 degrees 14'47"; thence tangent from said curve South 88 degrees 58'00" East 1314.35 feet; thence North 00 degrees 53'14" East 505.72 feet to a point distant thereon South 00 degrees 53'14" West 770.28 feet from an angle point in the Easterly line of Lot 9 of said Ocean Ranch -- Phase 1A; thence West 1075.48 feet; thence North 04 degrees 16'00" West 829.75 feet to a

point in the Easterly line of said Lot 7 distant thereon South 06 degrees 00'53" East 449.74 feet from said Northeasterly corner of Lot 7; thence along said Easterly line North 06 degrees 00'53" West 449.74 feet to the point of beginning.

Said property being described as "Parcel 2" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

Parcel 3:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 8 of Ocean Ranch -- Phase 1A as shown on Map No. 14291 filed November 6, 2001, in the Office of the County Recorder of said San Diego County, lying Northerly of the following described line:

Beginning at a point on the Easterly line of Lot 7 of said Ocean Ranch -- Phase 1A distant thereon South 06 degrees 00'53" East 449.74 feet from the Northeast corner of said Lot; thence South 89 degrees 18'19" East 1149.98 feet to a point on the Easterly line of said Lot 9 of said Ocean Ranch - Phase 1A, said point being distant thereon South 00 degrees 59'59" West 486.01 feet from the Northeast corner of said Lot. Said property being described as "Parcel 3" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

Parcel 4:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 9 of Ocean Ranch - Phase 1A as shown on Map No. 14291 filed November 6, 2001, in the Office of the County Recorder of said San Diego County, lying Northerly of the following described line:

Beginning at a point on the Easterly line of Lot 7 of said Ocean Ranch - Phase 1A distant thereon South 06 degrees 00'53" East 449.74 feet from the Northeast corner of said Lot; thence South 89 degrees 18'19" East 1149.98 feet to a point on the Easterly line of said Lot 9 distant thereon South 00 degrees 59'59" West 486.01 feet from the Northeast corner of said Lot.

Said property being described as "Parcel 4" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

APN: 160-571-21-00 through 160-571-24-00

EXHIBIT B-1

LIST OF PERSONAL PROPERTY

[Attached]

BLDG #	SYSTEM #	AREA	SYSTEM NAME
[*]	[*]	[*]	[*]

EXHIBIT B-2

LIST OF EXCLUDED PERSONAL PROPERTY

- The Systems Hardware identified on the attached Schedule B-2-I.
- 25 leased copier/printers (identified on the attached Schedule B-2-II); all leased vending machines and all leased coffee service equipment.
- Process Development Equipment located in the areas noted on the floor plan attached hereto as Schedule B-2-III as of the Agreement Date.
- Personal computers utilized by the employees listed: (i) on Exhibit G-2; and (ii) to the extent the same do not accept offers of employment from Purchaser, on Exhibit G-3.
- Laboratory Notebooks.
- Personal computer hard drives (to be replaced with new hard drives at Seller's cost).
- Seller's products and product batch records.
- Raw materials used for Tysabri and/or Zevalin.
- QC Equipment and Materials as follows:
    - PE ICP-MS Elan 9000 in Room 2501 (#7543)
    - Methods Validation Gamma Counter in Room 2500 (#7558)
    - Quality Control Microbiology Chemunex (#7534)
    - IGEN Serial #00658 (#7594)

SCHEDULE B-2-I

LIST OF EXCLUDED SYSTEMS HARDWARE

Program	Project Title	Vendor	Product
Infrastructure	Authentication/NOS	Novell	Netware
Laboratory Systems	NuGenesis	Waters	NuGenesis
Laboratory Systems	Chemstation/Chemstore	Agilent	Chemstore
Email system	Email	IBM	Notes
Infrastructure	WAN	Cisco	CISCO 7200, ISS Firewall, WebSense firewall
Infrastructure	Storage	EMC	Symetrix

SCHEDULE B-2-II

(EXCLUDED COPIERS)

Building	Floor	Location	IT Resource Number	Model Number	Serial Number
331	1	1601	A000001199	Xerox-XDC470	NE0-134482
341	1	1003 Cub	A0000001341	Xerox-XDC545	FWT-009975
NIMO Trailer	1	NIMO Trailer	A000000026	Xerox-XDC470	NE0-134107
331	3	3407	A000001186	XDC555	FWT-010292
351	1	1114 copy/fax	A000001210	Xerox-XDC470	NE0-132803
331	1	1504 East	A000001142	Xerox-XDC470	NE0-134557
321	1	1302 Warehouse	A000002385	Xerox-WCP55	NWL-008684
351	1	1205 CALIBRATION	A000002405	Xerox-WCP45	NWL-008698
331	1	1101 Security	A000002517	Xerox-WCP55	NWL-008214
331	2	2407 Mail Room	A000002530	Xerox-WCP45	NWL-009661
351	2	2122 COPY/FAX	A000002633	Xerox-WCP65	MRN-017754
331	1	1220 Facilities	A000001641	Xerox-WCP65	MRN-018772
331	1	1125 West	A000001637	Xerox-WCP65	MRN-018794
331	3	3100	A000002100	WCP65	MRN-018796
331	3	3200	A000001638	WCP55	NWL-050763
351	3	3110 COPY/FAX	A000002293	Xerox-WCP65	MRN-018761
351	3	3100J	A000001689	Xerox-WCP65	MRN-018779
331	1	1126	A000002527	Xerox-WCP65	MRN-019234
331	2	2124	A000002621	Xerox-WCP65	MRN-019203
341	1	1018 Cub	A000002643	Xerox-WCP65	MRN-019223
331	3	3407	A000002396	WCP40	KMM-007668
351	2	2122 COPY/FAX	A000002397	Xerox-WCP40C	KMM-007686
311	2	2003	A000002499	WCP40	KMM-007713
331	1	1301 Mail Room	A000002900	Xerox-WCP40C	KMM-007691
351	3	3110 COPY/FAX	A000002901	Xerox-WCP40C	KMM-007694

SCHEDULE B-2-III

PROCESS DEVELOPMENT EQUIPMENT LOCATIONS

[Attached]

[*]

EXHIBIT C

ASSUMED CONTRACTS

[*]

EXHIBIT D

GRANT DEED

Recording Requested by and
When Recorded Mail to,
and Mail Tax Statements to:

_____

_____

_____

_____

Attention: _____

Space Above This Line for Recorder's Use

GRANT DEED

The undersigned Grantor declared that Documentary Transfer Tax is not part of the public records.

