GILEAD SCIENCES INC

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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CIK	0000882095
Industry	Biotechnology & Drugs
Sector	Healthcare
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

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

COMMISSION FILE NO. 0-19731

GILEAD SCIENCES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	94-3047598
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 LAKESIDE DRIVE, FOSTER CITY, CALIFORNIA	94404
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 650-574-3000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK $.001 PAR VALUE
(TITLE OF CLASS)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant based upon the closing price of the Common Stock on the Nasdaq Stock Market on February 27, 1998 was $804,097,418.*

The number of shares outstanding of the Registrant's Common Stock was 30,131,484 as of February 27, 1998.

DOCUMENTS INCORPORATED BY REFERENCE

Registrant's annual report to security holders furnished to the Securities and Exchange Commission (the "Commission") pursuant to Rule 14a-3 (b) in connection with Registrant's 1998 Annual Meeting of Stockholders to be held on May 27, 1998 (the "1998 Annual Meeting") is attached hereto as Exhibit 13.1 and portions are incorporated herein by reference into Part II of this Report.

Portions of Registrant's Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the 1998 Annual Meeting are incorporated herein by reference into Part III of this Report.

Certain Exhibits filed with the Registrant's Registration Statements on Form S-1 (Registration Nos. 33-44534 and 33-55680), as amended, the Registrant's Registration Statement on Form S-3 (No. 333-868), as amended, the Registrant's Registration Statement on Form S-8 (Registration Nos. 33-46058), the Registrant's Annual Reports on Form 10-K for the fiscal periods ended March 31, 1994, December 31, 1995 and December 31, 1996, and the Registrant's Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 1993, September 30, 1994, December 31, 1994, June 30, 1996, September 30, 1996 and September 30, 1997 are incorporated herein by reference into Part IV of this Report.

* Based on a closing price of $35.8125 per share. Excludes 7,678,502 shares of the Registrant's Common Stock held by executive officers, directors and stockholders whose ownership exceeds 5% of the Common Stock outstanding at February 27, 1998. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant or that such person is controlled by or under common control with the Registrant.

PART I

ITEM 1. BUSINESS

THIS REPORT ON FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS RELATING TO CLINICAL AND REGULATORY DEVELOPMENTS (INCLUDING ANTICIPATED TRIAL COMMENCEMENT AND FDA FILING AND APPROVAL DATES), MARKETING AND SALES MATTERS, FUTURE EXPENSE LEVELS AND FINANCIAL RESULTS. THESE STATEMENTS INVOLVE INHERENT RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "RISK FACTORS," PARTICULARLY THOSE RELATING TO THE DEVELOPMENT, APPROVAL AND MARKETING OF PHARMACEUTICAL PRODUCTS.

GENERAL

Gilead Sciences, Inc. ("Gilead" or the "Company") is an independent biopharmaceutical company that seeks to provide accelerated solutions for patients and the people who care for them. The Company discovers, develops, and commercializes proprietary therapeutics for important viral diseases, including the currently marketed product, VISTIDE-Registered Trademark- (cidofovir injection), for the treatment of cytomegalovirus ("CMV") retinitis, a sight-threatening viral infection in patients with acquired immune deficiency syndrome ("AIDS"). In addition, the Company is developing products to treat diseases caused by human immunodeficiency virus ("HIV"), hepatitis B virus ("HBV") and influenza virus.

The successful development and commercialization of the Company's products will require substantial and ongoing efforts at the forefront of the life sciences industry. The Company is pursuing preclinical or clinical development of a number of product candidates. Even if these product candidates appear promising during various stages of development, they may not reach the market for a number of reasons. Such reasons include the possibilities that the potential products will be found ineffective or cause harmful side effects during preclinical or clinical trials, fail to receive necessary regulatory approvals, be difficult or uneconomical to manufacture on a commercial scale, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties.

The Company faces significant challenges and risks in an industry undergoing rapid change, including the risks inherent in its research and development programs, uncertainties in obtaining and enforcing patents, the lengthy and expensive regulatory approval process, reliance on third party manufacturers, intense competition from pharmaceutical and biotechnology companies, dependence on collaborative relationships, increasing pressure on pharmaceutical pricing from payors, patients and government agencies, and uncertainties associated with the market acceptance of any of the Company's products in development.

The Company was incorporated in Delaware in 1987. The Company's principal executive offices are located at 333 Lakeside Drive, Foster City, California 94404 and its telephone number is (650) 574-3000, or (800) GILEAD5 (800-445-3235).

FOR A MORE DETAILED DISCUSSION OF THE RISK FACTORS RELATING TO THE COMPANY SUMMARIZED ABOVE, SEE "RISK FACTORS" AT THE END OF THIS ITEM 1 (PAGES 21 THROUGH 26 OF THIS REPORT). STOCKHOLDERS AND PROSPECTIVE INVESTORS IN THE COMPANY SHOULD CAREFULLY CONSIDER THESE RISK FACTORS.

OVERVIEW OF NUCLEOTIDES

Nucleotides exist in every human cell and are the building blocks of the nucleic acids DNA and RNA. A single nucleotide is called a mononucleotide, and several nucleotides linked together are called an oligonucleotide. Nucleotides are involved in the metabolism and regulation of certain activities of cells and microorganisms. Oligonucleotides are the material containing genetic information.

Natural oligonucleotides are coupled to one another in a specific manner to form DNA or RNA strands. The specific sequences of nucleotides that compose each strand of DNA contain the genetic codes for the different proteins produced by the cell. Proteins perform most of the normal physiologic functions of humans, viruses and other organisms. However, when the production or activity of proteins becomes aberrant, numerous diseases, such as vascular disease, inflammatory disease or cancer, can result. Diseases may also result from a foreign organism, such as a virus, which directs a cell to produce proteins necessary for viral replication.

Natural nucleotides are a versatile class of compounds that can be chemically modified to inhibit the production or activity of disease-causing proteins. Natural nucleotides have three molecular components: a sugar, a phosphate group and a base. Every nucleotide in DNA has the same sugar and phosphate group but a different base. Nucleotide analogues designed to be therapeutic compounds can work by a number of different mechanisms. Mononucleotides can be designed to interfere with the metabolism of cells or with the replication of viruses. Oligonucleotides can be designed to interfere with transcription or translation by binding to DNA or RNA.

The Company believes that the precise interaction of nucleotides in binding to DNA, RNA and proteins provides the chemical basis for the development of therapeutic products with high specificity and potency and long duration of action. Many of the Company's products or products in development are nucleotide analogues, including VISTIDE-Registered Trademark- (cidofovir injection), PREVEON-TM- (adefovir dipivoxil) and PMPA.

PRODUCT PIPELINE

The following table summarizes Gilead's products and product candidates. This table is qualified in its entirety by reference to the more detailed descriptions elsewhere in this Report.

PRODUCT/CANDIDATE	TARGET INDICATIONS	DEVELOPMENT STATUS(1)	WORLDWIDE RIGHTS
VISTIDE-Registered Trademark- (cidofovir injection)	CMV Retinitis	Launched in U.S.	Gilead
		Launched in E.U.	Pharmacia & Upjohn
PREVEON-TM- (adefovir dipivoxil)	HIV-AIDS	Phase II/III and Expanded Access	Gilead
GS 4104 (Ro64-0796) Oral	Influenza Virus (Treatment)	Phase II/III	Roche
	Influenza Virus (Prophylaxis)	Phase II/III	Roche
Adefovir Dipivoxil	Hepatitis B Virus	Phase II	Gilead
PMPA Oral Prodrug	HIV-AIDS	Phase II	Gilead
PMPA I.V.	HIV-AIDS (maternal/fetal transmission)	Phase I/II	Gilead
PMPA Topical Gel	HIV-AIDS (Prophylaxis)	Clinical Candidate	Gilead
VISTIDE-Registered Trademark- (cidofovir injection)	PML-CNS Infection	Phase I/II Pending	Gilead
Cidofovir Topical Ophthalmic	Viral Keratoconjunctivitis	Phase II	Storz
Protease Inhibitors	HIV-AIDS	Research	Gilead
	Hepatitis C Virus	Research	Gilead
Adenosine Receptor Regulators	Stroke	Preclinical/Research	Gilead/NIH CRADA
Antisense Research	Cancer	Research	Gilead/Glaxo Wellcome

(1) See "Government Regulation" for a description of the phases of clinical testing and the regulatory approval process.

VISTIDE

In June 1996, Gilead received U.S. Food and Drug Administration ("FDA") clearance to market its first product, VISTIDE-Registered Trademark- (cidofovir injection) for the treatment of cytomegalovirus ("CMV") retinitis in patients with AIDS. The active ingredient in VISTIDE is cidofovir, a mononucleotide analogue that has demonstrated activity in preclinical studies and clinical trials against several viruses in the herpesvirus family. In addition to VISTIDE, cidofovir is under evaluation for other indications. See "Clinical Development Programs."

Cytomegalovirus is one of the most common opportunistic infections in patients with AIDS. CMV is a systemic viral infection that may infect several sites in the body, including the retina, gastrointestinal tract, lungs, liver and central nervous system. Retinitis is the most frequent manifestation of CMV infection in patients with AIDS. The incidence of CMV retinitis in AIDS patients declined by more than 30% from 1996 to 1997 as a result of more effective therapeutics for AIDS, as well as the use of oral ganciclovir for CMV prophylaxis. The Company anticipates that this decline will continue.

VISTIDE was cleared for marketing by the FDA based on the results of three pivotal clinical trials. These trials demonstrated that VISTIDE has a statistically significant effect in delaying the progression of CMV retinitis lesions in newly diagnosed patients, and in previously treated patients who had failed other therapies. In addition, these studies indicate a more convenient dosing regimen than the other intravenous CMV treatments. VISTIDE is administered by intravenous infusion once per week for the first two weeks as induction therapy, and then once every other week as maintenance therapy until progression of the disease or intolerance to the therapy. Other intravenous treatments must be administered once or multiple times per day and often require the surgical implantation of a chronic catheter in the patient's chest for the daily infusions.

Renal toxicity is the primary dose-limiting side effect of VISTIDE administration. Prior to each administration, patients must be monitored for urinary protein and serum creatinine (laboratory markers of renal toxicity). In addition, patients receive intravenous saline hydration and oral probenecid on each treatment day, to mitigate the potential for toxicity. VISTIDE is contraindicated in patients receiving other agents with nephrotoxic potential, and patients are required to undergo a "wash out" period of seven days after completing therapy with such agents and before receiving VISTIDE. In certain animal studies, cidofovir, the active ingredient in VISTIDE, was carcinogenic.

VISTIDE is marketed and sold in the United States by Gilead's sales force of antiviral specialists. This group currently consists of 26 sales representatives and three regional directors who call directly on physicians, hospitals, clinics, pharmacies and other healthcare providers involved in the treatment of patients with CMV retinitis. VISTIDE is sold by Gilead to wholesalers and specialty distributors, who in turn sell the product to hospitals, home healthcare companies, pharmacies and other healthcare providers. See "Marketing and Sales."

In August 1996, Gilead licensed commercial rights to Pharmacia & Upjohn S.A. ("Pharmacia & Upjohn") to market and sell VISTIDE in all territories outside of the United States. In April 1997, the European Commission granted marketing approval for VISTIDE for all the member countries in the European Union under the centralized procedure of the European Medicines Evaluation Agency ("EMEA"). Subsequently, VISTIDE was approved for marketing in Switzerland, Australia and Brazil, and applications for approval are pending in several other countries. Pharmacia & Upjohn has launched the product in most major European countries, and expects to launch the product in additional countries as pricing and reimbursement approvals are obtained. Pharmacia & Upjohn is paying Gilead a royalty on its net sales of VISTIDE, on a trailing, quarterly basis. See "Collaborative Relationships--Pharmacia & Upjohn."

There are several approved therapies that compete with VISTIDE in the CMV retinitis market. Ganciclovir, marketed by Roche Laboratories, is the most widely used treatment for CMV retinitis. Ganciclovir is available in intravenous and oral formulations, and the oral formulation is approved for both prophylaxis and maintenance treatment of CMV retinitis. A ganciclovir ocular implant, marketed by Bausch & Lomb Incorporated, provides local therapy to an affected eye and is implanted through a surgical procedure. Astra U.S.A. markets foscarnet, the other approved intravenous therapy for CMV retinitis. There are also several products in clinical development for the treatment of CMV retinitis. Although the Company believes that VISTIDE has competitive advantages over these products, particularly with regard to dosing convenience and efficacy, there can be no assurance that the Company will be successful in maintaining or increasing VISTIDE's share of the CMV retinitis treatment market. See "Competition."

CLINICAL DEVELOPMENT PROGRAMS

Gilead is developing small molecule nucleotide analogues that are intended to treat viral infections by selectively interfering with proteins essential for viral replication. Numerous disease processes, particularly viral infections, require precise interactions between cellular or viral proteins and nucleotides or

oligonucleotides. For example, many viruses depend upon certain proteins known as enzymes to synthesize their own DNA. This dependence of the virus upon specific interactions between proteins and nucleic acids provides opportunities for the development of therapeutic products that disrupt these crucial interactions. Preclinical and clinical studies have demonstrated that small molecule nucleotide analogues can selectively interrupt these interactions.

The Company believes that small molecule nucleotide analogues offer several potential advantages as therapeutics. First, these molecules may have a long duration of action, permitting less frequent and therefore more convenient dosing. Second, because certain nucleotides can be active in both infected and uninfected cells, these molecules may provide prophylactic protection of uninfected cells. Third, when compared to existing antiviral drugs, viruses may be less likely to develop resistance to these analogues. In addition, these analogues may be active against viral strains that have developed resistance to existing antiviral drugs. Finally, the low molecular weight of these analogues, or prodrug derivatives of them, may permit their development into drugs suitable for oral administration.

A major portion of the Company's operating expenses to date has been related to the research and development of products on its own behalf. During the years ended December 31, 1997 and December 31, 1996 and the nine month period ended December 31, 1995, the Company's research and development expenses were $59.2 million, $41.9 million and $25.7 million, respectively.

PREVEON

PREVEON-TM- (adefovir dipivoxil) is a mononucleotide analogue developed as an oral prodrug of adefovir (also known as GS 393 or PMEA), the Company's first HIV clinical candidate. A prodrug is a modified version of a parent compound designed to enhance delivery characteristics. PREVEON has demonstrated preclinical and clinical activity against HIV, CMV and hepatitis B virus. See "Adefovir Dipivoxil for HBV." PREVEON has been generally well tolerated in clinical trials. The most common adverse events have been dose-related gastrointestinal effects, including nausea and anorexia. Elevations in liver transaminases and serum creatinine, and decreases in serum carnitine levels, have also been reported during therapy with PREVEON. The Company is developing PREVEON in a series of Phase II/ III clinical trials as a potential oral treatment for HIV. In clinical trials, PREVEON is administered as a single oral tablet once per day, along with a single oral tablet of L-carnitine, a nutritional supplement. L-carnitine is administered to counteract the decrease of natural serum carnitine which can be caused by PREVEON administration.

A number of products with different mechanisms of action have been approved for the treatment of HIV. The first generation of approved HIV drugs are reverse transcriptase inhibitors, including nucleoside and non-nucleoside compounds. Several protease inhibitors have recently been approved for marketing, and others are in clinical development. Combination therapy with reverse transcriptase inhibitors and protease inhibitors is proving to be effective for many people with AIDS, in some cases lowering the patient's viral load (level of virus in the blood) to undetectable levels for prolonged periods of time. The Company believes, however, that there is still substantial room for improvement in AIDS drug therapy. Many patients are developing resistance or become intolerant to combination therapy, and require new combinations for therapy to be effective. Patients would benefit from AIDS drugs that are better tolerated, more convenient to dose and less prone to develop significant resistance.

PREVEON is a reverse transcriptase inhibitor that is currently being tested in a series of Phase II/III clinical trials sponsored by Gilead, as well as by the National Institutes of Health ("NIH") and other government organizations. In these trials, PREVEON is being evaluated in combination with most approved and investigational antiretroviral agents in a variety of patient populations at different stages of disease. Trials are ongoing in the United States, several European countries and Australia. In one of Gilead's pivotal trials, Study 408, 442 patients with HIV infection received either PREVEON (one tablet per day) or placebo, in addition to continuing their current antiretroviral therapy. Gilead anticipates

unblinding the data from Study 408 and presenting the data at a scientific forum in 1998. If the results from Study 408 are positive, Gilead intends to file a new drug application ("NDA") with the FDA for PREVEON, seeking approval for use of the product in combination with other antiretroviral agents for the treatment of HIV and AIDS. The NDA would be supplemented by results from the Phase I/II program for PREVEON, as well as efficacy and safety data from other Phase II/III trials currently underway. There can be no assurance as to when or whether Gilead will file an NDA for approval of PREVEON. Moreover, even if the NDA is filed, there can be no assurance as to the timing or the ultimate approval of the NDA by the FDA.

PREVEON is also available in the United States under an expanded access program for patients with limited treatment options. This program began in December 1997 and has enrolled approximately 1,000 patients through March 1998.

HIV is the causative agent of AIDS. HIV infects an estimated 30 million people worldwide. There were an estimated 240,000 people with AIDS in the United States in 1997. A number of therapeutics are currently marketed or are in advanced stages of clinical development for the treatment of HIV infection and AIDS, including 12 products currently marketed in the United States. See "Competition."

The Company has an exclusive, worldwide license to patent rights and related technology for adefovir, which is the parent compound of adefovir dipivoxil, from the Institute of Organic Chemistry and Biochemistry of the Academy of Sciences of the Czech Republic and the REGA Stichting Research Institute in Belgium (collectively, "IOCB/REGA"), and would be obligated to pay a royalty to IOCB/ REGA on any net sales of adefovir dipivoxil. See "Collaborative Relationships--IOCB/REGA."

GS 4104

In September 1996, Gilead researchers announced the discovery of GS 4104 (Ro64-0796 under the Roche identification system), an orally active neuraminidase inhibitor that inhibits the replication of influenza virus in a variety of animal models. In these experiments, the parent compound of GS 4104 was well tolerated and demonstrated antiviral activity against multiple strains of influenza A and B.

Based on these data, Gilead and F. Hoffmann-La Roche ("Roche") entered into an exclusive, worldwide development and commercialization collaboration covering Gilead's neuraminidase inhibitors. Gilead and Roche are jointly conducting research and development of neuraminidase inhibitors for the prevention and treatment of influenza, with Roche funding the efforts of both parties. Roche has exclusive commercial rights to GS 4104 and to any other products developed under the collaboration. Roche is obligated to pay Gilead cash payments upon achievement of development milestones and royalties on net sales of any products developed under the collaboration. See "Collaborative Relationships--Hoffmann-La Roche."

During 1997, Roche completed Phase I studies of GS 4104, and Gilead completed Phase II placebo-controlled challenge studies of GS 4104 in both treatment and prevention. In the Phase II studies, volunteers were artificially infected with influenza virus, before administration of the drug (treatment), or after administration of the drug (prevention). GS 4104 was administered as an oral tablet once or twice a day, at several dosage levels. The Company presented the results of these studies in September 1997, indicating that GS 4104 had a statistically significant effect in reducing viral load and the duration of influenza symptoms in the treatment study, and prevented infection in the prevention study.

Based on the results of the Phase II studies, in December 1997 Gilead and Roche initiated a series of four placebo-controlled Phase II/III studies of GS 4104, each designed to enroll up to 750 adult patients. Two of these studies are evaluating treatment in naturally infected patients, with a five-day course of therapy. The other two studies will evaluate prevention in healthy volunteers, with a six-week course of drug administration. In addition to these studies, Roche and Gilead anticipate conducting a series of smaller studies in children and the elderly, as well as drug interaction studies, during 1998.

Glaxo Wellcome, in collaboration with Biota Holdings Limited, is also pursuing development of a neuraminidase inhibitor to treat influenza. This compound, delivered as a dry powder inhaler or nasal spray, is in advanced clinical trials and represents significant potential competition for GS 4104. See "Competition."

ADEFOVIR DIPIVOXIL FOR HBV

Gilead is also developing adefovir dipivoxil for the potential treatment of hepatitis B virus ("HBV"), in a lower dosage form than PREVEON for HIV. Approximately 300 million people worldwide are chronically infected with HBV, primarily in Asian countries. HBV can lead to cirrhosis and cancer of the liver. A vaccine is available that can prevent the transmission of HBV; however, it has no activity in those already infected with the virus. Alpha interferon is approved for the treatment of HBV, is administered by injection and is not always successful in controlling the disease.

In 1996, Gilead completed a Phase I/II placebo-controlled trial of adefovir dipivoxil for the treatment of hepatitis B infection at multiple centers in the United Kingdom, enrolling 20 patients. Data from this trial indicate that adefovir dipivoxil was well tolerated and resulted in a statistically significant decline in HBV DNA levels in treated patients compared to placebo. Gilead recently completed enrollment in multinational Phase II trials of adefovir dipivoxil for the treatment of HBV, evaluating the drug as a single oral tablet once per day at three dose levels. The Company anticipates presenting the data from these Phase II trials at a scientific forum in 1998, and initiating a series of Phase III trials in HBV infected patients before the end of 1998.

