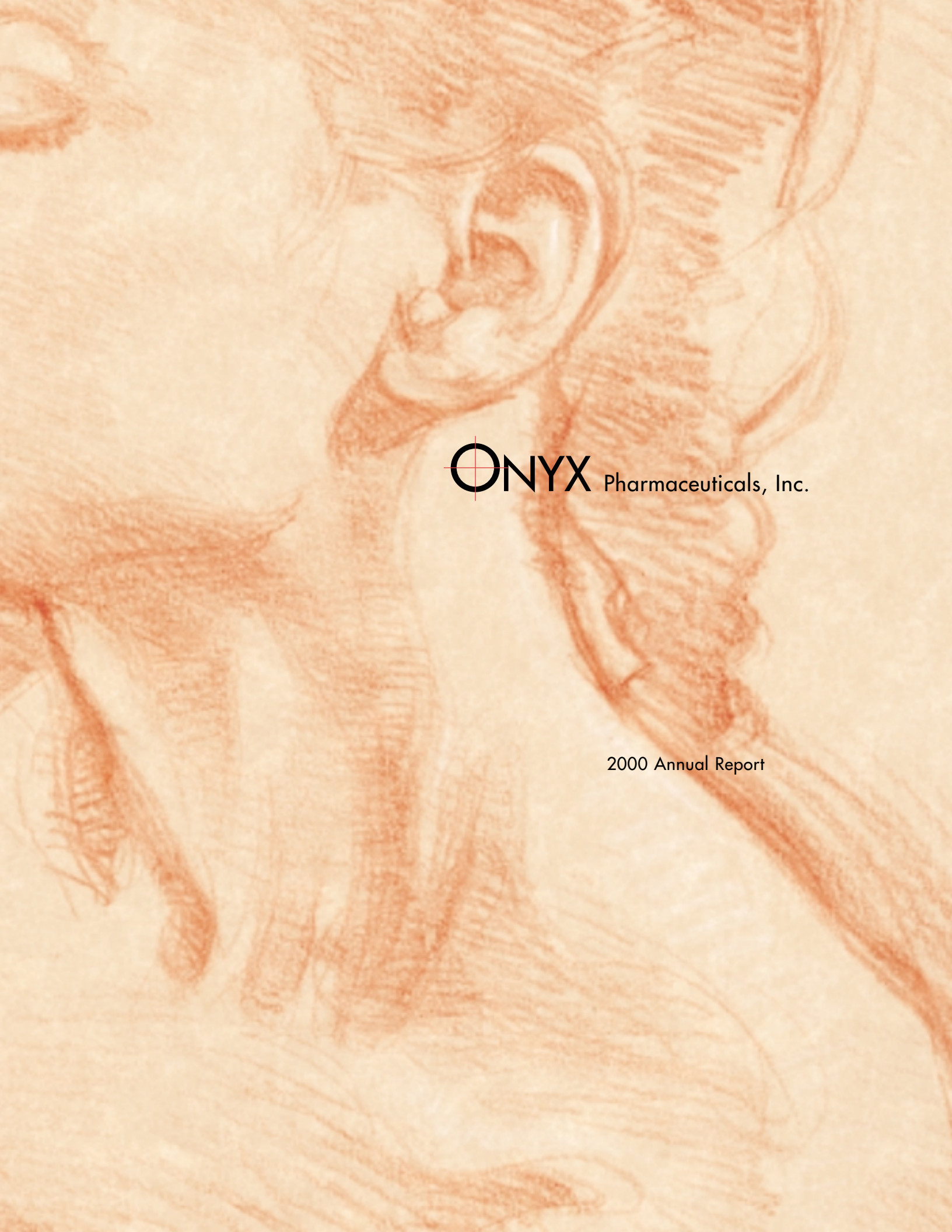


ONYX Pharmaceuticals, Inc.

2000 Annual Report

Onyx Pharmaceuticals is engaged in the discovery and development of novel cancer therapies. The company has pioneered a unique therapeutic virus technology. The first product candidate based on this viral platform – a genetically modified virus called CI-1042 (also known as ONYX-015) that attacks cancer cells that have abnormal function of the p53 tumor suppressor gene – is currently in Phase III clinical trials for treatment of head and neck cancer. Phase II trials of CI-1042 targeting several other tumor types are also underway. In addition the company is developing other therapeutic virus products, including ONYX-411, a virus engineered to attack cancers that have a different, equally critical cancer-related mutation; and Armed Therapeutic Viruses,™ viruses armed with genes that provide additional cancer-fighting properties. Phase I testing is underway on an orally available small molecule inhibitor of a key enzyme in the ras growth signaling pathway. Onyx has strategic product development and marketing alliances with Warner-Lambert Company, a wholly owned subsidiary of Pfizer, Inc., and Bayer Corporation. The company has maintained significant co-promotion rights in North America for its products.

Onyx common stock is traded on the Nasdaq National Market under the symbol ONXX.

TABLE OF CONTENTS

To Our Stockholders

2000 was a watershed year for Onyx. After publishing compelling results from Phase II trials of our novel therapeutic virus CI-1042 (formerly ONYX-015, and renamed by our clinical development partner, Warner-Lambert), we initiated a pivotal Phase III trial treating head and neck cancer, and also moved forward with additional Phase II trials in several other cancer types. In addition, we accelerated preclinical development of our second virus, ONYX-411, which targets cancers that have abnormal retinoblastoma (RB) tumor suppressor gene function. Like CI-1042, which targets cells with abnormal p53 tumor suppressor gene function, this new RB-specific virus addresses a large number of cancers. In fact, either or both of these two defense mechanisms are missing in almost all tumor cells.

We also saw proof of principle in preclinical studies of our first Armed Therapeutic Virus products – these are CI-1042 viruses with an inserted gene that activates a cancer-fighting agent – and we are now advancing these toward human trials. Finally, we continued to move forward with our one non-virus product, a small molecule drug designed to inhibit the raf kinase enzyme, a key signaling protein in the ras pathway that, when mutated, causes uncontrolled cell growth in several types of cancer. Our development partner, Bayer, has begun Phase I trials of this drug in the United States, Canada and Europe, and Phase II trials are slated to begin later this year.

SIGNIFICANT PRODUCT HIGHLIGHTS

	Partner	Status	Onyx U.S. Position
CI-1042	Warner-Lambert	Phase III	50%
CD Armed Virus	Warner-Lambert	Preclinical	50%
Cytokine Armed Virus	Warner-Lambert	Research	50%
Raf Kinase Inhibitor	Bayer	Phase I	50%
RB-Selective Virus	–	Preclinical	100% worldwide
CE Armed Virus	–	Research	100% worldwide
CYP450 Armed Virus	–	Research	100% worldwide
NR Armed Virus	–	Research	100% worldwide
Immunomodulatory Armed Virus	–	Research	100% worldwide

While proud of all our recent accomplishments, we are especially pleased with the progress of our virus-based products. These unique therapeutics are demonstrating potential in a broad array of cancers, and are proving to be adaptable to a variety of clinical applications. In other words, we are not simply developing a single lead product at Onyx; we are building a platform for widely applicable, potentially revolutionary new anticancer therapies. If we continue to succeed in clinical trials, this platform technology could give rise to multiple drugs, giving physicians a variety of effective weapons to attack many types of cancer.

The data we published in 2000 – in leading professional journals like *Nature Medicine* and *The Journal of Cancer Research* – are compelling and a cause for guarded optimism as we conduct our first Phase III pivotal trial over the next couple of years. The highlights of our published data are described briefly in the pages that follow, and I encourage you to review the positive clinical impact of our first product.

The strength of our scientific results has led to other important accomplishments over the past year, most notably our ability to attract the capital necessary to continue and expand our product development efforts. Early in 2000 we raised $23 million in private placements and in October we completed a successful follow-on public offering of 3.45 million shares of Onyx common stock that generated $48 million in net proceeds to the company. Our clinical successes also enabled us to negotiate a favorable CI-1042 co-development and commercialization partnership with Warner-Lambert in late 1999, and we received a research milestone payment of $3.7 million last year for our first Armed Therapeutic Virus.

Having sufficient capital is a key consideration for Onyx because, unlike many other firms developing novel therapeutics, our strategy is to remain an active participant in drug development and marketing. We intend to retain significant ownership and control of our approved products, not settle only for royalties or licensing revenues. As I wrote last year: "We are committed to building a successful U.S. oncology business that can extract greater value from the anticancer products we are pioneering."

