GILEAD SCIENCES INC

FORM 10-K405

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

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Address	333 LAKESIDE DR
	FOSTER CITY, California 94404
Telephone	650-574-3000
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, 1998

/ / 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 26, 1999 was $762,213,210*.

The number of shares outstanding of the Registrant's Common Stock was 30,884,298 as of February 26, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

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 No. 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, 1997, 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 and the Registrant's Current Report on Form 8-K filed March 9, 1999 are incorporated herein by reference into Part IV of this Report.

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* Based on a closing price of $41.25 per share. Excludes 12,406,402 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 26, 1999. 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

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

THIS REPORT ON FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS RELATING TO CLINICAL AND REGULATORY DEVELOPMENTS (INCLUDING ANTICIPATED CLINICAL TRIAL COMMENCEMENT AND FDA FILING AND APPROVAL DATES), MARKETING AND SALES MATTERS, FUTURE EXPENSE LEVELS, FINANCIAL RESULTS AND YEAR 2000 MATTERS. THESE STATEMENTS INVOLVE INHERENT RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL FINANCIAL AND OPERATING 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 ONGOING DEVELOPMENT AND COMMERCIALIZATION OF THE COMPANY'S

POTENTIAL PHARMACEUTICAL PRODUCTS AND, IN THE CASE OF YEAR 2000 MATTERS, THE ABILITY TO IDENTIFY AND CORRECT ALL RELEVANT COMPUTER CODE AND THE SUCCESS OF REMEDIAL EFFORTS IMPLEMENTED BY THIRD-PARTY SUPPLIERS AND BUSINESS PARTNERS.

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, be uneconomical to market or be precluded from commercialization by either proprietary rights or competing products of others.

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, expensive and uncertain 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 and size of the market for any of the Company's products or products in development.

The Company expects that its financial results will continue to 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, nor can there be assurance that the Company will either achieve or sustain profitability.

On March 1, 1999, Gilead and NeXstar Pharmaceuticals, Inc. ("NeXstar") announced a definitive merger agreement (the "Merger") providing for the acquisition by Gilead of all the outstanding common stock of NeXstar. The Merger is structured as a tax-free, stock-for-stock transaction. The Company intends to account for the Merger under the pooling-of-interests method. NeXstar, headquartered in Boulder, Colorado, is engaged in the discovery, development, manufacture and commercialization of products to treat serious and life-threatening illnesses. In addition to its Boulder headquarters, NeXstar maintains research, development and manufacturing facilities in San Dimas, California, and marketing subsidiaries

outside of the United States. Under the terms of the Merger agreement, NeXstar stockholders will receive between 0.3786 and 0.5000 of a share of Gilead common stock for each share of NeXstar common stock. The exact exchange ratio will be determined based on the trading range of Gilead common stock prior to completion of the Merger. The Merger is subject to certain conditions, including approval by the stockholders of Gilead and NeXstar. The Merger is expected to be completed in mid-1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operation--Proposed Merger Agreement."

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 19 THROUGH 24 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, PREVEON-Registered Trademark- (adefovir dipivoxil), adefovir dipivoxil for hepatitis B 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-	CMV Retinitis	Launched in U.S. Launched in E.U.	Gilead (U.S.) Pharmacia & Upjohn (Ex-U.S.)
PREVEON-Registered Trademark-	HIV-AIDS	Phase III	Gilead
GS 4104 Oral	Influenza Virus (Treatment)	Phase III	Roche
	Influenza Virus (Prophylaxis)	Phase III	Roche
Adefovir Dipivoxil	Hepatitis B Virus	Phase III	Gilead
PMPA Oral Prodrug	HIV-AIDS	Phase II	Gilead
Cidofovir Topical Ophthalmic	Viral Keratoconjunctivitis	Phase II	Bausch & Lomb
Adenosine Receptor Regulators	Stroke	Preclinical/Research	Gilead/NIH CRADA
HIV Protease Inhibitors	HIV-AIDS	Research	Gilead
Hepatitis C Virus Inhibitors	HCV	Research	Gilead

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

VISTIDE

In June 1996, Gilead received United States Food and Drug Administration ("FDA") clearance to market its first product, VISTIDE for the treatment of 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--Cidofovir."

Cytomegalovirus is an opportunistic infection 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 75% since 1996 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 may continue as these therapies effectively control HIV infection.

VISTIDE was cleared for marketing based on clinical trials demonstrating that the drug 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, VISTIDE has 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 detail physicians, hospitals, clinics, pharmacies and other healthcare providers involved in the treatment of patients with CMV retinitis. Gilead sells VISTIDE 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 Hong Kong, and applications for approval are pending in several other countries. By the end of 1998, Pharmacia & Upjohn had launched the product in twelve European countries and two other countries. VISTIDE product launches by Pharmacia & Upjohn in additional countries are expected as approvals are obtained. Pharmacia & Upjohn pays 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 ("Bausch & Lomb"), provides local therapy to an affected eye and is implanted through a surgical procedure. In addition, Astra U.S.A. markets foscarnet, another approved intravenous therapy for CMV retinitis, and CibaVision markets formivirsen, an antisense drug injected directly into the eye. There are also potentially competing 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 declining 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. During the years ended December 31, 1998, 1997 and 1996, the Company's research and development expenses were $75.3 million, $59.2 million, $41.9 million, respectively.

PREVEON

PREVEON is a mononucleotide analogue developed as an oral prodrug of adefovir, 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, hepatitis B virus and herpesviruses. 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 loss of appetite. Nephrotoxicity, including changes in serum creatinine and phosphate, is the most significant toxicity observed. Nephrotoxicity has been observed in approximately one-third of patients dosed for six months to one year at the 120 mg daily dose level. In clinical trials, observed nephrotoxicity has generally been gradual in onset, asymptomatic, detectable by routine monitoring and resolvable upon dose reduction or withdrawal. Some patients have also experienced elevations in liver transaminases. In clinical trials, PREVEON is administered as a single oral tablet once per day, along with a single oral capsule of L-carnitine, a nutritional supplement. L-carnitine is administered to counteract the decrease of natural serum carnitine that 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 were approved for marketing beginning in 1996, 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 becoming 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, less prone to develop significant resistance and active against resistant strains of HIV.

PREVEON is a reverse transcriptase inhibitor that is being evaluated in a series of clinical studies sponsored by Gilead, as well as by government organizations, in the United States and abroad. These studies were designed to test the safety and efficacy of PREVEON in a variety of drug combinations and patient populations, including studies of patients not previously treated with anti-HIV therapies, patients not previously treated with a protease inhibitor and patients who had failed treatment with triple combination or protease containing regimens. PREVEON is also available in the United States under an expanded access program for patients with limited treatment options, and more than 7,000 patients have enrolled in the program as of March 1999. In both the clinical studies and the expanded access program, PREVEON has been administered at one of two dose levels (120 mg or 60 mg, once per day).

Based on the data obtained from the clinical studies and expanded access program, as well as ongoing feedback from the FDA, Gilead plans to submit a new drug application ("NDA") for the 60 mg dose of PREVEON during mid-1999. In November 1998, the FDA granted "fast track" designation to PREVEON for the treatment of HIV-infected patients with clinical, immunologic and/or virologic progression despite prior reverse transcriptase inhibitor therapy. In January 1999, Gilead initiated a rolling submission by filing

the Chemistry, Manufacturing and Controls section of the NDA. In addition to ongoing Phase III clinical trials for PREVEON, additional Phase IV studies will be initiated during 1999 to confirm the safety and efficacy of PREVEON at the 60 mg dose level. 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 nature, timing or ultimate approval of the NDA by the FDA.

HIV is the causative agent of AIDS. HIV infects an estimated 33 million people worldwide. There were an estimated 260,000 people with AIDS in the United States in 1998. A number of therapeutics are currently marketed or are in advanced stages of clinical development for the treatment of HIV infection and AIDS, including 13 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 announced the discovery of GS 4104 (also known as Ro 64-0796), an oral prodrug of the active neuraminidase inhibitor GS 4071, which inhibits the replication of influenza virus in a variety of animal models. GS 4104 is a potent and specific inhibitor of influenza A and B virus neuraminidase activity and has shown potent antiviral activity when tested against laboratory strains of influenza A and B viruses IN VITRO.

Based on these data, Gilead and F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche, Inc. (collectively, "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 100% of this program. GS 4104 is a systemic treatment for influenza, administered as an oral capsule and designed to reach all sites of infection. GS 4104 targets one of the two major surface structures of the influenza virus, the neuraminidase protein. The neuraminidase site is highly conserved in all common strains of influenza. If neuraminidase is inhibited, the virus is not able to infect new cells.

During 1998, Roche and Gilead completed and announced the results of several Phase III clinical studies of GS 4104. In two treatment studies, one conducted in the United States and another in Europe, Canada and Hong Kong and each involving over 600 patients, GS 4104 significantly decreased the duration and severity of acute influenza in adults. In addition, GS 4104 reduced secondary flu complications, such as bronchitis and sinusitis, in previously healthy adults. In both of these treatment studies, the drug was generally well tolerated. Transient nausea was reported more often in the active drug arm of each study than in the placebo group. In a third study, which involved testing GS 4104 as a preventative therapy, the drug reduced the incidence of influenza infection relative to placebo and was well tolerated by the over 1,000 participants who were on a six-week regimen of the active drug.

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." Roche expects to submit an NDA for the treatment indication for GS 4104 to the FDA during the first half of 1999. However, there can be no assurance as to when or whether Roche will file the NDA. Moreover, even if the NDA is filed, there can be no assurance as to the nature, timing or ultimate approval of the NDA by the FDA.

Glaxo Wellcome, in collaboration with Biota Holdings Limited, is also pursuing development of zanamavir, a neuraminidase inhibitor to treat influenza. This compound, delivered with a dry powder

inhaler, has been approved in some countries and is under review for approval in the United States by the FDA. Zanamavir represents significant potential competition for GS 4104. See "Competition."

ADEFOVIR DIPIVOXIL FOR HBV

Gilead is also developing adefovir dipivoxil for the potential treatment of HBV. More than 350 million people worldwide are chronically infected with HBV, primarily in Asian countries. Complications of chronic HBV include cirrhosis, cancer of the liver and liver failure. 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 1998, Gilead completed two Phase II randomized, double-blind, placebo-controlled clinical studies of adefovir dipivoxil for the treatment of hepatitis B infection. Data from both studies indicate that twelve weeks of dosing with adefovir dipivoxil at 5 mg, 30 mg or 60 mg once per day was well tolerated and resulted in a statistically significant decline in HBV DNA levels in treated patients compared to placebo. The decline in HBV DNA was greater than 4 logs (99.99%) at the higher doses tested. Treatment with adefovir dipivoxil was also associated with seroconversion in a portion of the patients in one of the studies. In March 1999, the Company initiated the first of a series of multinational Phase III trials in HBV infected patients.

Glaxo Wellcome, in collaboration with Biochem Pharma, is pursuing development of lamivudine, a nucleoside analogue to treat HBV infection. This compound was recently approved for marketing in the United States, China and several other countries and represents significant potential competition for adefovir dipivoxil for HBV. 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 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 February 1998, the Company presented data from a Phase I/II study of PMPA Prodrug, indicating that the highest dose of the drug tested reduced viral load by a median of 1.22 logs after one month of dosing. In this study, PMPA Prodrug was administered as a single oral tablet at one of three doses (75 mg, 150 mg or 300 mg) once per day. Based on these results, the Company initiated a long-term Phase II safety study of PMPA Prodrug, in combination with other anti-retroviral therapies, which completed enrollment at 180 patients in March 1999. Depending on the results from this study, Gilead intends to initiate a program of Phase III studies of PMPA Prodrug before the end of 1999.

The National Institutes of Health ("NIH") is evaluating possible applications of intravenous PMPA in the prevention of maternal-fetal HIV transmission, as well as a topical version of PMPA for the prevention of sexual transmission of HIV.

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 and other viruses.

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.

In 1994, Gilead entered into a license and supply agreement with Bausch & Lomb (formerly Storz Instrument Company, a subsidiary of American Home Products Corporation) to develop 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." The license to Bausch & Lomb 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. Bausch & Lomb is conducting clinical development of topical ophthalmic cidofovir and is currently analyzing the data from Phase II clinical studies. See "Collaborative Relationships--Bausch & Lomb."

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 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 infectious diseases, primarily viral diseases, as well as cancer.

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, longer half-life and enhanced therapeutic index. Several nucleotide analogues are also being evaluated for activity against cancer in animal models.

HIV 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. 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.

HEPATITIS C VIRUS

Building on its expertise in the discovery and development of antiviral therapeutics, the Company is evaluating different approaches that could lead to inhibitors of hepatitis C virus ("HCV"). This research includes identification of HCV targets, establishment of assays and screening of compounds as potential inhibitors. See "Legal Proceedings."

ANTIBACTERIAL PROGRAM

Gilead has synthesized a series of small molecule compounds with IN VITRO activity against bacteria, including methicillin-resistent staphylococcus aureus ("MRSA"). The current focus of this program is the optimization of potency and selectivity and evaluation of these compounds in preclinical animal models.

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 also implicated adenosine receptors in 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 anti- allergic properties of these compounds.

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 also evaluates opportunities for in-licensing products and technologies complementary to its business. The Company's existing collaborative relationships are as follows:

PHARMACIA & UPJOHN

In August 1996, Gilead and Pharmacia & Upjohn entered into a license and supply 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, a price 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 Gilead's 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 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 with 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 total 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 100% of its own and Gilead's research and development costs for the program and will pay Gilead royalties on 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 Laboratories Inc. ("Roche Labs") 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. This co-promotion agreement concluded at the end of 1998.

GLAXO WELLCOME

In July 1990, Gilead entered into a collaborative research and development agreement with Glaxo Wellcome Inc. ("Glaxo"). Concurrent with the signing of the agreement Glaxo made an $8.0 million equity investment in Gilead and currently holds 889,911 shares (approximately 2.8%) of the Company's outstanding common stock. Under the terms of the agreement, as amended over time, Glaxo funded Gilead's ongoing research in the antisense field at a level of approximately $3.0 million per year. This agreement and the related funding was terminated in June 1998. In December 1998, Gilead sold its antisense patent estate to Isis Pharmaceuticals, Inc. ("Isis") for $6.0 million, payable in installments over three years. Gilead does not expect to perform additional research in the antisense field.

BAUSCH & LOMB

In August 1994, the Company entered into a license and supply agreement with Bausch & Lomb (formerly Storz Instrument Company, a subsidiary of American Home Products Corporation), pursuant to which Bausch & Lomb will develop and have the right to market an eye drop formulation of cidofovir for the potential treatment of topical ophthalmic viruses. The field of the exclusive, worldwide license to Bausch & Lomb 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. Bausch & Lomb is conducting clinical development of topical ophthalmic cidofovir and is currently analyzing the data from Phase II clinical trials. Gilead is entitled to receive a fee each year until Bausch & Lomb files an NDA under the agreement. In addition, Bausch & Lomb 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 Bausch & Lomb, and Bausch & Lomb is obligated to make royalty payments to Gilead based on net sales of any products developed under the agreement. Bausch & Lomb may terminate this agreement at any time on three months notice. See "Clinical Development Programs--Cidofovir."

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. Either party may terminate this agreement on six months notice.

ACADEMIC AND CONSULTING RELATIONSHIPS

To supplement its research and development efforts, the Company collaborates with and has licensed certain patents, patent applications and technology 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 intends to file for approval of this supplier with the FDA in 1999. 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 1999. 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. The use of alternative suppliers for any of the Company's products or products in development will require FDA approval, which will be time consuming.

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 detail physicians, hospitals, clinics, pharmacies and other healthcare providers involved in the treatment of AIDS patients with CMV retinitis. Gilead sells VISTIDE 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 is supplemented by a marketing and sales staff of approximately 20 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. 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 by Gilead 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 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 and is seeking patent protection in other Asian countries on commercial forms of adefovir dipivoxil. Asia is a major market for hepatitis B therapies, one of the potential indications for adefovir dipivoxil. 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. Similar patent term extensions may be available for other products in development.

The Company is the exclusive licensee or holder of patents and patent applications relating to methoxyphosphonate derivatives and neuraminidase inhibitors and their use in the treatment and prevention of viral infections. 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 patent applications 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. In August 1998, the Company was served with a patent infringement lawsuit filed by Chiron Corporation ("Chiron") in the U.S. District Court for the Northern District of California. In the lawsuit, Chiron alleges that Gilead is conducting scientific research that infringes Chiron's patents covering the hepatitis C NS3 protease protein and gene sequences and their use in screening for potential hepatitis C therapeutics. See "Legal Proceedings."