Glaxo Wellcome, in collaboration with Biochem Pharma, is pursuing development of a nucleoside analogue to treat HBV infection. This compound is in advanced clinical trials and represents significant potential competition for adefovir dipivoxil for HBV. See "Competition."

The Company has exclusive, worldwide license to patent rights and related technology for adefovir, which is the parent compound of adefovir dipivoxil, from IOCB/REGA, and would be obligated to pay a royalty to IOCB/REGA on any net sales of adefovir dipivoxil. See "Collaborative Relationships--IOCB/ REGA."

PMPA AND PMPA PRODRUG

The Company is evaluating PMPA, a nucleotide analogue with structural similarities to adefovir dipivoxil, as a potential therapeutic for HIV and AIDS. PMPA has shown significant activity against simian immunodeficiency virus ("SIV") in a variety of preclinical treatment and prevention models. SIV causes an AIDS-like syndrome in primates. In these experiments, primates treated with injections of PMPA either before or after exposure to SIV were completely protected from infection. In another primate study, a topical gel form of PMPA also provided protection against SIV transmission when applied intravaginally.

Gilead has conducted placebo-controlled Phase I/II studies of PMPA in both intravenous and oral formulations (PMPA Prodrug). In both studies, PMPA was well tolerated and had a statistically significant effect in reducing viral load relative to placebo after short-term dosing. In February 1998, the Company presented data from a Phase I/II study of PMPA Prodrug, indicating that highest dose of the drug tested reduced viral load by a median of more than 90% after one month of dosing. In this study, PMPA Prodrug was administered as a single oral tablet once per day. Based on these results, the Company intends to initiate a program of Phase II studies of PMPA Prodrug, in combination with other anti-retroviral therapies, during 1998.

The Company anticipates that the NIH will initiate clinical studies of a topical version of PMPA, for the prevention of sexual transmission of HIV, during 1998. The NIH is also evaluating possible applications of intravenous PMPA in the prevention of maternal-fetal HIV transmission.

The Company has an exclusive, worldwide license to patent rights and related technology for PMPA from IOCB/REGA, and would be obligated to pay a royalty to IOCB/REGA on any net sales of PMPA. See "Collaborative Relationships--IOCB/REGA."

CIDOFOVIR

Cidofovir is a mononucleotide analogue that has demonstrated activity in preclinical studies and clinical trials against several viruses in the herpesvirus family. Cidofovir is the active ingredient in the Company's commercial product VISTIDE (cidofovir injection). See "VISTIDE." Gilead is currently evaluating cidofovir in different formulations for the potential treatment of certain infectious diseases caused by herpesviruses. In addition, a collaborative partner of Gilead, Storz Instrument Company, is conducting clinical trials of topical ophthalmic cidofovir, an eye drop formulation, for the potential treatment of adenovirus and herpes simplex virus, which can cause external infections of the eye.

The side effect profiles of the drugs under development based on cidofovir have not yet been fully characterized. Renal toxicity is the primary dose-limiting side effect of VISTIDE administration. In addition, in certain animal studies, cidofovir was carcinogenic. There can be no assurance that the Company will be successful in developing or commercializing any therapeutic products, other than VISTIDE, based on cidofovir.

The Company has developed a topical formulation of cidofovir called FORVADE-TM- (cidofovir gel). This compound has been evaluated in a variety of preclinical models and clinical trials for the potential treatment of herpes simplex virus ("HSV") lesions and genital warts caused by human papillomavirus ("HPV"). FORVADE has demonstrated clinical benefit in Phase I/II studies for both of these indications. In late 1996, Gilead filed an NDA with the FDA seeking marketing approval for FORVADE for the treatment of HSV lesions unresponsive to therapy with acyclovir, in patients with AIDS. The NDA was based on the results from a single Phase I/II trial in 30 patients, demonstrating a statistically significant treatment effect in healing these lesions. In May 1997, the FDA determined that Gilead's NDA for FORVADE was not approvable without additional clinical information. The Company is not actively pursuing development or approval of FORVADE for any indication at this time, and does not anticipate doing so in the future without the support of a corporate partner.

In 1994, Gilead entered into a license agreement Storz Instrument Company ("Storz"). Storz is developing an eye drop formulation of cidofovir for the potential treatment of certain viruses that cause external eye infections, including adenovirus, which is the leading cause of viral conjunctivitis, or "pink eye." Storz was a subsidiary of American Cyanamid and then American Home Products, until its sale to Bausch & Lomb Incorporated in late 1997. The license to Storz is limited to topical ophthalmic use for external viral eye disease, and excludes any treatment requiring injection and any treatment for other eye diseases such as CMV retinitis. Storz commenced clinical testing of topical ophthalmic cidofovir in December 1995 and is currently completing Phase II trials. See "Collaborative Relationships--Storz."

Preclinical studies have demonstrated that cidofovir is active against a variety of viruses that cause disease in people with AIDS, including molluscum contagiosum, which causes disfiguring skin lesions, Kaposi's sarcoma, an AIDS-related malignancy, and progressive multifocal leukoencephalopathy ("PML"), a rapidly progressive, often fatal brain disease. An intravenous formulation of cidofovir is in early clinical testing for the potential treatment of PML.

The Company has an exclusive, worldwide license to patent rights and related technology for cidofovir from IOCB/REGA, and is obligated to pay a royalty to IOCB/REGA on the net sales of VISTIDE, as well as on any other future products containing cidofovir. See "VISTIDE" "Collaborative Relationships-- IOCB/REGA."

RESEARCH

Gilead's research efforts are conducted by a scientific team with the multi-disciplinary skills that the Company believes are critical for the discovery and preclinical development of therapeutics based on nucleotides or other small molecules. The primary therapeutic targets of the Company's research program are viral diseases, cancer and cardiovascular diseases.

NUCLEOTIDE ANALOGUES

The Company has an extensive library of proprietary nucleotide compounds that it is evaluating for antiviral and antiproliferative activity. Among the primary targets of this screening activity are HIV, herpesviruses, hepatitis B virus and poxviruses. In addition, Gilead is evaluating novel nucleotide prodrugs with the potential for enhanced pharmaceutical properties, including better bioavailability and longer half-life. Several nucleotide analogues are also being evaluated for activity against cancer in animal models.

PROTEASE INHIBITORS

Through its structure-based drug design program, the Company has synthesized a number of small molecule compounds with IN VITRO activity against HIV protease or hepatitis C virus ("HCV") protease. Gilead has evaluated several HIV protease inhibitors in animal models. The current focus of this program is to enhance the pharmacological properties and cross-resistance profile of these compounds before conducting further preclinical development.

GS 522 AND DERIVATIVES

Gilead is evaluating derivatives of GS 522, a thrombin inhibitor, in preclinical testing for potential use as anticoagulants in cardiopulmonary bypass surgery. Preclinical studies performed by the Company have demonstrated that GS 522 is an effective anticoagulant during cardiopulmonary bypass procedures in animals. Continuous infusions of GS 522 during surgery in animals have demonstrated rapid onset, dose-related anticoagulant activity and rapid return to normal clotting times after discontinuation of infusion. However, animal models do not necessarily predict effectiveness in humans.

PROTEIN C ACTIVATOR

In order to exploit the potent antithrombotic activity of naturally-occurring Protein C, the Company developed a modified version of thrombin which does not stimulate thrombosis, but retains the ability to activate Protein C and thereby inhibit thrombosis. Gilead has named this novel recombinant protein Protein C Activator ("PCA"). Gilead has performed animal studies which demonstrate that PCA causes potent, dose-dependent anticoagulation without increased bleeding time. These results suggest that administration of PCA may result in effective inhibition of thrombosis, while not increasing the risk of intracerebral hemorrhage or stroke. However, animal models do not necessarily predict effectiveness in humans.

ADENOSINE RECEPTOR REGULATORS

Gilead is working with the National Institute of Diabetes, Digestive and Kidney Diseases at the NIH to study adenosine receptor agonists and antagonists in the treatment and prevention of neurodegenerative disorders, particularly stroke. Independent research has implicated adenosine receptors in the regulation of neurodegeneration, inflammation and allergic disorders. NIH researchers have synthesized a series of novel small molecule adenosine agonist and antagonist compounds and have identified several compounds with A3 receptor agonist and antagonist activity which exhibit protective effects in an animal model of stroke. These compounds also have potential utility in the treatment of inflammatory and allergic conditions. In collaboration with the NIH, Gilead is currently evaluating several compounds with A3

receptor antagonist or agonist activity in animal models of stroke, and also intends to evaluate the anti-inflammatory and antiallergic properties of these compounds.

GENETIC CODE BLOCKERS

The Company is conducting research on oligonucleotide analogues that are designed to act inside the cell to block or regulate the production of disease-causing proteins. The Company is focusing on two types of code blocker compounds: antisense compounds that interfere with the function of RNA and triple helix compounds that inhibit gene expression by binding to the DNA double helix. The Company's therapeutic targets in its code blocker program include cancer (particularly the cell cycle genes implicated in cancer) and viral infections. The Company believes that its code blocker technology may also have utility as a drug discovery tool in the field of genomics. The Company's ability to selectively inhibit the activity of specific genes within cells provides a rapid method of determining the function of a gene that has a known sequence.

The Company's collaborative relationship with Glaxo Wellcome covers the research and development of code blocker compounds for all potential diagnostic and therapeutic applications, and has been the exclusive funding source for the code blocker program since 1990. In March 1996, Glaxo Wellcome and Gilead extended the existing collaboration for a period of five years. Glaxo Wellcome has the right to terminate the collaboration at any time, without prior notice beginning in June 1998. There can be no assurance that additional sources of funding will be available, or that Gilead would continue the code blocker program, if the collaboration is terminated by Glaxo Wellcome. See "Collaborative Relationships--Glaxo Wellcome."

COLLABORATIVE RELATIONSHIPS

As part of its business strategy, Gilead establishes collaborations with pharmaceutical companies to assist in the clinical development and/or commercialization of certain of its products and product candidates, and to provide support for research programs. The Company is also evaluating opportunities for in-licensing products and technologies complementary to its business, although no negotiations regarding any such opportunities are currently in progress. The Company's existing collaborative relationships are as follows:

PHARMACIA & UPJOHN

In August 1996, Gilead and Pharmacia & Upjohn entered into an agreement providing Pharmacia & Upjohn with exclusive rights to market and sell VISTIDE in all countries outside of the United States. Under the terms of the agreement, Pharmacia & Upjohn paid Gilead an initial license fee of $10.0 million. In June 1997, after VISTIDE was approved for marketing in the European Union, Gilead received an additional cash milestone payment of $10.0 million. In addition, Pharmacia & Upjohn purchased 1,133,786 newly issued shares of Series B Preferred Stock at $35.28 per share, equal to 145% of the average closing price of Gilead's Common Stock over the 30 trading days prior to public announcement of the European approval, for a total purchase price of $40.0 million. The Series B Preferred Stock is not publicly registered, votes together with Gilead's Common Stock and is convertible at any time into an equal number of shares of Common Stock at Pharmacia & Upjohn's option. Pharmacia & Upjohn is restricted in its ability to sell the Series B Preferred Stock (or underlying Common Stock), or purchase any additional stock of the Company, for a period of five years from the original purchase, until June 2002. Gilead is entitled to royalty payments on a quarterly basis on the net sales of VISTIDE by Pharmacia & Upjohn. Gilead is recognizing royalties on a delayed basis, one quarter after the Pharmacia & Upjohn sales that generated the royalties. Pharmacia & Upjohn has the right to terminate the agreement at any time beginning in August 1998, upon six months notice. See "VISTIDE."

HOFFMANN-LA ROCHE

In September 1996, Gilead and Roche entered into a collaboration agreement to develop and commercialize therapies to treat and prevent viral influenza. Under the agreement, Roche received exclusive worldwide rights to Gilead's proprietary influenza neuraminidase inhibitors, including GS 4104. Gilead and Roche are jointly conducting the clinical development of GS 4104. In October 1996, Roche made an initial license fee payment to Gilead of $10.3 million and Gilead is entitled to additional cash milestone payments of up to $40.0 million upon achievement of development milestones, $6.0 million of which were recognized in 1997. Roche is funding its own and Gilead's research and development costs and will pay Gilead royalties on the net sales on GS 4104 and any other products developed under the collaboration. Roche has the right to terminate the agreement at any time upon 12 months notice. See "Clinical Development Programs--GS 4104."

In September 1996, Gilead and Roche entered into an agreement to co-promote Roche's Roferon-Registered Trademark--A (Interferon alfa-2a, recombinant) for the treatment of chronic hepatitis C infection in the United States. The agreement continues until December 31, 1999, unless earlier terminated by either party as of December 31, 1998. Under the agreement, Gilead's antiviral specialty sales force is obligated to make a fixed number of calls to promote Roferon-A in each year. Roche paid Gilead a $150,000 one-time fee in 1996. Roche is obligated to pay Gilead a royalty based on the net product sales in 1997 and thereafter during the term of the agreement. See "Marketing and Sales."

GLAXO WELLCOME

In July 1990, Gilead entered into a research and development agreement with Glaxo Wellcome. Concurrent with the signing of the agreement Glaxo Wellcome made an $8.0 million equity investment in Gilead, and currently holds 889,911 shares of the Company's outstanding Common Stock. The collaboration with Glaxo Wellcome has been modified and extended on several occasions since 1990. In March 1996, Gilead and Glaxo Wellcome entered into a new collaborative research agreement, extending for five years the existing collaboration between the parties. Under the terms of the 1996 agreement, Glaxo Wellcome will fund Gilead's ongoing research in the code blocker field for five years, subject to its termination rights. Each party has a worldwide license to the other party's patent rights to research, develop, manufacture and sell products based on code blocker technology for all applications. Glaxo Wellcome will have the primary right to develop any products identified during the collaboration. Gilead is entitled to payments for achievement of development milestones, as well as royalties on any product sales. The agreement was amended in December 1997 to provide Glaxo Wellcome with the right to terminate the collaborative research and funding at any time, without prior notice beginning in June 1998. In the event of termination, Gilead could develop code blocker technology independently or with a third party, subject to Glaxo Wellcome's ownership rights to joint technology. There can be no assurance that additional sources of funding will be available, or that Gilead will continue the code blocker program, if the collaboration is terminated by Glaxo Wellcome.

STORZ

In August 1994, the Company entered into a license and supply agreement with American Cyanamid Company, pursuant to which the Storz Instrument Company ("Storz") will develop and have the right to market an eye drop formulation of cidofovir for the potential treatment of topical ophthalmic viruses. American Cyanamid was later acquired by American Home Products, who sold Storz to Bausch & Lomb Incorporated in late 1997. The field of the exclusive, worldwide license to Storz is limited to topical ophthalmic use for external viral eye disease, and specifically excludes any treatment requiring injection, and any treatment for other eye diseases such as CMV retinitis. In December 1995, Storz commenced human clinical trials of topical ophthalmic cidofovir and is currently completing Phase II trials. Gilead is entitled to receive a fee each year until Storz files an NDA under the agreement. In addition, Storz is obligated to make a series of payments based on the achievement of development milestones in different

countries during the term of the agreement. Gilead is responsible for supplying bulk cidofovir to Storz, and Storz is obligated to make royalty payments to Gilead based on net sales of any products developed under the agreement. Storz may terminate this agreement at any time on three months notice.

IOCB/REGA

In 1991 and 1992, the Company entered into agreements with IOCB/REGA regarding a class of nucleotide compounds, including cidofovir, adefovir (the parent compound of adefovir dipivoxil) and PMPA. Under these agreements and later amendments, Gilead received from IOCB/REGA an exclusive license to manufacture, use and sell the compounds covered by issued United States patents and patent applications plus foreign counterparts throughout the world, subject to an obligation to pay royalties on product sales to IOCB/REGA. The Company is currently paying IOCB/REGA quarterly royalties on sales of VISTIDE, and will be obligated to pay additional royalties upon any future sales of adefovir dipivoxil or PMPA. IOCB/REGA may terminate the licenses under these agreements with respect to any particular product, in specified countries, if the Company does not make any sales of such product in such countries within 12 months after regulatory approval. Under one of these agreements, the Company has an option to receive an exclusive license to any new developments by IOCB/REGA during the term of this agreement. Such agreement may be terminated by either party on six months notice.

ACADEMIC AND CONSULTING RELATIONSHIPS

To supplement its research and development efforts, the Company collaborates with and has licensed certain patents and patent applications from a number of universities and medical research institutions.

MANUFACTURING

The Company generally relies on third parties for the manufacture of bulk drug substance and drug product for clinical and commercial purposes, including cidofovir (VISTIDE), adefovir dipivoxil (PREVEON) and PMPA. In the case of GS 4104, Gilead's influenza neuraminidase inhibitor in clinical development, Roche is responsible for the manufacture of clinical and any commercial supplies of drug substance and drug product. Pursuant to these relationships, the Company depends on such third parties to perform their manufacturing obligations effectively and on a timely basis. There can be no assurance that such parties will perform and any failures by third parties may delay clinical trials or the submission of products for regulatory approval, impair the Company's ability to deliver commercial products on a timely basis, or otherwise impair the Company's competitive position, which could have a material adverse effect on the Company.

The Company has qualified a sole source supplier with the FDA for the bulk drug substance used in VISTIDE and another sole source supplier for the final drug product. Gilead has established a second source of bulk drug substance supply for VISTIDE, and is in the process of qualifying this supplier with the FDA. The use of any alternative suppliers will require FDA approval, which will be time consuming. The Company anticipates including two suppliers of bulk drug substance and one supplier of drug product for PREVEON in the NDA it intends to file in 1998. PMPA drug substance is manufactured at Gilead and at a contract manufacturer, and PMPA drug product for clinical trials is manufactured at two contract manufacturing sites. In the event that supplies from any of Gilead's suppliers were interrupted for any reason, the Company's ability to complete its clinical trials or ship its products could be impaired, which would have a material adverse effect on the Company.

Gilead has developed in-house capabilities to synthesize and purify nucleotides and oligonucleotides, and believes that it has a base of proprietary technologies, including patent applications and trade secrets, for the manufacture of these compounds. Gilead has established a pilot-scale, bulk chemical facility, which operates in compliance with the FDA's current Good Manufacturing Practices ("cGMP"), to meet its current preclinical and limited early-stage clinical requirements. The Company believes that it has or will

be able to develop, acquire or contract for sufficient supply capacity to meet its additional clinical and commercial manufacturing requirements, although there can be no assurance that it will be able to do so. Gilead currently has no commercial-scale cGMP manufacturing facilities for either the production of bulk drug substance or final drug product, and no current plans to establish such capacity.

The manufacture of sufficient quantities of new drugs can be an expensive, time-consuming and complex process and may require the use of materials with limited availability or require dependence on sole source suppliers. If the Company is unable to develop manufacturing capabilities internally or contract for large scale manufacturing with third parties on acceptable terms, the Company's ability to conduct preclinical studies and clinical trials, and/or meet demand for commercial products, will be adversely affected. This could prevent or delay commercial shipment, submission of products for regulatory approval and initiation of new development programs, which would have a material adverse effect on the Company.

The production of the Company's compounds is based in part on technology that the Company believes to be proprietary. Gilead has licensed this technology to contract manufacturers to enable them to manufacture compounds for the Company. There can be no assurance that such manufacturers will abide by any use limitations or confidentiality restrictions in licenses with the Company. In addition, any such manufacturer may develop process technology related to its work for Gilead, which could increase the Company's reliance on such manufacturer or require the Company to obtain a license from such manufacturer in order to have its products manufactured elsewhere. There can be no assurance that such license, if required, would be available on terms acceptable to the Company, if at all.

For certain of its potential products, the Company will need to develop further its production technologies for use on a larger scale in order to conduct clinical trials and produce such products for commercial sale at an acceptable cost. There can be no assurance that the Company or its partners will be able to implement any of these developments successfully.

MARKETING AND SALES

In connection with the launch of VISTIDE in 1996, Gilead established a sales force of antiviral specialists in the United States. This group currently consists of 26 sales representatives and three regional directors who call directly on physicians, hospitals, clinics, pharmacies and other healthcare providers involved in the treatment of AIDS patients with CMV retinitis. VISTIDE is sold by Gilead to wholesalers and specialty distributors, who in turn sell the product to hospitals, home healthcare companies, pharmacies and other healthcare providers. Gilead's sales force also promotes Roferon-Registered Trademark--A (Interferon alfa-2a, recombinant), Roche's product for the treatment of hepatitis C in the United States, pursuant to a co-promotion agreement with Roche entered into in September 1996. See "Collaborative Relationships--Hoffmann-La Roche." Gilead's sales force is supplemented by a marketing and sales staff of approximately 15 people based at the Company's headquarters in Foster City, California.

