

## **GAAP vs. Non-GAAP Reconciliation 2009 & Beyond**

*Non-GAAP estimates for 2009 EPS and pretax operating margin and for EPS growth in 2006-2010 exclude the effects of Redemption-related charges; litigation-related and similar special items; employee stock-based compensation expense; costs incurred by the company on behalf of the Special Committee in connection with its review of the Roche merger proposal (Roche Proposal), as well as legal costs incurred in defense of the Special Committee and/or its individual members in shareholder lawsuits filed in connection with the Roche Proposal; and certain items associated with the acquisition of Tanox, Inc., including an in-process research and development charge (a non-recurring charge in 2007), recognition of deferred royalty revenue, recurring amortization of intangible assets, a gain on acquisition pursuant to Emerging Issues Task Force (EITF) No. 04-1 (a non-recurring item in 2007) and asset impairment charges; described below, together with the related tax effects of excluding such items, as well as potential special charges related to existing or future litigation or its resolution, changes in tax rates, the outcome of the Roche Proposal or changes in or adoption of accounting principles, any of which may be significant.*

### **Recurring Charges related to the Redemption:**

GAAP financial measures include recurring amortization charges related to the redemption of our callable putable common stock by Roche and the related taxes. On a GAAP basis, the company forecasts these recurring charges to be approximately \$56 million on a pretax basis in 2009 and approximately \$7 million on a pretax basis in 2010. The non-GAAP financial measures exclude the effects of these charges.

### **Special items — litigation related:**

GAAP financial measures include the net litigation settlement related to the City of Hope judgment of approximately \$300 million on a pretax basis in 2008, as well as additional costs accrued related to the City of Hope contract dispute based on the status of negotiations between the parties on amounts owed for the periods subsequent to the original judgment rendered in 2002 which were \$40 million on a pretax basis in 2008.

The non-GAAP financial measures exclude the effects of these special items.

### **Employee Stock-based Compensation Expense:**

GAAP financial measures include employee stock-based compensation expense associated with Genentech's adoption of Statement of Financial Accounting Standards No. 123R on January 1, 2006, and the company forecasts the net of tax diluted EPS impact will range from \$0.20 to \$0.22 per share for 2009. The non-GAAP financial measures exclude the effects of these special items.

### **Items related to the acquisition of Tanox, Inc.:**

GAAP financial measures include items related to the acquisition of Tanox, Inc., including an in-process research and development charge (a non-recurring charge in 2007), recognition of deferred royalty revenue, recurring amortization of intangible assets, a gain on acquisition pursuant to EITF 04-1 (a non-recurring item in 2007) and asset impairment charges. The non-GAAP financial measures exclude the effects of these special items. The company forecasts the annual recurring amortization charges of intangible assets to be approximately \$68 million for each year on a pretax basis in 2009 and 2010, and the company forecasts the recognition of approximately \$15 million of deferred royalty revenue on a pretax basis for each year in 2009 and 2010. The non-GAAP financial measures also exclude asset impairment charges recorded in the third quarter of 2008 of \$15 million on a pretax basis.

**Items related to the Roche merger proposal:**

GAAP financial measures include costs incurred by the company on behalf of the Special Committee in connection with its review of the Roche Proposal, as well as legal costs incurred in defense of the Special Committee and/or its individual members in shareholder lawsuits filed in connection with the Roche Proposal. The non-GAAP financial measures exclude the effects of these special items. During 2008, charges associated with supporting the Special Committee in connection with the Roche Proposal were approximately \$14 million. As the company cannot determine the outcome of the Roche Proposal, the future costs cannot be reasonably estimated.

*The income tax provision (benefit) on the above items is calculated based on the income or expense amounts multiplied by our expected effective tax rate.*

*The estimates of non-GAAP Cost of Sales, R&D, and MG&A expenses for 2009 exclude the effects of employee stock-based compensation expense.*

**Free Cash Flow:**

Genentech's free cash flow measure is defined as cash from ongoing operations less gross capital expenditures. Cash from ongoing operations is derived from the "net cash provided by operating activities" line in our consolidated statements of cash flows excluding the effect of changes in the investment trading portfolio, but this number may be adjusted for items that would allow the measure to better reflect the operational performance of the Company. These adjustments include, for example, cash receipts or payments related to litigation settlements, investments in trading securities and other potential items, any of which may be significant.

For 2008, cash from ongoing operations represents net cash provided by operating activities, excluding the effects of changes in the trading portfolio of \$82 million and the after-tax effect of the City of Hope litigation settlement payment of \$291 million. For 2007, cash from ongoing operations represents net cash provided by operating activities, excluding the effect of changes in the trading portfolio of \$360 million.

*The reconciliation above contains forward-looking statements regarding the amounts relating to the 1999 Roche redemption of Genentech's common stock, Tanox, Inc. acquisition, litigation-related and similar special items, employee stock-based compensation, and the Roche Proposal costs incurred by the company on behalf of the Special Committee. Such statements are predictions and involve risks and uncertainties and actual results may differ materially. Among other things, the amounts could be affected by a number of factors including a revaluation of certain intangible assets, greater than expected litigation-related costs, change in or adoption of accounting principles, changes in tax rates, the outcome of the Roche Proposal, the number of options granted to employees, Genentech's stock price and certain valuation assumptions concerning Genentech stock. Please also refer to Genentech's periodic reports filed with the Securities and Exchange Commission. Genentech disclaims, and does not undertake, any obligation to update or revise any forward-looking statements in this reconciliation.*