This strategy is reflected in our partnership with Warner-Lambert, where we have kept 50% of net profits and U.S. marketing rights to CI-1042 and to two of the Armed Therapeutic Virus products we are co-developing. We will seek similar U.S. co-marketing rights if and when we establish partnerships for our RB-specific virus, and other Armed Therapeutic Viruses we develop. It is worth noting that we also have retained 50% U.S. profit sharing and co-promotion rights for the raf kinase small molecule drug we are developing with Bayer. We also have a nearly 50% profit sharing opportunity elsewhere in the world except Japan. As a result, we are co-funding half of this drug candidate's development cost.

Looking forward, we have several objectives for the balance of 2001 and into 2002.

First, we will continue patient accrual and dosing in our pivotal Phase III trial of CI-1042 for head and neck cancer. The trial began somewhat slower than we expected since we had to modify the virus production process to scale it up to provide commercial quantities. The start-up of this process and the initial small scale of existing production processes restricted our ability to supply CI-1042 in necessary volumes. This supply problem has been addressed through our recently announced strategic manufacturing relationship with XOMA, one of our industry's most experienced large-scale producers of biopharmaceuticals.

We will also be presenting data from our ongoing Phase I/II trials of CI-1042 in liver metastases of colorectal cancer and oral leukoplakia at the May 2001 meeting of the American Society of Clinical Oncology (ASCO). Other trials of CI-1042 are underway in pancreatic cancer, non-small-cell lung cancer and glioblastoma.

We expect to finish preclinical work on our RB-specific virus with a goal of initiating Phase I trials by mid-2002. We also expect to select at least one additional product candidate for clinical development by the end of 2001.

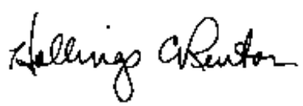
Bayer will present initial Phase I data on our raf kinase small molecule drug at the May 2001 ASCO meeting. If the results are positive, we expect to proceed with Phase II trials by the end of this year.

Clearly, Onyx is embarking on an active and potentially very rewarding phase of its corporate development. To make the most of the opportunities ahead of us we will need two things: capital and expertise. As discussed above, we have been successful in raising capital over the past year, and we will continue to seek strategic partnerships and other alternatives to ensure that we have the financial resources necessary to continue our product development efforts.

I'm delighted to say that we have also been successful in attracting to Onyx the kind of management expertise we will need as we move steadily closer to what we believe will be the commercial launch of our first product. In 1999, we began building a market-oriented team by hiring Helen Kim, a pharmaceutical industry veteran, as our Senior Vice President of Corporate Development. In 2000, Leonard Post, a senior pharmaceutical research executive from Warner-Lambert, joined Onyx as Senior Vice President for Research and Development. Early in 2001, we also were delighted to name Scott Freeman our new Vice President of Clinical Development. Scott joins Onyx from the Schering-Plough Research Institute, where he was director of clinical oncology projects. Finally, Scott Geyer was recently named our Vice President, Technical Operations, with responsibility for process and analytical development, manufacturing, product quality and regulatory. Scott has more than 20 years of experience in the development and production of biologicals, most recently at Protein Design Labs.

Each of these individuals is an experienced, well-regarded professional in the biopharmaceutical industry. Each could have chosen to work at almost any drug or biotechnology company. They chose to join Onyx because they recognized not only the potential of our unique therapeutic virus platform, but the demonstrable positive momentum we have established in the clinic, in the lab, and in the execution of our long-term business strategy.

All of us are committed to maintaining that momentum, and we look forward to reporting on our progress in what promises to be an exciting year ahead.



Hollings C. Renton
Chairman and Chief Executive Officer
April 2001

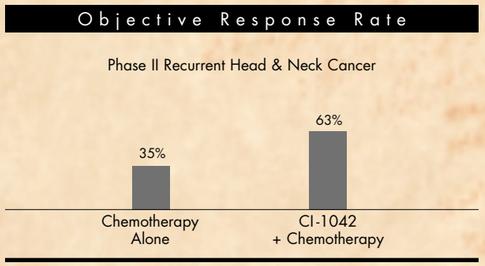
2000 HIGHLIGHTS

- Onyx and Warner-Lambert initiate Phase III trial of CI-1042 for head and neck cancer.
- Onyx publishes Phase II data confirming selective antitumor activity of CI-1042 in head and neck cancer patients as a single agent and in combination with chemotherapy.
- Onyx and Bayer begin Phase I testing of raf kinase inhibitor.
- Onyx receives milestone payment of $3.7 million from partner Warner-Lambert for demonstrating the scientific feasibility of the Armed Therapeutic Virus concept.
- Onyx selects ONYX-411 as a second therapeutic virus for clinical development.
- Onyx licenses prodrug-converting enzymes for its Armed Therapeutic Viruses.
- Onyx completes successful secondary offering, generating $48 million in net proceeds.
- Onyx raises $23 million in two private placements.

“It was a watershed year for Onyx.”

PHASE III

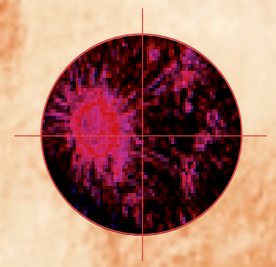
HEAD AND NECK CANCER



Nature Medicine – August 2000

A pivotal Phase III trial of Onyx's CI-1042 is now underway in head and neck cancer patients. The trial will include approximately 300 patients with recurrent head and neck cancer. The trial is a randomized, two-armed study, comparing CI-1042 administered in conjunction with the standard chemotherapies, 5-fluorouracil and cisplatin, versus chemotherapy alone.

In Phase II studies in head and neck cancer patients, CI-1042 combined with chemotherapy produced compelling results. Thirty evaluable patients with head and neck cancer no longer treatable with surgery or radiation received direct injection of the virus combined with cisplatin and 5-fluorouracil. Nineteen patients experienced tumor-mass regressions of more than 50% in their injected tumors (a 63% response rate) and eight of these patients experienced 100% regressions of their injected tumors. The objective response rate in historical studies of chemotherapy alone is approximately 35%. Further, based on Kaplan-Meier analysis, 83% of the injected tumors had not progressed six months after initial treatment, while in historical studies of chemotherapy alone, less than 40% of the patients' disease had not progressed. The overall median survival of patients in this study was ten-and-a-half months compared to the historical survival with chemotherapy alone of less than six months.



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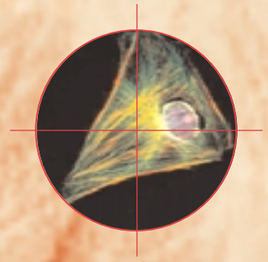
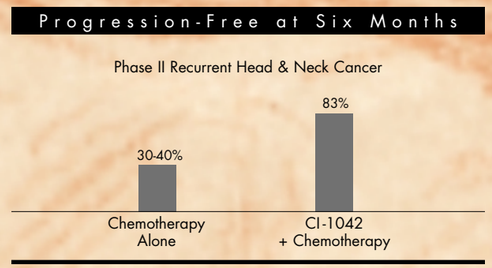




Nature Medicine – August 2000, Kaplan-Meier Analysis

In the same Phase II study of head and neck cancer, we analyzed patients acting as their own control. Eleven of the 30 patients in the study had multiple tumors. These eleven patients received a full regimen of intravenous chemotherapy, so all the patients' tumors were treated with chemotherapy. CI-1042 was injected into the largest tumor while the other tumors were left uninjected. Nine of the eleven injected tumors regressed more than 50%, while only three of the eleven uninjected tumors responded. What's more, based on Kaplan-Meier analysis, 89% of the injected tumors had not progressed six months after first dosing; this compares to only 44% of the uninjected tumors that did not progress at six months.

CI-1042 was also analyzed in Phase II trials as a single agent without accompanying chemotherapy. Of 21 evaluable end-stage head and neck patients receiving once-daily intratumoral injections for two five-day regimens, two individuals had a complete disappearance of their injected tumors, and three others had greater than 50% reduction in tumor size. These results demonstrate the ability of CI-1042 alone to selectively target and kill cancer cells with abnormalities in the p53 gene function, which has been shown to occur in the majority of all cancers.