The Company anticipates that it will expand its existing sales force in order to promote PREVEON in the United States, if that product receives marketing clearance from the FDA. A larger sales force and additional marketing resources will be required to reach the broader market of healthcare professionals treating patients infected with HIV. If any of the Company's other products in development for specialty markets receive marketing clearance in the United States, or if the Company obtains marketing rights to such a product from a third party, Gilead's current intention would be to market and sell such a product directly, supplementing its existing marketing and sales staff as appropriate. Gilead has not established a marketing and sales capacity in Europe or any other country outside of the United States. Pharmacia & Upjohn has exclusive commercial rights to VISTIDE outside the United States, and Roche has exclusive commercial rights to GS 4104 on a worldwide basis. Gilead is evaluating the establishment of a direct European marketing and sales capacity in connection with the potential launch of PREVEON in Europe for the treatment of HIV and AIDS, if that product receives marketing approval. The Company does not currently intend to directly market and sell any product outside of the United States and Europe.

The revenues received by Gilead for its products subject to commercial collaborations, including VISTIDE outside of the United States, and GS 4104 on a worldwide basis, are dependent to a large degree on the efforts of third parties. There can be no assurance that such efforts will be successful, that the interests of the Company and its partners will not be in conflict or that any of the Company's partners will not terminate their relationship with the Company. See "Collaborative Relationships."

PATENTS AND PROPRIETARY RIGHTS

Gilead has a proprietary portfolio of patent rights and exclusive licenses to patents and patent applications related to its products and technologies. The Company has filed patent applications directed to the compositions of matter, methods of preparation and uses of novel compounds on the commercial market, under research or in development. Patent applications have been filed which encompass compounds that are relevant to many of the targets the Company is currently researching, as well as other targets that may be of interest to Gilead in the future. Gilead intends to file additional patent applications, when appropriate, relative to improvements in its technologies and to specific products that it develops.

Patents covering cidofovir (the active ingredient in VISTIDE) and adefovir dipivoxil, including composition of matter claims, have been issued or allowed in the United States, Western Europe and other jurisdictions. The Company has exclusive licenses from third parties covering these patents and other patent applications. See "Collaborative Relationships--IOCB/REGA." The Company does not have patent filings covering adefovir dipivoxil in China or in other certain other Asian countries, although it does have an application pending in Japan. Asia is a major market for hepatitis B therapies, one of the potential indications for adefovir dipivoxil. In addition, patents on certain of the Company's compounds may issue many years before marketing approval is obtained, limiting the ultimate commercial value of the product. However, patent term extensions for cidofovir have been applied for or granted in the United States and a number of European countries, compensating in part for delays in obtaining marketing approval.

The Company is the holder of, or is a licensee with respect to, patents and patent applications in the United States and abroad relating to certain basic aspects of code blocker technology, and is the holder of patent applications relating to neuraminidase inhibitors and their use in the treatment and prevention of influenza. The Company is aware that others have patents or pending applications that relate to its own in these fields. The Company cannot predict whether its patent or license rights or those of third parties will result in a significant position in these fields, whether its patents or those of third parties will be issued, whether its patents or those of third parties will provide significant proprietary protection, or whether they will be dominated, circumvented or invalidated.

The commercial success of the Company will also depend in part on not infringing patents or proprietary rights of others and not breaching the licenses granted to the Company. There can be no assurance that the Company will be able to obtain a license to any third-party technology that it may require to conduct its business or that, if obtainable, such technology can be licensed at a reasonable cost. Failure by the Company to obtain a license to any technology that it may require to commercialize its technologies or products may have a material adverse effect on the Company.

The patent positions of pharmaceutical, biopharmaceutical and biotechnology firms, including Gilead, are generally uncertain and involve complex legal and factual questions. Consequently, even though Gilead is currently prosecuting its patent applications with the United States and foreign patent offices, the Company does not know whether any of its pending applications will result in the issuance of any patents or, if any patents are issued, whether they will provide significant proprietary protection. Since patent applications in the United States are maintained in secrecy until patents are issued, and since publication of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, Gilead cannot be certain that it has rights as the first inventor of technologies covered by pending patent applications or that it was the first to file patent applications for such inventions.

The Company also relies upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain its competitive position which it seeks to protect, in part, by confidentiality agreements with its corporate partners, collaborators, employees, consultants and vendors. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently discovered by competitors.

Gilead's practice is to require its corporate partners, collaborators, employees, consultants and vendors to execute a confidentiality agreement upon the commencement of a relationship with the Company. The agreements provide that all confidential information developed or made known to an individual during the course of the relationship shall be kept confidential and not disclosed to third parties except in specified circumstances. In the case of employees, the agreements provide that all inventions conceived by the individual while employed by the Company shall be the exclusive property of the Company. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets in the event of unauthorized use or disclosure of such information.

COMPETITION

The Company's products and development programs target a number of diseases and conditions, including viral infections, cardiovascular disease and cancer. Even if the Company is successful in developing products to treat any of these diseases or conditions, there can be no assurance that any product that receives marketing clearance will achieve significant commercial acceptance. There are many commercially available products for these diseases, and a large number of companies and institutions are conducting well-funded research and development activities directed at developing additional treatments for these diseases.

Ganciclovir, marketed in intravenous and oral formulations by Roche Laboratories and as an ocular implant by Bausch & Lomb Incorporated, and foscarnet, marketed by Astra U.S.A., are commercially available for the treatment of CMV retinitis. These products are directly competitive with VISTIDE. Several other potential CMV retinitis therapeutics are being developed by other companies. A number of therapeutics are currently marketed or are in advanced stages of clinical development for the treatment of HIV infection and AIDS, including 12 products currently marketed in the United States. These products represent significant potential competition for PREVEON and PMPA. Among the companies with significant commercial presence in the AIDS market are Glaxo Wellcome, Bristol-Myers Squibb, Hoffmann-La Roche, Agouron Pharmaceuticals and Merck & Co.

Glaxo Wellcome, in collaboration with Biota Holdings Limited, is pursuing development of a neuraminidase inhibitor to treat influenza. This compound is in late-stage clinical trials and represents significant potential competition for GS 4104. In addition, Glaxo Wellcome, in collaboration with Biochem Pharma, is pursuing development of a nucleoside analogue to treat HBV infection. This compound is also in advanced clinical trials and represents significant potential competition for adefovir dipivoxil for HBV.

The Company believes that its products and product candidates have potential competitive advantages over many of these products, particularly with regard to dosing convenience and the potential for resistance development. However, there can be no assurance that any of the Company's products or products in development will compete successfully with other available products.

A number of companies are pursuing the development of technologies competitive with the Company's research programs. These competing companies include specialized pharmaceutical firms and large pharmaceutical companies acting either independently or together with biopharmaceutical companies. Furthermore, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection and may establish collaborative arrangements for competitive products and programs.

Gilead anticipates that it will face increased competition in the future as new products enter the market and advanced technologies become available. There can be no assurance that existing products or new products developed by the Company's competitors will not be more effective, or more effectively marketed and sold, than any that may be developed by the Company. Competitive products may render Gilead's technology and products obsolete or noncompetitive prior to the Company's recovering research, development or commercialization expenses incurred with respect to any such products.

Many of the Company's existing or potential competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than the Company. In addition, many of these competitors have significantly greater experience than the Company in undertaking research, preclinical studies and clinical trials of new pharmaceutical products, obtaining FDA and other regulatory approvals, and manufacturing, marketing and selling such products. Accordingly, the Company's competitors may succeed in commercializing the products more rapidly or more effectively than the Company, which would have a material adverse effect on the Company.

The Company's competition will be determined in part by the potential indications for which the Company's compounds are developed and ultimately approved by regulatory authorities. For certain of the Company's potential products, an important competitive factor may be the timing of market introduction of its products or competitive products. Accordingly, the relative speed with which Gilead can develop products, complete the clinical trials and approval processes, and supply commercial quantities of the products to the market are expected to be important competitive factors. The Company expects that competition among products approved for sale will be based, among other things, on product efficacy, safety, dosing convenience, availability, price and patent position.

The Company's competitive position also depends upon its ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary products or processes, and secure sufficient capital resources for the often substantial period between technological conception and commercial sales.

GOVERNMENT REGULATION

The production and marketing of the Company's products and its research and development activities are subject to regulation for safety, efficacy and quality by numerous government authorities in the United States and other countries. In the United States, drugs are subject to rigorous FDA regulation. The Federal Food, Drug and Cosmetic Act, as amended ("FFDCA") and the regulations promulgated thereunder, and other federal and state statutes and regulations, govern, among other things the testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of the Company's products. Product development and approval within this regulatory framework, and under equivalent regulations in other countries, takes a number of years and involves the expenditure of substantial resources.

The steps required before a pharmaceutical agent may be marketed in the United States include (i) preclinical laboratory tests, IN VIVO preclinical studies and formulation studies, (ii) the submission to the FDA of an investigational new drug application ("IND"), which must become effective before clinical trials commence, (iii) adequate and well-controlled clinical trials to establish the safety and efficacy of the drug, (iv) the submission of a new drug application ("NDA") to the FDA and (v) the FDA approval of the NDA, prior to any commercial sale or shipment of the drug. In addition to obtaining FDA approval for each product, each drug manufacturing establishment must be registered with, and approved by, the FDA. Domestic manufacturing establishments, including third party contract manufacturers producing a drug sponsor's products, are subject to periodic inspections by the FDA and must comply with cGMP. To supply products for use in the United States, foreign manufacturing establishments must comply with cGMP and are subject to periodic inspection by the FDA or by regulatory authorities in certain of such countries

under reciprocal agreements with the FDA. Drug product and drug substance manufacturing establishments located in California also must be licensed by the State of California in compliance with local regulatory requirements.

The FDA has implemented accelerated approval procedures for pharmaceutical products that treat serious or life-threatening diseases and conditions, if those products have the potential to address unmet medical needs. Under the Food and Drug Modernization Act of 1997, effective in February 1998, such products may be designated as "fast track" products, and may be approved on the basis of surrogate as well as clinical endpoints. Drug sponsors are generally required to conduct post-marketing clinical trials of drugs that have been approved under the FDA's accelerated approval procedures, in order to further characterize the drug's safety and efficacy profile. The Company believes that PREVEON and certain of its other products in development may qualify as fast track products and be eligible for accelerated approval. The Company cannot predict the ultimate impact, however, of the FDA's accelerated approval procedures on the timing or likelihood of approval of any of its potential products or those of any competitor.

Preclinical tests include laboratory evaluation of product chemistry and formulation, as well as animal studies to assess the potential safety and efficacy of the product. Compounds must be formulated according to cGMP and preclinical safety tests must be conducted by laboratories that comply with FDA regulations regarding current Good Laboratory Practices ("GLP"). The results of the preclinical tests are submitted to the FDA as part of an IND and are reviewed by the FDA prior to the commencement of clinical trials. Additional pharmacology and toxicology studies are generally conducted concurrently with clinical trials.

Clinical trials involve the administration of the investigational new drug to healthy volunteers or to patients, under the supervision of qualified principal investigators. Clinical trials are conducted in accordance with Good Clinical Practices under protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND. Further, each clinical trial must be conducted under the auspices of an independent Institutional Review Board ("IRB") at the institution at which the study will be conducted. The IRB will consider, among other things, ethical factors, the safety of human subjects and the possible liability of the institution.

Clinical trials are typically conducted in three sequential phases, but the phases often overlap. In Phase I, the initial introduction of the drug into healthy human subjects, the drug is tested for safety (adverse effects), dosage tolerance, metabolism, distribution, excretion and pharmacodynamics (clinical pharmacokinetics and pharmacology). Phase II involves studies in a limited patient population to (i) determine the efficacy of the drug for specific, targeted indications, (ii) determine dosage tolerance and optimal dosage and (iii) identify possible adverse effects and safety risks. When a compound appears to be effective and to have an acceptable safety profile in Phase II clinical trials, Phase III clinical trials are undertaken to further evaluate and confirm clinical efficacy and to further test for safety within an expanded patient population at geographically dispersed clinical study sites. There can be no assurance that Phase I, Phase II or Phase III clinical trials will be completed successfully within any specified time period, if at all, with respect to any of the Company's products subject to such testing. Furthermore, the Company or the FDA may delay or suspend clinical trials at any time if it is felt that the subjects or patients are being exposed to an unacceptable health risk.

The results of the preclinical studies and clinical trials are submitted to the FDA in the form of an NDA for approval of the marketing and commercial shipment of the drug. The testing and approval process is likely to require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. The FDA may deny an NDA if applicable regulatory criteria are not satisfied, require additional testing or information, require significant improvements to manufacturing facilities or require extensive post-marketing testing and surveillance to monitor the safety or efficacy of

the Company's products if they do not view the NDA as containing adequate evidence of the quality, safety and efficacy of the drug. Notwithstanding the submission of such data, the FDA may ultimately decide that the application does not satisfy its regulatory criteria for approval. Moreover, if regulatory approval of a drug is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Finally, product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing.

Among the conditions for NDA approval is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to cGMP, which must be followed at all times. In complying with standards set forth in these regulations, manufacturers (including a drug sponsor's third- party contract manufacturers) must continue to expend time, money and effort in the area of production and quality control to ensure full technical compliance.

In addition to regulations enforced by the FDA, the Company also is subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other federal, state or local regulations. The Company's research and development involves the controlled use of hazardous materials, chemicals, viruses and various radioactive compounds. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for significant damages or fines.

In the European Community, human pharmaceutical products are also subject to extensive regulation. The European Community Pharmaceutical Directives govern, among other things, the testing, manufacture, safety, efficacy, labeling, storage, record keeping, advertising and promotion of human pharmaceutical products. Effective in January 1995, the European Community enacted regulations providing for a centralized licensing procedure, which is mandatory for certain kinds of products, as well as a decentralized (country by country) procedure. A license granted under the centralized procedure authorizes marketing of the product in all of the member states of the European Community. Under the decentralized procedure, a license granted in one member state can be extended to additional member states pursuant to a simplified application process. In the centralized procedure, the EMEA coordinates a scientific review by one or more rapporteurs chosen from among the membership of the Committee for Proprietary Medical Products ("CPMP"), which represent the medicine authorities of the member states. The final approval is granted by a decision of the Commission or Council of the European Community, based on the opinion of the CPMP.

PRICING AND REIMBURSEMENT

The business and financial condition of pharmaceutical and biotechnology companies will continue to be affected by the efforts of government and third-party payors to contain or reduce the cost of health care through various means. For example, in certain foreign markets pricing or profitability of prescription pharmaceuticals is subject to government control. In particular, individual pricing negotiations are often required in many countries of the European Community, even if approval to market the drug under the EMEA's centralized procedure is obtained. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government control. In addition, an increasing emphasis on managed care in the United States has and will continue to increase the pressure on pharmaceutical pricing. While the Company cannot predict whether any such legislative or regulatory proposals will be adopted or the effect such proposals or managed care efforts may have on its business, the announcement of such proposals or efforts could have a material adverse effect on the trading price of the Company's Common Stock, and the adoption of such proposals or efforts could have a material adverse effect on the Company. Further, to the extent that such proposals or efforts have a material adverse effect on other pharmaceutical companies that are prospective corporate partners for the Company, the Company's ability to establish a strategic alliance may be adversely affected.

In addition, in both the United States and elsewhere, sales of prescription pharmaceuticals are dependent in part on the availability of reimbursement to the consumer from third-party payors, such as government and private insurance plans that mandate rebates or predetermined discounts from list prices. For example, a significant proportion of VISTIDE sales is subject to reimbursement by government agencies, resulting in significant discounts from list price and rebate obligations. The Company expects that PREVEON and several of its other products in development, particularly for AIDS indications, will have a similar reimbursement profile. In addition, third-party payors are increasingly challenging the prices charged for medical products and services. If the Company succeeds in bringing one or more additional products to the market, there can be no assurance that these products will be considered cost effective and that reimbursement will be available or will be sufficient to allow the Company to sell its products on a competitive basis.

HUMAN RESOURCES

As of December 31, 1997, Gilead employed 289 people full-time, of whom 75 hold Ph.D. and/or M.D. degrees and 50 hold other advanced degrees. Approximately 180 employees are engaged in research and development activities and 109 are employed in finance, sales and marketing, corporate development, legal and general administrative positions. Gilead believes that it maintains good relations with its employees.

SCIENTIFIC ADVISORY BOARD

The Company's Scientific Advisory Board is composed of individuals with expertise in fields related to the Company's programs. This Board holds formal meetings with scientists from the Company at least once a year. In some cases, individual members of this Board consult and meet informally with the Company on a more frequent basis. Each of the members of this Board has a consulting agreement with the Company.

The members of Gilead's Scientific Advisory Board are as follows:

DANIEL L. AZARNOFF, M.D., has been a member of Gilead's Scientific Advisory Board since January 1990. He headed G.D. Searle & Co.'s research and development from 1979 through 1985, and previously was Professor of Medicine and Pharmacology at the University of Kansas. Dr. Azarnoff is a member of the Institute of Medicine of the National Academy of Sciences.

JACQUELINE K. BARTON, PH.D., has been a member of Gilead's Scientific Advisory Board since January 1989. She is a Professor of Chemistry at the California Institute of Technology ("Cal Tech"), a member of the American Academy of Arts and Sciences and a recipient of a MacArthur Foundation Fellowship.

PETER B. DERVAN, PH.D., has been a member of Gilead's Scientific Advisory Board since September 1987. He is Bren Professor of Chemistry at Cal Tech and a member of the National Academy of Sciences and the American Academy of Arts and Sciences.

MICHAEL J. GAIT, PH.D., has been a member of Gilead's Scientific Advisory Board since July 1989. He is a Senior Staff Scientist with the Medical Research Council in Cambridge, England.

RALPH F. HIRSCHMANN, PH.D., has been a member of Gilead's Scientific Advisory Board since October 1989. He is a Research Professor of Chemistry at the University of Pennsylvania. Previously, Dr. Hirschmann was employed by Merck & Co., most recently as Senior Vice President of Basic Research and Chemistry. Dr. Hirschmann is a member of the American Academy of Arts and Sciences.

LAWRENCE L.-K. LEUNG, M.D., has been a member of Gilead's Scientific Advisory Board since September 1994. He is Chief of the Division of Hematology at the Stanford University Medical School. Dr. Leung was previously Director of Cardiovascular Biology and Medicine at Gilead.

RISK FACTORS

IN THIS SECTION, THE COMPANY SUMMARIZES CERTAIN RISKS THAT SHOULD BE CONSIDERED BY STOCKHOLDERS AND PROSPECTIVE INVESTORS IN THE COMPANY. THESE RISKS ARE DISCUSSED IN DETAIL BELOW, AND ARE DISCUSSED IN CONTEXT IN OTHER SECTIONS OF THIS REPORT.

RAPIDLY CHANGING ENVIRONMENT FOR AIDS THERAPEUTICS

Several of the Company's products and products in development address AIDS or AIDS-related conditions, including VISTIDE for CMV retinitis, PREVEON for HIV and AIDS and PMPA for HIV and AIDS. The medical, regulatory and commercial environment for AIDS therapies is changing at a rapid pace, often in unpredictable ways. For example, medical opinion on appropriate treatment regimens for people with AIDS is evolving and is often in conflict. This evolution can have a dramatic impact on the regulatory requirements for the approval of AIDS therapies as well as the commercial prospects of individual therapies. In addition, improvements in AIDS therapy reduce the potential commercial market for therapies to treat AIDS-related conditions such as CMV retinitis, and make clinical trials for new AIDS therapies more difficult to design, enroll and complete. As a participant in the development and marketing of AIDS therapies, Gilead is subject to dramatic changes in the regulatory and commercial environment in which it operates, which could have a material adverse impact on the Company. See "VISTIDE" and "Clinical Development Programs."

NO ASSURANCE OF REGULATORY APPROVAL; GOVERNMENT REGULATION

The Company's preclinical studies and clinical trials, as well as the manufacturing and marketing of its potential products, are subject to extensive regulation by numerous federal, state and local government authorities in the United States. Similar regulatory requirements exist in Europe and in other countries where the Company intends to test and market its potential products. The Company anticipates filing for marketing approval of PREVEON and several additional products over the next several years. There can be no assurance that PREVEON or any of the Company's other products in development will receive marketing approval in any country on a timely basis, or at all.

The regulatory process, which includes preclinical studies and clinical trials of each compound to establish its safety and efficacy, takes many years and requires the expenditure of substantial resources. Moreover, if regulatory approval of a drug is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Failure to comply with applicable regulatory requirements can, among other things, result in fines, suspension of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecutions. Further, FDA policy may change and additional government regulations may be established that could prevent or delay regulatory approval of the Company's potential products. In addition, a marketed drug and its manufacturer are subject to continual review, and later discovery of previously unknown problems with a product or manufacturer may result in restrictions on such product or manufacturer, including withdrawal of the product from the market. See "Government Regulation."

UNCERTAINTIES RELATED TO CLINICAL TRIALS

Before obtaining regulatory approvals for the commercial sale of any of its products under development, the Company must demonstrate through preclinical studies and clinical trials that the product is safe and efficacious for use in each target indication. The Company anticipates announcing clinical data from Phase II or Phase II/III trials for PREVEON, adefovir dipivoxil for HBV and GS 4104 during 1998. The results from preclinical studies and early clinical trials may not be predictive of results that will be obtained in large-scale testing, and there can be no assurance that the Company's clinical trials will demonstrate the safety and efficacy of any products or will result in marketable products. A number of companies in the

biotechnology industry have suffered significant setbacks in advanced clinical trials, despite promising results in earlier trials.