For valuable consideration, receipt of which is acknowledged, BIOGEN IDEC INC., a Delaware corporation ("Grantor"), hereby grants to GENENTECH, INC., a Delaware corporation ("Grantee"), that certain real property located in the City of Oceanside, County of San Diego, State of California, as legally described in Exhibit A attached hereto and made a part hereof (the "Property") together with all improvements, structures and fixtures located thereon and all easements, tenements, hereditaments, air, water, oil, gas and mineral rights, appurtenances, rights and privileges appertaining to the Property.

The Property is conveyed subject to:

(a) The lien of supplemental taxes, if any, assessed pursuant to the provisions of Chapter 3.5 (commencing with Section 75) of the Revenue and Taxation Code of the State of California;

(b) The liens for non-delinquent real and personal property taxes;

(c) All liens, encumbrances, easements, leases, covenants, conditions and restrictions recorded in the official real estate records of San Diego County, California;

(d) All matters which would be disclosed by an accurate survey of the Property; and

(e) Zoning ordinances and regulations and any other laws, ordinances, regulations or orders of any governmental agency having or claiming jurisdiction over the use, occupancy or enjoyment of the Property.

IN WITNESS WHEREOF, Grantor has caused its duly authorized representative to execute this instrument as of the date hereinafter written.

Date: _____, 2005

GRANTOR:

BIOGEN IDEC INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT A TO EXHIBIT D

LEGAL DESCRIPTION OF PROPERTY

LEGAL DESCRIPTION

Real property in the City of Oceanside, County of San Diego, State of California, described as follows:

Parcel 1:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 5 of Ocean Ranch -- Phase 1 as shown on Map No. 14168 filed March 15, 2001 in the Office of the County Recorder of said San Diego County, together with those portions of Lots 7, 8 and 9 of Ocean Ranch -- Phase 1A as shown on Map No. 14291 filed November 6, 2001, in said Office of the County Recorder, described as follows:

Beginning at a point on the Easterly line of said Lot 7 distant thereon South 06 degrees 00'53" East 449.74 feet from the Northeast corner of said Lot; thence South 89 degrees 18'19" East 1149.98 feet to a point on the Easterly line of said Lot 9 distant thereon South 00 degrees 59'59" West 486.01 feet from the Northeast corner of said Lot; thence along said Easterly line South 00 degrees 59'59" West 43.33 feet to an angle point therein; thence continuing along said Easterly line and the Easterly line of said Lot 5 South 00 degrees 53'14" West 770.28 feet; thence West 1075.48 feet; thence North 04 degrees 16'00" West 829.75 feet to the point of beginning.

Said property being described as "Parcel 1" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

Parcel 2:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 5 of Ocean Ranch -- Phase 1 as shown on Map No. 14168 filed March 15, 2001 in the Office of the County Recorder of said San Diego County, together with that portion of Lot 7 of Ocean Ranch -- Phase 1A as shown on Map No. 14291 filed November 6, 2001, in said Office of the County Recorder, described as follows:

Beginning at the Northeasterly corner of said Lot 7, said corner being on a non-tangent curve concave Southeasterly and having a radius of 1208.00 feet, a radial line of said curve from said corner bears South 13 degrees 58'05" East; thence along the Northwesterly and Southwesterly lines of said Lot 7 and the Westerly, Southerly and Easterly lines of said Lot 5 through the following courses: along said curve Westerly 318.33 feet through a central angle of 15 degrees 05'55"; thence tangent from said curve South 60 degrees 56'00" West 494.16 feet to the beginning of a tangent curve concave Southeasterly and having a radius of 17.00 feet; thence along said curve Southwesterly and Southerly 26.70 feet through a central angle of 90 degrees 00'00"; thence tangent from said curve South 29 degrees 04'00" East 581.97 feet to the beginning of a tangent curve concave Westerly and having a radius of 1042.00 feet; thence along said curve Southerly 826.92 feet through a central angle of 45 degrees 28'09" to a point of reverse curvature with a curve concave Northeasterly and having a radius of 20.00 feet, a radial line of said curve from said point bears South 73 degrees 35'51" East; thence along said curve Southerly and Southeasterly 31.81 feet through a central angle of 91 degrees 07'22"; thence tangent from said curve South 74 degrees 43'13" East 101.87 feet to the beginning of a tangent curve concave Northerly and having a radius of 458.00 feet; thence along said curve Easterly 113.88 feet through a central angle of 14 degrees 14'47"; thence tangent from said curve South 88 degrees 58'00" East 1314.35 feet; thence North 00 degrees 53'14" East 505.72 feet to a point distant thereon South 00 degrees 53'14" West 770.28 feet from an angle point in the Easterly line of Lot 9 of said Ocean Ranch -- Phase 1A; thence West 1075.48 feet; thence North 04 degrees 16'00" West 829.75 feet to a

point in the Easterly line of said Lot 7 distant thereon South 06 degrees 00'53" East 449.74 feet from said Northeasterly corner of Lot 7; thence along said Easterly line North 06 degrees 00'53" West 449.74 feet to the point of beginning.