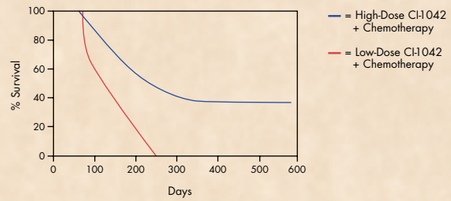
data

PHASE II

PANCREATIC, COLORECTAL AND OTHER CANCERS

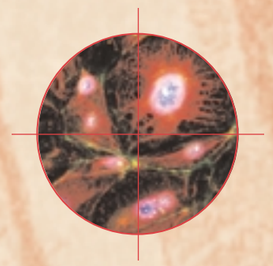
Dose-Related Survival Time

Phase I/II Liver Metastases of Colorectal Cancer



CI-1042 is also undergoing Phase II human trials targeting several other p53-deficient tumor types, including colorectal cancer that has metastasized to the liver, pancreatic cancer, lung cancer and oral leukoplakia, a type of precancerous lesion. The liver metastases of colorectal cancer trials are studying CI-1042 combined with two chemotherapies, 5-fluorouracil and leucovorin. The pancreatic cancer trial combines the virus with gemcitabine. Each trial is building on earlier data that demonstrated the ability to deliver the virus in two new ways: infusion via the hepatic artery to the liver and intratumoral injection directly into the pancreas through an ultrasound-guided endoscope.

Of the 33 evaluable patients who participated in our earlier Phase I/II studies of CI-1042 plus chemotherapy as a treatment for liver metastases of colorectal cancer, six patients were treated with low doses of CI-1042 and 27 patients were treated with higher doses. No patient who received low doses survived more than 250 days. However, 40% of the patients who received higher doses were alive more than one year. In our Phase I/II study in pancreatic cancer, 21 patients to date have received at least eight treatments of low doses of CI-1042 plus gemcitabine. Disease stabilized in six patients and four had minor responses, including one with a 47% decrease in tumor mass. This study is currently ongoing and additional patients will be treated at higher doses of CI-1042 plus gemcitabine.

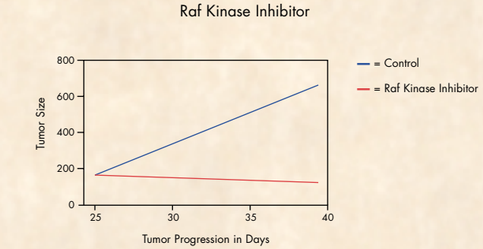


re sults

PHASE I

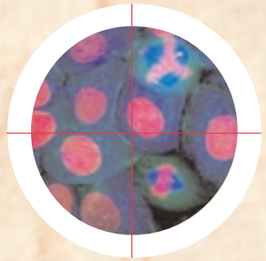
SMALL MOLECULE/RAF KINASE INHIBITOR

Preclinical Results



In addition to its unique therapeutic virus platform, Onyx is also developing a small molecule drug designed to inhibit the activity of the raf kinase enzyme, a protein in the ras cell-growth signaling pathway. In cancerous cells, the ras pathway is overactive and stimulates uncontrolled cell division. Our partner, Bayer, is conducting Phase I human safety trials of this orally available small molecule in patients with advanced cancers. Phase I clinical trials are being conducted in the United States, Germany, Canada and Belgium. Together with Bayer we expect to initiate Phase II clinical trials for this compound in late 2001.

Raf kinase is an enzyme that is part of the ras oncogene signaling pathway, which is considered important during tumor development. Inhibition of this enzyme has been found to block tumor growth in cellular and animal tumor models. Results of the preclinical studies demonstrated potent and dose-dependent inhibition of tumor growth by 50% to 80%, with this inhibition observed as long as dosing continued.

oppo  rtunity

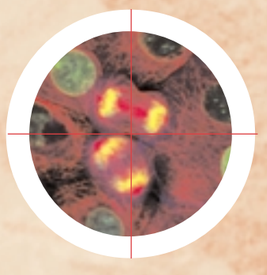
PRECLINICAL

NEW VIRAL THERAPIES

As part of its therapeutic virus platform, Onyx is developing an entirely new oncolytic therapeutic virus called ONYX-411. Where CI-1042 is designed to target only cells with abnormal p53 tumor suppressor gene function, ONYX-411 is engineered to kill tumor cells that have defects in the retinoblastoma or RB tumor suppressor gene function. In human cancer cells, RB pathway mutations are just as prevalent as p53 pathway mutations. Preclinical data showed *in vivo* tumor-killing activity in a wide array of tumor types, as well as enhanced safety compared to wild-type adenoviruses. Based on these preclinical data, we plan to file an Investigational New Drug application in the United States in 2002.

Based on our positive results to date, we believe Onyx has created a flexible therapeutic platform, and we are now developing other virus-based product candidates. In our Armed Therapeutic Virus program, we are inserting anticancer genes into the virus. These include genes that make enzymes that can convert nontoxic prodrug molecules into toxic chemotherapeutic agents. The goal of this therapy is to increase tumor-killing power by delivering more potent drug concentrations directly into tumors while minimizing toxicity to normal cells. We have already shown proof of concept for this approach in animal models with an engineered CI-1042 carrying and expressing a gene called cytosine deaminase that converts 5-fluorocytosine, a nontoxic prodrug, into the chemotherapy 5-fluorouracil. This proof of concept resulted in a $3.7 million milestone payment from Warner-Lambert.

platform



Selected Financial Data

The following table summarizes certain selected financial data for each of the five years ended December 31, 2000. The information presented should be read in conjunction with the financial statements and notes included elsewhere in this Annual Report.

	Year Ended December 31,				
(In thousands, except per share data)	2000	1999	1998	1997	1996
Statement of Operations Data:					
Total revenue	$ 24,180	$ 13,324	$ 11,314	$ 7,799	$ 8,302
Operating expenses:					
Research and development	26,879	23,627	25,383	20,715	14,767
General and administrative	7,508	5,341	5,275	5,089	3,527
Loss from operations	(10,207)	(15,644)	(19,344)	(18,005)	(9,992)
Interest income, net	2,728	842	1,685	1,980	1,575
Net loss	$ (7,479)	$ (14,802)	$ (17,659)	$ (16,025)	$ (8,417)
Basic and diluted net loss per share	$ (0.50)	$ (1.29)	$ (1.56)	$ (1.65)	$ (1.31)
Shares used in computing basic and diluted net loss per share	14,896	11,503	11,289	9,707	6,401

	December 31,				
(In thousands)	2000	1999	1998	1997	1996
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 81,994	$ 14,463	$ 32,160	$ 35,472	$ 40,329
Total assets	88,597	21,628	37,207	41,858	45,779
Working capital	74,209	6,773	19,591	27,885	36,483
Long-term debt, noncurrent portion	–	183	2,382	4,336	99
Accumulated deficit	(85,552)	(78,073)	(63,271)	(45,612)	(29,587)
Total stockholders' equity	$ 76,896	$ 7,662	$ 21,619	$ 28,821	$ 40,923

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. When used herein, the words "may," "will," "expects," "anticipates," "estimates," "intends," "plans," "predicts," "potential," "believe," "should" and similar expressions are intended to identify such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Business" and "Additional Business Risks," as well as those discussed elsewhere in our Annual Report on Form 10-K.

Overview

We are developing innovative products for the treatment of cancer. Based on our proprietary virus technology, we are developing our lead product, CI-1042. We have completed two Phase II clinical trials evaluating CI-1042 as a treatment for head and neck cancer. Based on the data from these trials, we initiated a 300-patient, multicenter Phase III clinical trial of CI-1042 administered by intratumoral injection in patients with head and neck cancer. This Phase III clinical trial is being conducted in conjunction with Warner-Lambert, our collaborator for the development and commercialization of CI-1042. We are also evaluating CI-1042 in clinical trials for several additional cancer indications. In addition to CI-1042, we are conducting a number of research and development programs based on our virus technology as well as our small molecule drug discovery efforts. In collaboration with Bayer Corporation, we have initiated a Phase I clinical trial of a raf kinase inhibitor in patients with cancer. Further, we are developing human viruses that selectively replicate in and kill cancer cells based on mutations or loss of function of the retinoblastoma, or RB, tumor suppressor gene. Pending the final results of ongoing preclinical studies, we intend to file an IND for a product candidate from the RB program in 2002.

We have not been profitable since inception and expect to incur substantial and increasing losses for the foreseeable future, primarily due to expenses associated with the expansion of our self-funded virus research and development programs. We expect that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial. As of December 31, 2000, our accumulated deficit was approximately $85.6 million.

Our business is subject to significant risks, including the risks inherent in our research and development efforts, the results of the CI-1042 clinical trials, dependence on collaborative parties, uncertainties associated with obtaining and enforcing patents, the lengthy and expensive regulatory approval process and competition from other products. We do not expect to generate revenues from the sale of proposed products in the foreseeable future. We expect that all of our revenues in the foreseeable future will be generated from collaboration agreements.

In January 2001, we signed a process development and manufacturing agreement with XOMA (US) LLC. Under the terms of the agreement, XOMA will develop a large-scale process and will manufacture CI-1042 for clinical trials and commercial production.