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 or its licensors' 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 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, foscarnet, marketed by Astra U.S.A., and formivirsen, a local injection marketed by CibaVision, 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 13 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, Merck & Co. and DuPont Pharma.

Glaxo Wellcome, in collaboration with Biota Holdings Limited, is pursuing development of zanamavir, a neuraminidase inhibitor to treat influenza. This compound has been approved in some countries and is under review for approval in the United States by the FDA. If approved, zanamavir would represent significant potential competition for GS 4104. In addition, Glaxo Wellcome, in collaboration with Biochem Pharma, is pursuing development of lamivudine, a nucleoside analogue to treat HBV infection. This compound was recently approved for marketing in the United States, China and several other countries 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 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 regulatory 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, third-party reimbursement 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 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 an 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.

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") or Ethics Committee 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.

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. The FDA will generally review NDAs for fast track products within six months. 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 characterize further the drug's safety and

efficacy profile. The FDA has granted fast track designation to PREVEON for the treatment of HIV-infected patients and the Company believes that 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.

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. After approval under the centralized procedure, pricing and reimbursement approvals are generally required in most countries. VISTIDE was approved by the European Community under the centralized procedure, and the Company anticipates that PREVEON and GS 4104 will also be reviewed under the centralized procedure when marketing authorization applications for these products are filed.

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, as well as patient advocacy organizations, 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, 1998, Gilead employed 293 people full-time, of whom 75 hold Ph.D. and/or M.D. degrees and 46 hold other advanced degrees. Approximately 182 employees are engaged in research and development activities and 111 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.

PAUL BERG, PH.D., has been a member of Gilead's Scientific Advisory Board since April 1998 and also serves on the Company's Board of Directors. Dr. Berg is currently Cahill Professor in Cancer Research in the Department of Biochemistry at Stanford University School of Medicine, where he has been on the faculty since 1959. He received the Nobel Prize for Chemistry in 1980.

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

GILEAD IS DEVELOPING DRUGS TO TREAT AIDS AND AIDS-RELATED CONDITIONS, AND THEREFORE CAN BE ADVERSELY AFFECTED BY CHANGES IN THE REGULATORY AND COMMERCIAL ENVIRONMENT FOR AIDS THERAPIES.

Several of Gilead's products and products in development address AIDS or AIDS-related conditions. These products include VISTIDE (cidofovir injection) for CMV retinitis, PREVEON (adefovir dipivoxil) for HIV and AIDS and PMPA for HIV and AIDS. The medical, regulatory and commercial environment for AIDS therapies changes quickly and often in ways that Gilead is unable to accurately predict. Gilead develops its AIDS products based upon current policy and the current marketplace for AIDS therapies, as well as its prediction of future policy and the future marketplace for these therapies. Gilead's business is subject to substantial risk because these policies and markets change quickly and unpredictably and in ways that could have a material adverse impact on its ability to obtain regulatory approval and commercial acceptance of its AIDS-related products.

GILEAD'S OPERATIONS DEPEND ON COMPLIANCE WITH COMPLEX GOVERNMENTAL REGULATIONS.

The products that Gilead develops and sells must be approved and are subject to extensive regulation by the FDA and comparable agencies in other countries. Gilead has plans to file an application with the FDA for marketing approval of PREVEON in the second quarter of 1999. In addition, Hoffmann-La Roche, Gilead's corporate partner for the development and commercialization of GS 4104, expects to file an application with the FDA for marketing approval of GS 4104 to treat influenza in the second quarter of 1999. Gilead anticipates conducting a variety of clinical trials and filing for marketing approval of additional products over the next several years. These products may fail to receive marketing approval on a timely basis, or at all. In addition, these products may receive marketing approvals that place limitations on the uses of the product. These failures, delays or limitations, as well as other regulatory changes, actions and recalls, could delay commercialization of any products and adversely affect Gilead's results of operations.

In addition, even after Gilead's products are marketed, the products and their manufacturers are subject to continual review. Later discovery of previously unknown problems with Gilead's products or manufacturers may result in restrictions on such product or manufacturer, including withdrawal of the product from the market.

RESULTS OF CLINICAL TRIALS AND APPROVAL OF PRODUCTS ARE UNCERTAIN, AND GILEAD MAY BE DELAYED IN OR PROHIBITED FROM SELLING ITS PRODUCTS.

Gilead has a number of potential products that have reached the development stage. These potential products include PREVEON, GS 4104, adefovir dipivoxil for HBV and PMPA. Gilead will be required to demonstrate the safety and effectiveness of these and any other products it develops in each intended use through extensive preclinical studies and clinical trials in order to obtain regulatory approval of those products. The results from preclinical and early clinical studies do not always accurately predict results in later, large-scale clinical trials for several reasons including:

- preliminary results may not be indicative of effectiveness;

- further clinical trials may not achieve the desired result; and

- further clinical trials may reveal unduly harmful side effects or may show the drugs to be less effective than other drugs or delivery systems for the desired indications.

Even successfully completed large-scale clinical trials may not result in marketable products for several reasons, including:

- the potential products are not shown to be safe and effective;

- regulatory authorities disagree with the results of Gilead's studies and trials;

- required regulatory approvals are not obtained;

- the potential products are too difficult to develop into commercially viable products; or

- the potential products do not obtain market acceptance.

A number of companies in Gilead's industry have suffered significant setbacks in advanced clinical trials despite promising results in earlier trials. In the end, Gilead may be unable to develop marketable products.

The rate of completion of Gilead's clinical trials will depend on the rate of patient enrollment. There will be substantial competition to enroll patients in Gilead's clinical trials, particularly for AIDS and HBV therapies. This competition has delayed Gilead's clinical trials in the past. In addition, recent improvements in existing AIDS and HBV drug therapy may make it more difficult for Gilead to enroll patients in its clinical trials as the patient population may choose to enroll in clinical trials sponsored by other companies or choose alternative therapies. Delays in planned patient enrollment can result in increased development costs and delays in regulatory approvals.

PRODUCT DEVELOPMENT EFFORTS MAY NOT YIELD MARKETABLE PRODUCTS.

Gilead's future business success will depend on its ability to successfully develop and obtain regulatory approval to market new pharmaceutical products. Development of a product requires substantial technical, financial and human resources even if the product is not successfully completed. Gilead's potential products may appear to be promising at various stages of development yet fail to reach the market for a number of reasons, including:

- lack of efficacy or unacceptable toxicity during preclinical studies or clinical trials;

- failure to receive necessary regulatory approvals;

- failure to achieve market acceptance;

- existence of proprietary rights of third parties; and

- inability to develop manufacturing methods that are efficient, cost-effective and capable of meeting stringent regulatory standards.

In addition, due to uncertainties that are part of the development process, Gilead may underestimate the costs associated with the development of a potential product. Delays or unanticipated increases in costs of development or failure to obtain regulatory approval or market acceptance for Gilead's products could adversely affect Gilead's operating results.

GILEAD DEPENDS ON RELATIONSHIPS WITH OTHER COMPANIES FOR RESEARCH FUNDING, CLINICAL DEVELOPMENT, SALES AND MARKETING PERFORMANCE AND REVENUES. FAILURE TO MAINTAIN THESE RELATIONSHIPS WOULD NEGATIVELY IMPACT GILEAD'S BUSINESS.

Gilead has established a number of significant collaborative relationships with major pharmaceutical companies, including Pharmacia & Upjohn, Hoffmann-La Roche and Bausch & Lomb. Gilead depends to a large degree on these partners for its research funding, clinical development and/or sales and marketing performance. In addition, Gilead has historically relied on collaborative relationships for a significant portion of its revenues and expects this to be the case in future periods. Reliance or collaborative relationships poses a number of risks, including:

- Gilead cannot control whether its corporate partners will devote sufficient resources to its programs or products;

- disputes may arise in the future with respect to the ownership of rights to technology developed with corporate partners;

- disagreements with corporate partners could lead to delays in or termination of the research, development or commercialization of product candidates, or result in litigation or arbitration;

- contracts with Gilead's corporate partners may fail to provide significant protection or may fail to be effectively enforced if one of these partners fails to perform;

- corporate partners have considerable discretion in electing whether to pursue the development of any additional products and may pursue alternative technologies or products either on their own or in collaboration with Gilead's competitors; and

- corporate partners with marketing rights may choose to devote fewer resources to the marketing of Gilead's products than they do to products of their own development.

Given these risks, there is a great deal of uncertainty regarding the success of Gilead's current and future collaborative efforts. If these efforts fail, Gilead's product development or commercialization of new products could be delayed or revenue from existing products could decline.

Gilead may seek future collaborative relationships with corporate partners to fund some of its research and development expenses and to develop and commercialize some of its potential products. For example, the Company is in discussions with several potential corporate partners about collaborative development and commercialization of adefovir dipivoxil for HBV, particularly in Asian territories. Further, we anticipate that the Company's receipt of revenues from collaborative agreements will continue to be affected by existing agreements, as well as by the timing of drug development programs of its corporate partners. Gilead may not be able to negotiate acceptable collaborative arrangements in the future, and any arrangements it does negotiate may not be successful. If the Company fails to establish additional collaborative relationships, it will be required to undertake research, development, marketing and manufacturing of its proposed products at its own expense.

GILEAD EXPECTS TO OPERATE AT A LOSS FOR THE FORESEEABLE FUTURE AND MAY NEVER BE PROFITABLE.

Gilead has never been profitable on a full-year basis and may never become profitable. At December 31, 1998, Gilead's accumulated deficit was approximately $218.5 million. Gilead's losses have resulted principally from expenses associated with its research and development programs and, to a lesser extent, from sales, general and administrative expenses. Gilead's revenues to date have been generated primarily from collaborative arrangements rather than product revenues. Gilead's current product revenues are derived solely from sales of VISTIDE in the United States and a royalty arrangement for VISTIDE sales with Pharmacia & Upjohn outside of the United States. VISTIDE has limited sales potential relative to many pharmaceutical products.

GILEAD'S EXISTING PRODUCT AND PRODUCTS UNDER DEVELOPMENT MAY NOT BE ACCEPTED BY PHYSICIANS, INSURERS AND PATIENTS.

Many of Gilead's products in development, if approved for marketing, have no established market. The ability of these products to achieve and sustain market acceptance will depend on the receipt and scope of regulatory approvals and whether or not government authorities and managed care organizations will adequately reimburse patients who use these products.

In addition, Gilead needs to convince the medical and patient advocacy community of:

- the effectiveness of these products in treating disease;

- the safety of these products when administered to patients; and

- the advantages of these products over competitive products.

Physicians, patients, patient advocates, payors and the medical community in general may not accept and use any products that Gilead may develop. If Gilead's products are not accepted, its results of operations will suffer.

COMPETITIVE PRODUCTS FROM OTHER COMPANIES COULD SIGNIFICANTLY REDUCE THE MARKET ACCEPTANCE OF GILEAD'S PRODUCTS.

Gilead's products and development programs target a number of diseases and conditions, including viral infections and cancer. There are many commercially available products for these diseases. Certain of these products are well established therapies and have generated substantial sales. In addition, a large number of companies and institutions are conducting well-funded research and development activities

directed at developing treatments for these diseases. Products currently on the market and those under development by Gilead's competitors could make its technology and products obsolete or noncompetitive. Gilead expects that competition for the treatment of these diseases will increase in the future as new products enter the market and advanced technologies become available. Gilead will also be competing to license or acquire technology from other companies.

Most of Gilead's competitors and potential competitors have substantially greater resources than Gilead. Those resources include superior product development capabilities and financial, scientific, manufacturing, managerial and human resources. These competitors may achieve superior patent protection, obtain key technology, receive regulatory approval or achieve product commercialization earlier than Gilead.

GILEAD'S MARKETING STAFF COMPETES WITH THE MARKETING ORGANIZATIONS OF LARGE PHARMACEUTICAL COMPANIES.

Gilead's products compete, and the products Gilead may develop are likely to compete, with products of other companies that currently have extensive and well-funded marketing and sales operations. Because these companies are capable of devoting significantly greater resources to their marketing efforts, Gilead's marketing or sales efforts may not compete successfully against the efforts of these other companies.

PHARMACEUTICAL PRICING AND REIMBURSEMENT PRESSURES MAY REDUCE PROFITABILITY.

Successful commercialization of Gilead's products depends, in part, on the availability of governmental and third-party payor reimbursement for the cost of such products and related treatments. Reimbursement is generally provided by government health administration authorities, private health insurers and other organizations. Government authorities and third-party payors increasingly are challenging the price of medical products and services, particularly for innovative new products and therapies. This has resulted in lower average sales prices. For example, a majority of VISTIDE sales is subject to reimbursement by government agencies, resulting in significant discounts from list price and rebate obligations. Gilead expects that several of its products in development, particularly for AIDS indications, if they receive regulatory approval, will have a similar reimbursement profile. Even if reimbursement is available, reimbursement policies may adversely affect Gilead's ability to sell its products on a profitable basis.

In addition, in many international markets, governments control the prices of prescription pharmaceuticals. In these markets, once marketing approval is received, pricing negotiation can take another six to 12 months or longer. Product sales, attempts to gain market share or introductory pricing programs of Gilead's competitors could require Gilead to lower its prices in these countries, which could adversely affect its results of operations.

GILEAD MAY NOT BE ABLE TO OBTAIN EFFECTIVE PATENTS TO PROTECT ITS TECHNOLOGIES FROM USE BY COMPETITORS, AND PATENTS OF OTHER COMPANIES COULD REQUIRE GILEAD TO STOP USING OR PAY FOR THE USE OF REQUIRED TECHNOLOGY.

Gilead's success will depend to a significant degree on its ability to:

- obtain patents and licenses to patent rights;

- preserve trade secrets; and

- operate without infringing on the proprietary rights of others.

Gilead has rights to United States and foreign issued patents and has filed and will continue to file patent applications in the United States and abroad relating to its technologies. There is a risk, however, that patents may not issue from any of these applications or that the patents will not be sufficient to protect Gilead's technology. Patent applications in the United States are confidential until a patent is granted. As a result, Gilead would not know if its competitors filed patent applications for technology covered by its pending applications. Gilead also can not be certain that it was the first to invent the technology that is the subject of its patent applications. Competitors may have filed patent applications or received patents and may obtain additional patents and proprietary rights that block or compete with Gilead's patents.

Gilead 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. Gilead may obtain patents for certain products many years before marketing approval is obtained for those products. Because patents have a limited life, which may begin to run prior to commercial sale, the commercial value of the product may be limited.

Gilead's competitors may file patent applications covering its technology. If so, Gilead may have to participate in interference proceedings or litigation to determine the right to a patent. Litigation and interference proceedings are expensive even if successful. In August 1998, the Company was served with a patent infringement lawsuit filed by Chiron Corporation alleging that Gilead's research infringes Chiron's patents covering the hepatitis C protein and gene sequences and their use in screening for potential hepatitis C therapeutics.

Gilead's success depends in large part on its ability to operate without infringing upon the patents or other proprietary rights of third parties. If Gilead infringes patents of others, it may be prevented from commercializing products or may be required to obtain licenses from these third parties. Gilead cannot be certain that it would be able to obtain alternative technologies or any required license. Even if Gilead were to obtain such technologies or licenses, it cannot be certain that the terms would be reasonable. If Gilead fails to obtain such licenses or alternative technologies, it may be unable to develop some or all of its products.

In addition, Gilead uses significant unpatented proprietary technology and relies on unpatented trade secrets and proprietary know-how to protect certain aspects of its production and other technologies. Gilead's trade secrets may become known or independently discovered by its competitors.

UNCERTAINTY OF SUPPLY MAY AFFECT GILEAD'S ABILITY TO PRODUCE AND SELL ITS PRODUCTS.

Gilead generally relies on third parties for the manufacture of bulk drug substance and final drug product for clinical and commercial purposes, including for VISTIDE, adefovir dipivoxil, PMPA and GS 4104. Gilead depends on these third parties to perform their obligations effectively and on a timely basis. If these third parties fail to perform as required, Gilead's clinical trials or submission of products for regulatory approval may be delayed. These delays could impair Gilead's ability to deliver commercial products on a timely basis and could impair its competitive position.