Said property being described as "Parcel 2" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

Parcel 3:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 8 of Ocean Ranch -- Phase 1A as shown on Map No. 14291 filed November 6, 2001, in the Office of the County Recorder of said San Diego County, lying Northerly of the following described line:

Beginning at a point on the Easterly line of Lot 7 of said Ocean Ranch -- Phase 1A distant thereon South 06 degrees 00'53" East 449.74 feet from the Northeast corner of said Lot; thence South 89 degrees 18'19" East 1149.98 feet to a point on the Easterly line of said Lot 9 of said Ocean Ranch - Phase 1A, said point being distant thereon South 00 degrees 59'59" West 486.01 feet from the Northeast corner of said Lot. Said property being described as "Parcel 3" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

Parcel 4:

That certain Parcel of land situated in the City of Oceanside, County of San Diego, State of California, being that portion of Lot 9 of Ocean Ranch - Phase 1A as shown on Map No. 14291 filed November 6, 2001, in the Office of the County Recorder of said San Diego County, lying Northerly of the following described line:

Beginning at a point on the Easterly line of Lot 7 of said Ocean Ranch - Phase 1A distant thereon South 06 degrees 00'53" East 449.74 feet from the Northeast corner of said Lot; thence South 89 degrees 18'19" East 1149.98 feet to a point on the Easterly line of said Lot 9 distant thereon South 00 degrees 59'59" West 486.01 feet from the Northeast corner of said Lot.

Said property being described as "Parcel 4" in a Certificate of Compliance recorded on December 13, 2002 as instrument no. 2002-1138870 of Official Records.

APN: 160-571-21-00 through 160-571-24-00

First American Title Insurance Company

EXHIBIT E

BILL OF SALE

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, BIOGEN IDEC INC., a Delaware corporation ("Seller"), does hereby GRANT, SELL, ASSIGN, CONVEY, TRANSFER AND DELIVER to GENENTECH, INC., a Delaware corporation ("Buyer"), all Personal Property. Capitalized terms used but not otherwise defined in this Bill of Sale shall have the meanings ascribed to such terms in that certain Purchase and Sale Agreement and Joint Escrow Instructions dated as of June __, 2005 by and between Seller and Buyer.

This Bill of Sale may be executed in counterparts, each of which shall be deemed an original, and all of which shall taken together be deemed one document. Seller and Buyer agree that the delivery of an executed copy of this Bill of Sale by facsimile shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Bill of Sale had been delivered.

Seller warrants that it holds fee title to the Personal Property free and clear of any and all liens, security interests, leases, and adverse rights of others. Seller makes no warranties or representations of any kind or nature regarding the condition of the Personal Property.

Buyer on behalf of itself and its officers, directors, employees, partners, agents, representatives, successors and assigns hereby agrees that in no event or circumstance shall the partners, members, trustees, employees, representatives or officers of Seller have any personal liability under this Bill of Sale.

Seller is hereby granted a non-exclusive, royalty-free, perpetual license to retain copies of written materials comprising portions of the Personal Property conveyed to Buyer hereunder, to the extent Seller reasonably determines that retention of such copies is necessary or convenient for purposes of Seller's record-keeping or reporting requirements relating to the Property and/or for purposes of documenting and evidencing any activities conducted by Seller at the Property during Seller's period of ownership thereof.

IN WITNESS WHEREOF, the parties have executed this Bill of Sale as of this ___ day of _____, 2005.

SELLER:

BIOGEN IDEC INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

BUYER:

GENENTECH, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

EXHIBIT F

ASSIGNMENT AND ASSUMPTION OF INTANGIBLES, INTELLECTUAL PROPERTY AND ASSUMED CONTRACTS

This Assignment and Assumption of Intangibles and Assumed Contracts (the "Assignment") is made and entered into as of this ____ day of _____, 2005 ("**Assignment Date**"), by and between BIOGEN IDEC INC., a Delaware corporation ("**Assignor**"), and GENENTECH, INC., a Delaware corporation ("**Assignee**"), with reference to the following facts. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Purchase Agreement, as defined below.

R E C I T A L S :

A. Assignor and Assignee are parties to that certain Purchase and Sale Agreement and Joint Escrow Instructions, made and entered into as of _____, 2005 (the "**Purchase Agreement**"), pursuant to which Assignor agreed to sell to Assignee, and Assignee agreed to purchase from Assignor that certain Real Property, Improvements, Personal Property, Appurtenances, Intangibles, Intellectual Property and Assumed Contracts (collectively, the "**Property**").

B. Assignee has acquired fee title to the Property from Assignor on the Assignment Date. Assignor now desires to assign and transfer to Assignee the Intangibles, Intellectual Property and Assumed Contracts.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

1. Assignment and Assumption. Effective as of the Assignment Date, Assignor hereby perpetually and irrevocably grants, transfers, conveys, assigns and delegates to Assignee (a) all of the rights, title, and interests of Assignor in, to and under the Intangibles, the Drawings and the Assumed Contracts and (b) the Intellectual Property (which, Assignee acknowledges, is limited to a non-exclusive right). Assignee hereby accepts such assignment and delegation by Assignor and agrees to fully perform and assume all the obligations of Assignor under the Assumed Contracts accruing from and after the Assignment Date.

2. No Warranties. Assignee does hereby covenant with Assignor, and represents and warrants to Assignor, that Assignor is transferring each of the Intangibles, Intellectual Property, Drawings and Assumed Contracts to Assignee (to the extent the terms of any of the Contracts do not limit or restrict such right) without any warranty of any kind or nature. This Assignment shall not be construed as a representation or warranty by Assignor as to the transferability or enforceability of the Intangibles, Intellectual Property, Drawings and/or Assumed Contracts (collectively, the "**Interests**"), and Assignor shall have no liability to Assignee in the event that any or all of (a) the Interests are not transferable to Assignee or (b) the Assumed Contracts are cancelled or terminated by reason of this Assignment or any acts of Assignee. Notwithstanding anything to the contrary herein, to the extent that any Interests to be granted, sold, conveyed, assigned or transferred to Assignee pursuant hereto, or any claim, right or benefit arising thereunder or resulting therefrom, is not capable of being granted, sold, conveyed, assigned, transferred or delivered without the approval, consent or waiver of the issuer thereof, or any other party thereto, or any third person (including, without limitation, a government or governmental unit), or if such grant, sale, conveyance, assignment, transfer or delivery or attempted grant, sale, conveyance, assignment, transfer or delivery would constitute a breach (or give rise to a termination right) thereof or a violation of any law, decree, order, regulation or other governmental edict (collectively, with respect to such Interests, the "**Nontransferable Interests**"), then this Assignment shall not constitute a sale, conveyance, assignment, transfer or delivery thereof, or an attempted sale, conveyance, assignment, transfer or delivery thereof absent such approvals, consents or waivers. If any such approval, consent or waiver shall not be obtained, or if an attempted assignment of such Interests would be ineffective such that Assignee would not in fact receive such Interests, Assignor shall cooperate with Assignee, at Assignee's request, cost and expense, to enforce such Interests and otherwise extend reasonable cooperation to