In March 2001, we sold and issued 460,872 shares of common stock to Warner-Lambert in a private placement, at a price of $10.849 per share, for aggregate net proceeds of $5 million.

Results of Operations

Years Ended December 31, 2000, 1999 and 1998

Total Revenue. Our total revenues in each of the last three years were derived almost exclusively from collaborative research and development programs with Warner-Lambert, Bayer and Eli Lilly & Company. The approximate revenue from each of our programs, and other sources for each of the past three years was as follows:

	Year Ended December 31,		
(In millions)	2000	1999	1998
Warner-Lambert:			
CI-1042 and Armed Therapeutic Viruses	$ 18.6	$ 4.0	$ –
Cell Cycle	2.5	2.7	2.8
Inflammation	2.7	3.3	3.1
Bayer	0.1	1.8	3.7
Eli Lilly & Company	–	0.5	1.2
Total contract revenues	23.9	12.3	10.8
All other sources	0.3	1.0	0.5
Total revenues	$ 24.2	$ 13.3	$ 11.3

Total revenues increased by 81 percent from 1999 to 2000 and 18 percent from 1998 to 1999, in each case primarily as a result of increased contract revenues. Total contract revenues increased in 2000 from total contract revenues in 1999 because we recognized a full year of revenues under the Warner-Lambert CI-1042 and armed virus collaboration agreement, including a $3.7 million payment received upon the completion of a research milestone. This collaboration agreement was in effect for only four months of 1999.

Total contract revenues are expected to decrease in 2001 from total contract revenues in 2000 because the cell cycle and inflammation collaboration agreements with Warner-Lambert are due to expire in August 2001. We do not anticipate extending the research term beyond this date. In January 1999, our research collaboration with Bayer concluded. Based on this research, we and Bayer identified a development candidate, and we are co-funding clinical trials with Bayer. As a result, we did not recognize any revenue in 2000 from this program. In June 1999, the collaboration program with Eli Lilly & Company expired pursuant to the terms of the agreement and as a result, we will not recognize any future revenues under this program.

Research and Development Expenses. Research and development expenses were $26.9 million in 2000, $23.6 million in 1999 and $25.4 million in 1998. The 2000 expense increase of 14 percent was primarily due to increased clinical trial expenses. In collaboration with Bayer, we have initiated a Phase I clinical trial of a raf kinase inhibitor and are currently co-funding 50 percent of clinical development costs. Also contributing to the increase in research and development expenses for 2000 were contract manufacturing expenses as production increased to provide CI-1042 for our Phase III clinical trials and various Phase I/II clinical trials. The 1999 expense decrease of seven percent was primarily due to the transition of the ras program from research to development. We expect to continue to expand the scope of our self-funded virus research and development programs in future periods, which may result in substantial increases in research and development expenses. Collaborators may not fund these research and development expenses.

General and Administrative Expenses. General and administrative expenses were $7.5 million in 2000, and $5.3 million in 1999 and 1998. The 2000 expense increase of 41 percent was primarily due to increased employee-related expenses for the hiring of additional staff. General and administrative expenses for 1999 and 1998 remained at essentially the same level. It is anticipated that general and administrative expenses may increase moderately in future periods to support our research and development efforts.

Net Interest Income. We had net interest income of $2.7 million in 2000, $0.8 million in 1999 and $1.7 million in 1998. The increase in net interest income in 2000 was principally due to the increased cash and investment balances from the $17.8 million private placement financing of common stock in January 2000, the $5.0 million common stock issuance to Warner-Lambert in February 2000, and the $48.1 million follow-on public offering of common stock in October 2000. This resulted in more interest income for the year ended December 31, 2000. Net interest income decreased by 50 percent in 1999 primarily due to a lower average balance of cash, cash equivalents and short-term investments.

Income Taxes. Since our inception, we have incurred operating losses and accordingly have not recorded a provision for income taxes for any of the periods presented. As of December 31, 2000, our net operating loss carryforwards for federal income tax purposes were approximately $75.6 million and for state income tax purposes were approximately $3.1 million. We also had federal research and development tax credit carryforwards of approximately $2.8 million. If not utilized, the net operating loss and credit carryforwards will expire at various dates beginning in 2002 through 2020. Utilization of net operating losses and credits may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code of 1986. The annual limitation may result in the expiration of our net operating loss and credit carryforwards before they can be used. Please read Note 9 of the Notes to the Financial Statements for further information.

Liquidity and Capital Resources

Since our inception, our cash expenditures have substantially exceeded our revenues, and we have relied primarily on the proceeds from the sale of equity securities and revenue from collaborative research and development agreements to fund our operations.

At December 31, 2000, we had cash and investments of $82.0 million, compared to $14.5 million at December 31, 1999, and $32.2 million at December 31, 1998. The increase of $67.5 million in 2000 was attributable to several sources. In January 2000, we completed a private placement of common stock, which raised $17.8 million. In February 2000, we sold common stock to Warner-Lambert, which raised $5.0 million. In October 2000, we raised $48.1 million of net proceeds from our public offering of 3.45 million shares of our common stock. In addition, we received $4.5 million of cash from the exercise of stock options by our employees. These increases were partially offset by cash used in operations of $4.4 million, the repayment of debt of $2.2 million and capital expenditures of $1.6 million. The decrease of $17.7 million in 1999 was primarily due to cash used in operations of $14.7 million, repayment of debt of $2.2 million and capital expenditures of $1.3 million.

Our cash used in operations was $4.4 million in 2000, $14.7 million in 1999 and $10.5 million in 1998. The cash was used primarily to fund increasing levels of research and development and the general and administrative expenses necessary to support increased operations. Expenditures for capital equipment amounted to $1.6 million in 2000, as compared to $1.3 million in 1999, and $1.2 million in 1998. We currently expect to make expenditures for capital equipment and leasehold improvements of approximately $4.4 million in 2001.

We believe that our existing capital resources and interest thereon including the $5.0 million received from Warner-Lambert in March 2001 and anticipated revenues from existing collaborations will be sufficient to fund our current and planned operations through mid-2002. Changes in our research and development plans, revenues from collaborators or other changes affecting our operating expenses may result in the expenditure of these resources before mid-2002, and in any event, we will need to raise substantial additional capital to fund our operations in future periods. We intend to seek this additional funding through collaborations, public and private equity or debt financings, capital lease transactions or other available financing sources. Additional financing may not be available on acceptable terms, if at all. If additional funds are raised by issuing equity securities, substantial dilution to existing stockholders may result. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our research or development programs or to obtain funds through collaborations with others that are on unfavorable terms or that may require us to relinquish rights to certain of our technologies, product candidates or products that we would otherwise seek to develop on our own.

Recently Issued Accounting Standards

In July 1999, the Financial Accounting Standards Board, or FASB, announced the delay of the effective date of Statement of Financial Reporting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133. Also, in June 2000, the FASB issued Statement of Financial Reporting Standards No. 138, an amendment to SFAS 133. SFAS 133, as amended, required that all derivative instruments be recorded on the balance sheet at their fair value. Change in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if so, the type of hedge transaction. We must adopt SFAS 133, as amended, on January 1, 2001. Management does not currently expect that adoption of SFAS 133, as amended, will have a material impact on our financial position or results of operations.

In March 2000, the FASB issued FASB Interpretation, or FIN, No. 44, "Accounting for Certain Transactions Involving Stock Compensation-an interpretation of Accounting Principles Board, or APB, Opinion No 25." FIN 44 clarifies the application of APB Opinion No. 25 and was effective July 1, 2000. The adoption of FIN 44 did not have a material effect on our financial position, operating results or cash flow.

In December 1999, the Securities and Exchange Commission, or SEC, issued SEC Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. Our current revenue recognition policy is consistent with the guidance of SAB 101; therefore, the adoption of SAB 101 on January 1, 2000, had no impact on our financial position or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. By policy, we place our investments with high quality debt security issuers, limit the amount of credit exposure to any one issuer, limit duration by restricting the term, and hold investments to maturity except under rare circumstances. We classify our cash equivalents or short-term investments as fixed rate if the rate of return on an instrument remains fixed over its term. As of December 31, 2000, all of our cash equivalents and short-term investments are classified as fixed rate.