The rate of completion of the Company's clinical trials is dependent upon the rate of patient accrual. Patient accrual is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites and the eligibility criteria for the study. In addition, recent improvements in AIDS drug therapy have made clinical trials for new AIDS therapies more difficult to enroll. Delays in planned patient enrollment can result in increased costs and delays. In addition, if the Company is unable to successfully complete its clinical trials, its business could be materially adversely affected. See "Clinical Development Programs."

DEPENDENCE ON COLLABORATIVE RELATIONSHIPS

The Company has established a number of significant collaborative relationships with major pharmaceutical companies, including Pharmacia & Upjohn, Hoffmann-La Roche and Glaxo Wellcome. The Company is dependent to a large degree on its collaborative partners with respect to research funding, clinical development and/or sales and marketing performance. There can be no assurance that the efforts of the Company's collaborative partners will be successful, that the interests of the Company and its partners will not be in conflict or that any of the Company's partners will not terminate their relationship with the Company. All of the Company's collaborative partners have termination rights, with limited or no notice required. In addition, a significant portion of the Company's revenues have historically come from collaborative relationships, and the Company expects this to be the case in future periods. Although the Company has established contractual relationships with each of its collaborative partners, there can be no assurance that these contracts will provide significant protection or can be effectively enforced if one of these partners fails to perform. The Company cannot control whether its corporate partners will devote sufficient resources to the Company's programs or products. The Company anticipates seeking collaborative relationships for certain of its programs in the future, and there can be no assurance that such relationships will be available on acceptable terms, if at all. See "Collaborative Relationships."

LOSS HISTORY AND ACCUMULATED DEFICIT; QUARTERLY FLUCTUATIONS; UNCERTAINTY OF FUTURE PROFITABILITY

Gilead has incurred net losses since its inception. At December 31, 1997, the Company's accumulated deficit was approximately $162.5 million. Such losses have resulted principally from expenses incurred in the Company's research and development programs and commercialization efforts, as well as administrative expenses. The Company's revenues to date have been generated primarily from collaborative arrangements rather than product revenues. The Company's current product revenues are derived solely from sales of VISTIDE and from the co-promotion of Roche's Roferon-A for hepatitis C. Both of these products have limited sales potential relative to most pharmaceutical products. Gilead expects to incur substantial losses at least in 1998 and 1999, due primarily to the expansion of its research and development programs, including preclinical studies, clinical trials and manufacturing, as well as increasing commercialization expenses. The Company expects that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial. There can be no assurance that the Company will successfully develop, receive regulatory approval for, commercialize, manufacture, market and sell any additional products, or achieve or sustain or profitability.

TECHNOLOGICAL UNCERTAINTY

The development of new pharmaceutical products is highly uncertain and is subject to a number of significant risks. Potential products that appear to be promising at various stages of development may not reach the market for a number of reasons. Such reasons include the possibilities that the potential products will be found ineffective or cause harmful side effects during preclinical studies or clinical trials, fail to receive necessary regulatory approvals, be difficult or uneconomical to manufacture on a commercial scale,

fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties.

There are a number of technological challenges the Company must address to successfully develop commercial products in each of its development programs. Certain of the Company's potential products will require significant additional research and development efforts, including process development and significant additional clinical testing, prior to any commercial use. There can be no assurance that the Company will successfully address any of these technological challenges, or others that may arise in the course of development. See "Clinical Development Programs."

NO ASSURANCE OF MARKET ACCEPTANCE

VISTIDE has achieved limited market acceptance in a small commercial market with significant competition. There can be no assurance that any of Gilead's products in development, if approved for marketing, will achieve market acceptance. The degree of market acceptance depends upon a number of factors, including the receipt and scope of regulatory approvals, the establishment and demonstration in the medical and patient advocacy community of the clinical efficacy and safety of the Company's product candidates and their potential advantages over competitive products, and reimbursement policies of government and third-party payors. There can be no assurance that physicians, patients, patient advocates, payors or the medical community in general will accept and utilize any products that may be developed by the Company. See "VISTIDE," "Clinical Development Programs" and "Competition."

INTENSE COMPETITION

The Company's products and development programs target a number of diseases and conditions, including viral infections, cancer and cardiovascular disease. Even if the Company is successful in developing products to treat any of these diseases or conditions, there can be no assurance that any product that receives marketing clearance will achieve significant commercial acceptance. There are many commercially available products for these diseases, and a large number of companies and institutions are conducting well-funded research and development activities directed at developing treatments for these diseases.

Gilead anticipates it will face increased competition in the future as new products enter the market and advanced technologies become available. There can be no assurance that existing products or new products developed by the Company's competitors will not be more effective, or be more effectively marketed and sold, than any that may be developed by the Company. Competitive products may render Gilead's technology and products obsolete or noncompetitive prior to the Company's recovery of research, development or commercialization expenses incurred with respect to any such products.

Many of the Company's existing or potential competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than the Company. In addition, many of these competitors have significantly greater experience than the Company in undertaking research, preclinical studies and clinical trials of new pharmaceutical products, obtaining FDA and other regulatory approvals, and manufacturing, marketing and selling such products. Accordingly, the Company's competitors may succeed in commercializing products more rapidly or effectively than the Company, which would have a material adverse effect on the Company. See "Competition."

UNCERTAINTY OF PHARMACEUTICAL PRICING AND REIMBURSEMENT

The business and financial condition of pharmaceutical and biotechnology companies will continue to be affected by the efforts of government and third-party payors to contain or reduce the cost of health care through various means. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In particular, individual pricing negotiations are often required in many countries of the European Community, even if approval to market the drug under the

EMEA's centralized procedure is obtained. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government control. In addition, an increasing emphasis on managed care in the United States has and will continue to increase the pressure on pharmaceutical pricing. While the Company cannot predict whether any such legislative or regulatory proposals will be adopted or the effect such proposals or managed care efforts may have on its business, the announcement of such proposals or efforts could have a material adverse effect on the trading price of the Company's Common Stock, and the adoption of such proposals or efforts could have a material adverse effect on the Company. Further, to the extent that such proposals or efforts have a material adverse effect on other pharmaceutical companies that are prospective corporate partners for the Company, the Company's ability to establish corporate collaborations may be adversely affected. In addition, in both the United States and elsewhere, sales of prescription pharmaceuticals are dependent in part on the availability of reimbursement to the consumer from third-party payors, such as government and private insurance plans that mandate rebates or predetermined discounts from list prices. For example, a significant proportion of VISTIDE sales is subject to reimbursement by government agencies, resulting in significant discounts from list price and rebate obligations. The Company expects that PREVEON and several of its other products in development, particularly for AIDS indications, will have a similar reimbursement profile. In addition, third-party payors are increasingly challenging the prices charged for medical products and services. If the Company succeeds in bringing one or more additional products to the market, there can be no assurance that these products will be considered cost effective and that reimbursement will be available or will be sufficient to allow the Company to sell its products on a competitive basis. See "Pricing and Reimbursement."

UNCERTAINTY REGARDING PATENTS AND PROPRIETARY RIGHTS

The Company's success will depend in part on its ability to obtain and enforce patent protection for its products both in the United States and other countries. No assurance can be given that patents will issue from any pending applications or that, if patents do issue, the claims allowed will be sufficiently broad to protect the Company's technology. In addition, no assurance can be given that any patents issued to or licensed by the Company will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company. The Company does not have patent filings covering adefovir dipivoxil in China or in certain other Asian countries, although it does have an application pending in Japan. Asia is a major market for hepatitis B therapies, one of the potential indications for adefovir dipivoxil. In addition, patents on certain of the Company's compounds may issue many years before marketing approval is obtained, limiting the commercial value of the product.

The commercial success of the Company will also depend in part on not infringing patents or proprietary rights of others and not breaching the licenses granted to the Company. There can be no assurance that the Company will be able to obtain a license to any third-party technology that it may require to conduct its business or that, if obtainable, such technology can be licensed at a reasonable cost. Failure by the Company to obtain a license to any technology that it may require to commercialize its technologies or products may have a material adverse effect on the Company.

Litigation, which could result in substantial cost to the Company, may also be necessary to enforce any patents issued to the Company or to determine the scope and validity of other parties' proprietary rights. If the outcome of any such litigation is adverse to the Company, the Company's business could be adversely affected. To determine the priority of inventions, the Company may have to participate in interference proceedings declared by the United States Patent and Trademark Office, which could result in substantial cost to the Company.

The Company also relies on unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with its corporate partners, collaborators, employees, consultants and vendors. There can be no assurance that these agreements will not be breached, that the

Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently discovered by competitors. See "Patents and Proprietary Rights."

RELIANCE ON THIRD PARTY MANUFACTURERS

The Company generally relies on third parties for the manufacture of bulk drug substance and drug product for clinical and commercial purposes, including cidofovir (VISTIDE), adefovir dipivoxil (PREVEON) and PMPA. In the case of GS 4104, Gilead's influenza neuraminidase inhibitor in clinical development, Roche is responsible for the manufacture of clinical and any commercial supplies of drug substance and drug product. Pursuant to these relationships, the Company depends on such third parties to perform their manufacturing obligations effectively and on a timely basis. There can be no assurance that such parties will perform and any failures by third parties may delay clinical trials or the submission of products for regulatory approval, impair the Company's ability to deliver commercial products on a timely basis, or otherwise impair the Company's competitive position, which could have a material adverse effect on the Company.

The Company has qualified a sole source supplier with the FDA for the bulk drug substance used in VISTIDE and another sole source supplier for the final drug product. Gilead has established a second source of bulk drug substance supply for VISTIDE, and is in the process of qualifying this supplier with the FDA. The use of any alternative suppliers will require FDA approval, which will be time consuming. The Company anticipates including two suppliers of bulk drug substance and one supplier of final drug product for PREVEON in the NDA it intends to file in 1998. PMPA drug substance is manufactured at Gilead and at a contract manufacturer, and PMPA drug product for clinical trials is manufactured at two contract manufacturing sites. In the event that supplies from any of Gilead's suppliers were interrupted for any reason, the Company's ability to complete its clinical trials or ship its products could be impaired, which would have a material adverse effect on the Company.

For certain of its potential products, the Company will need to develop further its production technologies for use on a larger scale in order to conduct clinical trials and produce such products for commercial sale at an acceptable cost. There can be no assurance that the Company or its partners will be able to implement any of these developments successfully. See "Manufacturing."

PRODUCT LIABILITY EXPOSURE AND INSURANCE

The commercial use of VISTIDE or any other product approved for marketing, and use of any of the Company's potential products in clinical trials, exposes the Company to product liability claims. These claims might be made directly by patients, health care providers or by pharmaceutical companies or others selling such products. Gilead has obtained product liability insurance coverage for its commercial products and clinical trials. There can be no assurance that such coverage will be adequate for any liability arising from the use of commercial or clinical products of the Company. Moreover, no assurance can be given that the Company will be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect the Company against losses due to liability. There can also be no assurance that the Company will be able to obtain commercially reasonable product liability insurance for any future clinical trials or products approved for marketing. A successful product liability claim or series of claims could have a material adverse effect on the Company.

HAZARDOUS MATERIALS

The Company's research and development involves the controlled use of hazardous materials, chemicals, viruses and various radioactive compounds. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be

completely eliminated. In the event of such an accident, the Company could be held liable for significant damages or fines.

VOLATILITY OF STOCK PRICE

The market prices for securities of biopharmaceutical companies, including Gilead, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as fluctuations in the Company's operating results, announcements of technological innovations or new therapeutic products by the Company or its competitors, clinical trial results, government actions or regulation, developments in patent or other proprietary rights, public concern as to the safety of drugs developed by the Company or others and general market conditions can have an adverse effect on the market price of the Common Stock. In particular, the realization of any of the risks described in these "Risk Factors" could have a dramatic and adverse impact on such market price.

ANTITAKEOVER PROVISIONS

The Company has adopted a number of provisions that could have antitakeover effects. In November 1994, the Company's Board of Directors adopted a Preferred Share Purchase Rights Plan, commonly referred to as a "poison pill." The Company's Restated Certificate of Incorporation (the "Restated Certificate") does not permit cumulative voting. The Board of Directors has the authority, without further action by the stockholders, to fix the rights and preferences of, and issue shares of, preferred stock. These provisions and other provisions of the Restated Certificate and Delaware corporate law may have the effect of deterring hostile takeovers or delaying or preventing changes in control or management of the Company, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

ITEM 2. PROPERTIES

Gilead's administrative offices and research laboratories are located in Foster City, California. The Company leases approximately 145,800 square feet of space in six adjacent buildings. The leases on this space expire March 31, 2006, and the Company has an option to renew the leases for two additional five year periods. The Company believes that it will need to expand its facilities in the future to support any significant growth in its operations. Gilead anticipates it will be able to expand its facilities in nearby locations. There can be no assurance, however, that such space will be available on favorable terms, if at all.

ITEM 3. LEGAL PROCEEDINGS

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to page 51 of the Registrant's annual report to security holders furnished to the Commission pursuant to Rule 14a-3(b) in connection with the 1998 Annual Meeting attached hereto as Exhibit 13.1 (the "Annual Report").

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 27 of the Annual Report attached hereto as Exhibit 13.1.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by this Item is incorporated by reference to pages 28 through 31 of the Annual Report attached hereto as Exhibit 13.1.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and the related report of independent auditors are incorporated herein by reference to pages 32 through 50 of the Annual Report attached here as to Exhibit 13.1:

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Report of Ernst & Young LLP, Independent Auditors

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

IDENTIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS

The information required by this Item concerning the Company's directors and executive officers is incorporated by reference to pages 2 through 5 of Registrant's Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the 1998 Annual Meeting (the "Proxy Statement") under the headings "Nominees" and "Executive Officers."

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The information required by this Item is incorporated by reference to page 16 of the Proxy Statement under the heading "Compliance with Section 16(a) of the Securities Exchange Act of 1934."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to pages 17 through 20 of the Proxy Statement under the heading "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to pages 15 through 16 of the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to page 24 of the Proxy Statement under the heading "Certain Transactions" and by reference to pages 17 through 20 of the Proxy Statement under the heading "Executive Compensation."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS FORM 10-K:

(1) Index to Consolidated Financial Statements. The following Consolidated Financial Statements of Gilead Sciences, Inc. are filed as part of this Form 10-K and are included in the Annual Report attached hereto as Exhibit 13.1 and incorporated herein by reference.

Report of Ernst & Young LLP, Independent Auditors

Consolidated Balance Sheets at December 31, 1997 and 1996

Consolidated Statements of Operations for the years ended December 31, 1997 and 1996 and the nine months ended December 31, 1995

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997 and 1996 and the nine months ended December 31, 1995

Consolidated Statements of Cash Flows for the years ended December 31, 1997 and 1996 and the nine months ended December 31, 1995

Notes to Consolidated Financial Statements

All schedules are omitted because they are not required or the required information is included in the financial statements or notes thereto.

(2) Exhibits

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(1)	3.1	Amended and Restated Certificate of Incorporation of the Registrant.
(2)	3.2	Amended and Restated By-laws of the Registrant.
(3)	3.3	Certificate of Amendment of Restated Certificate of Incorporation.
	4.1	Reference is made to Exhibits 3.1, 3.2, and 3.3.
(4)	4.2	Rights Agreement, dated as of November 21, 1994, between Registrant and First Interstate Bank, with exhibits.
(4)	4.3	Form of letter sent to Gilead Sciences, Inc. stockholders, dated December 14, 1994.
(3)	10.1	Form of Indemnity Agreement entered into between the Registrant and its directors and executive officers.
(5)	10.3	Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees.
(2)	10.4	Registrant's 1987 Incentive Stock Option Plan and related agreements.
(2)	10.5	Registrant's 1987 Supplemental Stock Option Plan and related agreements.
	10.7	Registrant's Employee Stock Purchase Plan, as amended January 22, 1998.
	10.8	Registrant's 1991 Stock Option Plan, as amended January 22, 1998.
(2)	10.11	Series C Preferred Stock Purchase Agreement, dated as of July 26, 1990, by and between Registrant and Glaxo Inc.
(2)	10.13	Registration Rights Agreement, dated as of June 28, 1991, by and among Registrant and the investors identified on Schedule 1 attached thereto.
(2)	10.15	Form of Non-Qualified Stock Option issued to certain executive officers and directors in 1991.

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(2)	10.16	Relocation Loan Agreement, dated as of November 1, 1990 among Registrant, John C. Martin and Rosemary Martin.
(2)	10.17	Vintage Park Research and Development Net Lease by and between Registrant and Vintage Park Associates dated March 27, 1992 for premises located at 344B, 346 and 353 Lakeside Drive, Foster City, California with related addendum, exhibits and amendments.
(2)	10.21	Letter Agreement, dated as of September 23, 1991 between Registrant and IOCB/ REGA, with exhibits with certain confidential information deleted.
(6)	10.23	Vintage Park Research and Development Net Lease by and between Registrant and Vintage Park Associates dated September 16, 1993 for premises located at 335 Lakeside Drive, Foster City, California with related exhibits.
(7)	10.26	Amendment Agreement, dated October 25, 1993 between Registrant and IOCB/ REGA, and related license agreements and exhibits with certain confidential information deleted.
(7)	10.28	Loan Agreement among Registrant and The Daiwa Bank, Limited dated May 17, 1994 with certain confidential information deleted.
(8)	10.29	License and Supply agreement between Registrant and American Cyanamid Company dated August 1, 1994 with certain confidential information deleted.
(4)	10.30	Loan Agreement, dated as of October 1, 1994 among Registrant and Mark L. Perry and Melanie P. Pena.
(3)	10.33	Registrant's 1995 Non-Employee Directors' Stock Option Plan and related form of stock option grant.
(9)	10.34	Collaborative Research Agreement, dated as of March 25, 1996, by and between Registrant and Glaxo Wellcome Inc. with certain confidential information deleted.
(10)	10.36	Vintage Park Research and Development Lease by and between Registrant and WCB Sixteen Limited Partnership dated June 24, 1996 for premises located at 333 Lakeside Drive, Foster City, California.
(10)	10.37	Amendment No. 1 to Vintage Park Research and Development Lease by and between Registrant and WCB Seventeen Limited Partnership dated June 24, 1996 for premises located at 335 Lakeside Drive, Foster City, California.
(10)	10.38	Amendment No. 2 to Vintage Park Research and Development Lease by and between Registrant and WCB Seventeen Limited Partnership dated June 24, 1996 for premises located at 344B, 346 and 353 Lakeside Drive, Foster City, California.
(11)	10.40	License and Supply Agreement between Registrant and Pharmacia & Upjohn S.A. dated August 7, 1996 with certain confidential information deleted.
(11)	10.41	Series B Preferred Stock Purchase Agreement between Registrant and Pharmacia & Upjohn S.A. dated August 7, 1996.
(11)	10.42	Development and License Agreement between Registrant and F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc dated September 27, 1996 with certain confidential information deleted.
(12)	10.44	Agreement among Registrant and Michael L. Riordan, M.D.
(13)	10.45	Amended and Restated Copromotion Agreement between Registrant and Roche Laboratories, Inc. dated September 12, 1997 with certain confidential information deleted.

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
	10.46	Amendment No. 1 to Collaborative Research Agreement, dated as of December 22, 1997, between Registrant and Glaxo Wellcome Inc.
	13.1	Registrant's Annual Report to Stockholders for the year ended December 31, 1997.
	23.1	Consent of Ernst & Young LLP, Independent Auditors. Reference is made to page 34.
	24.1	Power of Attorney. Reference is made to page 32.
	27.1	Financial Data Schedule.
	27.2	Financial Data Schedule.

(1) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 33-46058) and incorporated herein by reference.

(2) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-44534) or amendments thereto and incorporated herein by reference.

(3) Filed as an exhibit to Registrant's Registration Statement on Form S-3 (No. 333-868) or amendments thereto and incorporated herein by reference.

(4) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1994 and incorporated herein by reference.

(5) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-55680) or amendments thereto and incorporated herein by reference.

(6) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference.

(7) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1994 and incorporated herein by reference.

(8) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference.

(9) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the nine month period ended December 31, 1995.

(10) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference.

(11) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 and incorporated herein by reference.

(12) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and incorporated herein by reference.

(13) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 and incorporated herein by reference.

(B) REPORTS ON FORM 8-K

There were no reports on Form 8-K filed by the Registrant during the fourth quarter of the fiscal year ended December 31, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

GILEAD SCIENCES, INC.

By: /s/ JOHN C. MARTIN
John C. Martin
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Date: March 30, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John C. Martin and Mark L. Perry, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JOHN C. MARTIN (John C. Martin)	President and Chief Executive Officer, Director (Principal Executive Officer)	March 30, 1998
/s/ MARK L. PERRY (Mark L. Perry)	Senior Vice President, Chief Financial Officer and General Counsel (Principal Financial and Accounting Officer)	March 30, 1998
/s/ DONALD H. RUMSFELD (Donald H. Rumsfeld)	Chairman of the Board of Directors	March 30, 1998
/s/ ETIENNE F. DAVIGNON (Etienne F. Davignon)	Director	March 30, 1998
/s/ JAMES M. DENNY, SR. (James M. Denny, Sr.)	Director	March 30, 1998
/s/ GORDON E. MOORE (Gordon E. Moore)	Director	March 30, 1998
/s/ MICHAEL L. RIORDAN (Michael L. Riordan)	Director	March 30, 1998
/s/ GEORGE P. SHULTZ (George P. Shultz)	Director	March 30, 1998

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Gilead Sciences, Inc. of our report dated January 23, 1998, included in the 1997 Annual Report to Stockholders of Gilead Sciences, Inc. for the year ended December 31, 1997.