Assignee to obtain consent to a transfer of such rights. Assignor and Assignee agree as follows: (A) Assignor shall deliver to Assignee a list of the software installed or embedded on the actual items of equipment and/or systems constituting Personal Property or Improvements; (B) with respect to any right in intellectual property or software licensed to Assignor that is subject to a license agreement between Assignor and a third party and is included within the Intellectual Property: (i) Assignor shall deliver to Assignee (x) a copy of any such license agreement, together with contact information (if known to Assignor) for the relevant third party licensor, and (y) a copy of any service agreement relating to such right; and (ii) notwithstanding the assignment of the Intellectual Property contemplated hereby, (x) the assignment of any such right shall be deemed to be held in abeyance unless and until Assignee expressly assumes the obligations of any such license agreement with notice to Assignor and the relevant third party licensor and (y) Assignee agrees that it shall not use any such right unless and until such an assumption takes place; and (C) with respect to any right in intellectual property or software licensed to Assignor that is subject to a license agreement between Assignor and a third party and would be included within the Intellectual Property but for the nontransferability or nonassignability of the license agreement under which such right is granted to Assignor, Assignor shall deliver to Assignee (i) a copy of any such license agreement, together with contact information (if known to Assignor) for the relevant third party licensor, and (ii) a copy of any service agreement relating to such right. Notwithstanding the foregoing, any agreements provided by Assignor to Assignee may be redacted to the extent necessary for Assignor to abide by any obligations of confidentiality to any third party.

3. Dispute Costs. In the event of any dispute between Assignor and Assignee arising out of the obligations of the parties under this Assignment or concerning the meaning or interpretation of any provision contained herein, the losing party shall pay the prevailing party's costs and expenses of such dispute, including without limitation, reasonable attorneys' fees and costs. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Assignment shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Assignment and to survive and not be merged into any such judgment.

4. Counterparts. This Assignment may be executed in counterparts, each of which shall be deemed an original, and all of which shall taken together be deemed one document. Assignor and Assignee agree that the delivery of an executed copy of this Assignment by facsimile shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Assignment had been delivered.

5. Survival. This Assignment and the provisions hereof shall survive the Assignment Date and the "Closing" under the Purchase Agreement and shall inure to the benefit of and be binding upon the parties to this Assignment and their respective successors, heirs and permitted assigns.

6. Limited Liability. This Assignment is made without any express or implied representation or warranty of any kind or nature, except as expressly set forth in the Purchase Agreement. Assignee on its own behalf and on behalf of its agents, members, partners, employees, representatives, successors and assigns hereby agrees that in no event or circumstance shall any of the members, partners, employees, representatives, officers, directors, or agents of Assignor have any personal liability under this Assignment.

7. No Third Party Beneficiaries. Except as otherwise expressly set forth herein, Assignor and Assignee do not intend, and this Assignment shall not be construed, to create a third-party beneficiary status or interest in, nor give any third-party beneficiary rights or remedies to, any other person or entity not a party to this Assignment.

8. Certain Retained Rights. Assignor hereby retains a non-exclusive, royalty-free, perpetual license in the Interests transferred to Assignee under this Assignment as the same are reasonably necessary in order for Assignor to enforce, preserve and protect Assignor's rights under the Interests with respect to matters accruing prior to the Assignment Date or reasonably related to such periods.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment and Assumption of Intangibles, Intellectual Property and Assumed Contracts as of the Assignment Date.

ASSIGNOR:

BIOGEN IDEC INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

ASSIGNEE:

GENENTECH, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

EXHIBIT G-1

LIST OF HIRED PERSONNEL

[Attached]

PERSONNEL LIST G-1

8-Jun-05

LOCATION	FIRST NAME	LAST NAME	JOB TITLE	LATEST HIRE DATE	HR COST CENTER NAME
[*]	[*]	[*]	[*]	[*]	[*]

EXHIBIT G-2

LIST OF SELLER RETAINED PERSONNEL

[Attached]

PERSONNEL LIST G-2

For Internal Use Only
8-Jun-05

FIRST NAME	LAST NAME	JOB TITLE	LATEST HIRE DATE	HR COST CENTER NAME
[*]	[*]	[*]	[*]	[*]

EXHIBIT G-3

LIST OF SELLER PERSONNEL WHO MAY BE CONTACTED BY BUYER

[Attached]

PERSONNEL LIST G-1

8-Jun-05

FIRST NAME	LAST NAME	JOB TITLE	LATEST HIRE DATE	HR COST CENTER NAME
[*]	[*]	[*]	[*]	[*]

SCHEDULE G-3-1

GUIDELINES FOR OFFERS TO EMPLOYEES IDENTIFIED ON EXHIBIT G-3

Seller and Buyer agree to follow the process described below when making offers of employment to the employees identified on Exhibit G-3 (the "Identified Employees"):

[*]

EXHIBIT H

PERSONNEL AGREEMENT

AGREEMENT TO PROVIDE PERSONNEL

THIS AGREEMENT is made effective this __day of June, 2005, by and between Biogen Idec. Inc ("Seller") and Genentech, Inc. ("Buyer"). Seller and Buyer hereby agree to the following:

1. Agreement to Provide Personnel. Seller hereby agrees to supply to Buyer, and Buyer hereby agrees to engage the services of Seller to provide, contract personnel ("Leased Employees") who shall fill employment positions as designated by Buyer and agreed by Seller. Seller and Buyer acknowledge that this Agreement is intended to create an employee leasing relationship for a period from the closing of the Purchase and Sale Agreement between Buyer and Seller ("Closing Date") through the date that is 60 days after Seller provides notice to the Leased Employees of the termination of their employment with Seller pursuant to California Labor Code section 1400 *et seq* (the "California WARN Act"), which date shall be no more than 60 days after the Closing Date (the "Termination Date"). At any time following the Closing Date, Buyer may conduct pre-employment activities with respect to the Leased Employees, and Buyer is free to extend offers of employment to any or all of such Leased Employees, which offers may be effective any time after the Closing Date.