The table below presents the amounts and related weighted interest rates of Onyx's cash equivalents and short-term investments at December 31, 2000:

	Maturity	Fair Value (in $ millions)	Average Interest Rate
Cash equivalents, fixed rate	Daily	$ 75.1	6.30%
Short-term investments, fixed rate	0-1 year	$ 6.9	6.76%

Balance Sheets

(In thousands, except share and per share amounts)	December 31, 2000	1999
Assets		
Current Assets:		
Cash and cash equivalents	$ 75,126	$ 12,671
Short-term investments	6,868	1,792
Receivable from related party	2,254	3,300
Other current assets	829	460
Total current assets	85,077	18,223
Property and equipment, net	3,132	3,000
Notes receivable from related parties	322	386
Other assets	66	19
	$ 88,597	$ 21,628
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 2,056	$ 2,149
Accrued liabilities	1,038	1,194
Accrued clinical trials and related expenses	3,109	1,110
Accrued compensation	1,299	1,250
Deferred revenue	3,183	3,548
Long-term debt, current portion	183	2,199
Total current liabilities	10,868	11,450
Long-term debt, noncurrent portion	–	183
Long-term deferred revenue	833	2,333
Commitments		
Stockholders' Equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued and outstanding	–	–
Common stock, $0.001 par value; 50,000,000 shares authorized; 17,962,332 and 11,551,681 shares issued and outstanding as of December 31, 2000 and 1999, respectively	18	12
Additional paid-in capital	162,430	85,723
Accumulated deficit	(85,552)	(78,073)
Total stockholders' equity	76,896	7,662
	$ 88,597	$ 21,628

See accompanying notes.

Statements of Operations

(In thousands, except per share amounts)	Year Ended December 31, 2000	1999	1998
Revenue:			
Contract revenue ($23,854, $11,718 and $9,607 from related parties during 2000, 1999 and 1998, respectively)	$ 23,854	$ 12,262	$ 10,808
Grant and other revenue	326	1,062	506
Total revenue	24,180	13,324	11,314
Operating expenses:			
Research and development	26,879	23,627	25,383
General and administrative	7,508	5,341	5,275
Total operating expenses	34,387	28,968	30,658
Loss from operations	(10,207)	(15,644)	(19,344)
Interest income	2,860	1,158	2,225
Interest expense	(132)	(316)	(540)
Net loss	$ (7,479)	$ (14,802)	$ (17,659)
Basic and diluted net loss per share	$ (0.50)	$ (1.29)	$ (1.56)
Shares used in computing basic and diluted net loss per share	14,896	11,503	11,289

See accompanying notes.

Statement of Stockholders' Equity

(In thousands, except share and per share amounts)	Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 1997	9,850,518	$ 10	$ 74,836	$ (413)	$ (45,612)	$ 28,821
Exercise of stock options at prices ranging from $0.0071 to $10.875 per share	153,870	–	159	–	–	159
Issuance of common stock for private placement (net of issuance costs of $154)	1,403,508	1	9,845	–	–	9,846
Amortization of deferred compensation	–	–	–	219	–	219
Issuance of common stock pursuant to employee stock purchase plan	44,561	–	233	–	–	233
Net loss	–	–	–	–	(17,659)	(17,659)
Balances at December 31, 1998	11,452,457	11	85,073	(194)	(63,271)	21,619
Exercise of stock options, net of repurchases, at prices ranging from $1.07 to $9.00 per share	72,577	1	211	–	–	212
Amortization of deferred compensation	–	–	–	194	–	194
Stock-based compensation, related to non-employee option grants	–	–	294	–	–	294
Issuance of common stock pursuant to employee stock purchase plan	26,647	–	145	–	–	145
Net loss	–	–	–	–	(14,802)	(14,802)
Balances at December 31, 1999	11,551,681	12	85,723	–	(78,073)	7,662
Exercise of stock options, at prices ranging from $0.0071 to $16.25 per share	648,938	1	4,542	–	–	4,543
Issuance of common stock for private placement, net of offering costs of $181	2,000,000	2	17,817	–	–	17,819
Issuance of common stock to Warner-Lambert	279,470	–	5,000	–	–	5,000
Issuance of common stock in connection with secondary public offering (net of issuance costs of $3,686)	3,450,000	3	48,061	–	–	48,064
Stock-based compensation, related to non-employee option grants	–	–	1,049	–	–	1,049
Issuance of common stock pursuant to employee stock purchase plan	32,243	–	238	–	–	238
Net loss	–	–	–	–	(7,479)	(7,479)
Balances at December 31, 2000	17,962,332	$ 18	$ 162,430	$ –	$ (85,552)	$ 76,896

See accompanying notes.

Statements of Cash Flows

(In thousands)	Year Ended December 31, 2000	1999	1998
Cash Flows From Operating Activities			
Net loss	$ (7,479)	$ (14,802)	$ (17,659)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,460	2,030	2,022
Forgiveness of notes receivable	47	150	127
Stock-based compensation and amortization of deferred compensation	1,049	488	219
Changes in assets and liabilities:			
Receivable from related party	1,046	(3,300)	–
Other current assets	(389)	149	393
Other assets	(47)	40	(49)
Accounts payable	(93)	(222)	1,052
Accrued liabilities	(156)	(569)	283
Accrued clinical trials and related expenses	1,999	(1,066)	472
Accrued compensation	49	(101)	605
Deferred revenue	(1,865)	2,563	2,109
Deferred rent	–	(28)	(84)
Net cash used in operating activities	(4,379)	(14,668)	(10,510)
Cash Flows From Investing Activities			
Purchases of short-term investments	(11,074)	(2,783)	(12,492)
Sales and maturities of short-term investments	5,998	11,783	18,344
Capital expenditures	(1,592)	(1,300)	(1,191)
Notes receivable from related parties	37	113	37
Net cash (used in) provided by investing activities	(6,631)	7,813	4,698
Cash Flows From Financing Activities			
Borrowings under long-term debt	–	–	225
Payments on long-term debt	(2,199)	(2,199)	(2,110)
Net proceeds from issuances of common stock, net of repurchases	75,664	357	10,237
Net cash provided by (used in) financing activities	73,465	(1,842)	8,352
Net increase (decrease) in cash and cash equivalents	62,455	(8,697)	2,540
Cash and cash equivalents at beginning of year	12,671	21,368	18,828
Cash and cash equivalents at end of year	$ 75,126	$ 12,671	$ 21,368
Supplemental Disclosure of Cash Flow Information			
Interest paid during the year	$ 141	$ 324	$ 540

See accompanying notes.

Note 1. Summary of Significant Accounting Policies

The Company
Onyx Pharmaceuticals, Inc. ("Onyx" or "the Company") was incorporated on February 14, 1992 and commenced operations on April 24, 1992. Onyx is engaged in the discovery and development of novel cancer therapies.

Revenue Recognition
Revenue related to collaborative research agreements with corporate partners is recognized ratably over the related funding periods for each contract. The Company is required to perform research activities as specified in each respective agreement on a best efforts basis, and the Company is reimbursed based on the costs associated with the number of full-time equivalent employees working on each specific contract, which is generally on a ratable basis over the term of the agreement. Deferred revenue may result when the Company does not incur the required level of effort during a specific period in comparison to funds received under the respective contracts. Milestone payments are recognized pursuant to collaborative agreements upon the achievement of specified milestones, representing the culmination of the earnings process, for financial accounting purposes. These milestones can include the selection of candidates for drug development, the commencement of clinical trials or receipt of regulatory approvals.

Revenue related to the collaborative development expenses for CI-1042 with Warner-Lambert Company ("Warner-Lambert") is recognized as the expenses are incurred. Warner-Lambert is providing $40.0 million in funding for the Phase III clinical trials and other ongoing clinical development studies for CI-1042. The clinical development costs of products will be shared 75 percent by Warner-Lambert and 25 percent by Onyx, after Warner-Lambert has provided the committed funding for CI-1042. In addition, the Company received a $5.0 million up-front payment in 1999, for which revenue has been deferred, and is being recognized systematically over the periods that the fees are earned, ranging from two to four years.

The Company receives certain revenue from United States government grants that supports the Company's research effort in defined research projects. These grants generally provide for reimbursement of approved costs incurred as defined in the various grants. Revenue of $245,000, $431,000 and $456,000 was recognized in 2000, 1999 and 1998, respectively. Revenue associated with these grants was recognized as costs under each grant were incurred.

Use of Estimates and Reclassifications
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In addition, certain amounts that were previously reported have been reclassified to conform to the current period presentation.

Research and Development
Research and development expenses consist of costs incurred for independent and collaborative research and development. These costs include direct and research-related overhead expenses. Research and development expenses under the collaborative research and development agreements approximate the revenue recognized under the collaborative agreements, exclusive of milestone payments received.

Cash Equivalents and Short-Term Investments
The Company considers all highly liquid investments with a maturity from the date of purchase of three months or less to be cash equivalents. All other liquid investments are classified as short-term investments. These instruments consist primarily of corporate commercial paper and money market funds. Concentration of risk is limited by diversifying investments among a variety of industries and issuers.