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-46058) pertaining to the Gilead Sciences, Inc. 1987 Incentive Stock Option Plan, 1987 Supplemental Stock Option Plan, 1991 Stock Option Plan, Employee Stock Purchase Plan, and Officer, Director and Key Employee Nonqualified Stock Options, the Registration Statement (Form S-8 No. 33-62060) pertaining to the Gilead Sciences, Inc. 1991 Stock Option Plan, and the Registration Statement (Form S-8 No. 33-81670) pertaining to the Gilead Sciences, Inc. Employee Stock Purchase Plan, of our report dated January 23, 1998, with respect to the consolidated financial statements incorporated by reference in the Annual Report (Form 10-K) of Gilead Sciences, Inc. for the year ended December 31, 1997.

ERNST & YOUNG LLP

Palo Alto, California
March 30, 1998

EXHIBIT 10.7

GILEAD SCIENCES, INC.

EMPLOYEE STOCK PURCHASE PLAN

ADOPTED NOVEMBER 15, 1991
AMENDED MAY 25, 1994
AMENDED AND RESTATED JANUARY 22, 1998

TERMINATION DATE: NOVEMBER 14, 2001

1. PURPOSE.

(a) The purpose of the Employee Stock Purchase Plan ("the Plan") is to provide a means by which employees of GILEAD SCIENCES, INC., a Delaware corporation (the "Company"), and its Affiliates, as defined in subparagraph 1(c), which are designated as provided in subparagraph 2(b), may be given an opportunity to purchase stock of the Company.

(b) Plan initially was adopted on November 15, 1991 and subsequently amended on May 25, 1994 (the "Initial Plan"). The Initial Plan hereby is amended and restated in its entirety effective as of January 22, 1998. The terms of the Initial Plan (other than the aggregate number of shares issuable thereunder) shall remain in effect and apply to all options granted pursuant to the Initial Plan.

(c) The word "Affiliate" as used in the Plan means any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f), respectively, of the Internal Revenue Code of 1986, as amended (the "Code").

(d) The Company, by means of the Plan, seeks to retain the services of its employees, to secure and retain the services of new employees, and to provide incentives for such persons to exert maximum efforts for the success of the Company.

(e) The Company intends that the rights to purchase stock of the Company granted under the Plan be considered options issued under an "employee stock purchase plan" as that term is defined in Section 423(b) of the Code.

2. ADMINISTRATION.

(a) The Plan shall be administered by the Board of Directors (the "Board") of the Company unless and until the Board delegates administration to a Committee, as provided in subparagraph 2(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine when and how rights to purchase stock of the Company shall be granted and the provisions of each offering of such rights (which need not be identical).

(ii) To designate from time to time which Affiliates of the Company shall be eligible to participate in the Plan.

(iii) To construe and interpret the Plan and rights granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) To amend the Plan as provided in paragraph 13.

(v) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company.

(c) The Board may delegate administration of the Plan to a Committee composed of not fewer than two (2) members of the Board (the "Committee"). If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

3. SHARES SUBJECT TO THE PLAN.

Subject to the provisions of paragraph 12 relating to adjustments upon changes in stock, the stock that may be sold pursuant to rights granted under the Plan shall not exceed in the aggregate one million two hundred fifty thousand (1,250,000) shares of the Company's .001 par value common stock (the "Common Stock"). If any right granted under the Plan shall for any reason terminate without having been exercised, the Common Stock not purchased under such right shall again become available for the Plan. The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

4. GRANT OF RIGHTS; OFFERING.

The Board or the Committee may from time to time grant or provide for the grant of rights to purchase Common Stock of the Company under the Plan to eligible employees (an "Offering") on a date or dates (the "Offering Date(s)") selected by the Board or the Committee. Each Offering shall be in such form and shall contain such terms and conditions as the Board or the Committee shall deem appropriate. If an employee has more than one right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder: (1) each agreement or notice delivered by that employee will be deemed to apply to all of his or her rights under the Plan, and (2) a right with a lower exercise price (or an earlier-granted right, if two rights have identical exercise prices), will be exercised to the fullest possible extent before a right with a higher exercise price (or a later-granted right, if two rights have identical exercise prices) will be exercised. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of this Plan by reference in the Offering or otherwise) the substance of the provisions contained in paragraphs 5 through 8, inclusive.

5. ELIGIBILITY.

(a) Rights may be granted only to employees of the Company or, as the Board or the Committee may designate as provided in subparagraph 2 (b), to employees of any Affiliate of the Company. Except as provided in subparagraph 5(b), an employee of the Company or any Affiliate shall not be eligible to be granted rights under the Plan, unless, on the Offering Date, such employee has been in the employ of the Company or any Affiliate for such continuous period preceding such grant as the Board or the Committee may require, but in no event shall the required period of continuous employment be equal to or greater than two (2) years. In addition, unless otherwise determined by the Board or the Committee and set forth in the terms of the applicable Offering, no employee of the Company or any Affiliate shall be eligible to be granted rights under the Plan, unless, on the Offering Date, such employee's customary employment with the Company or such Affiliate is at least twenty (20) hours per week and at least five (5) months per calendar year.

(b) The Board or the Committee may provide that, each person who, during the course of an Offering, first becomes an eligible employee of the Company or designated Affiliate will, on a date or dates specified in the Offering which coincides with the day on which such person becomes an eligible employee or occurs thereafter, receive a right under that Offering, which right shall thereafter be deemed to be a

part of that Offering. Such right shall have the same characteristics as any rights originally granted under that Offering, as described herein, except that:

(i) the date on which such right is granted shall be the "Offering Date" of such right for all purposes, including determination of the exercise price of such right;

(ii) the Purchase Period (as defined below) for such right shall begin on its Offering Date and end coincident with the end of such Offering; and

(iii) the Board or the Committee may provide that if such person first becomes an eligible employee within a specified period of time before the end of the Purchase Period (as defined below) for such Offering, he or she will not receive any right under that Offering.

(c) No employee shall be eligible for the grant of any rights under the Plan if, immediately after any such rights are granted, such employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Affiliate. For purposes of this subparagraph 5(c), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any employee, and stock which such employee may purchase under all outstanding rights and options shall be treated as stock owned by such employee.

(d) An eligible employee may be granted rights under the Plan only if such rights, together with any other rights granted under "employee stock purchase plans" of the Company and any Affiliates, as specified by Section 423(b)(8) of the Code, do not permit such employee's rights to purchase stock of the Company or any Affiliate to accrue at a rate which exceeds twenty-five thousand dollars ($25,000) of fair market value of such stock (determined at the time such rights are granted) for each calendar year in which such rights are outstanding at any time.

(e) Officers of the Company and any designated Affiliate shall be eligible to participate in Offerings under the Plan, provided, however, that the Board may provide in an Offering that certain employees who are highly compensated employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

6. RIGHTS; PURCHASE PRICE.

(a) On each Offering Date, each eligible employee, pursuant to an Offering made under the Plan, shall be granted the right to purchase the number of shares of Common Stock of the Company purchasable with up to fifteen percent (15%) (or such lower percentage as the Board determines for a particular Offering) of such employee's Earnings (as defined in Section 7(a)) during the period which begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no more than twenty-seven (27) months after the Offering Date (the "Purchase Period"). In connection with each Offering made under this Plan, the Board or the Committee shall specify a maximum number of shares which may be purchased by any employee as well as a maximum aggregate number of shares which may be purchased by all eligible employees pursuant to such Offering. In addition, in connection with each Offering which contains more than one Exercise Date (as defined in the Offering), the Board or the Committee may specify a maximum aggregate number of shares which may be purchased by all eligible employees on any given Exercise Date under the Offering. If the aggregate purchase of shares upon exercise of rights granted under the Offering would exceed any such maximum aggregate number, the Board or the Committee shall make a pro rata allocation of the shares available in as nearly a uniform manner as shall be practicable and as it shall deem to be equitable.

(b) In connection with each Offering made under the Plan, the Board or the Committee may specify a maximum number of shares that may be purchased by any employee as well as a maximum aggregate number of shares that may be purchased by all eligible employees pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date, the Board or the Committee may specify a maximum aggregate number of shares which may be purchased by all eligible employees on

any given Purchase Date under the Offering. If the aggregate purchase of shares upon exercise of rights granted under the Offering would exceed any such maximum aggregate number, the Board or the Committee shall make a pro rata allocation of the shares available in as nearly a uniform manner as shall be practicable and as it shall deem to be equitable.

(c) The purchase price of stock acquired pursuant to rights granted under the Plan shall be not less than the lesser of:

(i) an amount equal to eighty-five percent (85%) of the fair market value of the stock on the Offering Date; or

(ii) an amount equal to eighty-five percent (85%) of the fair market value of the stock on the Exercise Date.

7. PARTICIPATION; WITHDRAWAL; TERMINATION.

(a) An eligible employee may become a participant in an Offering by delivering a participation agreement to the Company within the time specified in the Offering, in such form as the Company provides. Each such agreement shall authorize payroll deductions of up to fifteen percent (15%) (or such lower percentage as the Board determines for a particular Offering) of such employee's Earnings during the Purchase Period. "Earnings" is defined as an employee's total compensation, including all salary, wages and other remuneration paid to an employee (including amounts elected to be deferred by the employee, that would otherwise have been paid, under any cash or deferred arrangement established by the Company), overtime pay, commissions, bonuses, profit sharing, any special payments for extraordinary services, provided, however, that the Board in its sole discretion may limit the above definition from time to time with respect to each Offering. The payroll deductions made for each participant shall be credited to an account for such participant under the Plan and shall be deposited with the general funds of the Company. A participant may reduce, increase or begin such payroll deductions after the beginning of any Purchase Period only as provided for in the Offering. A participant may make additional payments into his or her account only if specifically provided for in the Offering and only if the participant has not had the maximum amount withheld during the Purchase Period.

(b) At any time during a Purchase Period a participant may terminate his or her payroll deductions under the Plan and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company provides. Such withdrawal may be elected at any time prior to the end of the Purchase Period. Upon such withdrawal from the Offering by a participant, the Company shall distribute to such participant all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire stock for the participant) under the Offering, without interest unless the terms of the Offering specifically so provide, and such participant's interest in that Offering shall be automatically terminated. A participant's withdrawal from an Offering will have no effect upon such participant's eligibility to participate in any other Offerings under the Plan but such participant will be required to deliver a new participation agreement in order to participate in subsequent Offerings under the Plan.

(c) Rights granted pursuant to any Offering under the Plan shall terminate immediately upon cessation of any participating employee's employment with the Company or an Affiliate, for any reason, and the Company shall distribute to such terminated employee all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire stock for the terminated employee), under the Offering, without interest unless the terms of the Offering specifically so provide.

(d) Rights granted under the Plan shall not be transferable by a participant otherwise than by will or the laws of descent and distribution, or by a beneficiary designation as provided in paragraph 14 and,

otherwise during his or her lifetime, shall be exercisable only by the person to whom such rights are granted.

8. EXERCISE.

(a) On each exercise date, as defined in the relevant Offering (an "Exercise Date"), each participant's accumulated payroll deductions (without any increase for interest unless the terms of the Offering specifically so provide) will be applied to the purchase of whole shares of stock of the Company, up to the maximum number of shares permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional shares shall be issued upon the exercise of rights granted under the Plan. The amount, if any, of accumulated payroll deductions remaining in each participant's account after the purchase of shares which is less than the amount required to purchase one share of stock on the final Exercise Date of an Offering shall be held in each such participant's account for the purchase of shares under the next Offering under the Plan, unless such participant withdraws from such next Offering, as provided in subparagraph 7(b), or is no longer eligible to be granted rights under the Plan, as provided in paragraph 5, in which case such amount shall be distributed to the participant after said final Exercise Date, without interest unless the terms of the Offering specifically so provide. The amount, if any, of accumulated payroll deductions remaining in any participant's account after the purchase of shares which is equal to the amount required to purchase whole shares of stock on the final Exercise Date of an Offering shall be distributed in full to the participant after such Exercise Date, without interest unless the terms of the Offering specifically so provide.

(b) No rights granted under the Plan may be exercised to any extent unless the Plan (including rights granted thereunder) is covered by an effective registration statement pursuant to the Securities Act of 1933, as amended (the "Securities Act"). If on an Exercise Date of any Offering hereunder the Plan is not so registered, no rights granted under the Plan or any Offering shall be exercised on said Exercise Date and all payroll deductions accumulated during the purchase period (reduced to the extent, if any, such deductions have been used to acquire stock) shall be distributed to the participants, without interest unless the terms of the Offering specifically so provide.

(c) Shares of stock of the Company that are purchased may be registered in the name of the participant or jointly in the name of the participant and his or her spouse as joint tenants with right of survivorship or community property.

9. COVENANTS OF THE COMPANY.

(a) During the terms of the rights granted under the Plan, the Company shall keep available at all times the number of shares of stock required to satisfy such rights.

(b) The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of stock upon exercise of the rights granted under the Plan. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such rights unless and until such authority is obtained.

10. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to rights granted under the Plan shall constitute general funds of the Company.

11. RIGHTS AS A STOCKHOLDER.

A participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to rights granted under the Plan unless and until certificates representing such shares shall have been issued.

12. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) If any change is made in the stock subject to the Plan, or subject to any rights granted under the Plan (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or otherwise), the Plan and outstanding rights will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan and the class(es) and number of shares and price per share of stock subject to outstanding rights.

(b) In the event of: (1) a dissolution or liquidation of the Company; (2) a merger or consolidation in which the Company is not the surviving corporation;
(3) a reverse merger in which the Company is the surviving corporation but the shares of the Company's Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise; or (4) any other capital reorganization in which more than fifty percent (50%) of the shares of the Company entitled to vote are exchanged, then, as determined by the Board in its sole discretion (i) any surviving corporation may assume outstanding rights or substitute similar rights for those under the Plan, (ii) such rights may continue in full force and effect, or (iii) participants' accumulated payroll deductions may be used to purchase Common Stock immediately prior to the transaction described above and the participants' rights under the ongoing Offering terminated.

13. AMENDMENT OF THE PLAN.

(a) The Board at any time, and from time to time, may amend the Plan. However, except as provided in paragraph 12 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company within twelve (12) months before or after the adoption of the amendment, where the amendment will:

(i) Increase the number of shares reserved for rights under the Plan;

(ii) Modify the provisions as to eligibility for participation in the Plan (to the extent such modification requires stockholder approval in order for the Plan to obtain employee stock purchase plan treatment under Section 423 of the Code or to comply with the requirements of Rule 16b-3 promulgated under the Exchange Act of 1934, as amended (the "Exchange Act")); or

(iii) Modify the Plan in any other way if such modification requires stockholder approval in order for the Plan to obtain employee stock purchase plan treatment under Section 423 of the Code or to comply with the requirements of Rule 16b-3 promulgated under the Exchange Act or any Nasdaq or securities exchange listing requirements.

The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to employee stock purchase plans and/or to bring the Plan and/or rights granted under it into compliance therewith.

(b) Rights and obligations under any rights granted before amendment of the Plan shall not be altered or impaired by any amendment of the Plan, except with the consent of the person to whom such rights were granted or except as necessary to comply with any laws or governmental regulations or to

ensure that the Plan and/or rights granted under the Plan comply with the requirements of Section 423 of the Code.

14. DESIGNATION OF BENEFICIARY.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of an Offering but prior to delivery to the participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death during an Offering.

(b) The participant may change such designation of beneficiary at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate ten (10) years from the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any rights granted while the Plan is in effect shall not be impaired by suspension or termination of the Plan, except as expressly provided in the Plan or with the consent of the person to whom such rights were granted, or except as necessary to comply with any laws or governmental regulation or to ensure that the Plan and/or rights granted under the Plan comply with the requirements of Section 423 of the Code.

16. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no rights granted under the Plan shall be exercised unless and until the stockholders of the Company have approved the Plan.

EXHIBIT 10.8

GILEAD SCIENCES, INC.
1991 STOCK OPTION PLAN
ADOPTED NOVEMBER 15, 1991
AMENDED APRIL 8, 1992
AMENDED APRIL 21, 1993
AMENDED OCTOBER 17, 1995
AMENDED AND RESTATED JANUARY 22, 1998
TERMINATION DATE: OCTOBER 31, 2001

1. PURPOSES.

(a) The Plan initially was adopted on November 15, 1991 and amended through October 17, 1995 (the "Initial Plan"). The Initial Plan hereby is amended and restated in its entirety effective as of January 22, 1998. The terms of the Plan (excluding the amended provision relating to the exercise price of Nonstatutory Stock Options) shall apply to all options granted pursuant to the Initial Plan.

(b) The purpose of the Plan is to provide a means by which selected Employees and Directors of, and Consultants to, the Company and its Affiliates may be given an opportunity to purchase stock of the Company.

(c) The Company, by means of the Plan, seeks to retain the services of persons who are now Employees of or Consultants to the Company, to secure and retain the services of new Employees and Consultants, and to provide incentives for such persons to exert maximum efforts for the success of the Company.

(d) The Company intends that the Options issued under the Plan shall, in the discretion of the Board or any Committee to which responsibility for administration of the Plan has been delegated pursuant to subsection 3(c), be either Incentive Stock Options or Nonstatutory Stock Options. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and in such form as issued pursuant to Section 6, and a separate certificate or certificates will be issued for shares purchased on exercise of each type of Option.

2. DEFINITIONS.

(a) "AFFILIATE" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f) respectively, of the Code.

(b) "BOARD" means the Board of Directors of the Company.

(c) "CODE" means the Internal Revenue Code of 1986, as amended.

(d) "COMMITTEE" means a Committee appointed by the Board in accordance with subsection 3(c) of the Plan.

(e) "COMPANY" means Gilead Sciences, Inc., a Delaware corporation.

(f) "CONSULTANT" means any person, including an advisor, engaged by the Company or an Affiliate to render services and who is compensated for such services, provided that the term "Consultant" shall not include Directors who are paid only a director's fee by the Company or who are not otherwise compensated by the Company for their services as Directors. The term "Consultant" shall include a member of the Board of Directors of an Affiliate.

(g) "CONTINUOUS SERVICE" (formerly designated as "CONTINUOUS STATUS AS AN EMPLOYEE OR CONSULTANT") means that the Optionee's service with the Company or its Affiliates is not interrupted or terminated. The Optionee's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionee renders service to the Company or its Affiliates or a change in the entity for

which the Optionee renders such service, provided that there is no interruption or termination of the Optionee's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant or Director of the Company or a member of the Board of Directors of an Affiliate will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by the Board or the chief executive officer of the Company, including sick leave, military leave, or any other personal leave.

(h) "COVERED EMPLOYEE" means the chief executive officer and the four (4) other highest compensated officers of the Company for whom total compensation is required to be reported to shareholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

(i) "DIRECTOR" means a member of the Board.

(j) "DISABILITY" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(k) "EMPLOYEE" means any person, including Officers and Directors, employed by the Company or any Affiliate of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(m) "FAIR MARKET VALUE" means, as of any date, the value of the common stock of the Company determined as follows:

(i) If the common stock is listed on any established stock exchange or a national market system, including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, the Fair Market Value of a share of common stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in common stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(ii) If the common stock is quoted on the NASDAQ System (but not on the National Market System thereof) or is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a share of common stock shall be the mean between the high bid and high asked prices for the common stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(iii) In the absence of an established market for the common stock, the Fair Market Value shall be determined in good faith by the Board.

(n) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(o) "NON-EMPLOYEE DIRECTOR" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(p) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.

(q) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(r) "OPTION" means a stock option granted pursuant to the Plan.

(s) "OPTION AGREEMENT" means a written agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(t) "OPTIONED STOCK" means the common stock of the Company subject to an Option.

(u) "OPTIONEE" means a person who holds an outstanding Option.

(v) "OUTSIDE DIRECTOR" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of the Treasury regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time, and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(w) "PLAN" means this 1991 Stock Option Plan.

(x) "RULE 16B-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

3. ADMINISTRATION.

(a) The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Options; when and how the Option shall be granted; whether the Option will be an Incentive Stock Option or a Nonstatutory Stock Option; the provisions of each Option granted (which need not be identical), including the time or times such Option may be exercised in whole or in part; and the number of shares for which an Option shall be granted to each such person.

(ii) To construe and interpret the Plan and Options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan as provided in Section 11.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company.

(c) The Board may delegate administration of the Plan to a Committee or Committees of one or more members of the Board. In the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Code Section 162(m), or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3 of the Exchange Act. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board (and references in this Plan to the Board shall thereafter be to the Committee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest

in the Board the administration of the Plan. Within the scope of this authority, the Board or the Committee may delegate to a committee of one or more members of the Board the authority to grant Options to eligible persons who (1) are not then subject to Section 16 of the Exchange Act and/or (2) are either (i) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Option, or (ii) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code.