Many of the materials Gilead utilizes in its operations are made at only one facility. A shutdown in any of these facilities due to technical, regulatory or other problems, resulting in an interruption in supply of these materials, could have an adverse impact on Gilead's financial results. For example, Gilead has qualified only one supplier with the FDA for the bulk drug substance used in VISTIDE and one different supplier for the final drug product. Gilead has also established a second source of bulk drug substance supply for VISTIDE but has not yet qualified this source with the FDA and cannot be certain that the FDA will approve this second source. Because the suppliers of key components and materials must be named in the New Drug Application filed with the FDA for a product, significant delays can occur if the qualification of a new supplier is required. If supplies from Gilead's suppliers were interrupted for any reason, Gilead could be unable to ship VISTIDE or any of its products in development.

GILEAD HAS LIMITED EXPERIENCE MANUFACTURING PRODUCTS AND COULD BE ADVERSELY AFFECTED IF IT FAILS TO DEVELOP MANUFACTURING CAPACITY.

For some of Gilead's potential products, Gilead 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. Gilead cannot be certain that it will be able to implement any of these developments successfully.

The manufacturing process for pharmaceutical products is highly regulated, and regulators may shut down manufacturing facilities that they believe do not comply with regulations. The FDA's current Good Manufacturing Practices are extensive regulations governing manufacturing processes, stability testing, record-keeping and quality standards. Similar, but not identical, regulations are in effect in other countries.

PRODUCT LIABILITY CLAIMS MAY INCREASE COSTS AND DECREASE PROFITS.

Testing, manufacturing, marketing and use of VISTIDE and Gilead's products in development involve substantial risk of product liability claims. These claims may be made directly by consumers, healthcare providers, pharmaceutical companies or others. Although Gilead maintains product liability insurance, a single product liability claim could exceed its coverage limits, and multiple claims are possible. If that happens, the insurance coverage Gilead has may not be adequate. A successful product liability claim in excess of Gilead's coverage could require Gilead to pay substantial amounts. This could adversely affect Gilead's results of operations. Moreover, the amount and scope of any coverage may be inadequate to protect Gilead in the event of a successful product liability claim. In addition, in the future such insurance may not be renewed at an acceptable cost or at all.

GILEAD'S USE OF HAZARDOUS MATERIAL EXPOSES IT TO POTENTIAL LIABILITIES.

Gilead's research and development involves the controlled use of hazardous materials, chemicals, viruses and various radioactive compounds. Although Gilead believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, Gilead cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, Gilead could be held liable for significant damages or fines.

YEAR 2000 ISSUES MAY NOT SUCCESSFULLY BE ADDRESSED.

Gilead is implementing a Year 2000 project designed to address the issue of computer software and hardware correctly processing dates through and beyond the Year 2000. Due to the uncertainty inherent in the Year 2000 problem, however, there can be no assurance that Year 2000 failures will not have a material impact on Gilead's operations, financial results or financial condition. In addition, Gilead cannot predict whether its critical third-party suppliers and business partners will achieve Year 2000 compliance, or whether the failure of any third party to do so would have a material effect on Gilead's business.

ITEM 2. PROPERTIES

Gilead's administrative offices and research laboratories are located in Foster City, California. The Company leases approximately 163,200 square feet of space in seven 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

In August 1998, the Company was served with a patent infringement lawsuit filed by Chiron Corporation in the U.S. District Court for the Northern District of California. In the lawsuit, Chiron alleges that Gilead is conducting scientific research that infringes Chiron's patents covering the hepatitis C protein and gene sequences and their use in screening for potential hepatitis C therapeutics. Gilead has taken the position that its research activities do not infringe the Chiron patents and believes that the lawsuit will not have a material impact on Gilead's business, operating results or financial condition.

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

Gilead common stock is traded on The Nasdaq Stock Market under the symbol "GILD." The following table sets forth for the periods indicated the high and low prices per share of the Company's common stock on The Nasdaq Stock Market. These prices represent quotations among dealers without adjustments for retail mark-ups, mark-downs or commissions, and may not represent prices of actual transactions.

1997	CLOSING HIGH	CLOSING 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 1/4
1998		
First Quarter	$ 42	$ 35 5/8
Second Quarter	$ 43 1/4	$ 31 5/8
Third Quarter	$ 30 3/8	$ 18 1/4
Fourth Quarter	$ 41 1/16	$ 18 3/4

As of February 26, 1999, there were approximately 480 stockholders of record. 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.

ITEM 6. SELECTED FINANCIAL DATA

We derived this information from Gilead's audited financial statements for 1994 through 1998. This information is only a summary, and you should read it in conjunction with Gilead's historical financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere herein, and the annual and quarterly reports and other information on file with the Securities and Exchange Commission. See Items 7 and 8.

GILEAD SCIENCES, INC.
SELECTED CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF OPERATIONS DATA:	YEAR ENDED DECEMBER 31, 1998	1997	1996	NINE MONTHS ENDED DECEMBER 31, 1995 (1)	YEAR ENDED MARCH 31, 1995
Revenues:					
Product sales, net	$ 6,074	$ 11,735	$ 8,477	$ --	$ --
Contract revenue	24,198	27,413	24,910	2,685	4,922
Royalty revenue, net	2,298	889	33	14	--
Total revenues	32,570	40,037	33,420	2,699	4,922
Costs and expenses:					
Cost of sales	594	1,167	910	--	--
Research and development	75,298	59,162	41,881	25,670	30,360
Selling, general and administrative	31,003	25,472	26,692	9,036	9,669
Total costs and expenses	106,895	85,801	69,483	34,706	40,029
Loss from operations	(74,325)	(45,764)	(36,063)	(32,007)	(35,107)
Interest income, net	18,250	17,771	14,331	4,592	3,833
Net loss	$ (56,075)	$ (27,993)	$ (21,732)	$ (27,415)	$ (31,274)
Basic and diluted loss per common share	$ (1.85)	$ (0.95)	$ (0.78)	$ (1.29)	$ (1.65)
Common shares used to calculate basic and diluted loss per common share	30,363	29,326	27,786	21,274	18,971

CONSOLIDATED BALANCE SHEET DATA:	DECEMBER 31, 1998	1997	1996	1995 (1)	MARCH 31, 1995
Cash, cash equivalents and short-term investments	$ 279,939	$ 322,298	$ 295,963	$ 155,659	$ 89,146
Working capital	256,560	306,867	284,154	145,539	80,190
Total assets	302,860	352,069	310,673	166,659	102,395
Non-current portion of long-term debt	563	1,331	2,914	3,482	5,454
Accumulated deficit	(218,554)	(162,479)	(134,486)	(112,754)	(85,339)
Total stockholders' equity (2)	270,547	317,347	291,660	151,499	86,056

(1) In October 1995, Gilead 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 Gilead's common stock.

ITEM 7. 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. In June 1996, the FDA granted marketing clearance of VISTIDE for the treatment of CMV retinitis in patients with AIDS. Since that time, the Company has independently marketed VISTIDE in the United States with an antiviral specialty sales force and has entered into a collaboration agreement with Pharmacia & Upjohn to market VISTIDE in all countries outside the United States.

The Company began to incur significant expenses relating to commercialization of VISTIDE and other potential product candidates in 1996. With the exception of the second quarter of 1997 and the third quarter of 1996, when the Company earned significant one-time fees related to collaborations, the Company has incurred losses since its inception. Gilead expects to continue to incur losses for at least an additional year, 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 and other potential products.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Report contains forward-looking statements relating to clinical and regulatory developments, marketing and sales matters, future expense levels, financial results and Year 2000 matters. These statements involve inherent risks and uncertainties. The Company's actual financial and operating results may differ significantly from those discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, the risks summarized below and described in more detail under "Risk Factors" on pages 19 to 24 of this Report. In particular, factors that could result in a material difference include, but are not limited to, those relating to the ongoing development and commercialization of the Company's potential pharmaceutical products and, in the case of Year 2000 matters, the ability to identify and correct all relevant computer code and the success of remedial efforts implemented by third-party suppliers and business partners.

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 either proprietary rights or competing products 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, expensive and uncertain 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 of and size of the market for VISTIDE or any of the Company's products in development.

The Company expects that its financial results will continue to 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, nor can there be assurance that the

Company will either achieve or sustain profitability. As of December 31, 1998, the Company's accumulated deficit was approximately $218.6 million.

As a result of the proposed acquisition of NeXstar described below, Gilead's business will be subject to additional risks related to NeXstar's business. 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 operating results, financial condition and stock price. In addition, the forward-looking statements included in this Report relate to Gilead as a stand-alone business, and do not take into account the potential impact of the proposed acquisition of NeXstar.

RESULTS OF OPERATIONS

REVENUES

The Company had total revenues of $32.6 million, $40.0 million and $33.4 million for the years ended December 31, 1998, 1997 and 1996, respectively. Total revenues include revenues from net product sales, contracts, including research and development ("R&D") collaborations, and net royalties.

Net product sales revenue was $6.1 million, $11.7 million, and $8.5 million for 1998, 1997, and 1996, respectively. All of the Company's product sales revenue relates to VISTIDE, which the Company began to sell in mid-1996. As expected, VISTIDE sales declined in 1998, primarily due to a decline in the incidence of CMV retinitis as a result of more effective HIV therapies. The 38% increase in net product sales revenue in 1997 as compared to 1996 is due to the fact that 1997 results represent a full year of sales, while 1996 revenue reflects approximately six months of sales. VISTIDE product sales revenue is expected to continue to be modest.

Net royalty revenue was $2.3 million in 1998 and $0.9 million in 1997, and was derived from two sources. During 1998 and 1997, respectively, the Company earned $1.7 million and $0.7 million of net royalties from Pharmacia & Upjohn on sales of VISTIDE outside of the United States. This amount increased primarily because the number of countries in which Pharmacia & Upjohn sells the product expanded in 1998 as compared to 1997. The Company expects that royalties from Pharmacia & Upjohn's sales of VISTIDE will continue to increase during 1999 as a result of recognizing a full year of sales in a greater number of countries. The Company also reported $0.6 million and $0.2 million in 1998 and 1997, respectively, of royalty revenue from Roche Labs for co-promoting Roferon in the United States for the treatment of chronic hepatitis C virus infection. This co-promotion agreement with Roche Labs concluded at the end of 1998. While the Company expects to receive transition payments under this agreement in 1999, such amounts are not expected to be significant. Royalty revenue is 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 revenue before 1997.

Contract revenue was $24.2 million, $27.4 million and $24.9 million in 1998, 1997, and 1996, respectively. The most significant source of contract revenue in each of these three years relates to the development of GS 4104 under an R&D collaboration agreement between the Company and Roche. GS 4104 is an orally administered compound to treat and prevent viral influenza in humans. During 1998, 1997 and 1996, the Company recorded approximately $16.4 million, $14.2 million and $11.4 million, respectively, of contract revenue under this agreement with Roche. The $16.4 million recorded during 1998 represents reimbursed R&D expenses and includes $5.2 million attributable to R&D expenses incurred in the fourth quarter of 1997, which were subject to Roche's approval as of December 31, 1997. Such expenses were approved for reimbursement and recognized as revenue in 1998. During 1997 and 1996, the Company recognized as contract revenue R&D reimbursements of $8.2 million and $1.1 million, respectively. Also during 1997 and 1996, the Company recognized milestone payments of $6.0 million and a license fee of $10.3 million, respectively. Gilead is entitled to additional milestone payments of up to $34.0 million upon achieving certain developmental and regulatory milestones. R&D reimbursements under the Roche

agreement are expected to be significantly lower in 1999 as compared both to 1998 and 1997. The reimbursements will approximate actual related R&D costs the Company incurs.

Contract revenue for each year in the three-year period ended December 31, 1998 also includes reimbursement of research expenses under the Company's collaborative R&D agreement with Glaxo related to the Company's antisense program ($1.8 million in 1998 and $3.0 million in both 1997 and 1996). In June 1998, the agreement and the funding for the program were terminated, resulting in reduced revenue in 1998 as compared to 1997 and 1996.

In 1998, Gilead and Isis entered into an agreement under which Gilead sold Isis the holdings of its antisense patent estate, including patents and patent applications covering antisense chemistry and antisense drug delivery systems. Under the terms of the agreement, Isis is required to pay Gilead a total of $6.0 million in four installments. The first $2.0 million was paid in December 1998, and the remaining $4.0 million is payable in three additional payments (one payment per year in 1999, 2000 and 2001). The total sale price of $6.0 million is included in contract revenue in 1998.

During 1997, Gilead recognized a $10.0 million milestone payment under its collaborative agreement with Pharmacia & Upjohn following the marketing authorization for VISTIDE in the European Union, which is the only milestone payment provided for under that agreement. The Company also recognized as revenue a $10.0 million license fee from Pharmacia & Upjohn in 1996, the year the agreement went into effect.

COSTS AND EXPENSES

Cost of product sales was $0.6 million, $1.2 million and $0.9 million for the years ended December 31, 1998, 1997 and 1996, respectively, and resulted from sales of VISTIDE. The Company's declining cost of sales corresponds to the decrease in net product sales.

The Company's R&D expenses were $75.3 million for the year ended December 31, 1998, compared to $59.2 million for the year ended December 31, 1997. This 27% increase is primarily attributable to costs associated with the ongoing series of PREVEON Phase III clinical trials, as well as the expanded access program for patients with HIV infection, which commenced in the fourth quarter of 1997. PREVEON is an investigational reverse transcriptase inhibitor currently being studied to treat HIV. Increased R&D expenses also reflect costs associated with an additional product candidate that is advancing into later stage clinical trials (adefovir dipivoxil for the treatment of chronic hepatitis B infection). R&D expenses of $41.9 million in 1996 increased by 41% in 1997. The increase in 1997 as compared to 1996 is primarily attributable to costs associated with GS 4104 clinical trials, as well as PREVEON clinical trials and the commencement of the expanded access program for patients with HIV. The Company expects its R&D expenses to continue to increase significantly in 1999 over 1998 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 $31.0 million in 1998 compared to $25.5 million in 1997, an increase of 22%. This increase represents costs incurred to expand sales, marketing and operational capacity in anticipation of the potential commercial launch of PREVEON and to support a greater level of R&D activities. SG&A expenses were $26.7 million during 1996, which is 5% greater than SG&A expense levels in 1997. 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 the Company's United States marketing and sales capabilities. As expected, these expenses were somewhat lower in 1997. The Company's selling, general and administrative expenses are expected to increase substantially during 1999, as Gilead continues to expand its sales and marketing capacity and increase support activities for its R&D efforts.

NET INTEREST INCOME

The Company had net interest income of $18.3 million, $17.8 million and $14.3 million in 1998, 1997 and 1996, respectively. The increased level of net interest income in 1998 as compared to 1997 is primarily due to increased returns on the investment portfolio in 1998. Net interest income in 1997 exceeded the 1996 amount mainly due to the full-year benefit in 1997 of the investment of the proceeds from the Company's public offering of common stock in 1996 and a $40.0 million equity investment by Pharmacia & Upjohn in 1997. The Company expects net interest income to decline substantially in 1999 due to increased spending levels and the corresponding decreasing balances of invested cash.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and short-term investments totaled $279.9 million at December 31, 1998, compared to $322.3 million at December 31, 1997. This $42.4 million decrease is primarily due to the net use of cash to fund operations. Significantly lesser amounts of cash were also used to purchase property and equipment and repay debt obligations. Such uses of cash were offset in part by cash received from exercises of employee stock options. During 1999, the Company expects that its balances of cash and cash equivalents and short-term investments will continue to decline substantially as R&D, SG&A and capital equipment spending levels increase.

The Company believes that its existing capital resources, supplemented by net product sales, contract revenue and net royalty revenue, 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 R&D efforts, 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, levels of 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, possible geographic expansion and the establishment of additional 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 is implementing a Year 2000 project to address the issue of computer software and hardware correctly processing dates through and beyond the Year 2000. The goal of this project is to ensure that all computer software and hardware that the Company uses or relies upon is retired, replaced or made Year 2000 compliant before December 31, 1999.

There are three primary aspects to the Company's Year 2000 project:
computers and other equipment, information systems software and third-party suppliers and business partners. Gilead is addressing each of these areas on a phased basis, as follows: 1) educating the internal user community at Gilead; 2) conducting an inventory of all software and hardware; 3) evaluating all software and hardware for Year 2000 compliance; 4) implementing modifications, retirement or replacement of software or hardware, prioritized based on an analysis of importance to Gilead's business; 5) testing and validating all modified or replaced software and hardware; and 6) designing and implementing contingency and business continuation plans for critical systems.

To date, Gilead has completed the education and inventory phases of the project, and estimates that 80% of software and hardware has completed the evaluation phase. Implementation of modifications or

replacements and testing and validation are on schedule, and the Company anticipates that, for business-critical systems, all of these activities will be complete by the end of 1999.