Management determines the appropriate classification of securities at the time of purchase. At December 31, 2000 and 1999, all securities are designated as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive loss. The amortized cost of securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. The cost of securities sold is based on the specific identification method. The estimated fair values have been determined by the Company using available market information. Realized gains and losses and declines in value judged to be other than temporary for available-for-sale securities are included in the statements of operations. There were no such gains or losses, realized or unrealized, in each of the three years ended December 31, 2000, 1999, and 1998, respectively. Interest and dividends on securities classified as available-for-sale are included in interest income.

Property and Equipment
Property and equipment are stated on the basis of cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, generally two to five years. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the related assets, generally three to ten years.

Stock-Based Compensation
The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

All stock option awards to non-employees are accounted for at the fair value of the consideration received or the fair value of the equity instrument issued, as calculated using the Black-Scholes model, in accordance with FAS 123 and Emerging Issues Task Force Consensus No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." The option arrangements are subject to periodic remeasurement over their vesting terms. The Company recorded compensation expense related to option grants to non-employees of $1.0 million for the year ended December 31, 2000, $294,000 for the year ended December 31, 1999, and none for the year ended December 31, 1998.

Net Loss Per Share
Basic and diluted net loss per share are presented in conformity with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," for all periods presented. In accordance with SFAS No. 128, basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period.

A reconciliation of shares used in the calculation of basic and diluted net loss per share follows:

	Year Ended December 31,		
(In thousands,except per share amounts)	2000	1999	1998
Basic and Diluted			
Weighted average shares of common stock outstanding	14,896	11,503	11,292
Shares subject to repurchase	–	–	(3)
Weighted average shares of common stock outstanding used in computing basic and diluted net loss per share	14,896	11,503	11,289
Basic and diluted net loss per share	$ (0.50)	$ (1.29)	$ (1.56)

The following potentially dilutive outstanding securities were not considered in the computation of diluted net loss per share because they would be antidilutive for each of the years ended December 31:

(In thousands)	2000	1999	1998
Stock options for the purchase of shares of common stock	1,795	2,011	1,483

Comprehensive Loss
As of January 1, 1998, the Company adopted FASB Statement No. 130 ("SFAS 130"), "Reporting Comprehensive Income." The adoption of SFAS 130 had no impact on the Company's net loss or stockholders' equity. SFAS 130 requires unrealized gains or losses on available-for-sale securities, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive loss. During the years ended December 31, 2000, 1999 and 1998, total comprehensive loss equaled net loss.

Concentration of Credit Risk and Significant Research Partners
Financial instruments that potentially subject Onyx to concentration of credit risk consist principally of cash equivalents, short-term investments and trade receivables. Onyx invests cash that is not required for immediate operating needs principally in money market funds and corporate securities.

Onyx research partners are currently concentrated in the United States and one partner accounted for 99 percent of revenue for the year ended December 31, 2000. Onyx performs evaluations of its partners' financial condition and does not require collateral.

Recently Issued Accounting Standards
In July 1999, the FASB announced the delay of the effective date of Statement of Financial Reporting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133. Also, in June 2000, the FASB issued Statement of Financial Reporting Standards No. 138, an amendment to SFAS 133. SFAS 133, as amended, required that all derivative instruments be recorded on the balance sheet at their fair value. Change in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if so, the type of hedge transaction. The Company must adopt SFAS 133, as amended, on January 1, 2001. Management does not currently expect that adoption of SFAS 133, as amended, will have a material impact on the Company's financial position or results of operations.

In March 2000, the FASB issued FASB Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation-an interpretation of Accounting Principles Board (APB) Opinion No 25." FIN 44 clarifies the application of APB Opinion No. 25 and was effective July 1, 2000. The adoption of FIN 44 did not have a material effect on Onyx Pharmaceuticals' financial position, operating results or cash flow.

In December 1999, the Securities and Exchange Commission (SEC) issued SEC Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles

to revenue recognition in financial statements. Onyx believes that its current revenue recognition policy is consistent with the guidance of SAB 101. Therefore the adoption of SAB 101 on January 1, 2000, had no impact on the Company's financial position or results of operations.

Note 2. Collaborative Agreements

Warner-Lambert Company

CI-1042 and Two Armed Therapeutic Viruses

Effective September 1999, the Company entered into an agreement with Warner-Lambert for the purpose of developing and commercializing CI-1042 and two armed therapeutic viruses. Under the terms of this agreement, the Company has the right to co-promote CI-1042 and the two armed virus products with Warner-Lambert in the United States and Canada. The Company also has the right to share equally in resulting profits or losses in these territories. Additionally, Warner-Lambert is responsible for commercializing the products in the rest of the world and is obligated to pay the Company a royalty on net sales in these markets.

Warner-Lambert will provide $40.0 million in funding for the Phase III clinical trials and other clinical development studies for CI-1042. The clinical development costs of the products will be shared 75 percent by Warner-Lambert and 25 percent by Onyx after Warner-Lambert has provided the committed funding of $40.0 million for CI-1042. In addition, Warner-Lambert will provide support for the research and preclinical development of the two new armed anticancer therapeutic viruses. When a product candidate is selected for clinical development, Onyx may co-fund 25 percent of the development costs to retain profit-sharing and co-promotion rights in North America. If the Company chooses not to, or does not, fund its 25 percent portion of the development expenses and does not provide the minimum level of promotional support, then Onyx would not share in the profits and instead would receive a royalty on net sales.

Under terms of the agreement, Warner-Lambert made an up-front payment of $5.0 million in October 1999, and the Company received the right to require Warner-Lambert to purchase an equity investment of $5.0 million in both 2000 and 2001. The Company exercised the first of its two rights in February 2000 by issuing 279,470 of its common shares to Warner-Lambert. In addition, the Company exercised its second right in March 2001 by issuing 460,872 of its common shares to Warner-Lambert. See Note 11, "Subsequent Events."

Revenue recognized under this agreement was $18.6 million for the year ended December 31, 2000. This included $12.9 million for research and clinical development funding, $3.7 million for a payment received upon the completion of a research milestone and $2.0 million related to the amortization of the $5.0 million up-front payment received in 1999. The up-front payment has been included in deferred revenue and is being recognized over the period when the fees are earned, ranging from two to four years. For the year ended December 31, 1999, revenue recognized under this agreement was $4.0 million. This included $3.3 million for clinical development funding and $667,000 related to the amortization of the up-front payment. Expenses related to this program were $20.1 million in 2000 and $14.4 million in 1999. At December 31, 2000 and 1999, Onyx held a $2.3 million and $3.3 million receivable from Warner-Lambert, respectively, related to Phase III clinical trials and other development studies for CI-1042.

Cell Cycle Agreement

In May 1995, the Company entered into a research and development collaboration agreement with Warner-Lambert to discover and commercialize small molecule drugs that restore control of or otherwise intervene in the misregulated cell cycle in tumor cells. Under this agreement, the Company developed screening assays for jointly selected targets, and transferred these assays to Warner-Lambert for screening of their compound library to identify active compounds. Warner-Lambert is responsible for subsequent medicinal chemistry and preclinical investigations on the active compounds. Warner-Lambert is obligated to conduct and fund all clinical development, make regulatory filings and manufacture for sale the collaboration compounds. Research under this agreement has been extended through August 2001, but the Company does not expect the research term under this agreement to extend beyond this date. Thereafter, Warner-Lambert may develop products identified during the research term and the Company could receive milestone payments on clinical development and registration and royalties on worldwide sales of these marketed products.

Revenues recognized under these agreements were $2.5 million, $2.7 million and $2.8 million for the years ended December 31, 2000, 1999 and 1998, respectively. Expenses related to these agreements were $3.2 million, $3.0 million and $3.1 million for the years ended December 31, 2000, 1999, and 1998, respectively.

Inflammation Agreement

In July 1997, the Company entered into a three-year research and development collaboration agreement with Warner-Lambert to discover and commercialize small molecule drugs for the treatment of acute and chronic inflammatory disorders. The obligations of the parties are similar to those agreed to under the cell cycle program agreement and each party must dedicate a specified minimum number of researchers to the collaboration. Research under this agreement has been extended through August 2001, but the Company does not expect the research term under this agreement to extend beyond this date. Thereafter, Warner-Lambert may develop products identified during the research term and the Company could receive milestone payments based on the development and registration of any resulting products and royalties on worldwide sales of these marketed products.