2. Services and Benefits Provided By Seller For Leased Employees. During the term of this Agreement, Seller agrees to continue to provide all of the compensation and benefits to the Leased Employees that Seller provided to such employees prior to the Closing Date, so long as the Leased Employees remain employed by Seller.

3. Buyer Responsibilities. Buyer shall be solely responsible for the following:

(a) Supervision and Control. Although Seller retains authority regarding employment termination, Buyer shall provide all day-to-day supervision and control of the work to be performed by the Leased Employees, including attendance at work, as well as job training as shall be necessary to achieve the objectives and results determined by Buyer. Buyer shall be responsible for taking any disciplinary action with respect to the Leased Employees after the Closing Date, but Buyer shall not terminate the employment of any Leased Employee before the Termination Date, without Seller's express written consent, which consent shall not be unreasonably withheld.

(b) Fringe Benefits. The Leased Employees shall remain entitled to exactly the same fringe benefits, if any, to which they were entitled prior to the Closing Date, subject to applicable federal, state and local law.

(c) Termination of Use by Buyer of Leased Employees. Buyer shall not terminate its use of any Leased Employee prior to the Termination Date following the Closing Date, without the express written consent of Seller.

(d) Prohibition on Payment of Wages to the Leased Employees by Buyer. Buyer agrees that Buyer shall not, directly or indirectly, pay any salary, wages, bonuses, or any other form of compensation, to the Leased Employees, unless and until either such Leased Employees have resigned their employment with Seller, or the Termination Date. Buyer further agrees that Buyer shall not, directly or indirectly, provide any employee benefits to the Leased Employees until after the Termination Date, unless approved in writing by Seller.

(e) Job-Related Illness and Injury. The Leased Employees shall continue to be covered by workers' compensation insurance provided by Seller through the Termination Date. Buyer shall reimburse Seller for the cost of such workers' compensation insurance premiums, pursuant to this Agreement. The parties agree that employee health and safety is a primary concern, and the parties agree to cooperate to the fullest extent possible to ensure a safe and healthful workplace for all employees.

4. Fees and Compensation to Seller.

(a) Fees. Buyer hereby agrees to pay Seller fees as agreed upon by Seller and Buyer for services performed by Seller, as indicated on the fee schedule attached as Exhibit A.

(b) Invoices. Seller shall invoice Buyer for the any amounts due hereunder, on a monthly basis. Amounts invoiced shall be due and Buyer shall pay such invoices in full within ten (10) business days of receipt. Buyer shall notify Seller, in writing, of any errors in the amounts invoiced within seven (7) days after Buyer's receipt of the applicable invoice from Seller. If Buyer fails to notify Seller of any errors in the applicable fee statement within such seven (7) day period, then Buyer shall be deemed to have accepted the invoice as correct, and Buyer shall have no other right to seek reimbursement from Seller for any excess payments.

5. Insurance. Buyer agrees to maintain in effect at all times during the term of this Agreement insurance as follows:

(i) comprehensive general liability insurance policy or policies, with minimum coverage in the amount of three hundred thousand dollars ($300,000) combined single limit (CSL), insuring Buyer against bodily injury and property damage liability caused by Buyer's business operations, completed operations and/or products or professional service; and

(ii) if any Leased Employee drives any vehicle for any reason in connection with Buyer's business operations, automobile liability insurance which shall insure Leased Employees and Buyer against public liability for bodily injury, death and property damage, with minimum coverage in the amount of three hundred thousand dollars ($300,000) combined single limit (CSL).

Buyer shall provide Seller with one or more Certificates of Insurance within ten (10) days after the execution of this Agreement, verifying Buyer's compliance with the provisions of this Section.

Seller and Buyer hereby waive any claims against the other by way of subrogation or otherwise, which arise during the term of this Agreement, for any and all bodily injury, loss of, or damage to, any of their property, which loss or damage is covered by policies of insurance, to the extent that such loss or damage is recovered under such policies of insurance. Seller and Buyer further agree to immediately give each insurance carrier, which insures any of their property, written notice of the terms of the mutual waiver contained in this Section. Seller and Buyer further agree to properly endorse any of these policies, if necessary, to prevent the invalidation of the applicable insurance coverage as a consequence of the waiver contained in this Section 5. Each of the parties agrees to cause its insurance carriers to provide the other party with written acknowledgment of such waiver.

6. Term and Termination.

This Agreement shall become effective on the Closing Date, and shall continue in effect thereafter through the Termination Date. This Agreement shall terminate automatically on the Termination Date. On the Termination Date, Seller will terminate the employment of all Leased Employees who have not previously resigned.

7. Liability and Rights to Indemnification.

(a) Liability for Acts and Omissions of Leased Employees. Buyer acknowledges and agrees that Buyer is solely responsible for the accounting and other internal financial and control procedures used by Buyer in its business. Therefore, Seller shall not be responsible to Buyer, or to any other person or entity, for any loss incurred by Buyer or any other person or entity, resulting from any intentional or negligent act or omission of any of the Leased Employees.

(b) Indemnification of Buyer by Seller. Seller agrees to indemnify and hold Buyer harmless from any and all damages to Buyer arising out of Seller's breach of this Agreement. Seller also agrees to

indemnify and hold Buyer harmless from any and all damages to Buyer arising out of any claim by any Leased Employee whose employment with Seller is terminated by Seller on or after the Termination Date based on the California WARN Act (Cal. Labor Code 1400 et seq.), and any claim arising before the term of this Agreement.