The Company has prioritized the implementation phase to first address software or hardware that affects product manufacturing, quality control and safety, employee safety, revenues or cash reserves. Two systems that have been identified as critical to Gilead's operations are software programs from JD Edwards, Inc. ("JDE") and Beckman-Coulter, Inc. ("Beckman"). The JDE system is an enterprise-wide program that tracks financial information, processes sales orders and monitors purchasing and manufacturing activities. During 1998, the Company upgraded the JDE system to a Year 2000 compliant version, which is presently operational. The Beckman system monitors and records laboratory data. The Beckman system upgrades are approximately 80% complete and are scheduled to be finished during the second quarter of 1999.

To date, the Company has initiated evaluations of more than 90% of its critical third-party suppliers and business partners. The Company anticipates completing these evaluations by the second quarter of 1999, on a prioritized basis. Responses to Gilead's inquiries regarding Year 2000 compliance in many cases have been general and nonbinding. To date, substantially all respondents indicate that their Year 2000 compliance efforts are progressing on schedule, and that their computer systems either are or will be Year 2000-compliant at the appropriate time. A significant majority of these respondents are presently in the final testing phase of their Year 2000 compliance projects, and many of them indicate that they are concurrently developing contingency plans.

Among the most critical third parties the Company relies on are the financial institutions that manage Gilead's cash and investments of approximately $280 million, the Company's stock transfer agent, contract manufacturers, contract research and laboratory organizations and the FDA. The Company intends to continue monitoring and evaluating these third parties to the extent practical through the end of 1999.

Gilead anticipates that the total cost of its Year 2000 compliance efforts will not be material to its financial condition or results of operations. The current estimate for external costs of total compliance efforts is approximately $2.1 million, of which $1.1 million has been incurred to date. Of the amount incurred to date, $0.8 million has been expensed and the remainder has been capitalized. The $1.0 million of remaining costs includes $0.8 million of capitalizable costs, primarily computer hardware and software, and $0.2 million of costs to be charged to expense, primarily consulting fees. These external costs are included in Gilead's operating budget for 1999. However, this estimate does not include any costs to Gilead that may be associated with the failure of any third-party supplier or business partner to achieve Year 2000 compliance.

The Company is also developing a series of contingency plans for certain of its critical applications. These plans involve, among other actions, manual solutions, increased inventories and modified staffing strategies. These contingency plans are expected to be finalized and ready for implementation, if necessary, before the end of 1999.

The Company's Year 2000 project is designed to significantly reduce uncertainty and risk arising from the Year 2000 problem. The Company believes that the implementation actions described above reduce the potential for disruption of operations or significant financial impact. Due to the uncertainty inherent in the Year 2000 problem, however, there can be no assurance that Year 2000 failures will not have a material impact on the Company's operations, financial results or financial condition. In particular, the Company cannot predict with any certainty whether its critical third-party suppliers and business partners will achieve Year 2000 compliance, or whether the failure of any such third party to do so would have a material effect on the Company's business.

MARKET RISK

The Company's portfolio of short-term investments creates an exposure to interest rate risk. Changes in interest rate levels affect the fair value of these financial instruments. A sensitivity analysis to measure potential losses in the fair value of Gilead's short-term investment portfolio arising from a change in interest rates indicates that a one percentage point increase in interest rates would have decreased the fair value of the short-term investment portfolio by approximately $2.7 million at December 31, 1998. A one percentage point decrease in interest rates at December 31, 1998 would have increased the fair value of the short-term investment portfolio by $2.7 million.

PROPOSED MERGER AGREEMENT

On March 1, 1999, Gilead and NeXstar announced a definitive merger agreement providing for the acquisition by Gilead of all the outstanding common stock of NeXstar. The merger is structured as a tax-free, stock-for-stock transaction. The Company intends to account for this merger under the pooling-of-interests method. NeXstar, headquartered in Boulder, Colorado, is engaged in the discovery, development, manufacture and commercialization of products to treat serious and life-threatening illnesses. In addition to its Boulder headquarters, NeXstar maintains research, development and manufacturing facilities in San Dimas, California, and marketing subsidiaries worldwide. Under the terms of the merger agreement, NeXstar stockholders will receive between 0.3786 and 0.5000 of a share of Gilead common stock for each share of NeXstar common stock. The exact exchange ratio will be determined based on the trading range of Gilead common stock over a specified period prior to completion of the merger. The merger is subject to certain conditions, including approval of the stockholders of Gilead and NeXstar. The transaction is expected to be completed in mid-1999.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are set forth beginning at page 44 of this report.

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

DIRECTORS

The names of the directors in alphabetical order, and certain information about them as of March 18, 1999, are set forth below:

NAME	AGE	POSITION WITH GILEAD/PRINCIPAL OCCUPATION
Paul Berg	72	Cahill Professor, Department of Biochemistry, Stanford University School of Medicine
Etienne F. Davignon	66	Chairman, Societe Generale de Belgique
James M. Denny, Sr.(1)(2)	66	Managing Director, William Blair Capital Partners V
John C. Martin	47	President and Chief Executive Officer
Gordon E. Moore(1)(2)	70	Chairman Emeritus, Intel Corporation
Donald H. Rumsfeld(1)(2)	66	Chairman of the Gilead Board of Directors
George P. Shultz(2)	78	Distinguished Fellow, Hoover Institution, Stanford University

(1) Member of the compensation committee

(2) Member of the audit committee

Dr. Berg joined the Gilead board of directors in April 1998. Dr. Berg is currently Cahill Professor in Cancer Research in the Department of Biochemistry at Stanford University School of Medicine, where he has been on the faculty since 1959. He has served as Director of the Stanford University Beckman Center for Molecular and Genetic Medicine since its founding in 1985. Dr. Berg is a director of Affymetrix, Inc. and Transgene, Inc. He is the founder and a scientific advisor to Schering-Plough's DNAX Research Institute. Dr. Berg also serves as a member of Gilead's Scientific Advisory Board. Dr. Berg received the Nobel Prize for Chemistry in 1980.

Mr. Davignon joined the Gilead board of directors in September 1990. He has served as the Chairman of Societe Generale de Belgique, a diversified financial and industrial company, since 1985. Mr. Davignon served as the European Community's Commissioner for Industry and International Markets from 1977 to 1981, and as the EC's Vice President for Research, Industry and Energy Policies from 1981 to 1984. Mr. Davignon is a director of Fiat S.A., Compagnie de Suez, Minorco S.A. and a number of other European companies.

Mr. Denny joined the Gilead board of directors in January 1996. Mr. Denny is a Managing Director of William Blair Capital Partners V and VI, private equity funds. Mr. Denny is a retired Vice Chairman of Sears, Roebuck & Co. As Vice Chairman, he had responsibility for Allstate Insurance Corporation, Coldwell Banker Real Estate Group and the corporate financial organization. Previously, he served as Executive Vice President and Chief Financial and Planning Officer of G.D. Searle & Co., as well as Chairman of Pearle Health Services, Inc., a Searle-affiliated company. He is a director of Allstate Corporation, Astra A.B., GATX Corporation and ChoicePoint, Inc. and is a Chairman of Northwestern Memorial Hospital.

Dr. Martin is Gilead's President and Chief Executive Officer. Dr. Martin joined Gilead in October 1990 as Vice President for Research and Development, was appointed Chief Operating Officer in October 1995, and was appointed President and Chief Executive Officer and elected to the Gilead board of directors in April 1996. From 1984 to 1990 he was employed at Bristol-Myers Squibb, a pharmaceutical company, where he was Director of Antiviral Chemistry. Dr. Martin was employed at Syntex Corporation, a pharmaceutical company, from 1978 to 1984. Dr. Martin is the co-inventor of ganciclovir, a pharmaceutical now used for treatment of cytomegalovirus infection. He is currently the President of the International Society for Antiviral Research. Dr. Martin received his Ph.D. in organic chemistry from the University of Chicago.

Dr. Moore joined the Gilead board of directors in January 1996, and served as a member of Gilead's Business Advisory Board from July 1991 until January 1996. Dr. Moore is a co-founder and Chairman Emeritus of Intel Corporation, where he previously served as Chairman, President and Chief Executive Officer. He also served as Director of Research and Development for the Fairchild Semiconductor Division of Fairchild Camera and Instrument Corporation. Dr. Moore is a director of Transamerica Corporation and is Chairman of the Board of Trustees at the California Institute of Technology. He received the National Medal of Technology in 1990.

Mr. Rumsfeld joined the Gilead board of directors in July 1988 and was elected Chairman of the Board in January 1997. Mr. Rumsfeld has been in private business since August 1993. He served as the Chairman and Chief Executive Officer of General Instrument Corporation, a diversified electronics company, from 1990 to 1993, and was Chief Executive Officer of G.D. Searle & Co., a pharmaceutical company, from 1977 to 1985. Mr. Rumsfeld formerly served as Presidential Envoy to the Middle East, U.S. Secretary of Defense, White House Chief of Staff, U.S. Ambassador to NATO and a U.S. Congressman. Mr. Rumsfeld is a director of ABB AB, Gulfstream Aerospace Corp., RAND Corporation and Tribune Company. In 1977, Mr. Rumsfeld was awarded the Medal of Freedom, the nation's highest civilian award.

Dr. Shultz joined the Gilead board of directors in January 1996. Dr. Shultz currently serves as Distinguished Fellow at the Hoover Institution and as a director of the Bechtel Group, Inc., AirTouch Communications and Gulfstream Aerospace Corporation. Dr. Shultz served as U.S. Secretary of State from 1982 to 1989 and earlier served as Secretary of Labor, Director of the Office of Management and Budget and Secretary of the Treasury. Previously, he served as Dean of the Graduate School of Business at the University of Chicago and as President of the Bechtel Group, Inc. In 1989, Dr. Shultz was awarded the Medal of Freedom, the nation's highest civilian honor.

EXECUTIVE OFFICERS

The names of Gilead's executive officers who are not also directors of Gilead and certain information about each of them are set forth below:

Jeffrey W. Bird, age 38, is Gilead's Senior Vice President, Business Operations. Dr. Bird joined Gilead in September 1988 and worked as Director of Scientific Programs and Research Scientist until March 1990. After completing his medical degree, he returned to Gilead in December 1991 as Director of Corporate Development, became Vice President of Corporate Development in March 1995 and was appointed Senior Vice President, Business Operations in January 1998, at which time he became an executive officer. Dr. Bird received his M.D. and Ph.D. degrees at Stanford University Medical School.

Norbert W. Bischofberger, age 43, is Gilead's Senior Vice President, Research. Dr. Bischofberger joined Gilead in 1990 as Director of Organic Chemistry, became Vice President of Organic Chemistry in March 1993 and was named Vice President of Research in August 1995. Dr. Bischofberger was appointed Senior Vice President, Research in January 1998, at which time he became an executive officer. Prior to joining Gilead, Dr. Bischofberger worked in research at Genentech, Inc. from 1986 to 1990, most recently as Manager of DNA Synthesis. He received his B.S. in chemistry at the University of Innsbruck in Austria, and his Ph.D. in Organic Chemistry at the Eidgennossische Technische Hochschule (ETH) in Zurich, Switzerland.

Howard S. Jaffe, age 41, is Gilead's Senior Vice President, Drug Development. Dr. Jaffe joined Gilead in December 1991 as Vice President, Clinical Affairs, became Vice President and Chief Medical Officer in March 1995 and became Senior Vice President, Drug Development in August 1996. Dr. Jaffe is an assistant clinical professor and attending physician at the University of California, San Francisco. From 1986 until joining Gilead, he was employed by Genentech, Inc., most recently as Director of Clinical Research and Cytokine Project Team Leader. Dr. Jaffe received his M.D. from the Yale University School of Medicine and performed his residency and fellowship training at the University of California, San Francisco.

Mark L. Perry, age 43, is Gilead's Senior Vice President, Chief Financial Officer and General Counsel. Mr. Perry joined Gilead in July 1994 as its Vice President and General Counsel and became Chief Financial Officer in May 1996. Mr. Perry was appointed Senior Vice President, Chief Financial Officer and General Counsel in January 1998. He has also served as Corporate Secretary since May 1994. From 1981 to 1994, Mr. Perry was with Cooley Godward LLP in San Francisco and Palo Alto, California. Cooley Godward serves as Gilead's primary outside counsel. Mr. Perry was an associate with Cooley Godward from 1981 to 1987, and a partner from 1987 to 1994. Mr. Perry received his J.D. from the University of California, Davis and is a member of the California bar.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires Gilead's directors and executive officers, and persons who own more than ten percent of a registered class of Gilead's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of Gilead. Executive officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish Gilead with copies of all Section 16(a) forms they file.

To Gilead's knowledge, based solely on a review of the copies of such reports furnished to Gilead and written representations that no other reports were required, during 1998, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than ten percent beneficial owners were met.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF DIRECTORS

Each non-employee director of Gilead receives a fee of $1,000 for each meeting attended. In the year ended December 31, 1998, the total compensation paid to current non-employee directors was $19,000. The members of the Gilead board of directors are also eligible for reimbursement for their expenses incurred in connection with attendance at Gilead board of directors meetings in accordance with Gilead's policy.

Each non-employee director of Gilead also receives stock option grants under the Directors' Option Plan. The Directors' Option Plan provides for non-discretionary grants of nonstatutory stock options to non-employee directors of Gilead, on an automatic basis pursuant to a pre-approved schedule. Options granted under the Directors' Option Plan are at prices not less than fair market value on the date of grant, become exercisable over a period of five years in equal quarterly installments at the rate of 5% per quarter and expire after ten years. Such vesting is conditioned upon continuous service as a non-employee director of or consultant to Gilead. The exercise price of options granted must be paid in cash or shares of common stock of Gilead at the time the option is exercised.

Each non-employee director was granted as of January 2, 1996, or will be granted on the date he or she is first elected to be a non-employee director, an option to purchase 25,000 shares of Gilead common stock, the initial grant. Thereafter, on each anniversary date of a non-employee director's initial grant, such non-employee director shall automatically be granted an option to purchase 5,000 shares of Gilead common stock, the annual grant. A non-employee director who is also the Chairperson of the Gilead board of directors shall be granted an option to purchase an additional 20,000 shares of Gilead common stock at the time of his or her initial grant or later election as Chairperson, and an additional 4,000 shares of Gilead common stock at the time of his or her annual grant. Each non-employee director who also serves on a standing committee of the Gilead board of directors shall automatically be granted an option to purchase an additional 1,000 shares of Gilead common stock at the time of his or her initial grant, and an additional 1,000 shares of Gilead common stock at the time of his or her annual grant, for each such committee. Each non-employee director who serves on a standing committee and who is also the Chairperson of that committee shall automatically be granted an option to purchase an additional 2,000 shares of Gilead common stock at the time of his or her annual grant. No other options may be granted under the Directors' Option Plan.

During 1998, Gilead granted options covering 66,000 shares (net of cancellations) to its current non-employee directors, at exercise prices ranging from $25.00 to $38.25 per share. Each option granted had an exercise price equal to fair market value on the date of grant.

As of February 26, 1999, options to purchase a total of 305,000 shares of Gilead common stock were outstanding under the Directors' Option Plan.

COMPENSATION OF EXECUTIVE OFFICERS

SUMMARY OF COMPENSATION

The following table shows, for the years ended December 31, 1998, 1997, and 1996, certain compensation awarded or paid to, or earned by, Gilead's Chief Executive Officer and its four other most highly compensated executive officers at December 31, 1998 (the "named executive officers"):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDED DECEMBER 31,	ANNUAL COMPENSATION		LONG TERM COMPENSATION
		SALARY ($)(1)	BONUS ($)	SECURITIES UNDERLYING OPTIONS (#)(2)
John C. Martin.....	1998	$ 354,375	$ 150,000	65,000
President and Chief Executive	1997	$ 326,667	$ 150,000	75,000
Officer	1996	$ 298,333	$ 110,000	75,000
Jeffrey W. Bird.....	1998	$ 222,750	$ 100,000	65,000
Senior Vice President,	1997	$ 187,917	$ 100,000	40,000
Business Operations	1996	$ 150,417	$ 30,000	20,000
Norbert W. Bischofberger.....	1998	$ 222,752	$ 115,000	55,000
Senior Vice President,	1997	$ 199,583	$ 75,000	40,000
Research	1996	$ 179,167	$ 50,000	30,000
Howard S. Jaffe.....	1998	$ 278,461	$ 100,000	35,000
Senior Vice President,	1997	$ 269,167	$ 100,000	40,000
Drug Development	1996	$ 250,417	$ 100,000	65,000
Mark L. Perry.....	1998	$ 253,125	$ 100,000	35,000
Senior Vice President,	1997	$ 244,458	$ 75,000	40,000
Chief Financial Officer and	1996	$ 238,000	$ 60,000	20,000
General Counsel				

(1) Includes amounts earned but deferred at the election of the named executive officer pursuant to Gilead's 401(k) employee savings and retirement plan. To date, Gilead has not made any matching contributions under such plan.