Revenues recognized under this agreement were $2.7 million, $3.3 million and $3.1 million for the years ended December 31, 2000, 1999 and 1998, respectively. Expenses related to this agreement were $2.8 million, $2.9 million and $2.3 million for the years ended December 31, 2000, 1999, and 1998, respectively.

Bayer Corporation

In May 1994, the Company entered into a five-year collaborative agreement with Bayer Corporation, to discover, develop and market compounds that inhibit the function, or modulate the activity, of the ras signaling pathway or that appropriately modulate the activity of this pathway to treat cancer and other diseases. The Company and Bayer concluded collaborative research under this agreement in 1999. Based on this research, the Company and Bayer identified a development candidate, a compound that inhibits ras signaling in cells by inhibiting raf kinase. In collaboration with Bayer, we have initiated a Phase I clinical trial in Germany, the United States, Canada and Belgium.

Bayer has paid all the costs of research and preclinical development of this drug candidate. Under our agreement with Bayer, we have the opportunity to co-fund 50 percent of clinical development costs worldwide, excluding Japan. With the initiation of Phase I clinical trials, we are currently co-funding 50 percent of clinical development costs. Bayer will fund 100 percent of development costs in Japan and pay us a royalty on sales. If we continue to co-fund and we exercise our right to co-promote in the United States, we would share equally in profits or losses. If we continue to co-fund but do not co-promote in the United States, Bayer would first receive a portion of the product revenues to repay Bayer for its commercialization infrastructure, before determining our share of profits and losses. In other parts of the world except Japan, Bayer would also receive this preferential distribution. If we elect to share in development costs, Bayer would pay us substantial development milestone payments based on the product's progress through clinical trials. These milestone payments would be repayable to Bayer from our share of profits and royalties. At any time during product development, either company may terminate its participation in development costs, in which case the other party would retain exclusive rights to the product on a royalty-bearing basis. If we do not continue to bear 50 percent of product development costs, Bayer would retain exclusive, worldwide rights to this product candidate and would pay royalties to us on net sales.

No revenues were recognized under this agreement in 2000. Revenues recognized were $1.8 million and $3.7 million for the years ended December 31, 1999 and 1998, respectively. Our share for funding the clinical development costs, which commenced in July 2000, was $2.3 million for 2000. Research expenses related to this contract were $300,000 and $4.3 million for the years ended December 31, 1999 and 1998, respectively.

Eli Lilly & Company

On May 15, 1995, the Company entered into a one-year collaborative research and license agreement with Eli Lilly & Company ("Eli Lilly") to discover and develop targets for drug discovery in the modulation of the BRCA1 breast cancer gene pathway. Research focused around the BRCA1 gene licensed by Eli Lilly from Myriad Genetics, Inc. Eli Lilly retains exclusive rights to the BRCA1 gene.

On June 12, 1996, the agreement with Eli Lilly was expanded and extended through June 12, 1999. The agreement expired without being renewed in June 1999, and no further research is being undertaken on the project.

Revenue recognized under this agreement was $543,000 and $1,200,000 for the years ended December 31, 1999 and 1998, respectively. Expenses related to this agreement were $635,000 and $1.2 million for the years ended December 31, 1999 and 1998, respectively.

Note 3. Investments

The following is a summary of available-for-sale marketable securities:

	Estimated Fair Value	
	December 31,	
(In thousands)	2000	1999
Cash Equivalents:		
U.S. corporate securities	$ –	$ 3,952
Money market funds	75,125	8,719
Total cash equivalents	$75,125	$12,671
Short-term Investments:		
U.S. corporate securities	$ 6,868	$ 1,792

As of December 31, 2000 and 1999, the difference between the fair value and the amortized cost of available-for-sale securities was insignificant. The average portfolio maturity is approximately eight months, and the contractual maturity of each of the investments does not exceed one year.

Note 4. Property and Equipment

Property and equipment consist of the following:

(In thousands)	December 31, 2000	1999
Machinery and equipment	$ 8,369	$ 7,440
Furniture and fixtures	589	565
Leasehold improvements	4,228	4,141
	13,186	12,146
Less accumulated depreciation and amortization	(10,054)	(9,146)
	$ 3,132	$ 3,000

Note 5. Long-Term Debt

Line of Credit

In March 1997, the Company borrowed $6,596,000 under a line of credit arrangement with a bank that bears an interest rate of prime plus 1%. Equal monthly payments of principal plus interest are required in order to repay the outstanding balance by January 15, 2001. The line is secured by certain assets of the Company and contains covenants related to maintaining debt-to-equity ratios, tangible net worth minimums, cash and investment balances, as well as a restriction on paying dividends or repurchasing stock. As of December 31, 2000, $183,000 was outstanding on the line of credit at an annual interest rate of 10.5%.

Note 6. Facility Lease

The Company occupies a total of approximately 62,000 square feet of office and laboratory space in Richmond, California. The lease for the Company's primary facility expires in April 2005 with an option to extend the lease for an additional five years. The lease for the majority of space in the Company's secondary facility expires in September 2010 with renewal options at the end of the lease for two subsequent five-year terms. The lease for 3,000 square feet in the Company's secondary facility expires in October 2003 with renewal options at the end of the lease term for three years and four years. Minimum annual rental commitments under all operating leases at December 31, 2000 are as follows (in thousands):

Year Ending December 31:	
2001	$ 771
2002	790
2003	804
2004	796
2005	327
Thereafter	418
	$ 3,906

Rent expense for the years ended December 31, 2000, 1999 and 1998, was approximately $614,000, $423,000 and $408,000, respectively.

Note 7. Related Party Transactions

The Company has loans with certain former employees of which $322,000 and $386,000 were outstanding at December 31, 2000 and 1999, respectively. These loans bear interest at rates ranging from 0.0% to 6.49% per annum.

Note 8. Stockholders' Equity

In March 1996, the Board amended and restated the 1992 Incentive Stock Plan, renamed it as the 1996 Equity Incentive Plan (the "Incentive Plan") and reserved 1,725,000 shares for issuance under the Incentive Plan. At the Company's annual meetings of stockholders in June 2000, May 1999, May 1998 and May 1997, an additional 400,000, 300,000, 300,000 and 600,000 shares, respectively, were authorized for issuance under the Incentive Plan. The Incentive Plan provides for grants to employees and consultants of the Company. The exercise price of options granted under the Incentive Plan is determined by the Board of Directors, but cannot be less than 100 percent of the fair market value of the common stock on the date of grant.

In March 1996, the Board adopted the Employee Stock Purchase Plan (the "Purchase Plan") covering an aggregate of 100,000 shares of common stock. At the Company's annual meetings of stockholders in June 2000 and May 1998, an additional 75,000 and 75,000 shares, respectively, were authorized for issuance. The Purchase Plan is designed to allow eligible employees of the Company to purchase shares of common stock through periodic payroll deductions. The price of common stock purchased under the Purchase Plan will be equal to 85 percent of the lower of the fair market value of the common stock on the commencement date of each offering period or the specified purchase date.

In March 1996, the Board adopted the 1996 Non-Employee Directors' Stock Option Plan (the "Directors' Plan") and reserved 175,000 shares for issuance to provide for the automatic grant of options to purchase shares of common stock to non-employee directors of the Company. At the Company's annual meeting of stockholders in June 2000, an additional 75,000 shares were authorized for issuance.

The following table summarizes option activity under all plans:

	Outstanding and Exercisable Stock Options		
	Shares Available	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 1997	534,922	1,403,506	$ 6.46
Shares authorized	300,000	–	–
Options granted	(350,106)	350,106	$ 7.15
Options exercised	–	(153,870)	$ 1.03
Options forfeited	116,532	(116,532)	$ 6.76
Balances at December 31, 1998	601,348	1,483,210	$ 7.17
Shares authorized	300,000	–	–
Options granted	(811,850)	811,850	$ 6.99
Options exercised	–	(74,912)	$ 2.83
Options forfeited	208,701	(208,701)	$ 9.24
Balances at December 31, 1999	298,199	2,011,447	$ 7.05
Shares authorized	475,000	–	–
Options granted	(791,600)	791,600	$ 14.60
Options exercised	–	(648,938)	$ 7.06
Options forfeited	359,453	(359,453)	$ 7.33
Balances at December 31, 2000	341,052	1,794,656	$ 10.16

The range of exercise prices for options outstanding at December 31, 2000 was $0.0714 to $28.625. The following table summarizes information about options outstanding and exercisable at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Contractual life Remaining (In years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.07-$ 5.75	191,610	4.38	$ 1.59	191,610	$ 1.59
$ 5.88-$ 6.13	183,535	8.14	$ 5.99	183,535	$ 5.99
$ 6.19-$ 7.63	220,197	7.36	$ 7.20	214,363	$ 7.20
$ 7.69-$ 8.88	224,110	8.44	$ 8.31	224,110	$ 8.31
$ 8.94-$ 9.81	91,249	8.11	$ 9.40	91,249	$ 9.40
$ 9.88-$10.00	189,412	9.52	$ 10.00	189,412	$ 10.00
$10.13-$12.00	227,518	6.77	$ 11.43	226,684	$ 11.43
$12.06-$16.00	217,800	9.55	$ 13.40	167,800	$ 13.59
$16.25-$24.69	214,725	9.37	$ 19.45	209,725	$ 19.51
$25.19-$28.63	34,500	9.34	$ 27.38	34,500	$ 27.38
Total	1,794,656	7.99	$ 10.16	1,732,988	$ 10.08

At December 31, 2000 and December 31, 1999, there were no shares subject to repurchase. At December 31, 1998, 2,709 shares of common stock were subject to repurchase. As of December 31, 2000, the Company has reserved 2,226,544 common shares for future issuances under all stock option plans and the employee stock purchase plan.