4. SHARES SUBJECT TO THE PLAN.

(a) Subject to the provisions of Section 10 relating to adjustments upon changes in stock, the stock that may be sold pursuant to Options shall not exceed in the aggregate Six Million Five Hundred Thousand (6,500,000) shares of the Company's common stock. If any Option shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the stock not purchased under such Option shall revert to again become available for issuance under the Plan.

(b) The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) Incentive Stock Options may be granted only to Employees. Nonstatutory Stock Options may be granted to Employees, Directors and Consultants.

(b) No person shall be eligible for the grant of an Incentive Stock Option if, at the time of grant, such person owns (or is deemed to own pursuant to
Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of such stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) Subject to the provisions of Section 10 relating to adjustments upon changes in stock, no person shall be eligible to be granted Options covering more than Five Hundred Thousand (500,000) shares of the Company's common stock in any calendar year.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. No Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) PRICE.

(i) EXERCISE PRICE. The exercise price of each Incentive Stock Option and each Nonstatutory Stock Option shall be not less than one hundred percent (100%) of the fair market value of the stock subject to the Option on the date the Option is granted.

(ii) NO AUTHORITY TO REPRICE. Without the consent of the stockholders of the Company, the Board shall have no authority to effect (a) the repricing of any outstanding Options under the Plan and/or (b) the cancellation of any outstanding Options under the Plan and the grant in substitution therefor of new Options under the Plan covering the same or different numbers of shares of Common Stock.

(c) CONSIDERATION. The purchase price of stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised, or (ii) at the discretion of the Board or the Committee, at the time of the grant of the Option, (A) by delivery to the Company of other common stock of the Company, (B) according to a deferred payment arrangement, except that payment of the common stock's "par value" (as defined in the Delaware General Corporation Law) shall not be made by deferred payment or other arrangement (which may include, without limiting the generality of the foregoing, the use of other common stock of the Company) with the person to whom the Option is granted or to whom the Option is transferred pursuant to subsection 6(d), or (C) in any other form of legal consideration that may be acceptable to the Board.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(d) TRANSFERABILITY. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the person to whom the Option is granted only by such person. A Nonstatutory Stock Option but not an Incentive Stock Option, may be transferred to the extent provided in the Option Agreement; provided that if the Option Agreement does not expressly permit the transfer of a Nonstatutory Stock Option, the Nonstatutory Stock Option shall not be transferable except by will, by the laws of descent and distribution and shall be exercisable during the lifetime of the person to whom the Option is granted only by such person. The person to whom the Option is granted may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionee, shall thereafter be entitled to exercise the Option.

(e) VESTING. The total number of shares of stock subject to an Option may, but need not, be allotted in periodic installments (which may, but need not, be equal). The Option Agreement may provide that from time to time during each of such installment periods, the Option may become exercisable ("vest") with respect to some or all of the shares allotted to that period, and may be exercised with respect to some or all of the shares allotted to such period and/or any prior period as to which the Option became vested but was not fully exercised. During the remainder of the term of the Option (if its term extends beyond the end of the installment periods), the option may be exercised from time to time with respect to any shares then remaining subject to the Option. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The provisions of this subsection 6(e) are subject to any Option provisions governing the minimum number of shares as to which an Option may be exercised.

(f) SECURITIES LAW COMPLIANCE. The Company may require any Optionee, or any person to whom an Option is transferred under subsection 6(d), as a condition of exercising any such Option, (1) to give written assurances satisfactory to the Company as to the Optionee's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters, and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option; and (2) to give written assurances satisfactory to the Company stating that such person is acquiring the stock subject to the Option for such person's own account and not with any present intention of selling or otherwise distributing the stock. These requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the shares upon the exercise of the Option has been registered under a then currently effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"), or (ii) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may require the Optionee to provide such other representations, written assurances, or information which the Company shall determine is necessary, desirable or appropriate to comply with applicable securities and other laws as a condition of granting an Option to such

Optionee or permitting the Optionee to exercise such Option. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

(g) TERMINATION OF EMPLOYMENT OR CONSULTING RELATIONSHIP. In the event an Optionee's Continuous Status as an Employee or Consultant terminates (other than upon the Optionee's death or Disability), the Optionee may exercise his or her Option, but only within such period of time as is determined by the Board, and only to the extent that the Optionee was entitled to exercise it at the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the case of an Incentive Stock Option, the Board shall determine such period of time (in no event to exceed ninety (90) days from the date of termination) when the Option is granted. If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate, and the shares covered by such Option shall revert to the Plan.

(h) DISABILITY OF OPTIONEE. In the event an Optionee's Continuous Service terminates as a result of the Optionee's Disability, the Optionee may exercise his or her Option, but only within twelve (12) months from the date of such termination (or such shorter period specified in the Option Agreement), and only to the extent that the Optionee was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the shares covered by such Option shall revert to the Plan.

(i) DEATH OF OPTIONEE. In the event of the death of an Optionee, the Option may be exercised, at any time within twelve (12) months following the date of death (or such shorter period specified in the Option Agreement) (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Optionee was entitled to exercise the Option at the date of death. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after death, the Optionee's estate or a person who acquired the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the shares covered by such Option shall revert to the Plan.

(j) EARLY EXERCISE. The Option may, but need not, include a provision whereby the Optionee may elect at any time while an Employee or Consultant to exercise the Option as to any part or all of the shares subject to the Option prior to the full vesting of the Option. Any unvested shares so purchased may be subject to a repurchase right in favor of the Company or to any other restriction the Board determines to be appropriate.

(k) WITHHOLDING. To the extent provided by the terms of an Option Agreement, the Optionee may satisfy any federal, state or local tax withholding obligation relating to the exercise of such Option by any of the following means or by a combination of such means: (1) tendering a cash payment; (2) authorizing the Company to withhold shares from the shares of the common stock otherwise issuable to the participant as a result of the exercise of the Option; or (3) delivering to the Company owned and unencumbered shares of the common stock of the Company.

7. COVENANTS OF THE COMPANY.

(a) During the terms of the Options, the Company shall keep available at all times the number of shares of stock required to satisfy such Options.

(b) The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of stock upon exercise of the Options; provided, however, that this undertaking shall not require the Company to register under the Securities Act either the Plan, any Option or any stock issued or issuable pursuant to any such Option. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Options unless and until such authority is obtained.

8. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to Options shall constitute general funds of the Company.

9. MISCELLANEOUS.

(a) The Board shall have the power to accelerate the time at which an Option may first be exercised or the time during which an Option or any part thereof will vest pursuant to subsection 6(e), notwithstanding the provisions in the Option stating the time at which it may first be exercised or the time during which it will vest.

(b) Neither an Optionee nor any person to whom an Option is transferred under subsection 6(d) shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Option unless and until such person has satisfied all requirements for exercise of the Option pursuant to its terms.

(c) Nothing in the Plan or any instrument executed or Option granted pursuant thereto shall confer upon any Employee, Consultant or Optionee any right to continue in the employ of the Company or any Affiliate (or to continue acting as a Consultant) or shall affect the right of the Company or any Affiliate to terminate the employment or relationship as a Consultant of any Employee, Consultant or Optionee with or without cause.

(d) To the extent that the aggregate Fair Market Value (determined at the time of grant) of stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year under all plans of the Company and its Affiliates exceeds one hundred thousand dollars ($100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

10. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) If any change is made in the stock subject to the Plan, or subject to any Option (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or otherwise), the Plan will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan pursuant to subsection 4(a) and the maximum number of shares subject to award to any person during any calendar year period pursuant to subsection 5(d), and the outstanding Options will be appropriately adjusted in the class(es) and number of shares and price per share of stock subject to such outstanding Options.

(b) In the event of: (1) a dissolution or liquidation of the Company; (2) a merger or consolidation in which the Company is not the surviving corporation;
(3) a reverse merger in which the Company is the surviving corporation but the shares of the Company's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise; or (4) any other capital reorganization in which more than fifty percent (50%) of the shares of the Company entitled to vote are exchanged, then, at the sole discretion of the Board and to the extent permitted by applicable law: (i) any surviving corporation shall assume any Options outstanding

under the Plan or shall substitute similar Options for those outstanding under the Plan, (ii) the time during which such Options may be exercised shall be accelerated and the Options terminated if not exercised prior to such event, or
(iii) such Options shall continue in full force and effect.

11. AMENDMENT OF THE PLAN.

(a) The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 10 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company within twelve (12) months before or after the adoption of the amendment, where the amendment will:

(i) Increase the number of shares reserved for options under the Plan;

(ii) Effect (a) the repricing of any outstanding Options under the Plan and/or (b) the cancellation of any outstanding Options under the Plan and the grant in substitution therefor of new Options under the Plan covering the same or different numbers of shares of Common Stock;

(iii) Modify the requirements as to eligibility for participation in the Plan (to the extent such modification requires stockholder approval in order for the Plan to satisfy the requirements of Section 422 of the Code); or

(iv) Modify the Plan in any other way if such modification requires stockholder approval in order for the Plan to satisfy the requirements of Section 422 of the Code or to comply with the requirements of Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) The Board may in its sole discretion submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations promulgated thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide Optionees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) Rights and obligations under any Option granted before amendment of the Plan shall not be altered or impaired by any amendment of the Plan unless (i) the Company requests the consent of the person to whom the Option was granted and (ii) such person consents in writing.

12. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on October 31, 2001. No Options may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any Option granted while the Plan is in effect shall not be altered or impaired by suspension or termination of the Plan, except with the consent of the person to whom the Option was granted.

13. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Options granted under the Plan shall be exercised unless and until the stockholders of the Company have approved the Plan.

AMENDMENT NO. 1
TO
COLLABORATIVE RESEARCH AGREEMENT
BETWEEN GILEAD SCIENCES, INC.
AND
GLAXO WELLCOME INC.
DATED DECEMBER 22, 1997

This Amendment No. 1 (the "Amendment") to the Collaborative Research Agreement entered into as of the 25th day of March, 1996, (the "Original Agreement"), is made by and between GILEAD SCIENCES, INC., a Delaware corporation, having its principal place of business at 353 Lakeside Drive, Foster City, California, 94404 ("Gilead") and GLAXO WELLCOME INC., a North Carolina corporation, having offices at Five Moore Drive, Research Triangle Park, North Carolina 27709 ("Glaxo"), effective as of December 22, 1997.

WHEREAS, the Parties desire to amend the Original Agreement regarding Section 13.4 "Termination of Research Term by Glaxo."

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual promises and covenants set forth below, for other good and valuable consideration the receipt and sufficiency of which the Parties acknowledge, and in accordance with Article 16.7 of the Original Agreement allowing modifications by written agreements duly signed by persons authorized to sign on behalf of the Parties, the Parties, intending to be legally bound, agree as follows:

1. Unless otherwise defined in this Amendment, the capitalized terms used in this Amendment shall have the same meaning as given them in the Original Agreement.

2. Article 13.4 shall be amended by deleting the first sentence of Article 13.4 in its entirety and the following new first sentence of Article 13.4 shall be inserted in lieu thereof:

"Glaxo shall have the right to terminate the Research term prior to expiration hereunder upon written notice to Gilead; provided, however, that such termination be effective on the later of (a) June 22, 1998, or (b) the date notice of termination pursuant to this Article 13.4 is given to Gilead."

3. Except as modified above, the Original Agreement shall remain in full force and effect, including, but not limited to, the unamended provisions of Article 13.4.

IN WITNESS WHEREOF, the Parties have executed this Agreement, as of the day and year first above written.

GILEAD SCIENCES, INC.	*GLAXO WELLCOME INC.*
By: /s/ John C. Martin	*By: /s/ Robert M. Bell*
Name: John C. Martin	*Name: Robert M. Bell, Ph.D.*
Title: CEO	*Title: Vice President, Research Glaxo Wellcome Inc.*

1997 GILEAD SCIENCES FINANCIALS

SELECTED CONSOLIDATED FINANCIAL DATA
CONSOLIDATED STATEMENTS OF OPERATIONS DATA

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	YEAR ENDED MARCH 31,	
	1997	1996	1995(1)	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Revenues:					
Product sales, net	$ 11,735	$ 8,477	$ --	$ --	$
Contract revenues and royalties	28,302	24,943	2,699	4,922	4,085
Total revenues	40,037	33,420	2,699	4,922	4,085
Costs and expenses:					
Cost of product sales	1,167	910	--	--	--
Research and development	59,162	41,881	25,670	30,360	26,046
Selling, general and administrative	25,472	26,692	9,036	9,669	7,639
Total operating costs and expenses	85,801	69,483	34,706	40,029	33,685
Loss from operations	(45,764)	(36,063)	(32,007)	(35,107)	(29,600)
Interest income, net	17,771	14,331	4,592	3,833	3,888
Net loss	$ (27,993)	$ (21,732)	$ (27,415)	$ (31,274)	$ (25,712)
Basic and diluted loss per share	$ (0.95)	$ (0.78)	$ (1.29)	$ (1.65)	$ (1.37)
Common shares used in the calculation of basic and diluted loss per share	29,326	27,786	21,274	18,971	18,779

CONSOLIDATED BALANCE SHEETS DATA

	DECEMBER 31,			MARCH 31,	
	1997	1996	1995(1)	1995	1994
	(IN THOUSANDS)				
Cash, cash equivalents and short-term investments	$ 322,298	$ 295,963	$ 155,659	$ 89,146	$ 114,968
Working capital	306,867	284,154	145,539	80,190	108,071
Total assets	352,069	310,673	166,659	102,395	126,602
Non-current portion of equipment financing obligations and long-term debt	1,331	2,914	3,482	5,454	2,479
Accumulated deficit	(162,479)	(134,486)	(112,754)	(85,339)	(54,065)
Total stockholders' equity (2)	317,347	291,660	151,499	86,056	115,280

(1) In October 1995, the Company changed its fiscal year end from March 31 to December 31, effective with the nine months ended December 31, 1995.

(2) No dividends have been declared or paid on the common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Since its inception in June 1987, Gilead has devoted the substantial portion of its resources to its research and development programs, with significant expenses relating to commercialization beginning in 1996. With the exception of the second quarter of 1997 and the third quarter of 1996, when the Company earned significant fees related to collaborations, the Company has incurred losses since its inception. Gilead expects to incur losses at least in 1998 and 1999, due primarily to its research and development programs, including preclinical studies, clinical trials and manufacturing, as well as marketing and sales efforts in support of VISTIDE-Registered Trademark- (cidofovir injection) and other potential products. On June 26, 1996, the U.S. Food and Drug Administration ("FDA") granted marketing clearance of VISTIDE for the treatment of cytomegalovirus ("CMV") retinitis in patients with AIDS. The Company is independently marketing VISTIDE in the United States with an antiviral specialty sales force and has entered into a collaboration agreement with Pharmacia & Upjohn S.A. ("P&U") to market VISTIDE in all countries outside the United States. The Company expects that its financial results will fluctuate from quarter to quarter and that such fluctuations may be substantial. There can be no assurance that the Company will successfully develop, commercialize, manufacture and market additional products or sustain profitability. As of December 31, 1997, the Company's accumulated deficit was approximately $162.5 million.

The successful development and commercialization of the Company's products will require substantial and ongoing efforts at the forefront of the life sciences industry. The Company is pursuing preclinical or clinical development of a number of product candidates. Even if these product candidates appear promising during various stages of development, they may not reach the market for a number of reasons. Such reasons include the possibilities that the potential products will be found ineffective or unduly toxic during preclinical or clinical trials, fail to receive necessary regulatory approvals, be difficult to manufacture on a large scale, be uneconomical to market or be precluded from commercialization by proprietary rights of others.

As a company in an industry undergoing rapid change, the Company faces significant challenges and risks, including the risks inherent in its research and development programs, uncertainties in obtaining and enforcing patents, the lengthy and expensive regulatory approval process, intense competition from pharmaceutical and biotechnology companies, increasing pressure on pharmaceutical pricing from payors, patients and government agencies and uncertainties associated with the market acceptance and size of the market for VISTIDE or any of the Company's products in development. These risks are discussed in greater detail in the Company's Annual Report on Form 10-K for the year ended December 31, 1997. Stockholders and potential investors in the Company should carefully consider these risks in evaluating the Company and should be aware that the realization of any of these risks could have a dramatic and negative impact on the Company's stock price.

This report contains forward-looking statements relating to clinical and regulatory developments, marketing and sales matters, future expense levels and financial results. These statements involve inherent risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, the risks discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 1997, particularly those relating to the development and marketing of pharmaceutical products.

RESULTS OF OPERATIONS

REVENUES The Company had total revenues of $40.0 million, $33.4 million, and $2.7 million, for the years ended December 31, 1997 and 1996, and the nine months ended December 31, 1995, respectively. During 1997, each category of revenues (net product sales, contract revenues and royalty revenues) increased from 1996 levels. Net product sales revenues were $11.7 million in 1997 and increased by $3.3 million, or 38 percent, as compared with 1996. Substantially all of the Company's product sales revenues

relate to VISTIDE. The 38 percent increase is due to the fact that 1997 results represent a full year of sales, while 1996 revenues reflect approximately six months of sales (the Company began selling VISTIDE in June 1996). Royalty revenues were $0.9 million in 1997 and include net royalties from P&U on European sales of VISTIDE and royalties from F. Hoffmann-La Roche ("Roche") for co-promoting Roferon-A-Registered Trademark- (Interferon alfa-2a, recombinant) in the United States for the treatment of hepatitis C virus infection. Such revenues are recognized as income when received, which is generally in the quarter following that in which the corresponding sales occur. The Company did not earn significant royalty revenues before 1997. In spite of the overall increases in product sales and the commencement of VISTIDE royalties, VISTIDE product sales experienced a declining trend in 1997 as compared to 1996, primarily due to a decline in the incidence of CMV retinitis as a result of more effective human immunodeficiency virus ("HIV") therapies. VISTIDE product sales revenues and royalties are expected to continue to be modest. The Company had no product sales before 1996.

Contract revenues of $27.4 million increased by $2.5 million, or 10 percent, in 1997. For 1997, contract revenues include a total of $24.2 million earned under the Company's collaborative agreements with P&U and Roche. During the second quarter of 1997, Gilead recognized a $10.0 million milestone payment under the P&U agreement, which is the only milestone payment provided for under that agreement. Under the Roche collaboration in 1997, the Company recognized $8.2 million in reimbursement for research and development expenses. During the fourth quarter of 1997, the Company incurred approximately $5.2 million of additional research and development expenses that were subject to Roche's review and approval as of December 31, 1997. Such expenses were subsequently approved for reimbursement and will be recognized in contract revenues in the first quarter of 1998. Also under the Roche agreement in 1997, the Company received a total of $6.0 million of milestone payments. Gilead is entitled to additional payments of up to $34.0 million upon achieving certain developmental and regulatory milestones. The Company recognized contract revenues of $21.6 million related to both the P&U and Roche agreements during 1996, the year these contracts went into effect.

Contract revenues in all three periods included reimbursement of research expenses under the Company's agreements with Glaxo Wellcome Inc. ($3.0 million in 1997 and 1996, and $2.1 million in the nine-month period ended December 31, 1995).

COSTS AND EXPENSES Cost of product sales was $1.2 million and $0.9 million for the years ended December 31, 1997 and 1996, respectively, and resulted from sales of VISTIDE. The Company had no cost of product sales for the nine months ended December 31, 1995.

The Company's research and development ("R&D") expenses were $59.2 million for the year ended December 31, 1997, compared to $41.9 million for the year ended December 31, 1996. This 41 percent increase is primarily attributable to costs associated with the GS 4104 clinical trials, as well as the ongoing series of PREVEON-TM- (adefovir dipivoxil) clinical trials and the recently announced expanded access program for patients with HIV, which commenced in the fourth quarter of 1997. GS 4104 is an orally administered compound to treat and prevent viral influenza in humans and is being developed in connection with the Company's collaboration with Roche. PREVEON is an investigational, orally- administered, once-daily, reverse transcriptase inhibitor currently being studied to treat HIV. R&D expenses increased 63 percent for the year ended December 31, 1996, compared to the nine months ended December 31, 1995, primarily due to the shorter reporting period in 1995 and higher staffing, preclinical and clinical expenses in 1996. The Company expects its R&D expenses to continue to increase significantly in 1998 over 1997 amounts, reflecting anticipated increased expenses related to clinical trials for several product candidates as well as related increases in staffing and manufacturing.

Selling, general and administrative ("SG&A") expenses were $25.5 million and $26.7 million for the years ended December 31, 1997 and 1996, respectively, and $9.0 million for the nine months ended December 31, 1995. The Company launched its first product, VISTIDE, in June 1996, and the level of expenses in that year is largely attributable to costs incurred to establish and maintain the Company's U.S. marketing and sales capabilities. As expected, these expenses were somewhat lower in 1997. The 195

percent increase in SG&A expenses between the nine-month period ended December 31, 1995 and the year ended December 31, 1996 is also attributable to the shorter reporting period in 1995. The Company expects its SG&A expenses to increase substantially during 1998, primarily to support the expansion of sales and marketing capacity in anticipation of the potential launch of PREVEON, as well as to support planned increases in research and development activities.