(2) Gilead has not granted any stock appreciation rights, has not made any long-term incentive plan awards and did not make any restricted stock grants to the named executive officers during the periods covered.

STOCK OPTION GRANTS AND EXERCISES

As of February 26, 1999, options to purchase a total of 3,921,698 shares of common stock had been granted and remained outstanding under the 1991 Stock Option Plan, and options to purchase 842,530 shares of common stock remained available for grant thereunder. In addition, as of such date, options to purchase a total of 190,351 shares of common stock were outstanding under Gilead's 1987 Incentive Stock Option Plan and 1987 Supplemental Stock Option Plan and pursuant to certain option grants made outside of Gilead's option plans.

Gilead grants both incentive stock options and nonstatutory stock options to its executive officers under the 1991 Stock Option Plan. The following tables show, for the year ended December 31, 1998, the

last fiscal year, certain information regarding options granted to, exercised by, and held at year end by the named executive officers:

OPTION GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)(1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(2)	EXERCISE OR BASE PRICE ($/SH.)	EXPIRATION DATE	5% ($)	10% ($)
John C. Martin.....	65,000	6.12%	$ 22.875	07/22/08	$ 935,096	$ 2,369,633
Jeffrey W. Bird.....	30,000	2.82%	$ 38.000	01/21/08	$ 716,946	$ 1,816,818
	35,000	3.29%	$ 22.875	07/22/08	$ 503,513	$ 1,275,956
Norbert W. Bischofberger.....	20,000	1.88%	$ 38.000	01/21/08	$ 477,964	$ 1,211,212
	35,000	3.29%	$ 22.875	07/22/08	$ 503,513	$ 1,275,956
Howard S. Jaffe.....	35,000	3.29%	$ 22.875	07/22/08	$ 503,513	$ 1,275,956
Mark L. Perry.....	35,000	3.29%	$ 22.875	07/22/08	$ 503,513	$ 1,275,956

(1) The terms of such options, which include both incentive and nonstatutory stock options, are consistent with those of options granted to other employees under Gilead's 1991 Stock Option Plan. The options vest at the rate of 20% after one year and 5% per quarter thereafter during the optionee's employment. Subject to certain exceptions, the maximum term of options granted under the 1991 Stock Option Plan is ten years.

(2) Based on options to purchase 1,062,400 shares of Gilead common stock granted to employees, including executive officers, for the year ended December 31, 1998.

(3) The potential realizable value is based on the term of the option at the date of the grant (10 years). It is calculated by assuming that the stock price on the date of grant appreciates at the indicated annual rate, compounded annually for the entire term, and that the option is exercised and sold on the last day of the option term for the appreciated stock price. Actual gains, if any, are dependent on the actual future performance of Gilead common stock and the timing of exercise and sale transactions by the holder. There can be no assurance that the amounts reflected in this table, or that any gains, will be achieved.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/31/98 (#)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/98 ($)
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)(1)	EXERCISABLE/UNEXERCISABLE(2)	EXERCISABLE/UNEXERCISABLE(3)
John C. Martin.....	25,165	$ 540,196	288,325/208,000	$ 7,509,989/$3,378,875
Jeffery W. Bird.....	15,832	$ 587,141	59,097/120,600	$ 1,631,730/$1,815,612
Norbert W. Bischofberger.....	2,000	$ 44,500	91,599/112,600	$ 2,374,795/$1,776,613
Howard S. Jaffe.....	42,735	$ 886,837	76,065/132,200	$ 1,745,509/$2,715,038
Mark L. Perry.....	15,000	$ 397,500	74,000/121,000	$ 2,115,875/$1,991,937

(1) Represents the fair market value of Gilead common stock on the date of exercise (based on the closing sales price reported on the Nasdaq Stock Market or the actual sales price if the shares were sold by the optionee) less the exercise price, and does not necessarily indicate that the shares were sold by the optionee.

(2) Includes both in-the-money and out-of-the-money options.

(3) Fair market value of Gilead common stock at December 31, 1998 ($41.0625, based on the closing sales price reported on the Nasdaq Stock Market), less the exercise price.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of Gilead common stock as of February 26, 1999 by: (1) each current director and nominee for director; (2) each named executive officer (as defined above in Item 11); (3) all executive officers and directors of Gilead as a group; and (4) all those known by Gilead to be beneficial owners of more than five percent of Gilead common stock and series B preferred stock on a combined basis.

	BENEFICIAL OWNERSHIP(1)	
BENEFICIAL OWNER	NUMBER OF SHARES	PERCENT OF TOTAL
Wellington Management Company, LLP(2) 75 State Street Boston, MA 02109	4,287,860	13.4%
T. Rowe Price Associates(3) 100 East Pratt Street Baltimore, MD 21202	3,164,300	9.9%
Capital Research and Management Company(4) 333 South Hope Street Los Angeles, CA 90025	2,895,000	9.0%
Capital Guardian Trust Company and Capital International S.A.(5) 11100 Santa Monica Boulevard, Suite 1500 Los Angeles, CA 90025	1,895,000	5.9%
John C. Martin(6)	349,045	1.1%
Donald H. Rumsfeld(7)	166,232	*
Norbert W. Bischofberger(8)	112,153	*
Howard S. Jaffe(9)	96,213	*
Mark L. Perry(10)	94,548	*
Jeffrey W. Bird(11)	79,043	*
James M. Denny, Sr.(12)	53,524	*
Etienne F. Davignon(13)	53,330	*
Gordon E. Moore(14)	47,531	*
George P. Shultz(15)	31,400	*
Paul Berg(16)	5,200	*
All executive officers and directors as a group (11 persons)(17)	1,088,219	3.4%

* Less than one percent

(1) This table is based upon information supplied by Gilead's officers, directors and principal stockholders and Schedules 13D and 13G filed with the Securities and Exchange Commission. Unless otherwise indicated in the footnotes to this table, and subject to community property laws where applicable, each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on

30,884,298 shares of Gilead common stock and 1,133,786 shares of Gilead series B preferred stock outstanding on February 26, 1999, for a total of 32,018,084 outstanding shares, adjusted as required by rules promulgated by the SEC.

(2) Based on a Schedule 13G filed with the Commission on January 24, 1999. The Wellington Management Company, LLP is a registered investment adviser. The Wellington Management Company in its capacity as investment adviser is considered a "beneficial owner" in the aggregate of 4,287,860 shares of Gilead common stock. Such shares are owned by numerous investment advisory clients of The Wellington Management Company, none of which is known to have beneficial ownership of more than 5% of that class of securities of Gilead. As of December 31, 1998 The Wellington Management Company had shared voting power with respect to 1,770,280 shares and shared dispositive power with respect to 4,228,860 shares.

(3) Based on a Schedule 13G filed with the Commission on February 12, 1999. T. Rowe Price Associates, Inc., in its capacity as a registered investment adviser is considered a "beneficial owner" in the aggregate of 3,164,300 shares of Gilead common stock. Such shares are owned by various individual and institutional investors for which T. Rowe Price Associates, Inc. serves as investment adviser with power to direct investments and/or sole power to vote the shares. For purposes of the reporting requirements of the Securities and Exchange Act of 1934, T. Rowe Price Associates is deemed to be a beneficial owner of such shares; however, T. Rowe Price Associates expressly disclaims such beneficial ownership.

(4) Based on a Schedule 13G filed with the Commission on February 8, 1999. The Capital Research and Management Company is a registered investment adviser that manages The American Funds Group of mutual funds. The Capital Research and Management Company in its capacity as investment adviser is considered a "beneficial owner" in the aggregate of 2,895,000 shares of Gilead common stock. Such shares are owned by accounts under the discretionary investment management of The Capital Research and Management Company. As of December 31, 1998, The Capital Research and Management Company had sole dispositive power with respect to 2,895,000 shares.

(5) Based on a Schedule 13G filed with the Commission on February 8, 1999. The Capital Guardian Trust Company is a California state-chartered trust company that acts as investment manager to large institutional accounts (primarily pension funds). Capital International S.A. provides investment management services to institutional accounts. The Capital Guardian Trust Company and Capital International S.A., in their capacity as investment managers, are considered "beneficial owners" in the aggregate of 1,865,000 shares of Gilead common stock. Such shares are owned by accounts under the discretionary investment management of The Capital Guardian Trust Company and Capital International S.A. As of December 31, 1998, The Capital Guardian Trust Company had sole voting power with respect to 1,662,000 shares and sole dispositive power with respect to 1,865,000 shares and Capital International S.A. had sole voting and dispositive power with respect to 30,000 shares.

(6) Includes 318,325 shares subject to stock options exercisable within 60 days.

(7) Includes 39,889 shares held in a grantor annuity trust for which Mr. Rumsfeld is the donor and trustee and 37,000 shares subject to stock options exercisable within 60 days.

(8) Includes 12,534 shares held in trust for which Dr. Bischofberger and his wife are trustees and 96,599 shares subject to stock options exercisable within 60 days.

(9) Includes 13,548 shares held in trust for which Dr. Jaffe and his wife are trustees and 82,665 shares subject to stock options exercisable within 60 days.

(10) Includes 500 shares held in account for Mr. Perry's minor child for which Mr. Perry is the custodian and 86,000 shares subject to stock options exercisable within 60 days.

(11) Includes 72,597 shares subject to stock options exercisable within 60 days.

(12) Includes 19,998 shares held by a partnership in which Mr. Denny is a managing partner, as to which Mr. Denny disclaims beneficial ownership. Also includes 7,426 shares held in partnership with Mr. Denny's wife and 26,100 shares subject to stock options exercisable within 60 days.

(13) Includes 53,330 shares subject to stock options exercisable within 60 days.

(14) Includes 30,866 shares subject to stock options exercisable within 60 days.

(15) Includes 21,400 shares subject to stock options exercisable within 60 days.

(16) Includes 5,200 shares subject to stock options exercisable within 60 days.

(17) Includes 830,082 shares subject to stock options exercisable within 60 days. See notes (6) through (16) above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In November 1990, Gilead entered into a Relocation Loan Agreement with John C. Martin, currently Gilead's President and Chief Executive Officer. The principal amount of the loan is $100,000 with a term of ten years. The loan is non-interest bearing and 100% of the principal amount will be forgiven on a pro rata basis over years six through ten as long as Dr. Martin is still employed by Gilead. In the event Dr. Martin ceases to be employed by Gilead, the loan becomes interest-bearing and due within ninety days. The loan is secured by a deed of trust on Dr. Martin's residence. As of December 31, 1998, $40,000 was outstanding.

In October 1994, Gilead entered into a Loan Agreement with Mark L. Perry, currently Gilead's Senior Vice President, Chief Financial Officer and General Counsel. The principal amount of the loan is $100,000 with a term of ten years. The loan is non-interest bearing and 50% of the principal amount will be forgiven on a pro rata basis over years six through ten as long as Mr. Perry is still employed by Gilead. In the event Mr. Perry ceases to be employed by Gilead, the loan becomes interest-bearing and due within sixty days. The loan is secured by a deed of trust on Mr. Perry's residence. As of December 31, 1998, the entire loan amount was outstanding.

During 1998, Gilead paid an aggregate of $2,551,134 to Pharma Research Corporation, a contract research organization. James M. Denny, a member of Gilead's board of directors, is a managing director of William Blair Capital, LLC, which manages William Blair Capital Fund V, which owns a controlling interest (45% of the voting stock) in Pharma Research Corporation. Mr. Denny is not involved in the supervision of the operations of Pharma Research Corporation. Pharma Research Corporation provided services to Gilead prior to William Blair Capital's investment.

Gilead has entered into indemnity agreements with all of its officers (including the named executive officers) and directors which provide, among other things, that Gilead will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he may be required to pay in actions or proceedings which he is or may be made a party by reason of his position as a director, officer or other agent of Gilead, and otherwise to the full extent permitted under Delaware law and Gilead's by-laws.

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) 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.
(13)	10.7	Registrant's Employee Stock Purchase Plan, as amended January 22, 1998.
(13)	10.8	Registrant's 1991 Stock Option Plan, as amended January 22, 1998.
(2)	10.15	Form of Non-Qualified Stock Option issued to certain executive officers and directors in 1991.
(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.
	10.33	Registrant's 1995 Non-Employee Directors' Stock Option Plan, as amended January 26, 1999, and related form of stock option grant.

EXHIBIT FOOTNOTE		EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(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)		10.45	Amended and Restated Copromotion Agreement between Registrant and Roche Laboratories, Inc. dated September 12, 1997 with certain confidential information deleted.
(13)		10.46	Amendment No. 1 to Collaborative Research Agreement, dated as of December 22, 1997, between Registrant and Glaxo Wellcome Inc.
	*	10.47	Patent Rights Purchase Agreement between Registrant and Isis Pharmaceuticals, Inc. dated December 18, 1998.
		10.48	Amendment No. 3 to Vintage Park Research and Development Lease by and between Registrant and Spieker Properties, L.P. dated August 14, 1998 for premises located at 355 Lakeside Drive, Foster City, California.
(14)		10.49	Agreement and Plan of Merger dated February 28, 1999 by and among Registrant, Gazelle Acquisition Sub, Inc. and NeXstar Pharmaceuticals, Inc.
(14)		10.50	Share Option Agreement dated February 28, 1999 by and between Registrant and NeXstar Pharmaceuticals, Inc.
(14)		10.51	Form of Voting Agreement in connection with merger with NeXstar Pharmaceuticals, Inc.
		23.1	Consent of Ernst & Young LLP, Independent Auditors. Reference is made to page 66.
		24.1	Power of Attorney. Reference is made to page 64.
		27.1	Financial Data Schedule.

* Registrant is applying for confidential treatment with respect to portions of this Exhibit.

(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 Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 and incorporated herein by reference.

(13) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.

(14) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 9, 1999 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, 1998. On March 9, 1999, the Registrant filed a Current Report on Form 8-K regarding the proposed merger with NeXstar Pharmaceuticals, Inc.