The Company recorded deferred compensation expense for the difference between the exercise price and the deemed fair value for financial statement presentation purposes of the Company's common stock, as determined by the Board of Directors, for options granted in 1995 and 1996. Such options were granted at $1.07 per share with a deemed fair value ranging from $1.14 to $5.50 per share. Deferred compensation of approximately $934,000 was recorded in conjunction with the granting of these options. This compensation expense was amortized over the vesting period of the related options, generally one to four years. Deferred compensation was fully amortized in 1999. Amortization of $194,000 and $219,000 was recorded in 1999 and 1998, respectively.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of each option grant is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Options granted at fair value:

	Year Ended December 31, 2000	1999	1998
Risk-free interest rate	6.32%	5.55%	5.30%
Expected life	4.2 years	3.6 years	4.0 years
Expected volatility	1.000	.800	.746
Expected dividends	None	None	None
Weighted average option fair value	$ 10.54	$ 4.07	$ 4.09

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of its employee stock options is amortized to expense over the options vesting period. The Company's pro forma information follows:

	Year Ended December 31,		
(In thousands, except per share amounts)	2000	1999	1998
Pro forma net loss	$(10,216)	$(16,501)	$(19,194)
Pro forma net loss per share	$ (0.69)	$ (1.43)	$ (1.70)

No options were granted at below fair value for the years ended December 31, 2000, 1999 and 1998.

Note 9. Income Taxes

The Company uses the liability method to account for income taxes as required by FASB Statement No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Significant components of the Company's deferred tax assets are as follows:

	December 31,	
(In thousands)	2000	1999
Net operating loss carryforwards	$ 25,900	$ 25,600
Research and development credit carryforwards	4,100	5,300
Capitalized research and development	4,000	2,400
Other	500	200
Total deferred tax assets	34,500	33,500
Valuation allowance	(34,500)	(33,500)
Net deferred tax assets	$ –	$ –

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $6,300,000 and $8,296,000 in the fiscal years 1999 and 1998, respectively.

At December 31, 2000, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately $75,600,000 and $3,100,000, respectively, which expire in the tax years 2002 through 2020. At December 31, 2000, the Company has research and development credit carryforwards for federal income tax purposes of approximately $2,800,000, which expire in the tax years 2008 through 2020. At December 31, 2000, the Company has research and development credit carryforwards for state income tax purposes of approximately $1,900,000, which do not expire.

Because of the "change in ownership" provisions of the Internal Revenue Code, a portion of the Company's net operating loss carryforwards and tax credit carryforwards may be subject to an annual limitation regarding their utilization against taxable income in future periods. Due to the limitation, the net operating loss and credit carryforwards may expire before ultimately becoming available to reduce future taxable income tax liabilities.

Note 10. Quarterly Financial Data (Unaudited)

	2000			
(In thousands, except per share data)	Dec. 31	Sept. 30	June 30	Mar. 31
Total revenues	$ 4,338	$ 4,995	$ 9,010	$ 5,837
Net income (loss)	(3,333)	(3,904)	1,438	(1,680)
Basic and diluted net income (loss) per share	(0.19)	(0.27)	0.10	(0.12)

	1999			
(In thousands, except per share data)	Dec. 31	Sept. 30	June 30	Mar. 31
Total revenues	$ 6,601	$ 1,696	$ 1,808	$ 3,219
Net loss	(1,647)	(4,798)	(5,249)	(3,108)
Basic and diluted net loss per share	(0.14)	(0.42)	(0.46)	(0.27)

Note 11. Subsequent Events (Unaudited)

On January 29, 2001, the Company entered into a process development and manufacturing relationship with XOMA (US) LLC. Under the terms of the agreement, XOMA will develop a large-scale process and will manufacture CI-1042 for clinical trials and commercial production.

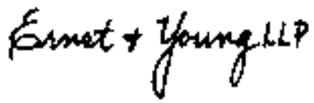
On March 8, 2001, the Company issued and sold 460,872 shares of its common stock at a purchase price of $10.849 per share as the second of two stock issuances in connection with the collaboration agreement with Warner-Lambert dated October 13, 1999 and effective September 1, 1999. The Company received proceeds of $5.0 million from the exercise of its right to require Warner-Lambert to purchase additional equity in 2001.

The Board of Directors and Stockholders
Onyx Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Onyx Pharmaceuticals, Inc. as of December 31, 2000 and 1999, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Onyx Pharmaceuticals, Inc. at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



Palo Alto, California
February 23, 2001, except for Note 11,
as to which the date is March 8, 2001

Corporate Directory

Board of Directors

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Pharmaceutical Division
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Chairman, Advanced Polymer Systems, Inc.
Chairman, Alchemia Inc.

Magnus Lundberg
President
Pharmacia Diagnostics AB

Hollings C. Renton
Chairman and Chief Executive Officer
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Managing Director
Domain Associates LLC

Wendell Wierenga, Ph.D.
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Senior Vice President, Research and Development

Helen S. Kim
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Vice President, Clinical Development

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Vice President, Technical Operations

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Vice President and Chief Legal Counsel

Mary Ann Rafferty
Vice President, Organizational Development

Marilyn E. Wortzman
Controller

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President's Chair in Developmental Immunology
University of California Los Angeles

* Chairman of Scientific Advisory Board

Corporate Information

Corporate Secretary

Robert L. Jones, J.D.
Partner, Cooley Godward LLP

Corporate Counsel

Cooley Godward LLP
San Francisco and Palo Alto, California

Independent Auditors

Ernst & Young LLP
Palo Alto, California

Transfer Agent and Registrar

Inquiries regarding change of address, lost stock certificates, changes in stock ownership, and other matters related to stock ownership should be directed to the Transfer Agent:

Wells Fargo Bank Minnesota, N.A.
Shareowner Services

For overnight delivery:
161 North Concord Exchange
South St. Paul, MN 55075-0738

For mail delivery:
P.O. Box 64854
St. Paul, MN 55164-0854

For telephone inquiries:
(800) 468-9716

Stockholder Inquiries

Stockholder and investor inquiries and requests for information should be directed to:

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Project Manager: Jana R. Cuiper Editorial: Weaver, Field & London Design: Hane Chow, Inc., Oakland, California Illustrations: James Noel Smith

Stock Information

Our common stock is traded on the Nasdaq National Market under the symbol "ONXX." The following table presents the high and low closing sales prices per share of our common stock reported on the Nasdaq National Market:

	Common Stock Price	
Year Ended December 31, 1999	**High**	**Low**
First Quarter	$ 7.969	$ 5.500
Second Quarter	10.375	5.500
Third Quarter	9.750	7.750
Fourth Quarter	10.219	7.563
Year Ended December 31, 2000		
First Quarter	$32.938	$ 9.625
Second Quarter	15.500	7.000
Third Quarter	32.734	10.000
Fourth Quarter	24.688	11.625

Dividends

Onyx has not paid cash dividends on its common stock and does not plan to pay any cash dividends in the foreseeable future.

Annual Meeting

The annual meeting of stockholders will be held at 10:00 a.m. on Wednesday, May 30, 2001 at Onyx Pharmaceuticals, Inc., 3031 Research Drive, Richmond, California.

SEC Form 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge by calling or writing the Investor Relations Department as listed under Stockholder Inquiries.

Forward-Looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Business" and "Additional Business Risks," and elsewhere in our Annual Report on Form 10-K.

Trademarks

Armed Therapeutic Virus™ is a trademark of Onyx Pharmaceuticals, Inc.

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