NET INTEREST INCOME The Company had net interest income of $17.8 million for the year ended December 31, 1997, compared to $14.3 million for the year ended December 31, 1996. Gilead reported net interest income of $4.6 million for the nine months ended December 31, 1995. The significant increase in net interest income between the 1995 period and the year ended December 31, 1996 is due to substantial increases in Gilead's cash and cash equivalents and short-term investment balances during 1996, which resulted from the Company's two public offerings of common stock completed in February 1996 and August 1995. Net interest income in 1997 exceeded the 1996 amount primarily due to the full-year benefit in 1997 of the one public offering in 1996 and a $40.0 million equity investment by P&U.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and short-term investments were $322.3 million at December 31, 1997 and $296.0 million at December 31, 1996. This $26.3 million increase is primarily attributable to a $40.0 million equity investment from P&U, partially offset by $19.9 million of net cash used in operations. In October 1996, the Company entered into a $3.0 million term loan to finance its facilities expansion, which began in the fourth quarter of 1996. In 1998, the Company expects to incur construction and equipment costs of approximately $2.4 million related to the final build-out of a 37,000 square foot facility leased in August 1996, as well as improvements to several of its other leased facilities.

Net cash used in operations was $19.9 million and $16.5 million for the years ended December 31, 1997 and 1996, respectively, and $23.0 million for the nine months ended December 31, 1995. The Company believes that its existing capital resources, supplemented by net product sales, contract and royalty revenues, will be adequate to satisfy its capital needs for the foreseeable future. The Company's future capital requirements will depend on many factors, including the progress of the Company's research and development, the scope and results of preclinical studies and clinical trials, the cost, timing and outcomes of regulatory reviews, the rate of technological advances, determinations as to the commercial potential of the Company's products under development, the commercial performance of VISTIDE and any of the Company's products in development that receive marketing approval, administrative and legal expenses, the status of competitive products, the establishment of manufacturing capacity or third-party manufacturing arrangements, the expansion of sales and marketing capabilities and the establishment of collaborative relationships with other companies.

The Company may in the future require additional funding, which could be in the form of proceeds from equity or debt financings or additional collaborative agreements with corporate partners. If such funding is required, there can be no assurance that it will be available on favorable terms, if at all.

IMPACT OF YEAR 2000

The Company believes that with upgrades of existing software and conversions to new software, both of which are readily available in the market, the Year 2000 issue will not pose significant operational problems for its internal computer systems. All required modifications and conversions of computer systems that are critical to the Company's business operations are expected to be completed not later than December 31, 1998, which is prior to the estimated occurrence of any Year 2000 issues. The Company has initiated formal communications with its significant suppliers, service providers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. There is no guarantee that the systems of other companies on which the Company's systems rely will be timely converted and would not have an adverse impact on the Company's systems. The Company estimates that the cost of required upgrades and conversions will not have a significant impact on its results of operations.

GILEAD SCIENCES

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31,	
	1997	1996
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	
Current assets:		
Cash and cash equivalents	$ 31,990	$ 131,984
Short-term investments	290,308	163,979
Other current assets	17,960	4,290
Total current assets	340,258	300,253
Property and equipment, net	10,313	9,172
Other assets	1,498	1,248
	$ 352,069	$ 310,673

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 3,303	$ 2,501
Accrued clinical and preclinical expenses	12,989	5,007
Other accrued liabilities	5,705	4,433
Deferred revenues	9,541	527
Current portion of equipment financing obligations and long-term debt	1,853	3,631
Total current liabilities	33,391	16,099
Non-current portion of equipment financing obligations and long-term debt	1,331	2,914
Commitments		
Stockholders' equity:		
Preferred stock, par value $.001 per share, issuable in series; 5,000,000 shares authorized; 1,133,786 shares of Series B convertible preferred issued and outstanding at December 31,1997; none at December 31, 1996 (liquidation preference of $40,000)	1	--
Common stock, par value $.001 per share; 60,000,000 shares authorized; 30,041,584 shares and 28,758,165 shares issued and outstanding at December 31, 1997 and 1996, respectively	30	29
Additional paid-in capital	479,737	426,577
Unrealized gains on investments, net	344	89
Deferred compensation	(286)	(549)
Accumulated deficit	(162,479)	(134,486)
Total stockholders' equity	317,347	291,660
	$ 352,069	$ 310,673

See accompanying notes

GILEAD SCIENCES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,
	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Revenues:			
Product sales, net	$ 11,735	$ 8,477	$ --
Contract revenues	27,413	24,910	2,685
Royalty revenues	889	33	14
Total revenues	40,037	33,420	2,699
Costs and expenses:			
Cost of product sales	1,167	910	--
Research and development	59,162	41,881	25,670
Selling, general and administrative	25,472	26,692	9,036
Total costs and expenses	85,801	69,483	34,706
Loss from operations	(45,764)	(36,063)	(32,007)
Interest income	18,260	15,042	5,199
Interest expense	(489)	(711)	(607)
Net loss	$ (27,993)	$ (21,732)	$ (27,415)
Basic and diluted loss per common share	$ (.95)	$ (0.78)	$ (1.29)
Common shares used to calculate basic and diluted loss per common share	29,326	27,786	21,274

See accompanying notes

GILEAD SCIENCES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNREALIZED GAINS (LOSSES) ON INVESTMENTS, NET	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
			(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)				
BALANCE AT MARCH 31, 1995	$	$ 19	$ 172,947	$ 33	$ (1,604)	$ (85,339)	$ 86,056
Issuance of 380,595 shares of common stock upon the exercise of stock options	--	1	1,963	--	--	--	1,964
Issuance of 207,165 shares of common stock pursuant to the employee stock purchase plan	--	--	1,430	--	--	--	1,430
Issuance of 4,053,750 shares of common stock at $23.25 per share (net of issuance costs of $5,575)	--	4	88,670	--	--	--	88,674
Deferred compensation related to grant of certain stock options	--	--	450	--	(450)	--	--
Amortization of deferred compensation	--	--	--	--	656	--	656
Unrealized gains on available-for-sale short-term investments, net	--	--	--	134	--	--	134
Net loss	--	--	--	--	--	(27,415)	(27,415)
BALANCE AT DECEMBER 31, 1995	--	24	265,460	167	(1,398)	(112,754)	151,499
Issuance of 500,853 shares of common stock upon the exercise of stock options	--	1	3,077	--	--	--	3,078
Issuance of 181,590 shares of common stock pursuant to the employee stock purchase plan	--	--	1,856	--	--	--	1,856
Issuance of 4,305,844 shares of common stock at $37.75 per share (net of issuance costs of $7,063)	--	4	155,478	--	--	--	155,482
Compensation related to accelerated vesting on stock options	--	--	706	--	--	--	706
Amortization of deferred compensation	--	--	--	--	849	--	849
Unrealized losses on available-for-sale short-term investments, net	--	--	--	(78)	--	--	(78)
Net loss	--	--	--	--	--	(21,732)	(21,732)
BALANCE AT DECEMBER 31, 1996	--	29	426,577	89	(549)	(134,486)	291,660
Issuance of 1,190,541 shares of common stock upon the exercise of stock options	--	1	11,243	--	--	--	11,244
Issuance of 92,878 shares of common stock pursuant to the employee stock purchase plan	--	--	1,918	--	--	--	1,918
Issuance of 1,133,786 shares of preferred stock	1	--	39,999	--	--	--	40,000
Amortization of deferred compensation	--	--	--	--	263	--	263
Unrealized gains on available-for-sale short-term investments, net	--	--	--	255	--	--	255
Net loss	--	--	--	--	--	(27,993)	(27,993)
BALANCE AT DECEMBER 31, 1997	$ 1	$ 30	$ 479,737	$ 344	$ (286)	$ (162,479)	$ 317,347

Amortization of deferred compensation	656
Unrealized gains on available-for-sale short-term investments, net	134
Net loss	(27,415)
BALANCE AT DECEMBER 31, 1995	151,499
Issuance of 500,853 shares of common stock upon the exercise of stock options	3,078
Issuance of 181,590 shares of common stock pursuant to the employee stock purchase plan	1,856
Issuance of 4,305,844 shares of common stock at $37.75 per share (net of issuance costs of $7,063)	155,482
Compensation related to accelerated vesting on stock options	706
Amortization of deferred compensation	849
Unrealized losses on available-for-sale short-term investments, net	(78)
Net loss	(21,732)
BALANCE AT DECEMBER 31, 1996	291,660
Issuance of 1,190,541 shares of common stock upon the exercise of stock options	11,244
Issuance of 92,878 shares of common stock pursuant to the employee stock purchase plan	1,918
Issuance of 1,133,786 shares of preferred stock	40,000
Amortization of deferred compensation	263
Unrealized gains on available-for-sale short-term investments, net	255
Net loss	(27,993)
BALANCE AT DECEMBER 31, 1997	$ 317,347

See accompanying notes

GILEAD SCIENCES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,
	1997	1996	1995
	INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (IN THOUSANDS)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (27,993)	$ (21,732)	$ (27,415)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,983	4,479	3,247
Changes in assets and liabilities:			
Other current assets	(13,670)	(2,732)	371
Other assets	(250)	(175)	(148)
Accounts payable	802	89	1,365
Accrued clinical and preclinical expenses	7,982	1,084	757
Other accrued liabilities	1,272	2,204	(366)
Deferred revenues	9,014	319	(859)
Total adjustments	8,133	5,268	4,367
Net cash used in operating activities	(19,860)	(16,464)	(23,048)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of short-term investments	(410,997)	(437,627)	(173,971)
Sales of short-term investments	196,515	248,552	10,455
Maturities of short-term investments	88,408	153,257	94,147
Capital expenditures	(3,861)	(3,727)	(565)
Net cash used in investing activities	(129,935)	(39,545)	(69,934)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of financing obligations and long-term debt	(3,361)	(2,843)	(2,076)
Proceeds from issuance of long-term debt	--	3,000	--
Proceeds from issuance of preferred stock	40,000	--	--
Proceeds from issuances of common stock	13,162	160,416	92,068
Net cash provided by financing activities	49,801	160,573	89,992
Net increase (decrease) in cash and cash equivalents	(99,994)	104,564	(2,990)
Cash and cash equivalents at beginning of period	131,984	27,420	30,410
Cash and cash equivalents at end of period	$ 31,990	$ 131,984	$ 27,420
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Deferred compensation related to grant of certain stock options	$ --	$ --	$ 450
Compensation related to accelerated vesting of stock options	$ --	$ 706	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	$ 509	$ 731	$ 619

See accompanying notes

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PRINCIPLES OF CONSOLIDATION Gilead Sciences, Inc. (the "Company" or "Gilead") was incorporated in the State of Delaware on June 22, 1987. The Company is primarily engaged in the discovery, development and marketing of a new class of human therapeutics based on nucleotides. VISTIDE-Registered Trademark-, the Company's first commercially available product, which received marketing clearance from the FDA in June 1996, is sold by Gilead in the United States through drug wholesalers.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Gilead Sciences Limited, which was formed under the laws of the United Kingdom in November 1995. To date, the subsidiary has been inactive and has no material assets or liabilities.

CHANGE IN YEAR END In October 1995, the Company changed its fiscal year end from March 31 to December 31 effective with the nine-month period ended December 31, 1995.

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles 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.

CASH EQUIVALENTS The Company considers highly liquid investments with insignificant interest rate risk and a remaining maturity of three months or less at the purchase date to be cash equivalents.

CONCENTRATIONS OF CREDIT RISK Cash and cash equivalents and short-term investments are the financial instruments that primarily subject the Company to credit risk. By policy, the Company limits amounts invested in securities by industry group, investment type and issuer, except for securities issued by the U.S. government. Gilead is not exposed to any significant concentrations of credit risk.

REVENUE RECOGNITION The Company recognizes product sales revenue at the time product is shipped. Provisions are made for estimated product returns, cash discounts and government discounts and rebates. Contract revenues recognized under the Company's collaborative research and development agreements, license and supply agreements and government grants are recorded as earned based upon the performance requirements of the contracts. Payments received in advance under these agreements are recorded as deferred revenues until earned. Royalty revenues are recognized when received, which is generally in the quarter following that in which the corresponding sales occur.

STOCK-BASED COMPENSATION In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, which the Company adopted in 1996, the Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations in accounting for its employee stock option plans. Under APB No. 25, if the exercise price of the Company's employee and director stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized. See Note 8 for pro forma disclosures of stock-based compensation pursuant to SFAS No. 123.

SECURITIES AVAILABLE-FOR-SALE Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company's debt securities, which consist primarily of U.S. treasury securities, corporate commercial paper, bonds and notes of domestic corporations and asset-backed securities, are classified as available-for-sale and carried at

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) estimated fair values in cash equivalents and short-term investments. At December 31, 1997, cash and cash equivalents include $28.5 million of securities designated as available-for-sale ($132.6 million at December 31, 1996). Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported as a separate component of stockholders' equity. Interest income includes interest, dividends, amortization of purchase premiums and discounts and realized gains and losses on sales of securities. The cost of securities sold is based on the specific identification method.

FOREIGN CURRENCY INSTRUMENTS The Company enters into foreign exchange forward contracts with financial institutions in accordance with its foreign exchange risk management policy to hedge the currency exchange risk associated with certain firmly committed purchase transactions. Gains and losses on these contracts are deferred and reported as a component of the related transaction in the period in which it occurs. For further information, see Note 7.

PROPERTY AND EQUIPMENT Property and equipment are stated at cost and consist of the following (in thousands):

	DECEMBER 31,	
	1997	1996
Equipment subject to financing obligations	$ 2,732	$ 5,320
Laboratory equipment	5,571	1,904
Office equipment and furniture and fixtures	5,037	4,081
Leasehold improvements	12,583	10,887
	25,923	22,192
Less accumulated depreciation and amortization	(15,610)	(13,020)
	$ 10,313	$ 9,172

Laboratory equipment, office equipment and furniture and fixtures are depreciated on a straight-line basis over their estimated useful lives of three to five years. Leasehold improvements and equipment subject to financing obligations are amortized on a straight-line basis over the shorter of their estimated useful life or the term of the related lease or borrowing.

See Note 5 for information about certain laboratory and office equipment acquired pursuant to equipment financing obligations.

OTHER ACCRUED LIABILITIES Other accrued liabilities are summarized as follows (in thousands):

	DECEMBER 31,	
	1997	1996
Accrued compensation	$ 1,833	$ 1,662
Accrued Medicaid rebates	1,881	1,100
Other	1,991	1,671
	$ 5,705	$ 4,433

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) BASIC AND DILUTED LOSS PER COMMON SHARE At December 31, 1997, the Company adopted SFAS No. 128, EARNINGS PER SHARE, which requires the Company to report basic and diluted loss per share in its financial statements. For all periods presented, both basic and diluted loss per common share are computed based on the weighted average number of common shares outstanding during the period. Convertible preferred stock and stock options could potentially dilute basic earnings per share in the future but were excluded from the computation of diluted loss per share as their effect is antidilutive for the periods presented.

NEW ACCOUNTING PRONOUNCEMENTS In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which establishes standards pertaining to how public business enterprises report operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS No. 131 is effective for financial statements for fiscal years beginning after December 15, 1997, and therefore the Company will adopt the new requirements retroactively in 1998. Management has not completed its review of SFAS No. 131, but does not anticipate that its adoption will have a significant effect on its existing financial reporting practices.

In September 1997, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 97-12, ACCOUNTING FOR INCREASED SHARE AUTHORIZATIONS IN AN IRS SECTION 423 EMPLOYEE STOCK PURCHASE PLAN under APB OPINION NO. 25. EITF Issue No. 97-12 provides that new shares authorized under existing Section 423 employee stock purchase plans may give rise to compensation expense under circumstances specified in that accounting standard. The Company has a Section 423 employee stock purchase plan ("ESPP"), which is discussed in Note 8, with a share authorization increase pending stockholder approval, as described in Note 10. It is likely that some number of these newly authorized shares will require the Company to recognize compensation expense in its results of operations during 1998 and 1999. The amount of such potential compensation expense is not currently estimable, but the Company expects that it will not have a significant impact on its results of operations in either year.

RECLASSIFICATIONS Certain prior period amounts have been reclassified to conform to the 1997 presentation.

2. INVESTMENTS

The following is a summary of available-for-sale securities (in thousands):

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
DECEMBER 31, 1997				
U.S. Treasury Securities and obligations of U.S. government agencies	$ 35,615	$ 55	$ (6)	$ 35,664
Corporate debt securities	78,054	192	(1)	78,245
Asset-backed securities	118,362	121	(35)	118,448
Other debt securities	86,450	20	(2)	86,468
Total	$ 318,481	$ 388	$ (44)	$ 318,825
DECEMBER 31, 1996				
U.S. Treasury Securities and obligations of U.S. government agencies	$ 48,728	$ 7	$ (89)	$ 48,646
Corporate debt securities	27,115	24	(3)	27,136
Asset-backed securities	75,421	147	(5)	75,563
Other debt securities	145,158	8	--	145,166
Total	$ 296,422	$ 186	$ (97)	$ 296,511

The following table presents certain information related to sales of available-for-sales securities (in thousands):

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,
	1997	1996	1995
Proceeds from sales	$ 196,515	$ 248,552	$ 10,445
Gross realized gains on sales	$ 225	$ 451	$ --
Gross realized losses on sales	$ 142	$ 65	$ --

At both December 31, 1997 and 1996, neither the contractual maturities of the debt securities (excluding asset-backed securities) nor the estimated maturities of the asset-backed securities exceed three years. Under the Company's investment policy, it may enter into repurchase agreements ("repos") with major banks and authorized dealers provided that such repos are collateralized by U.S. government securities with a fair value of at least 102 percent of the fair value of securities sold.

3. COLLABORATIVE RESEARCH AGREEMENTS

PHARMACIA & UPJOHN In August 1996, the Company and Pharmacia & Upjohn S.A. ("P&U") entered into a License and Supply Agreement ("P&U Agreement") to market VISTIDE-Registered Trademark- (cidofivir injection) in all countries outside the United States. Under the terms of the agreement, P&U paid Gilead an initial license fee of $10.0 million. During the second quarter of 1997, VISTIDE was approved for marketing in Europe by the European Commission, which triggered an additional cash milestone payment of $10.0 million by P&U to the Company. Also as a result of achieving this milestone, in the second quarter

3. COLLABORATIVE RESEARCH AGREEMENTS (CONTINUED) the Company issued and P&U purchased 1,133,786 shares of Series B Convertible Preferred Stock for approximately $40.0 million, or $35.28 per share. For additional information about the preferred stock, refer to Note 8.

Under the terms of the P&U Agreement and related agreements covering expanded access programs for VISTIDE outside of the United States, the Company supplies to P&U either the bulk drug substance used to manufacture VISTIDE or the finished VISTIDE product ("Product"). Gilead is entitled to receive a royalty based upon P&U's sale of Product. It receives a portion of the royalty upon shipping either bulk drug substance or Product to P&U and the remainder upon P&U's sale of Product to third parties. Any royalties that Gilead receives before Product is sold to third parties are recorded as deferred revenues until such sales occur. At December 31, 1997, the Company has recorded on its balance sheet approximately $2.1 million of deferred revenues ($0.3 million at December 31, 1996).

HOFFMANN-LA ROCHE In September 1996, Gilead and F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche, Inc. (collectively, "Roche") entered into a collaboration agreement ("Roche Agreement") to develop and commercialize therapies to treat and prevent viral influenza. Under the Roche Agreement, Roche received exclusive worldwide rights to Gilead's proprietary influenza neuraminidase inhibitors. In October 1996, Roche made an initial license fee payment to Gilead of $10.3 million, which the Company reported as income. In both the second and fourth quarters of 1997, Gilead earned cash payments of $3.0 million per quarter, for a total of $6.0 million, upon achieving certain developmental milestones. Gilead is entitled to additional cash payments of up to $34.0 million upon achieving additional developmental and regulatory milestones. If any commercial products are developed under the collaboration, Roche will pay Gilead royalties based on net product sales.

Under the Roche Agreement, Roche reimburses the Company for its related research and development costs under this program by funding such costs quarterly in advance, based on an annual budget. Amounts incurred by the Company in excess of amounts funded in advance may also be reimbursed, subject to Roche's approval. For the years ended December 31, 1997 and 1996, the Company recorded approximately $8.2 million and $1.1 million, respectively, of research and development reimbursement revenue related to the Roche Agreement. In the fourth quarter of 1997, the Company incurred approximately $5.2 million of costs related to the Roche Agreement in excess of costs originally estimated for the quarter. Because reimbursement of the excess costs is subject to Roche's review and approval in the first quarter of 1998, the Company did not record the potential reimbursement of any of these excess costs as revenues in its results of operations for the year ended December 31, 1997. Except for the $5.2 million subject to approval as of year-end, related research and development costs approximate the reimbursement revenue and are included in research and development expenses in the accompanying consolidated financial statements. Reimbursements are included in contract revenues. At December 31, 1997, the Company has recorded deferred revenues of $7.2 million, which represent Roche's advance reimbursement of budgeted research and development costs for the first quarter of 1998.