GILEAD SCIENCES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
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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, 1998 and 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Palo Alto, California
January 21, 1999

GILEAD SCIENCES, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	DECEMBER 31,	
	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,475	$ 31,990
Short-term investments	247,464	290,308
Other current assets	8,371	17,960
Total current assets	288,310	340,258
Property and equipment, net	10,182	10,313
Other assets	4,368	1,498
	$ 302,860	$ 352,069
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,422	$ 3,303
Accrued clinical and preclinical expenses	11,925	12,989
Other accrued liabilities	12,358	5,705
Deferred revenue	3,275	9,541
Current portion of long-term debt and equipment financing obligations	770	1,853
Total current liabilities	31,750	33,391
Non-current portion of long-term debt	563	1,331
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, 1998 and 1997 (liquidation preference of $40,000)	1	1
Common stock, par value $.001 per share; 60,000,000 shares authorized; 30,710,435 shares and 30,041,584 shares issued and outstanding at December 31, 1998 and 1997, respectively	31	30
Additional paid-in capital	489,183	479,737
Accumulated other comprehensive income	43	344
Deferred compensation	(157)	(286)
Accumulated deficit	(218,554)	(162,479)
Total stockholders' equity	270,547	317,347
	$ 302,860	$ 352,069

See accompanying notes

GILEAD SCIENCES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Revenues:			
Product sales, net	$ 6,074	$ 11,735	$ 8,477
Contract revenue	24,198	27,413	24,910
Royalty revenue, net	2,298	889	33
Total revenues	32,570	40,037	33,420
Costs and expenses:			
Cost of product sales	594	1,167	910
Research and development	75,298	59,162	41,881
Selling, general and administrative	31,003	25,472	26,692
Total costs and expenses	106,895	85,801	69,483
Loss from operations	(74,325)	(45,764)	(36,063)
Interest income	18,442	18,260	15,042
Interest expense	(192)	(489)	(711)
Net loss	$ (56,075)	$ (27,993)	$ (21,732)
Basic and diluted loss per common share	$ (1.85)	$ (0.95)	$ (0.78)
Common shares used to calculate basic and diluted loss per common share	30,363	29,326	27,786

See accompanying notes

GILEAD SCIENCES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1995	$ --	$ 24	$ 265,460	$ 167	$ (1,398)	$ (112,754)	$ 151,499
Net Loss	--	--	--	--	--	(21,732)	(21,732)
Unrealized loss on available-for-sale short-term investments, net	--	--	--	(78)	--	--	(78)
Comprehensive loss	--	--	--	--	--	--	(21,810)
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
Balance at December 31, 1996	$ --	$ 29	$ 426,577	$ 89	$ (549)	$ (134,486)	$ 291,660
Net Loss	--	--	--	--	--	(27,993)	(27,993)
Unrealized gain on available-for-sale short-term investments, net	--	--	--	255	--	--	255
Comprehensive loss	--	--	--	--	--	--	(27,738)
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
Balance at December 31, 1997	$ 1	$ 30	$ 479,737	$ 344	$ (286)	$ (162,479)	$ 317,347
Net Loss	--	--	--	--	--	(56,075)	(56,075)
Unrealized loss on available-for-sale short-term investments, net	--	--	--	(301)	--	--	(301)
Comprehensive loss	--	--	--	--	--	--	(56,376)
Issuance of 568,969 shares of common stock upon the exercise of stock options	--	1	6,859	--	--	--	6,860
Issuance of 99,882 shares of common stock pursuant to the employee stock purchase plan	--	--	2,153	--	--	--	2,153
Amortization of deferred compensation	--	--	--	--	129	--	129
Amounts recognized under compensatory stock transactions	--	--	434	--	--	--	434
Balance at December 31, 1998	$ 1	$ 31	$ 489,183	$ 43	$ (157)	$ (218,554)	$ 270,547

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
Balance at December 31, 1996	$ 291,660
Net Loss	(27,993)
Unrealized gain on available-for-sale short-term investments, net	255
Comprehensive loss	(27,738)
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
Balance at December 31, 1997	$ 317,347
Net Loss	(56,075)
Unrealized loss on available-for-sale short-term investments, net	(301)
Comprehensive loss	(56,376)
Issuance of 568,969 shares of common stock upon the exercise of stock options	6,860
Issuance of 99,882 shares of common stock pursuant to the employee stock purchase plan	2,153
Amortization of deferred compensation	129
Amounts recognized under compensatory stock transactions	434
Balance at December 31, 1998	$ 270,547

See accompanying notes

GILEAD SCIENCES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (56,075)	$ (27,993)	$ (21,732)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,757	2,983	3,773
Stock plan compensation expense	434	--	706
Changes in assets and liabilities:			
Other current assets	9,589	(13,670)	(2,732)
Other assets	(2,870)	(250)	(175)
Accounts payable	119	802	89
Accrued clinical and preclinical expenses	(1,064)	7,982	1,084
Other accrued liabilities	6,653	1,272	2,204
Deferred revenue	(6,266)	9,014	319
Total adjustments	9,352	8,133	5,268
Net cash used in operating activities	(46,723)	(19,860)	(16,464)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of short-term investments	(486,067)	(410,997)	(437,627)
Sales of short-term investments	390,251	196,515	248,552
Maturities of short-term investments	138,359	88,408	153,257
Capital expenditures	(2,497)	(3,861)	(3,727)
Net cash provided by (used in) investing activities	40,046	(129,935)	(39,545)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of financing obligations and long-term debt	(1,851)	(3,361)	(2,843)
Proceeds from issuance of long-term debt	--	--	3,000
Proceeds from issuance of preferred stock	--	40,000	--
Proceeds from issuances of common stock	9,013	13,162	160,416
Net cash provided by financing activities	7,162	49,801	160,573
Net increase (decrease) in cash and cash equivalents	485	(99,994)	104,564
Cash and cash equivalents at beginning of year	31,990	131,984	27,420
Cash and cash equivalents at end of year	$ 32,475	$ 31,990	$ 131,984
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	$ 202	$ 509	$ 731

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. All of the Company's operations are located in the United States. 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.

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.

BUSINESS SEGMENTS

In 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which addresses how public business enterprises must report information about operating segments. For a number of years, the Company has been primarily engaged in the discovery, development and marketing of a new class of human therapeutics based on nucleotides. VISTIDE-Registered Trademark-
(cidofovir injection), a drug for the treatment of cytomegalovirus ("CMV")
retinitis in patients with AIDS, received marketing clearance from the FDA in June 1996 and is the Company's first commercially available product. Gilead sells this product in the United States through major drug wholesalers and it is currently the Company's only source of product sales revenue. At the present time, the Company is organized and managed along functional lines.

Gilead also derives revenue from contracts, including reimbursement of research and development ("R&D") costs and the sale of patent rights, and from royalties. During 1998, Gilead recognized royalty revenue from sales of VISTIDE outside the United States by Pharmacia & Upjohn S.A. ("P&U"), and from the co-promotion with Roche Laboratories Inc. ("Roche Labs") of Roferon-A-Registered Trademark- (Interferon alfa-2a, recombinant) for the treatment of chronic hepatitis C infection in the United States. The amounts, sources and nature of the Company's contract and royalty revenues are described in more detail in Note 3.

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 revenue recognized under the Company's collaborative R&D agreements, license and supply agreements and patent rights purchase agreement is recorded as earned based upon the performance requirements of the contract. Payments received in advance under these agreements are recorded as deferred revenue until earned. Royalty revenue is 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 SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, the Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, ACCOUNTING FOR STOCK

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 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 7 for pro forma disclosures of stock-based compensation pursuant to SFAS No. 123.

BASIC AND DILUTED LOSS PER COMMON SHARE

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.

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.

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 are classified as available-for-sale and carried at estimated fair values in cash equivalents and short-term investments. At December 31, 1998, cash and cash equivalents includes $30.5 million of securities designated as available-for-sale ($28.5 million at December 31, 1997). Fair values of available-for-sale securities are based on prices obtained from commercial pricing services. 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.

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 maturity, 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.

ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

Trade receivables, net of allowances for returns, discounts, rebates and bad debts, are reported on the consolidated balance sheet in other current assets. At December 31, 1997, other current assets includes reimbursable R&D expenses and a milestone payment totaling approximately $12.4 million due from F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche, Inc. (collectively, "Roche"). For additional information, refer to Note 3.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) PROPERTY AND EQUIPMENT

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

	DECEMBER 31,	
	1998	1997
Equipment subject to financing obligations	$ 34	$ 2,732
Laboratory equipment	7,037	5,571
Office furniture and equipment	2,863	2,019
Computer equipment	3,685	2,062
Capitalized software	1,422	956
Leasehold improvements	12,797	12,583
	27,838	25,923
Less accumulated depreciation and amortization	(17,656)	(15,610)
	$ 10,182	$ 10,313

Property and equipment are depreciated on a straight-line basis over their estimated useful lives, as follows:

DESCRIPTION	ESTIMATED USEFUL LIFE (IN YEARS)
Laboratory equipment	4-8
Office furniture and equipment	6
Computer equipment	2-3
Capitalized software	3

Leasehold improvements and equipment subject to financing obligations are amortized on a straight-line basis over the shorter of the estimated useful life of the item or the term of the related lease or borrowing.

OTHER ACCRUED LIABILITIES

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

	DECEMBER 31,	
	1998	1997
Accrued compensation	$ 2,251	$ 1,833
Accrued Medicaid rebates	1,705	1,881
Estimated liability to Roche (Note 3)	5,000	--
Other	3,402	1,991
	$ 12,358	$ 5,705

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) FOREIGN CURRENCY INSTRUMENTS

The Company periodically 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. 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.

Gains and losses on these contracts are deferred and reported as a component of the related transaction in the period in which it occurs. At both December 31, 1998 and 1997, the Company's outstanding forward foreign exchange contracts and their fair values were immaterial.

NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which establishes accounting and reporting standards for derivative instruments, including forward foreign exchange contracts, and for hedging activities. SFAS No. 133 is effective for years beginning after June 15, 1999. Under Gilead's existing derivatives activity levels and hedging strategies, the adoption of SFAS No. 133 would not have a significant impact on the Company's present financial accounting and reporting practices.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the 1998 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, 1998				
U.S. treasury securities and obligations of U.S. government agencies	$ 78,703	$ 62	$ (123)	$ 78,642
Certificates of deposit	38,058	65	(11)	38,112
Corporate debt securities	34,676	152	(18)	34,810
Asset-backed securities	89,565	101	(185)	89,481
Other debt securities	36,984	--	--	36,984
Total	$ 277,986	$ 380	$ (337)	$ 278,029
DECEMBER 31, 1997				
U.S. treasury securities and obligations of U.S. government agencies	$ 35,615	$ 55	$ (6)	$ 35,664
Certificates of deposit	65,485	20	(2)	65,503
Corporate debt securities	78,054	192	(1)	78,245
Asset-backed securities	118,362	121	(35)	118,448
Other debt securities	20,965	--	--	20,965
Total	$ 318,481	$ 388	$ (44)	$ 318,825

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Proceeds from sales	$ 390,251	$ 196,515	$ 248,552
Gross realized gains on sales	$ 1,127	$ 225	$ 451
Gross realized losses on sales	$ 654	$ 142	$ 65

At both December 31, 1998 and 1997, 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. CONTRACT REVENUE AND ROYALTIES

PHARMACIA & UPJOHN

In August 1996, the Company and P&U entered into a License and Supply Agreement ("P&U Agreement") to market VISTIDE in all countries outside the United States. Under the terms of the P&U 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 the European Union by the European Commission, which

3. CONTRACT REVENUE AND ROYALTIES (CONTINUED) 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 of 1997 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 7.

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 revenue until such third-party sales occur. At December 31, 1998, the Company has recorded on its balance sheet approximately $3.3 million of P&U deferred revenue ($2.1 million at December 31, 1997).

HOFFMANN-LA ROCHE

In September 1996, Gilead and 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 contract revenue. Upon achieving certain developmental milestones, 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. 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 R&D costs under this program by funding such costs quarterly and generally in advance, based on an annual budget. Reimbursements are included in contract revenue as the Company incurs the related R&D costs. Amounts incurred by the Company in excess of amounts funded may also be reimbursed, subject to Roche's approval. In this event, revenue is not recognized until such approval has been obtained. Conversely, if amounts funded by Roche exceed the Company's related R&D costs, the Company may be required to repay such excess funding to Roche.

For the years ended December 31, 1998, 1997 and 1996, the Company recorded approximately $16.4 million, $8.2 million and $1.1 million, respectively, of R&D reimbursement revenue related to the Roche Agreement, which is reported as contract revenue in the accompanying consolidated statements of operations. The $16.4 million recorded as revenue during 1998 includes $5.2 million attributable to R&D expenses incurred in the fourth quarter of 1997, which were subject to Roche's approval as of December 31, 1997. Such expenses were approved for reimbursement in 1998. Except for this $5.2 million, R&D costs related to the Roche Agreement approximate the reimbursement revenue in each year presented and are included in R&D expenses.

At December 31, 1998, the Company has recorded an accrued liability of $5.0 million, which represents 1998 R&D funding from Roche in excess of actual 1998 R&D costs. The Company and Roche are in the process of finalizing the 1999 budget and, as a result, the Company has not yet received funding

3. CONTRACT REVENUE AND ROYALTIES (CONTINUED) for estimated 1999 R&D spending under the Roche Agreement. At December 31, 1997, deferred revenue includes $7.2 million, representing Roche's advance reimbursement of budgeted R&D costs for the first quarter of 1998.

In September 1996, Gilead and Roche Labs entered into an agreement to co-promote Roche's Roferon-A for the treatment of chronic hepatitis C infection in the United States. Roche paid Gilead a $0.2 million one-time fee in 1996 in connection with the signing of this agreement. Beginning in 1997, Roche was required to pay Gilead a royalty based on the net product sales. The Company recognizes these royalties when received. During 1998, Gilead received $0.6 million, which is reported as royalty revenue. This co-promotion agreement concluded at the end of 1998. While the Company expects to receive transition payments under the agreement in 1999, such amounts are not expected to be significant.

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 (approximately 2.8%) of the Company's outstanding common stock at December 31, 1998. Under the terms of the Glaxo agreement, as amended over time, the Company received $1.8 million in 1998, and $3.0 million in both 1997 and 1996, to fund research, which is reported as contract revenue in the accompanying consolidated statements of operations. The R&D costs reimbursed by Glaxo approximate the related revenue and are included in R&D expense. This agreement and the related funding were terminated in June 1998.

BAUSCH & LOMB

In August 1994, the Company entered into a license and supply agreement with Bausch & Lomb Incorporated (formerly Storz Instrument Company, a subsidiary of American Home Products Corporation), to develop and market an eyedrop formulation of cidofovir for the potential treatment of topical ophthalmic viruses. The Company received a $0.3 million annual fee under this agreement in each of the years ended December 31, 1997 and 1996, which is reported as contract revenue. The Company also may be entitled to receive milestone payments and future royalties on product sales under the agreement.

ISIS PHARMACEUTICALS

In December 1998, Gilead and Isis Pharmaceuticals, Inc. ("Isis") entered into an agreement under which Gilead sold Isis its antisense patent estate, including patents and patent applications covering antisense chemistry and antisense drug delivery systems. Under the terms of the agreement, Isis is required to pay Gilead a total of $6.0 million in four installments. The first $2.0 million was paid in December 1998, and the remaining $4.0 million is payable in three additional payments (one payment of $1.0 million in both 1999 and 2000, and one payment of $2.0 million in 2001). The total sale price of $6.0 million is included in contract revenue in the Company's consolidated statement of operations for the year ended December 31, 1998.

4. LONG-TERM DEBT

In October 1996, the Company entered into an unsecured $3.0 million term loan to finance its office and R&D 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, and resets periodically thereafter based on applicable LIBOR rates. At December 31, 1998, the total debt outstanding is approximately $1.3 million, the current portion outstanding is $0.8 million and the book value of the debt approximates its fair value.

The terms of the debt require the Company to comply with certain financial and operating covenants. At December 31, 1998, the Company was in compliance with all such covenants.

5. COMMITMENTS

The Company leases its facilities pursuant to operating leases that have expiration dates in March 2006, with two five-year renewal options. Rent expense net of sublease income under these leases totaled approximately $2.2 million, $2.3 million and $2.1 million for the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998, 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:	
1999	$ 2,825
2000	2,992
2001	3,106
2002	3,224
2003	3,347
Thereafter	8,005
	$ 23,499

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, 1998, a total of $0.5 million was secured under this letter of credit arrangement.

6. COMPREHENSIVE INCOME

On January 1, 1998, the Company adopted SFAS No. 130, REPORTING COMPREHENSIVE INCOME, which establishes new requirements for reporting and displaying comprehensive income (loss) and its components. The adoption of SFAS No. 130 has no impact on the Company's net loss or total stockholders' equity. This new accounting standard requires net unrealized gains or losses on the Company's available-for-sale securities to be reported as accumulated other comprehensive income (loss). Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130.

The following reclassification adjustments are required to avoid double-counting net realized gains on sales of securities that were previously included in comprehensive income prior to the sales of the securities (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Net gains on sales of securities included in interest income	$ 473	$ 83	$ 386
Other comprehensive income:			
Net unrealized gain arising during the year	$ 172	$ 338	$ 308
Reclassification adjustment	(473)	(83)	(386)
Net unrealized gain (loss) reported in other comprehensive income	$ (301)	$ 255	$ (78)

7. 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 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. No dividends have been declared or paid on the Series B Convertible Preferred Stock.

EMPLOYEE STOCK PURCHASE PLAN

Under the Company's Employee Stock Purchase Plan ("ESPP"), 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 1,250,000 shares of common stock are reserved for issuance under the ESPP. As of December 31, 1998, 794,049 shares had been issued under the ESPP (694,167 shares as of December 31, 1997).

7. STOCKHOLDERS' EQUITY (CONTINUED)

Emerging Issues Task Force ("EITF") Issue No. 97-12, ACCOUNTING FOR INCREASED SHARE AUTHORIZATIONS IN AN IRS SECTION 423 EMPLOYEE STOCK PURCHASE PLAN UNDER APB OPINION NO. 25, 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. During 1998, the Company recognized compensation expense of $0.4 million related to an ESPP share authorization approved in 1998 in accordance with the provisions of EITF Issue No. 97-12. In future years, the Company will not be required to recognize additional compensation expense related to the 1998 share authorization.

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. In May 1998, the 1991 Plan was amended such that the exercise price of all stock options must be at least equal to the fair value of the Company's 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, 1998, 958,380 shares were available for grant of future options.

In November 1995, the Company adopted the 1995 Non-Employee Directors' Stock Option Plan ("Directors' Plan") for issuance of common stock to non-employee Directors pursuant to a predetermined formula. The exercise price of options granted under the Directors' Plan must be at least equal to the fair value of the Company's 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, 1998, 85,000 shares were available for grant of future options under the Directors' Plan.