(c) Indemnification of Seller by Buyer. Buyer agrees to indemnify and hold Seller harmless from and against any claims made against Seller or any agent or employee of Seller, by any of the Leased Employees or on behalf of the Leased Employees, by third parties as a result of the actions of the Leased Employees, or by actions of governmental agencies, resulting from any claimed or actual act, actions, omissions, conduct or directions of Buyer or its agents during the term of this Agreement, as well as for any damages to Seller arising out of Buyer's breach of this Agreement, including without limitation any claim by any Leased Employee based on any disciplinary action, employment termination prior to the Termination Date, violation of the California Labor Code or the Fair Labor Standards Act, of the California Fair Employment and Housing Act, Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Age Discrimination in Employment Act, or any other federal, state, or local laws regulating the employment relationship or the wages, hours, compensation, or working conditions of the Leased Employees.

(d) General Indemnity Provisions. Each party agrees to assume the defense of the other party against the claims and actions described in Paragraphs (b) and (c), respectively, above in a timely manner. If such party fails to do so, the other party may compromise and settle or defend against any such claims or actions, and the indemnifying party shall be obligated to indemnify and hold the indemnified party harmless for all costs of defense, compromise and settlement, including any judgments incurred or rendered by or against the indemnified party, which arise out of the claims or actions described in Paragraphs (b) or (c). The duty to defend the indemnified party includes the duty to pay reasonable attorney's fees incurred by the indemnified party in defending any claims or actions described in Paragraphs (b) or (c). The indemnifying party's duty to indemnify the indemnified party also includes the duty to pay any damages or penalties imposed by an administrative agency, or any judgment or settlement reached in any court action or arbitration.

(e) Liability as Employer. Notwithstanding the fact the Leased Employees are the employees of Seller, Buyer acknowledges that it has responsibilities and/or obligations in regard to such Leased Employees (including but not limited to those imposed pursuant to Internal Revenue Code section 414(n)), and that Buyer and Seller each may be viewed as subject to laws relating to employers with respect to the Leased Employees with separate liability relating and stemming therefrom.

(f) Wage and Hour Related Claims. Buyer agrees to provide meal and rest period to Leased Employees who are not exempt from state overtime requirements in compliance with California Labor Code section 226.7 In the event any Leased Employee is deemed entitled to over-time compensation, Buyer agrees to compensate Seller for all expenses and charges incurred in paying over-time compensation. Buyer recognizes that improper handling of a wage-hour investigation can result in substantial prejudice to both Buyer and Seller, and that time is of the essence in any such matter. Accordingly, Buyer and Seller both warrant that each will inform the other of any indication or information that wage-hour compliance may become a disputed issue.

(g) Workplace and Unlawful Termination Claims. Buyer agrees in using Leased Employees to comply as if it was the employer with respect to all applicable labor laws and laws regarding equal employment opportunities. Buyer shall not discriminate in using Leased Employees on the basis of national origin, race, age, sex, religion, disability, marital status, or any other protected category or description.

(h) Survival of Indemnification Provisions. The provisions of this Section shall survive the expiration or other termination of this Agreement.

8. Miscellaneous.

(a) Entire Agreement. This Agreement, together with its Exhibits, constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and preliminary agreements. This Agreement may not be changed except in writing executed by both parties.

(b) Waiver. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be or be construed as a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of this Agreement.

(c) Assignment. This Agreement is not assignable by Buyer or Seller.

(d) Severability. If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall to any extent be found to be invalid, void or unenforceable, such provision shall be limited as necessary to render it valid and enforceable and the remaining provisions and any application thereof shall continue in full force and effect without being impaired or invalidated in any way.

(e) Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto, their personal representatives, heirs, executors, administrators, successors and/or assigns.

(f) Further Actions. Each of the parties hereto agrees to take any and all actions reasonably necessary in order to carry out the provisions of this Agreement.

(g) Construction. This Agreement shall be construed in accordance with its plain meaning and not against either party as the drafting party. The captions of the Sections of this Agreement are for convenience only and shall not be considered or referred to in resolving questions or interpretation.

(h) Counterparts. This Agreement may be executed in one or more counterparts and counterparts signed in the aggregate by Buyer and Seller shall constitute a single original instrument.

(i) Notices. Notices given under this Agreement shall be given in the same form and manner as notices given under the Purchase and Sale Agreement between Buyer and Seller.

(j) Choice of Law. This Agreement shall be governed by, and construed in accordance with the laws of the State of California, without regard to California's choice of law provisions.

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IN WITNESS WHEREOF, the parties hereto have executed this Personnel Agreement as of the date first above written.

SELLER:

BIOGEN IDEC INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

BUYER:

GENENTECH, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

EXHIBIT "A"

FEES

[*]

EXHIBIT I

ALLOCATION AGREEMENT

RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:

Biogen Idec Inc.
5200 Research Place
San Diego, California 92122
Attention: Jo Ann Taormina, Esq.
Associate General Counsel

(SPACE ABOVE LINE FOR RECORDER'S USE)

AVERAGE DAILY TRIP ALLOCATION AGREEMENT

THIS AVERAGE DAILY TRIP ALLOCATION AGREEMENT (this "Agreement") is made as of June __, 2005, by BIOGEN IDEC INC., a Delaware corporation ("Seller"), and GENENTECH, INC., a Delaware corporation ("Buyer"), with reference to the facts set forth in the Recitals below:

RECITALS

A. Seller is selling to Buyer that certain real property (the "Transferred Property") more particularly described on the attached Exhibit "A." The Transferred Property is subject to the ADT Allocation Agreement (defined below), which property is part of the property described in the ADT Allocation Agreement as "Parcel 2." The remaining portion of Parcel 2 which is not being sold to Buyer is referred to herein as the "Retained Property." The Retained Property is more fully described on the attached Exhibit "B".

B. The "ADT Allocation Agreement" refers to that certain Ocean Ranch Average Daily Trip Allocation Agreement made as of December 18, 2002, and recorded on December 23, 2002, as Instrument No. 2002-1177095, in the Official Records of San Diego County, California to which Seller and the other Owners are parties. The ADT Allocation Agreement shall continue to affect the Transferred Property and the Retained Property after the sale of the Transferred Property to Buyer.

C. Concurrently with the closing of the sale of the Transferred Property to Buyer, Seller and Buyer desire to allocate a certain number of the Existing ADT Allowance allocated to Parcel 2 under the ADT Allocation Agreement to the Transferred Property, all as more specifically set forth below.