In September 1996, Gilead and Roche entered into an agreement to co-promote Roche's Roferon-A-Registered Trademark- (Interferon alfa-2a, recombinant) for the treatment of chronic hepatitis C infection in the United States. Roche paid Gilead a $0.2 million one-time fee in 1996. Beginning in 1997, Roche is required to pay Gilead a royalty based on the net product sales.

3. COLLABORATIVE RESEARCH AGREEMENTS (CONTINUED) GLAXO WELLCOME In July 1990, the Company entered into a collaborative research agreement with Glaxo Wellcome Inc. ("Glaxo"). Concurrent with the signing of the agreement, Glaxo made an $8.0 million equity investment in the Company and holds 889,911 shares of the Company's outstanding common stock at December 31, 1997. The agreement provided for the Company to conduct research over a period of five years with a goal of identifying code blocker compounds with potential application in the diagnosis, prevention and treatment of cancer. The collaboration was extended to all potential therapeutic applications in July 1992.

In March 1996, the Company and Glaxo entered into a new collaborative research agreement extending for five years the existing collaboration between the parties. Under the terms of the new agreement, Glaxo will fund the Company's ongoing research in the code blocker field for five years. Each party has a worldwide right to the other party's patent rights to research, develop, manufacture and sell products based on code-blocker technology for all applications. Glaxo will have the primary right to develop any products identified during the collaboration. Gilead is entitled to payments for achievement of regulatory milestones, as well as royalties on any product sales. Glaxo has the right to terminate the collaborative research and funding at any time, without prior notice beginning in June 1998, in which case Gilead could develop code blocker technology independently or with a third party, subject to Glaxo's ownership rights to joint technology. Under the terms of the Glaxo agreements, the Company received $3.0 million in both 1997 and 1996, and $2.1 million in the nine months ended December 31, 1995, to fund research. Such reimbursed research and development costs approximate the related revenue and are included in research and development expenses in the accompanying financial statements.

AMERICAN HOME PRODUCTS In August 1994, the Company entered into a license and supply agreement with Storz Instrument Company ("Storz"), a subsidiary of American Cyanamid Company, to develop and market an eye-drop formulation of cidofovir for the potential treatment of topical ophthalmic viruses. American Cyanamid was later acquired by American Home Products, who sold Storz to Bausch & Lomb Incorporated in late 1997. The Company received a $0.3 million annual fee in each of the years ended December 31, 1997 and 1996, which were recognized as revenue (the Company also recognized as revenue a $0.3 million annual fee in the nine months ended December 31, 1995). In addition, under the agreement the Company is entitled to receive annual fees, milestone payments and future royalties on product sales.

4. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

Gilead sells VISTIDE through major drug wholesalers in the United States. In August 1996 a major wholesaler, FoxMeyer Corporation, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The total receivable outstanding as of December 31, 1996 from FoxMeyer of $0.6 million has been reserved. In 1997, the Company collected approximately $0.1 million of this amount by assigning its claim to a third party. Accordingly, no additional recovery of this receivable is expected. Trade receivables, net of allowances, are reported on the consolidated balance sheet in other current assets.

At December 31, 1997, other current assets include reimbursable research and development expenses and a milestone payment totaling approximately $12.4 million due from Roche. For additional information, refer to Note 3.

5. EQUIPMENT FINANCING OBLIGATIONS AND LONG-TERM DEBT

Included in property and equipment at December 31, 1997 and 1996 are assets with a cost of $2.7 million and $5.3 million, respectively, acquired pursuant to capital lease obligations and equipment loans. Accumulated amortization of assets acquired pursuant to these obligations was approximately $1.7 million and $4.4 million at December 31, 1997 and 1996, respectively. Assets acquired under these arrangements secure the related obligations. Amounts due under these obligations beyond 1998 are immaterial. The present value of these outstanding obligations at December 31, 1997 was $0.4 million.

In May 1994, the Company entered into an unsecured $6.0 million term loan to finance its office and research and development facilities expansion and the acquisition of related laboratory equipment. The four-year loan requires quarterly principal payments of $0.4 million, plus applicable interest at a fixed rate of 8 percent, commencing July 1994. In addition, the Company is required to comply with certain financial and operating covenants. At December 31, 1997, the total debt outstanding under the term loan is $0.8 million, all of which is classified as a current liability. The book value of this debt approximates its fair value at December 31, 1997.

In October 1996, the Company entered into an unsecured $3.0 million term loan to finance its office and research and development facilities expansion. The four-year loan requires quarterly principal payments of $0.2 million, plus applicable interest, commencing October 1, 1996. The interest rate was fixed at 6.9 percent for the first year of the loan, but resets periodically thereafter based on applicable LIBOR rates. In addition, the Company is required to comply with certain financial and operating covenants. At December 31, 1997, the total debt outstanding is approximately $2.1 million. The current portion outstanding is $0.8 million. At December 31, 1997, the book value of this long-term debt approximates its fair value.

At December 31, 1997, the Company is in compliance with all financial and operating covenants under the unsecured term loans.

6. COMMITMENTS

The Company leases its facilities pursuant to operating leases. Rent expense under these leases totaled approximately $2.3 million and $2.1 million for the years ended December 31, 1997 and 1996, respectively, and approximately $1.5 million for the nine-month period ended December 31, 1995.

At December 31, 1997, the aggregate noncancelable future minimum payments under the operating leases, net of aggregate future minimum rentals to be received by the Company under noncancelable subleases, are as follows (in thousands):

Year ending December 31:	
1998	$ 2,080
1999	2,341
2000	2,484
2001	2,573
2002	2,664
Thereafter	9,330
	$ 21,472

The Company has in place a letter of credit agreement from a bank, which secures the aggregate future payments under one of its facilities leases. At December 31, 1997, a total of $1.4 million was secured under this letter of credit arrangement.

7. FOREIGN CURRENCY INSTRUMENTS

Gilead enters into forward foreign exchange contracts to hedge the currency risk associated with certain firmly committed purchase orders denominated in foreign currencies. At December 31, 1997, the Company had outstanding forward contracts with maturity dates early in 1998 to sell approximately $1.0 million of foreign currencies (primarily the French franc). At December 31, 1996, the Company had outstanding forward contracts to sell $1.4 million of French francs with maturity dates in early 1997.

In general, these contracts do not expose the Company to market risk because gains and losses on the contracts offset gains and losses on the transactions being hedged. The Company's exposure to credit risk from these contracts is a function of changes in interest and currency exchange rates and, therefore, varies over time. Gilead limits its risk that counterparties to these contracts may be unable to perform by transacting only with major U.S. banks. The Company also limits its risk of loss by entering into contracts that provide for net settlement at maturity. Therefore, the Company's overall risk of loss in the event of a counterparty default is limited to the amount of any unrecognized and unrealized gains on outstanding contracts (i.e., those contracts that have a positive fair value) at the date of default. Estimates of the fair values of contracts are based on established pricing models and prevailing market rates. At December 31, 1997, the aggregate fair value of the Company's forward foreign exchange contracts was approximately ($0.2) million. The fair values of such contracts were immaterial at December 31, 1996.

8. STOCKHOLDERS' EQUITY

PREFERRED STOCK The Company has 5,000,000 shares of authorized preferred stock issuable in series. The Company's Board of Directors is authorized to determine the designation, powers, preferences and

8. STOCKHOLDERS' EQUITY (CONTINUED) rights of any such series. The Company has reserved 400,000 shares of preferred stock for potential issuance under the Preferred Share Purchase Rights Plan.

In June 1997, the Company issued 1,133,786 shares of Series B Convertible Preferred Stock to P&U for approximately $40.0 million, or $35.28 per share. Each preferred share is convertible at the option of the holder into one share of common stock at any time, and each has a liquidation value equal to its purchase price. The Series B Preferred Stock has substantially the same voting rights as the Company's common stock. Dividends are noncumulative and payable at the rate of 5 percent of the original issue price per year only when, as and if declared by the Company's Board of Directors.

COMMON STOCK The Company has 60,000,000 shares of authorized common stock at December 31, 1997. In January 1996, the Board of Directors approved an amendment to the Company's Certificate of Incorporation, increasing the number of shares of common stock authorized from 35,000,000 to 60,000,000 shares. The amendment was approved by the Company's stockholders and filed with the Delaware Secretary of State in May 1996.

EMPLOYEE STOCK PURCHASE PLAN The Company has adopted an ESPP under which employees can purchase shares of the Company's common stock based on a percentage of their compensation. The purchase price per share must equal at least the lower of 85 percent of the market value on the date offered or the date purchased. A total of 750,000 shares of common stock are reserved for issuance under the ESPP. As of December 31, 1997, 694,167 shares had been issued under the ESPP (601,289 shares as of December 31, 1996).

STOCK OPTION PLANS In December 1987, the Company adopted the 1987 Incentive Stock Option Plan and the Supplemental Stock Option Plan for issuance of common stock to employees, consultants and scientific advisors. In April 1991, the Company's Board of Directors approved the granting of certain additional nonqualified stock options with terms and conditions substantially similar to those granted under the 1987 Supplemental Stock Option Plan. At the grant date, none of the options described above had exercise prices that were less than the fair value of the underlying stock on that date. The options vest over five years pursuant to a formula determined by the Company's Board of Directors and expire after ten years. No shares are available for grant of future options under any of these plans.

In November 1991, the Company adopted the 1991 Stock Option Plan ("1991 Plan") for issuance of common stock to employees and consultants. Options issued under the 1991 Plan shall, at the discretion of the Company's Board of Directors, be either incentive stock options or nonqualified stock options. The exercise price of incentive stock options must be at least equal to the fair value of the common stock on the date of grant. The options vest over five years pursuant to a formula determined by the Company's Board of Directors and expire after ten years. At December 31, 1997, 979,420 shares were available for grant of future options.

In November 1995, the Company adopted the 1995 Non-Employee Directors' Stock Option Plan ("1995 Plan") for issuance of common stock to non-employee Directors pursuant to a predetermined formula. The exercise price of options granted under the 1995 Plan must be at least equal to the fair value of the common stock on the date of grant. The options vest over five years from the date of grant in quarterly 5 percent installments and expire after ten years. At December 31, 1997, 151,000 shares were available for grant of future options.

8. STOCKHOLDERS' EQUITY (CONTINUED) The following table summarizes activity under all stock option plans for each of the two years in the period ended December 31, 1997, and the nine-month period ended December 31, 1995. All option grants presented in the table had exercise prices not less than the fair value of the underlying stock on the grant date, except as noted below (shares in thousands):

	YEAR ENDED DECEMBER 31, 1997		YEAR ENDED DECEMBER 31, 1996		NINE MONTHS ENDED DECEMBER 31, 1995	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of period	4,651	$ 14.96	4,144	$ 10.55	4,069	$ 8.96
Granted	923	29.21	1,239	25.89	532	18.04
Granted (exercise price less than fair value)	--	--	--	--	75	19.00
Forfeited	(266)	20.51	(231)	13.70	(155)	11.60
Exercised	(1,191)	9.42	(501)	6.15	(377)	5.20
Outstanding, end of period	4,117	$ 19.39	4,651	$ 14.96	4,144	$ 10.55
Exercisable, end of period	1,673	$ 13.83	2,025	$ 10.23	1,663	$ 8.54

During the nine-month period ended December 31, 1995, the Company granted 75,000 stock options with exercise prices less than the fair value of the underlying stock at the grant date. For these options only, the Company recorded deferred compensation expense of $0.5 million, based on the difference between the grant price and the fair value of the underlying stock at the date of grant. This deferred compensation is being amortized to expense over the five-year vesting period of the options. Amortization expense for the year ended December 31, 1997 totaled $0.3 million ($0.8 million for the year ended December 31, 1996 and $0.7 million for the nine-month period ended December 31, 1995).

The following table summarizes information about significant exercise price ranges of outstanding and exercisable options at December 31, 1997 (options in thousands):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$0.09--$12.25	1,054	5.11	$ 7.56	739	$ 7.72
$12.50--$18.75	1,211	6.64	15.99	647	15.30
$19.00--$29.00	1,030	8.83	24.12	158	21.34
$29.625--$42.88	822	8.59	33.65	129	32.30
Total	4,117	7.19	$ 19.39	1,673	$ 13.83

8. STOCKHOLDERS' EQUITY (CONTINUED) PRO FORMA DISCLOSURES The table below reflects Gilead's net loss and basic and diluted loss per common share if compensation cost for the Company's stock plans had been determined based on their estimated fair values at the grant dates for awards under those plans. Since pro forma compensation cost is amortized over the vesting periods of the related awards, and because SFAS No. 123 is applicable only to options granted or shares issued subsequent to March 31, 1995, its pro forma effect will not be fully reflected until 1999.

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,
	1997	1996	1995
Pro forma net loss (in thousands)	$ (38,503)	$ (29,586)	$ (29,162)
Pro forma basic and diluted loss per share	$ (1.31)	$ (1.06)	$ (1.37)

Fair values of the options were estimated at grant dates using a Black-Scholes option pricing model. The Company used the multiple option approach and the following assumptions:

Expected life in years (from vesting date)--options	1.75	1.54	1.54
Expected life in years--ESPP	.75	1.54	1.54
Interest rate--options	6.2%	6.0%	6.0%
Interest rate--ESPP	5.6%	6.0%	6.0%
Volatility	66%	69%	69%
Dividend yield	0%	0%	0%

The weighted average estimated fair value of each stock option granted for the years ended December 31, 1997 and 1996, and for the nine months ended December 31, 1995, was $17.14, $15.17 and $11.26, respectively.

PREFERRED SHARE PURCHASE RIGHTS PLAN In November 1994, the Company adopted a Preferred Share Purchase Rights Plan (the "Plan"). The Plan provides for the distribution of a preferred stock purchase right (a "Right") as a dividend for each share of Gilead common stock held of record at the close of business on December 14, 1994. The Rights are not currently exercisable. Under certain conditions involving an acquisition or proposed acquisition by any person or group of 15 percent or more of the common stock, the Rights permit the holders (other than the 15 percent holder) to purchase Gilead common stock at a 50 percent discount from the market price at that time, upon payment of an exercise price of $60 per Right. In addition, in the event of certain business combinations, the Rights permit the purchase of the common stock of an acquirer at a 50 percent discount from the market price at that time. Under certain conditions, the Rights may be redeemed by the Company's Board of Directors in whole, but not in part, at a price of $.01 per Right. The Rights have no voting privileges and are attached to and automatically trade with Gilead common stock. The Rights expire on November 21, 2004.

9. INCOME TAXES

As of December 31, 1997, the Company had federal net operating loss carryforwards of approximately $166.9 million. The net operating loss carryforwards will expire at various dates beginning in 2001 through 2012, if not utilized.

Significant components of the Company's deferred tax assets for federal and state income taxes are as follows (in thousands):

	DECEMBER 31,	
	1997	1996
Deferred tax assets:		
Net operating loss carryforwards	$ 57,100	$ 43,000
Research credits (expire 2001-2012)	6,800	5,400
Capitalized R&D for California	4,400	4,100
Other	2,300	2,800
Total deferred tax assets	70,600	55,300
Valuation allowance for deferred tax assets	(70,600)	(55,300)
Net deferred tax assets	$ 0	$ 0

The net valuation allowance increased by $15.3 million and $8.2 million during the years ended December 31, 1997 and 1996, respectively.

Utilization of the net operating losses and credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986.

Approximately $12.1 million of the valuation allowance at December 31, 1997 relates to the tax benefits of stock option deductions which will be credited to additional paid-in capital when realized.

10. SUBSEQUENT EVENTS

On January 22, 1998, the Board of Directors authorized an additional 500,000 shares of common stock as available to be issued under the ESPP. It also authorized an additional 800,000 shares of common stock as available for grant under the 1991 Plan. Both increases are subject to stockholder approval. See Note 1 for additional information about the ESPP share authorization increase.

11. QUARTERLY RESULTS (UNAUDITED)

The following table is in thousands, except per share amounts:

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
1997				
Total revenues	$ 5,466	$ 19,726	$ 4,937	$ 9,909
Total costs and expenses	17,460	21,170	20,017	27,155
Net income (loss)	(7,948)	2,711	(10,331)	(12,424)
Basic earnings (loss) per share	(0.27)	0.14	(0.35)	(0.42)
Diluted earnings (loss) per share	(0.27)	0.09	(0.35)	(0.42)
1996				
Total revenues	$ 779	$ 2,206	$ 24,654	$ 5,781
Total costs and expenses	14,148	18,104	19,251	17,980
Net income (loss)	(10,802)	(12,158)	9,310	(8,082)
Basic earnings (loss) per share	(0.42)	(0.43)	0.33	(0.28)
Diluted earnings (loss) per share	(0.42)	(0.43)	0.30	(0.28)

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Gilead Sciences, Inc.

We have audited the accompanying consolidated balance sheets of Gilead Sciences, Inc. as of December 31, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 1997, and the nine months ended December 31, 1995. 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 generally accepted auditing standards. 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 consolidated financial position of Gilead Sciences, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 1997, and the nine months ended December 31, 1995, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Palo Alto, California

January 23, 1998

CORPORATE INFORMATION

TRANSFER AGENT AND REGISTRAR

Communications concerning stock transfer requirements, lost certificates and changes of address should be directed to the Transfer Agent:

ChaseMellon Shareholder Services LLC 85 Challenger Road
Overpeck Centre
Ridgefield Park, NJ 07660 USA
http://www.chasemellon.com
1-800-522-6645

STOCKHOLDER INQUIRIES

Inquiries from our stockholders and potential investors regarding our company are always welcome and will receive a prompt response. Please direct your requests for information to:

Investor Relations
Gilead Sciences, Inc.
333 Lakeside Drive
Foster City, California 94404 USA 650-574-3000 or 1-800-GILEAD-5

Information regarding Gilead is available via the Internet on our Web site at: www.gilead.com

STOCK LISTING

Gilead common stock is traded on The Nasdaq Stock Market under the symbol
GILD.

PRICE RANGE OF COMMON STOCK

As of February 27, 1998, there were approximately 564 stockholders of record of the Company's common stock and 30,131,484 shares of common stock outstanding. No dividends have been paid on the common stock since the Company's inception, and the Company does not anticipate paying any dividends in the foreseeable future.

1996	HIGH	LOW
First Quarter.....	$41 7/8	$26 3/4
Second Quarter.....	$39	$21 3/4
Third Quarter.....	$29 3/4	$17 1/4
Fourth Quarter.....	$28 3/4	$21 1/2

1997	HIGH	LOW
First Quarter.....	$34 1/4	$22 7/8
Second Quarter.....	$32 1/8	$21 5/8
Third Quarter.....	$46 1/8	$24 1/4
Fourth Quarter.....	$44 7/8	$32 3/4

ANNUAL MEETING

The annual meeting of stockholders will be held at 10:00 a.m. on Wednesday, May 27, 1998, at Hotel Sofitel, 223 Twin Dolphin Drive, Redwood City, California.

Design: Cahan &Associates, San Francisco

Photography: Daniel de Souza

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
CASH	31,990
SECURITIES	290,308
RECEIVABLES	0
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	340,258 [1]
PP&E	25,923
DEPRECIATION	15,610
TOTAL ASSETS	352,069
CURRENT LIABILITIES	33,391
BONDS	1,331
PREFERRED MANDATORY	0
PREFERRED	1
COMMON	30
OTHER SE	317,316
TOTAL LIABILITY AND EQUITY	352,069
SALES	11,735
TOTAL REVENUES	40,037
CGS	1,167
TOTAL COSTS	85,801
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	489
INCOME PRETAX	(27,993)
INCOME TAX	0
INCOME CONTINUING	(27,993)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(27,993)
EPS PRIMARY	(.95)
EPS DILUTED	(.95)

[1] Current assets includes other current assets.

ARTICLE 5

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	3 MOS
FISCAL YEAR END	DEC 31 1997	DEC 31 1996
PERIOD START	APR 01 1997	JUL 01 1996
PERIOD END	JUN 30 1997	SEP 30 1996
CASH	138,961	156,043
SECURITIES	198,393	134,260
RECEIVABLES	0	4,320
ALLOWANCES	0	1,326
INVENTORY	0	0
CURRENT ASSETS	342,038	306,627 [1]
PP&E	10,458	7,609 [2]
DEPRECIATION	0	0
TOTAL ASSETS	353,960	315,445
CURRENT LIABILITIES	21,526	16,054
BONDS	1,828	1,492
PREFERRED MANDATORY	0	0
PREFERRED	1	0
COMMON	29	29
OTHER SE	330,576	297,870
TOTAL LIABILITY AND EQUITY	353,960	315,445
SALES	3,956	3,353
TOTAL REVENUES	19,726	24,654
CGS	328	447
TOTAL COSTS	21,170	19,251
OTHER EXPENSES	0	0
LOSS PROVISION	0	0
INTEREST EXPENSE	0	0
INCOME PRETAX	2,711	9,310
INCOME TAX	0	0
INCOME CONTINUING	2,711	9,310
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	2,711	9,310
EPS PRIMARY	.14	.33
EPS DILUTED	.09	.30

[1] Current assets includes other current assets.

[2] PP&E is net of accumulated depreciation.

End of Filing