7. STOCKHOLDERS' EQUITY (CONTINUED) The following table summarizes activity under all stock option plans for each of the three years in the period ended December 31, 1998. All option grants presented in the table had exercise prices not less than the fair value of the underlying stock on the grant date (shares in thousands):

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	4,117	$ 19.39	4,651	$ 14.96	4,144	$ 10.55
Granted	1,128	27.69	923	29.21	1,239	25.89
Forfeited	(241)	27.11	(266)	20.51	(231)	13.70
Exercised	(569)	12.06	(1,191)	9.42	(501)	6.15
Outstanding, end of year	4,435	$ 22.16	4,117	$ 19.39	4,651	$ 14.96
Exercisable, end of year	1,885	$ 16.66	1,673	$ 13.83	2,025	$ 10.23

In 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 years ended December 31, 1998, 1997 and 1996 totaled $0.1 million, $0.3 million and $0.8 million, respectively.

The following table summarizes information about exercise price ranges of outstanding and exercisable options at December 31, 1998 (options in thousands):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 0.24 - $16.50	1,245	4.47	$ 10.55	1,072	$ 10.57
$17.50 - $22.88	1,417	7.96	20.50	421	18.86
$23.00 - $32.00	1,114	8.27	27.65	279	28.70
$32.13 - $42.88	659	8.48	37.45	113	36.54
Total	4,435	7.14	$ 22.16	1,885	$ 16.66

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

7. STOCKHOLDERS' EQUITY (CONTINUED) 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,		
	1998	1997	1996
Pro forma net loss (in thousands)	$ (68,656)	$ (38,503)	$ (29,586)
Pro forma basic and diluted loss per share	$ (2.26)	$ (1.31)	$ (1.06)

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:

	1998	1997	1996
Expected life in years (from vesting date)--options	1.78	1.75	1.54
Expected life in years--ESPP	1.51	0.75	1.54
Interest rate--options	5.5%	6.2%	6.0%
Interest rate--ESPP	5.2%	5.6%	6.0%
Volatility	66%	66%	69%
Dividend yield	0%	0%	0%

The weighted average estimated fair value of each stock option granted for the years ended December 31, 1998, 1997 and 1996 was $15.90, $17.14 and $15.17, 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 Company's 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.

8. INCOME TAXES

As of December 31, 1998, the Company had federal net operating loss carryforwards of approximately $223.0 million. The Company also had federal R&D tax credit carryforwards of approximately $7.9 million. The net operating loss and credit carryforwards will expire at various dates beginning in 2001 through 2018, if not utilized.

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

	DECEMBER 31,	
	1998	1997
Deferred tax assets:		
Net operating loss carryforwards	$ 77,200	$ 57,100
R&D credits	10,700	6,800
Capitalized R&D for California	11,200	4,400
Other	4,500	2,300
Total deferred tax assets	103,600	70,600
Valuation allowance for deferred tax assets	(103,600)	(70,600)
Net deferred tax assets	$ --	$ --

The valuation allowance increased by $33.0 million and $15.3 million during the years ended December 31, 1998 and 1997, 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 $14.9 million of the valuation allowance at December 31, 1998 relates to the tax benefits of stock option deductions, which will be credited to additional paid-in capital when realized.

9. SUBSEQUENT EVENTS (UNAUDITED)

On January 26, 1999, the Board of Directors authorized an additional 200,000 shares of common stock as available for grant under the Directors' Plan. This increase is subject to stockholder approval at the Company's annual stockholders' meeting to be held in 1999.

On March 1, 1999, Gilead and NeXstar Pharmaceuticals, Inc. ("NeXstar") announced a definitive merger agreement providing for the acquisition by Gilead of all the outstanding common stock of NeXstar. The merger is structured as a tax-free, stock-for-stock transaction. The Company intends to account for this merger under the pooling-of-interests method. NeXstar, headquartered in Boulder, Colorado, is engaged in the discovery, development, manufacture and commercialization of products to treat serious and life-threatening illnesses. In addition to its Boulder headquarters, NeXstar maintains research, development and manufacturing facilities in San Dimas, California, and marketing subsidiaries worldwide. Under the terms of the merger agreement, NeXstar stockholders will receive between 0.3786 and 0.5000 of a share of Gilead common stock for each share of NeXstar common stock. The exact exchange ratio will be determined based on the trading range of Gilead common stock over a specified period prior to completion of the merger. The merger is subject to certain conditions, including approval of the stockholders of Gilead and NeXstar. The transaction is expected to be completed in mid-1999.

10. QUARTERLY RESULTS (UNAUDITED)

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

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
1998				
Total revenues	$ 13,560	$ 7,036	$ 3,038	$ 8,936
Total costs and expenses	25,902	26,887	24,715	29,393
Net loss	(7,384)	(14,844)	(17,559)	(16,290)
Basic and diluted loss per share	(0.25)	(0.49)	(0.58)	(0.53)
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 and diluted income (loss) per share	(0.27)	0.09	(0.35)	(0.42)

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 22, 1999

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 22, 1999
/s/ MARK L. PERRY Mark L. Perry	Senior Vice President, Chief Financial Officer and General Counsel (Principal Financial and Accounting Officer)	March 22, 1999
/s/ DONALD H. RUMSFELD Donald H. Rumsfeld	Chairman of the Board of Directors	March 22, 1999
/s/ PAUL BERG Paul Berg	Director	March 22, 1999

SIGNATURE	TITLE	DATE
/s/ ETIENNE F. DAVIGNON Etienne F. Davignon	Director	March 22, 1999
/s/ JAMES M. DENNY, SR. James M. Denny, Sr.	Director	March 22, 1999
/s/ GORDON E. MOORE Gordon E. Moore	Director	March 22, 1999
/s/ GEORGE P. SHULTZ George P. Shultz	Director	March 22, 1999

EXHIBIT INDEX

	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
	10.33	Registrant's 1995 Non-Employee Directors' Stock Option Plan, as amended January 26, 1999, and related form of stock option grant.
*	10.47	Patent Rights Purchase Agreement between Registrant and Isis Pharmaceuticals, Inc. dated December 18, 1998.
	10.48	Amendment No. 3 to Vintage Park Research and Development Lease by and between Registrant and Spieker Properties, L.P. dated August 14, 1998 for premises located at 355 Lakeside Drive, Foster City, California.
	23.1	Consent of Ernst & Young LLP, Independent Auditors. Reference is made to page 66.
	24.1	Power of Attorney. Reference is made to page 64.
	27.1	Financial Data Schedule.

* Registrant is applying for confidential treatment with respect to portions

of this Exhibit.

Exhibit 10.33

GILEAD SCIENCES, INC.

1995 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN

ADOPTED ON NOVEMBER 27, 1995

APPROVED BY STOCKHOLDERS

ON APRIL 25, 1996

AMENDED ON JANUARY 26, 1999

APPROVED BY STOCKHOLDERS
ON _____, 1999

TERMINATION DATE: NOVEMBER 26, 2005

1. PURPOSE.

(a) The purpose of the 1995 Non-Employee Directors' Stock Option Plan (the "Plan") is to provide a means by which each director of Gilead Sciences, Inc. (the "Company") who is not otherwise an employee of the Company or of any Affiliate of the Company (each such person being hereafter referred to as a "Non-Employee Director") will be given an opportunity to purchase stock of the Company.

(b) 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 from time to time (the "Code").

(c) The Company, by means of the Plan, seeks to retain the services of persons now serving as Non-Employee Directors of the Company, to secure and retain

the services of persons capable of serving in such capacity, and to provide incentives for such persons to exert maximum efforts for the success of the Company.

2. ADMINISTRATION.

(a) The Plan shall be administered by the Board of Directors of the Company (the "Board") unless and until the Board delegates administration to a committee, as provided in subparagraph 2(b).

(b) 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.

(a) Subject to the provisions of paragraph 10 relating to adjustments upon changes in stock, the stock that may be sold pursuant to options granted under the Plan shall not exceed in the aggregate Five Hundred Fifty Thousand (550,000) shares of the Company's common stock. If any option granted under the Plan shall for any reason expire or otherwise terminate without having been exercised in full, the stock not purchased under such option shall again become available for the Plan.

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

4. ELIGIBILITY.

Options shall be granted only to Non-Employee Directors of the Company.

5. NON-DISCRETIONARY GRANTS.

(a) On January 2, 1996, each person who is then a Non-Employee Director automatically shall be granted an option to purchase twenty-five thousand (25,000) shares of common stock of the Company on the terms and conditions set forth herein.

(b) Each person who is, after January 2, 1996, elected for the first time to be a Non-Employee Director automatically shall, upon the date of initial election to be a Non-Employee Director by the Board or stockholders of the Company, be granted an option to purchase twenty-five thousand (25,000) shares of common stock of the Company on the terms and conditions set forth herein.

(c) On the one-year anniversary date of each Non-Employee Director's initial grant under subparagraph 5(a) or 5(b) above, and on each one-year anniversary date thereafter, each person who is then a Non-Employee Director automatically shall be granted an option to purchase five thousand (5,000) shares of common stock of the Company on the terms and conditions set forth herein.

(d) In addition to the option grants described above, the Chairperson of the Board, if he or she is a Non-Employee Director, or a Non-Employee Director designated by the Board as a "lead director" in circumstances where there is no Chairperson or the Chairperson is an employee of the Company, automatically shall be granted options to purchase: (i) twenty thousand (20,000) shares of common stock of the Company, at the time of his or her initial grant under subparagraph 5(a) or 5(b) above or upon later election as Chairperson or designation as lead director; and (ii) four thousand (4,000) shares of common stock of the Company at the time of each annual grant under subparagraph 5(c) above, all such grants to be on the terms and conditions set forth herein.

(e) In addition to the option grants described above, each Non-Employee Director who serves on a standing committee of the Board automatically shall be

granted options to purchase: (i) one thousand (1,000) shares of common stock of the Company, at the time of his or her initial grant under subparagraph 5(a) or 5(b) above or upon later election to each such committee, plus an additional two thousand (2,000) shares of common stock of the Company at the same time for the Chairperson of each such committee; and (ii) one thousand (1,000) shares of common stock of the Company at the time of each annual grant under subparagraph 5(c) above, plus an additional two thousand (2,000) shares of common stock of the Company for the Chairperson of each such committee, at the time of each annual grant, all such grants to be on the terms and conditions set forth herein.

6. OPTION PROVISIONS.

Each option granted under the Plan shall be subject to the following terms and conditions:

(a) The term of each option commences on the date it is granted and, unless sooner terminated as set forth herein, expires on the date ("Expiration Date") ten (10) years from the date of grant. If the optionee's service as a Non-Employee Director or employee of or consultant to the Company or any Affiliate terminates for any reason or for no reason, the option shall terminate on the earlier of the Expiration Date or the date three (3) months following the date of termination of all such service; PROVIDED, HOWEVER, that if such termination of service is due to the optionee's death or permanent and total disability (within the meaning of
Section 422(c)(6) of the Code), the option shall terminate on the earlier of the Expiration Date or one (1) year following the date of the optionee's death or permanent and total disability. In any and all circumstances, an option may be exercised following termination of the optionee's service as a Non-Employee Director or employee of or consultant to the Company or any Affiliate only as to that number of shares as to which it was exercisable on the date of termination of all

such service under the provisions of subparagraph 6(e).

(b) The exercise price of each option shall be one hundred percent (100%) of the fair market value of the stock subject to such option on the date such option is granted.

(c) Payment of the exercise price of each option is due in full in cash upon any exercise when the number of shares being purchased upon such exercise is less than 1,000 shares; but when the number of shares being purchased upon an exercise is 1,000 or more shares, the optionee may elect to make payment of the exercise price under one of the following alternatives:

(i) Payment of the exercise price in cash at the time of exercise; or

(ii) Provided that at the time of the exercise the Company's common stock is publicly traded and quoted regularly in the Wall Street Journal, payment by delivery of shares of common stock of the Company already owned by the optionee, held for the period required to avoid a charge to the Company's reported earnings, and owned free and clear of any liens, claims, encumbrances or security interests, which common stock shall be valued at its fair market value on the date preceding the date of exercise; or

(iii) Payment by a combination of the methods of payment specified in subparagraphs 6(c)(i) and 6(c)(ii) above.

Notwithstanding the foregoing, this option may be exercised pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which results in the receipt of cash (or check) by the Company prior to the issuance of shares of the Company's common stock.

(d) An option shall not be transferable except by will or by the laws of descent

and distribution, or pursuant to a qualified domestic relations order satisfying the requirements of Rule 16b-3 under the Securities Exchange Act of 1934, as amended ("Rule 16b-3") and shall be exercisable during the lifetime of the person to whom the option is granted only by such person (or by his guardian or legal representative) or transferee pursuant to such an order. Notwithstanding the foregoing, the optionee 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) The option shall become exercisable in installments over a period of five (5) years from the date of grant at the rate of five percent (5%) in equal quarterly installments commencing on the date three (3) months after the date of grant of the option, provided that the optionee has, during the entire period prior to such vesting date, continuously served as a Non-Employee Director or employee of or consultant to the Company or any Affiliate of the Company, whereupon such option shall become fully exercisable in accordance with its terms with respect to that portion of the shares represented by that installment.

(f) The Company may require any optionee, or any person to whom an option is transferred under subparagraph 6(d), as a condition of exercising any such option: (i) to give written assurances satisfactory to the Company as to the optionee's knowledge and experience in financial and business matters; and (ii) 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.

(g) Notwithstanding anything to the contrary contained herein, an option may not be exercised unless the shares issuable upon exercise of such option are then registered under the Securities Act or, if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act.

7. COVENANTS OF THE COMPANY.

(a) During the terms of the options granted under the Plan, 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 granted under the Plan; PROVIDED, HOWEVER, that this undertaking shall not require the Company to register under the Securities Act either the Plan, any option granted under the Plan, 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.

8. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock pursuant to options granted under the Plan shall

constitute general funds of the Company.

9. MISCELLANEOUS.

(a) Neither an optionee nor any person to whom an option is transferred under subparagraph 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.

(b) Throughout the term of any option granted pursuant to the Plan, the Company shall make available to the holder of such option, not later than one hundred twenty (120) days after the close of each of the Company's fiscal years during the option term, upon request, such financial and other information regarding the Company as comprises the annual report to the stockholders of the Company provided for in the Bylaws of the Company and such other information regarding the Company as the holder of such option may reasonably request.

(c) Nothing in the Plan or in any instrument executed pursuant thereto shall confer upon any Non-Employee Director any right to continue in the service of the Company or any Affiliate or shall affect any right of the Company, its Board or stockholders or any Affiliate to terminate the service of any Non-Employee Director with or without cause.

(d) No Non-Employee Director, individually or as a member of a group, and no beneficiary or other person claiming under or through him, shall have any right, title or interest in or to any option reserved for the purposes of the Plan except as to such shares of common stock, if any, as shall have been reserved for him pursuant to an option granted to him.

(e) In connection with each option made pursuant to the Plan, it shall be a

condition precedent to the Company's obligation to issue or transfer shares to a Non-Employee Director, or to evidence the removal of any restrictions on transfer, that such Non-Employee Director make arrangements satisfactory to the Company to insure that the amount of any federal or other withholding tax required to be withheld with respect to such sale or transfer, or such removal or lapse, is made available to the Company for timely payment of such tax.

(f) As used in this Plan, "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 bid and 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.

10. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) If any change is made in the stock subject to the Plan, or subject to any option 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 options 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 options.

(b) In the event of: (1) a merger or consolidation in which the Company is not the surviving corporation; (2) 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 (3) any other capital reorganization in which more than fifty percent (50%) of the shares of the Company entitled to vote are exchanged, the time during which options outstanding under the Plan may be exercised shall be accelerated and the options terminated if not exercised prior to such event.

11. AMENDMENT OF THE PLAN.

(a) The Board at any time, and from time to time, may amend the Plan, PROVIDED, HOWEVER, that the Board shall not amend the plan more than once every six (6) months, with respect to the provisions of the Plan which relate to the amount, price and timing of grants, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder. Except as provided in paragraph 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 which may be issued under

the Plan;

(ii) 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 comply with the requirements of Rule 16b-3); or

(iii) Modify the Plan in any other way if such modification requires stockholder approval in order for the Plan to comply with the requirements of Rule 16b-3 or Section 162(m) of the Internal Revenue Code.