NOW THEREFORE, it is agreed as follows:

1. Except as defined herein, and unless the context clearly indicates otherwise, the terms used in this Agreement are defined to mean the same as such terms are defined in the ADT Allocation Agreement.

2. Of the 10,890 Existing ADT Allowance allocated to Parcel 2 pursuant to the ADT Allocation Agreement, Seller and Buyer hereby agree that the allocation thereof to the Transferred Property shall be 6,921 average daily trips. The remaining 3,969 average daily trips of the Existing ADT Allowance shall be allocated to the Retained Property, subject to all of the terms and provisions of the ADT Allocation Agreement.

3. This Agreement and the allocations specified in Paragraph 2 above shall be deemed effective only upon recordation of this Agreement in the Official Records of San Diego County, California.

IN WITNESS WHEREOF, Seller and Buyer have caused this Average Daily Trip Allocation Agreement to be executed as of the date first above written

SELLER:

BIOGEN IDEC INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

BUYER:

GENENTECH, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

Exhibit "A"

Legal Description of Transferred Property

Exhibit "B"

Legal Description of Retained Property

Exhibit J

QUALIFICATION AND VALIDATION DOCUMENTS

[Attached]

[*]

EXHIBIT K

LIST OF SELLER'S BONDS

[NONE]

SCHEDULE 3

REMAINING WORK

[Attached]

PCO	DESCRIPTION	START	FINISH	ESTIMATE	STATUS 1	STATUS	STATUS
[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]

SCHEDULE 4.5

TRANSITION SERVICES

Terms For Transition Services Agreement

1. Term. The full term ("Term") applicable to all transition services and activities contemplated hereunder shall be six (6) months following the close of the purchase transaction (the "Closing") for the NIMO facility (the "Facility") in accordance the purchase agreement (the "Purchase Agreement") executed by the parties.

2. Procedure for Coordination. Weekly or bi-weekly meetings (as mutually determined by the parties) between designated representatives of Genentech ("GEN") and Biogen Idec ("BI") to determine status of, and ongoing requirements for, transition services, including scheduling and personnel assignments.

3. Personnel Services Charges; Facility Rent Charges. Cost of each Full Time Equivalent Employee ("FTE") of party providing transition services to the other party shall be an hourly fee calculated on the basis of each such employee's salary plus [*]. Reciprocal audit rights shall be provided under the Transition Services Agreement. All-inclusive rent payable by BI to GEN for BI's continued use of those portions of the Facility specified herein shall be at the monthly rate of [*] until BI has physically vacated all areas of the Facility (including decommissioning of the areas described in Paragraph 5(a) below).

4. GEN Requested Services from BI.

a. Personnel. Except to the extent that the personnel previously employed by BI to perform such services at the Facility have transferred their employment to GEN (subject to all the terms and provisions of the Purchase Agreement relevant thereto), or are secunded to GEN under the Personnel Agreement (as described in the Purchase Agreement), the following consulting services shall be provided to GEN by BI by personnel having appropriate knowledge of such areas, subject to mutual development of protocols (including as to workplace safety, security and other matters such as indemnity, insurance and surrender requirements), scheduling therefor, and reimbursement as described above (collectively, the "Personnel Use Terms"):

(i) Finance - up to 1.5 FTEs

(ii) IT - up to 3 FTEs

(iii) Supply Chain Services - up to 1 FTE

(iv) Security - up to .5 FTE

(v) Facilities - up to 1 FTE

b. Non-Transferred Systems. To the extent GEN requires transitional assistance that includes information resident on BI retained data systems in the areas of finance, purchasing, payroll, validation of equipment and systems (for non-specific products or processes), equipment and systems transfer, and similar functions, BI will provide such information to GEN without charge, subject to control protocols consistent the terms of the Purchase Agreement regarding intellectual property transfers.

c. Process Development/Technical Development Employees Until GEN receives FDA approval of the Property for the manufacture of one of GEN' products, but subject to the Term, BI shall provide process development assistance on a consulting basis to GEN upon GEN's reasonable request therefor. Provision of such assistance by BI personnel shall be subject to the Personnel Use Terms (without an obligation of reimbursement for such services).

5. BI Requested Transition Accommodations/Services from GEN.

a. Decommissioning of Designated Radioactive Materials Areas

Decommissioning of Designated Radioactive Materials Areas -- Attached hereto as Exhibit 5(a) is a floor plan showing the areas of the Facility which will be removed from BI's Radioactive Materials License ("RAM"). BI shall effect the decommissioning of such areas with the California Department of Health Services, Radiological Health Branch, and/or other regulatory agencies as may be required under applicable law. BI shall use diligent, commercially reasonable best efforts to effect such decontamination as soon as practicable and to that end shall seek to file its application with the California Department of Health Services not later than twenty-two (22) days following the Closing. BI shall retain custody and control of such areas until fully decommissioned and shall have reasonable access thereto subject to GEN's health, safety and security requirement for the Facility and the Personnel Use Terms. GEN shall reasonably cooperate in providing services on a consulting basis of personnel formerly employed by BI and having responsibility for such areas, subject to the Personnel Use Guidelines (without an obligation of reimbursement for such services); provided, however, GEN employees shall only be required to engage in activities which do not involve the handling of or exposure to radioactive materials ("Non-RAD Activities"). BI shall seek to minimize any interference of its activities with GEN's activities in the Facility.

b. Process Development/Technical Development. At BI's election which it shall make no later than the Closing, GEN will permit up to 75 BI employees in its Process Development/Technical Development Department ("TD") to remain in the Facility in areas currently utilized for TD activities, as mutually identified by BI and GEN prior to the Closing (the "TD Areas") and subject to the Personnel Use Terms. Except as provided in Paragraph 4(a) above, such employees shall be entitled to work solely on BI's projects on a shared use basis with GEN employees in such areas and to use any TD equipment located therein which is contemplated under the Purchase Agreement to be transferred to GEN (the "Shared Use TD Equipment"). Unless otherwise agreed to by the parties, BI shall remove all Process Development Equipment that has been excluded from transfer under the Purchase Agreement with ten (10) days after the earlier of BI's vacancy of the TD Areas or the termination of Term hereof.

c. Assay Assistance. At BI's election which it shall make no later than the Closing, GEN will permit up to 4 BI employees to remain in the Facility in areas currently utilized for assay evaluation associated with BI products. Such areas shall be in areas currently utilized for such activities, as mutually identified by BI and GEN prior to the Closing, but are expected to be limited to areas which are subject to the RAM decommissioning activities described in Paragraph 5(a) above. BI will also require periodic technical support on a consulting basis in the transfer of assay methods associated with commercial and clinical testing following the Closing from GEN personnel, subject to applicable Personnel Use Terms (without, however, any obligation of reimbursement for such services). Such GEN personnel shall only perform Non-RAD Activities. The support required includes the closure of open deviations, removal of all documents, procedures, reagents, and stability samples stored on site. GEN will also allow BI reasonable access to GEN personnel involved in testing should any regulatory inspection occur at other BI sites that encompass activities performed as part cGMP production at the Facility prior to the Closing. BI shall use commercially reasonable best efforts to minimize any interference of its activities with GEN's activities in the Facility and to minimize the length of time BI seeks access to the Facility pursuant to this section.

6. Mutually Beneficial Transition Activities. The following transition services and activities are for the mutual benefit of the parties and each party shall devote such resources at its own cost and expense as are reasonably necessary to effect the following, except as specifically required below:

a. Transfer of Facility Permits. Promptly following the Closing, BI and GEN shall develop a mutual schedule and action plan to effect transfer of Facility-specific environmental permits and licenses which are identified for transfer under the Purchase Agreement. Priority shall be given to effecting the transfer of the Wastewater Discharge Permit NO. R9-2003-0140. All such transfers shall be in compliance with requirements of each such permit and subject to applicable law. The parties shall agree on terms (including reimbursement and indemnity requirements) to cover any shared use until a transfer can be effected, or in the event a permit or license cannot be transferred, until a new or replacement permit or license can be obtained by GEN. Governmental or agency fees to transfer such permits and licenses shall be equally split between GEN and BI. The RAM is not a transferred permit or license.

b. Enterprise Contracts. The parties acknowledge that BI is a party to certain "Enterprise Contracts" affecting other facilities of BI in addition to the Facility, including, but not limited to the Enterprise Contracts listed on Exhibit 6(b) attached hereto. Such Enterprise Contracts, together with any additional Enterprise Contracts that the parties may identify prior to the Closing, will not be transferred to GEN with the Facility. Promptly following the Closing, BI and GEN shall develop a mutual schedule and action plan to provide GEN with the benefits of the services provided under the Enterprise Contracts which GEN continues to require with respect to the Facility until GEN enters into agreements for such services, subject to the Term. BI's provision of such benefits shall be subject to, and limited by, the provisions of each such Enterprise Contract and applicable law. The parties shall agree on terms (including reimbursement and indemnity requirements) to cover any such shared arrangement.

c. Shared Systems. To the extent certain Facility systems are shared with other facilities of BI, the parties shall identify such systems prior to the Closing and shall develop a mutual schedule and action plan to effect de-coupling and separation of such systems, including, without limitation, migration of necessary data. BI shall be permitted reasonable access to the Facility to effect such separation and GEN will afford reasonable assistance of GEN personnel who were previously employed by BI in positions relevant to such systems, subject to the Personnel Use Terms (but without any obligation of reimbursement). BI shall use commercially reasonable best efforts to minimize any interference of its activities with GEN's activities in the Facility and to minimize the length of time BI seeks access to the Facility pursuant to this section.

7. Further Assurances. The parties shall use diligent, good faith, best efforts to perform and effect the transition services and activities outlined in this instrument, the terms and provisions of which shall form an integral part of the purchase and sale of the Property, including extending all reasonable cooperation to each other to effectuate the same, such cooperation shall include the obtaining of any third party consents required as part of completing the transition services and activities described in this instrument.

EXHIBIT 5(a) TO SCHEDULE 4.5

RAD AREAS

[Attached]

[*]

EXHIBIT 6(b) TO SCHEDULE 4.5

LIST OF ENTERPRISE CONTRACTS

[*]

EXHIBIT 15.1

August 1, 2005

The Board of Directors and Stockholders of Genentech, Inc.

We are aware of the incorporation by reference in the Registration Statements pertaining to the Genentech, Inc. Tax Reduction Investment Plan, the 2004 Equity Incentive Plan, the 1999 Stock Plan, the 1996 Stock Option/Stock Incentive Plan, the 1994 Stock Option Plan, the 1990 Stock Option/Stock Incentive Plan, and the 1991 Employee Stock Plan, and the Registration Statement (Form S-3 No. 333-37072) related to the resale of common shares deliverable upon the exchange of Liquid Yield Option Notes, and in the related Prospectuses, as applicable, contained in such Registration Statements of our report dated July 8, 2005 (except Note 7, as to which the date is August 1, 2005), relating to the unaudited condensed consolidated interim financial statements of Genentech, Inc. that are included in its Form 10-Q for the quarter ended June 30, 2005.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statement prepared or certified by accountants within the meaning of section 7 or 11 of the Securities Act of 1933.

Very truly yours,

/s/ERNST & YOUNG LLP

EXHIBIT 31.1

CERTIFICATIONS

I, Arthur D. Levinson, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2005

By: /s/ARTHUR D. LEVINSON
Arthur D. Levinson, Ph.D.
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, David A. Ebersman, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2005

By: /s/ DAVID A. EBERSMAN
David A. Ebersman
Senior Vice President and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Arthur D. Levinson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Genentech, Inc. on Form 10-Q for the quarter ended June 30, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Genentech, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Genentech, Inc.

By: /s/ ARTHUR D. LEVINSON
Name: Arthur D. Levinson, Ph.D.
Title: Chief Executive Officer
Date: August 2, 2005

I, David A. Ebersman, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Genentech, Inc. on Form 10-Q for the quarter ended June 30, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Genentech, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Genentech, Inc.

By: /s/ DAVID A. EBERSMAN
Name: David A. Ebersman
Title: Senior Vice President and
Chief Financial Officer
Date: August 2, 2005