(b) Rights and obligations under any option granted before any amendment of the Plan shall not be impaired by such amendment 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 November 26, 2005. 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 impaired by suspension or termination of the Plan, except with the consent of the person to whom the option was granted.

(c) The Plan shall terminate upon the occurrence of any of the events described in Section 10(b) above.

13. EFFECTIVE DATE OF PLAN; CONDITIONS OF EXERCISE.

(a) The Plan shall become effective upon adoption by the Board of Directors, subject to the condition subsequent that the Plan is approved by the stockholders of the Company.

(b) No option granted under the Plan shall be exercised or exercisable unless

and until the condition of subparagraph 13(a) above has been met.

GILEAD SCIENCES, INC.
NONSTATUTORY STOCK OPTION

_____, Optionee:

GILEAD SCIENCES, INC. (the "Company"), pursuant to its 1995 Non-Employee Directors' Stock Option Plan (the "Plan"), has this day granted to you, the optionee named above, an option to purchase shares of the common stock of the Company (the "Common Stock"). This option is not intended to qualify and will not be treated as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended from time to time (the "Code").

The details of your option are as follows:

1. The total number of shares of Common Stock subject to this option is (_____). Subject to the limitations contained herein, this option shall be exercisable with respect to each installment shown below on or after the date of earliest exercise (vesting) applicable to such installment, as follows:

NUMBER OF SHARES (INSTALLMENT) DATE OF EARLIEST EXERCISE (VESTING)

2. (a) The exercise price of this option is $_____ (_____ Dollars and _____ cents) per share.

(b) Payment of the exercise price is due in full in cash upon exercise of all or any part of each installment which has become exercisable by you when the number of shares being purchased is less than 1,000 shares; when the number of shares being purchased is 1,000 or more shares, you may elect to make payment of the exercise price under one of the following alternatives, all as set forth more fully in the Plan: (i) in cash upon exercise; (ii) provided that the Company's stock is publicly traded, payment by delivery of shares of Common Stock already owned by you, free and clear of any liens; or (iii) payment by a combination of the methods set forth in clauses (i) and (ii). Notwithstanding the foregoing, this option may be exercised pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which results in the receipt of cash (or check) by the Company prior to the issuance of Common Stock.

3. In no event may this option be exercised for any number of shares which would require the issuance of anything other than whole shares.

4. Notwithstanding anything to the contrary contained herein, this option may not be exercised unless the shares issuable upon exercise of this option are then registered under the Securities Act of 1933 (the "Securities Act") or, if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act.

5. The term of this option commences on the date hereof and, unless sooner terminated as set forth below or in the Plan, terminates on _____ (which date shall be ten (10) years from the date this option is granted). In no event may this option be exercised on or after the date on which it terminates. This option shall terminate prior to the expiration of its term as follows: three (3) months after the termination of your service as a non-employee director or employee of or consultant to the Company or an affiliate of the Company (as defined in the Plan), for any reason or for no reason, unless:

(a) such termination of service is due to your permanent and total disability (within the meaning of Section 422 (c)(6) of the Code), in which event the option shall terminate on the earlier of the termination date set forth above or one (1) year following such permanent and total disability;

(b) such termination of service is due to your death, in which event the option shall terminate on the earlier of the termination date set forth above or one (1) year after your death; or

(c) exercise of the option within three (3) months after such termination of service would result in liability under Section 16(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), in which case the option will terminate on the earlier of (i) the termination date set forth above, (ii) the tenth (10th) day after the last date upon which exercise would result in such liability, or (iii) six (6) months and ten (10) days after such termination of service.

However, this option may be exercised following such termination of service only as to that number of shares as to which it was exercisable on the date of such termination under the provisions of paragraph 1 of this option.

6. This option may be exercised, to the extent specified above, by delivering a notice of exercise together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require pursuant to subparagraph 6(f) of the Plan.

7. This option is not transferable except by will, by the laws of descent and distribution or pursuant to a qualified domestic relations order satisfying the requirements of Rule 16b-3 of the Exchange Act, and is exercisable during your life only by you or a transferee pursuant to a qualified domestic relations order. Notwithstanding the foregoing, you may, by delivering written notice to the Company in a form satisfactory to the Company, designate a third party who, in the event of your death, shall thereafter be entitled to exercise this option.

8. This option is not an employment or consulting agreement and nothing in this option shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Company, or of the Company to continue your service with the Company.

9. Any notices provided for in this option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the address specified below or at such other address as you hereafter designate by written notice to the Company.

10. This option is subject to all the provisions of the Plan, a copy of which is attached hereto and its provisions are hereby made a part of this option, including without limitation the provisions of paragraph 6 of the Plan relating to option provisions, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this option and those of the Plan, the provisions of the Plan shall control.

Dated _____, 19___

Very truly yours,

GILEAD SCIENCES, INC.

By: _____
John C. Martin
President and Chief Executive Officer

The undersigned:

(a) Acknowledges receipt of the foregoing option and understands that all rights and liabilities with respect to this option are set forth in the option and the Plan; and

(b) Acknowledges that as of the date of grant of this option, it sets forth the entire understanding between the undersigned optionee and the Company and its affiliates regarding the acquisition of stock in the Company and supersedes all prior oral and written agreements on that subject with the exception of any stock options previously granted to the optionee by the Company, and the following agreements only [if none, so state]:

NONE _____

(Initial)

OTHER _____

Optionee

Address: _____

NOTICE OF EXERCISE

Gilead Sciences, Inc.
333 Lakeside Drive
Foster City, CA 94404
Attn: Corporate Secretary

Date of
Exercise: _____

Ladies and Gentlemen:

This constitutes notice under my Nonstatutory Stock Option that I elect to purchase the number of shares for the price set forth below.

Stock Option dated: _____

Number of shares as to
which option is exercised: _____

Certificates to be
issued in name of: _____

Total exercise price: $_____
Cash payment delivered
herewith: $_____

Value of stock payment
delivered herewith: $_____

By this exercise, I agree to provide such additional documents as you may require pursuant to the terms of the 1995 Non-Employee Directors' Stock Option Plan.

Very truly yours,

Signature: _____

Printed Name: _____

PATENT RIGHTS PURCHASE AGREEMENT

This Patent Rights Purchase Agreement (this "Agreement") is made and entered into as of December 18, 1998 (the "Effective Date") between Isis Pharmaceuticals, Inc. ("Isis"), and Gilead Sciences, Inc. ("Gilead").

1. DEFINITIONS.

1.1 "Cationic Lipid" means those compounds described in United States Patent Nos. 5,777,153 and 5,705,693; United States Patent Application Serial No. 08/672,206; and European Patent Application No. 97931462.2, to the extent such compounds are not Codeblocker Compounds.

1.2 "Codeblocker Compound" means an oligonucleotide that binds directly to DNA or RNA within a cell on a selective basis determined by the nucleotide sequence of the target DNA or RNA and exerts its biological activity predominantly through binding to DNA or RNA to inhibit the transcription or replication of the target DNA or RNA or binding to RNA to inhibit the translation, processing, packaging or regulatory activity of the target RNA. A Codeblocker Compound may also have a mechanism of action or biological activity other than one conferred through direct binding to RNA or DNA provided that (i) the compound originally was designed to bind a target DNA or RNA and (ii) the final compound or any compounds used to derive the final compound were not identified using selective purification and polymerase amplification in any fashion. An oligonucleotide, is any oligomer or polymer made up [***] An oligonucleotide includes RNA or DNA fragments, and may be composed of naturally occurring or non-naturally occurring bases, sugars or intersugar linkages. An oligonucleotide may have the bases, sugars or intersugar linkages partially or completely absent. Oligonucleotides may be made such that adjacent nucleoside or nucleoside fragments are linked together by phosphate groups or modified or non-naturally occurring internucleoside linkages to form the internucleoside backbone of the oligomer, whether or not such linkages retain a phosphorous atom in the linkage.

1.3 "Oligonucleotide Delivery System" means any carrier, targeting entity, excipient, formulation, device, prodrug, covalent or noncovalent conjugate, encapsulating vesicle, microcapsule, micro- or nanosphere, emulsion, or microemulsion, lipid, liposome, virosome, or artificial vial envelope which was developed by Gilead on or prior to the Effective Date, and which (i) enhances the cellular penetration or circulating half-life of a Codeblocker Compound, (ii) selectively delivers a Codeblocker compound to the intended target tissue, cell or subcellular compartment, (iii) provides sustained release of a Codeblocker Compound from a depot formulation, or (iv) otherwise favorably alters the absorption, distribution, metabolism or excretion of a Codeblocker Compound so as to enhance its pharmacological activity of clinical value. "Oligonucleotide Delivery System" includes cationic lipids.

1.4 "Patent Rights" means the patents and patent applications listed in Exhibit A attached hereto.

2. ASSIGNMENTS AND LICENSES.

2.1 Gilead hereby sells and assigns to Isis all of Gilead's right, title and interest in Patent Rights, subject to the rights of Glaxo Wellcome Inc. ("Glaxo") under the Collaborative Research Agreement between Glaxo and Gilead dated March 25, 1996 (the "Glaxo Agreement"), provided however, that the assignment of U.S. Patent Number 5,256,775 shall be subject to the condition precedent that Gilead settle the interference involving this patent on conditions of Gilead's choosing (including conceding priority). Gilead hereby grants Isis an exclusive, royalty-free, worldwide, assignable license (with the right to grant sublicenses) to U.S. Patent Number 5,256,775 beginning on the Effective Date and continuing until such time that Gilead settles the interference and the assignment to Isis becomes effective.

2.2 Gilead hereby assigns and delegates to Isis (and Isis accepts and agrees to perform) all of Gilead's rights and obligations under the License Agreement between Glen Research Corporation ("Glen Research") and Gilead dated January 1, 1994 and amended on November 19, 1996. A copy of the written consent to such assignment and delegation signed by Glen Research is attached hereto as Exhibit B. In the event that Isis, by reason of this Agreement, is required to indemnify Glen Research under Section 8.1 (b) of the Glen Research License Agreement, Gilead will indemnify Isis up to a maximum amount equal to one hundred percent (100%) of total royalties received by Gilead from Glen Research; thereafter, Gilead will not have any indemnity obligations to Isis related to such Agreement. Gilead will continue to honor its obligations to Glen Research for activities preceding the Effective Date of this Agreement.

2.3 Subject to the rights of Glen Research above, Isis hereby grants to Gilead an exclusive, perpetual, irrevocable, royalty-free, worldwide, assignable license (with the right to grant sublicenses) to directly or indirectly make, have made, use, import, export or sell compounds and other subject matter falling within the scope of Patent Rights which are [***]

2.4 Gilead hereby grants to Isis a nonexclusive, perpetual, royalty-free, worldwide, assignable license (with the right to grant sublicenses) to compounds and other subject matter which are within the scope of Patent Rights, solely for use as intermediates in the manufacture of Codeblocker Compounds or oligomers [***]

2.5 Isis hereby grants to Gilead a non-exclusive, non-sublicensable, non-assignable, perpetual, irrevocable, royalty-free, worldwide license under Patent Rights to make and use Codeblocker Compounds and Oligonucleotide Delivery Systems for internal research purposes, but not for any commercial purpose.

2.6 Isis will not have any obligations to Gilead relating to Codeblocker Compounds or this Agreement to the extent arising prior to the Effective Date.

[***] = CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

2.7 Each party hereby agrees to execute such documents and to take such other actions as shall be necessary or appropriate to effectuate the assignments and licenses set forth in this Section 2.

3. REPRESENTATIONS AND WARRANTIES BY GILEAD.

Gilead makes the following representations and warranties to Isis, each of which will survive the Effective Date:

3.1 To the best of Gilead's knowledge, the Patent Rights include all of the patents and patent applications owned or controlled by Gilead on or prior to the Effective Date that cover Codeblocker Compounds and Oligonucleotide Delivery Systems, their manufacture or use. There are no other US or unpublished foreign filings owned or controlled by Gilead filed prior to the Effective Date which claim Codeblocker Compounds or Oligonucleotide Delivery Systems other than as set forth in Exhibit A, nor does Gilead have any present intention to make such filings. If Gilead becomes aware of any patents or patent applications that (i) are owned or controlled by Gilead, (ii) claim inventions made prior to the Effective Date, (iii) cover Codeblocker Compounds or Oligonucleotide Delivery Systems, and (iv) are not included in Exhibit A, Gilead will promptly notify Isis in writing and execute appropriate documents to transfer such patents and patent applications to Isis.

3.2 Gilead represents and Isis acknowledges that (i) the Glaxo Agreement remains in effect and Gilead and Glaxo have ongoing rights and obligations thereunder, modified to the extent specifically set forth in this Agreement and (ii) this Agreement is not an assignment of Gilead's rights or obligations under the Glaxo Agreement and that Isis assumes no rights or obligations to Glaxo under this Agreement. Gilead represents that the Research Term and all rights, obligations and funding relating thereto under the Glaxo Agreement have been terminated. Gilead will not enter into any future amendments to the Glaxo Agreement which in any way affect the rights of Isis hereunder.

3.3 The Glaxo Agreement and the license to Glen Research referenced in Section 2.2 above are the only licenses and Gilead is not aware of any other third party rights of any kind affecting the Patent Rights. Except with respect to U.S. Patent Number 5,256,775, which is subject to an interference proceeding, the Patent Rights are not the subject of any pending interference, cancellation or other protest proceeding not otherwise known to Isis, or otherwise subject to rights or obligations to any third party other than Glaxo and Glen Research. The complete terms and conditions of such rights and obligations relating to Glaxo and Glen Research have been disclosed to Isis.

3.4 There are no Collaboration Compounds (as defined in Section 1.7 of the Glaxo Agreement) and none were developed during the Research Term under the Glaxo Agreement. Gilead does not owe any royalties to Glaxo or any third party under the Glaxo Agreement nor does Gilead have any known or pending claims against Glaxo arising out of the Glaxo Agreement. To the best of Gilead's knowledge, (i) Glaxo does not owe any royalties to Gilead or any third party under the Glaxo Agreement, (ii) nor does Glaxo have any known or pending claims against Gilead arising out of the Glaxo Agreement.

4. TECHNOLOGY TRANSFER.

4.1 Gilead and Isis will cooperate in the filing and execution of any and all documents necessary to effectuate the assignment to Isis of the Patent Rights, including the filing of assignments or other transfer of title covenants with the U.S. Patent and Trademark Office and foreign patent offices as applicable to the Patent Rights. Within thirty (30) days from the Effective Date, Gilead will notify all attorneys handling the prosecution of the Patent Rights to contact the Isis Patent Department to provide an immediate status update on the Patent Rights and to prepare the documents necessary to transfer the Patent Rights to Isis. The cost of recording assignments of the Patent Rights will be borne by Isis. Within forty-five (45) days from the Effective Date, Gilead and its counsel will use their reasonable best efforts to transfer all files and supporting documents relating to the Patent Rights to Isis, including but not limited to, all initial invention disclosure documents, all documents sent to the U.S. Patent and Trademark Office regarding inventions and claims, all draft patent applications, all filing or prosecution documents submitted to the patent offices, and all file wrappers. Conception notebooks and all other documents in the possession or under the control of Gilead or its counsel relating to conception and/or reduction to practice, such as scientist notebooks shall be obtained in accord with Gilead's ordinary document retention and made available to Isis upon Isis' reasonable request. All documents to be provided to Isis hereunder are to be sent by expedited delivery service.

4.2 Gilead will make appropriate scientific staff available to Isis for a scientific tutorial on the subject matter of this Agreement, such tutorial not to exceed more than [***] from Gilead's staff and not to obligate Gilead to disclose any third party confidential information.

5. PATENT MAINTENANCE AND PROSECUTION RESPONSIBILITIES.

5.1 On and after the Effective Date, Isis will take responsibility for any action or proceeding involving Patent Rights. The cost of recording the assignment of Patent Rights shall be borne solely by Isis. If Isis elects not to take such responsibility involving Patent Right(s) in a particular country then Isis will timely notify Gilead and Glaxo 30 days before the time future action is due, and thereafter Gilead or Glaxo shall undertake such responsibility. If Gilead or Glaxo elects to do so, Isis will grant any necessary authority to Gilead. Gilead will determine whether Gilead or Glaxo shall take such responsibility at their expense. Isis assumes no obligation to Glaxo as a result of its agreement with Gilead in this Section 5.1.

5.2 NOTICE OF INFRINGEMENT. Isis shall promptly notify Gilead in writing of any infringement of any assigned Patent Right(s) of which it becomes aware.

5.3 ENFORCEMENT OF PATENTS. Except as otherwise set forth in this Section, Isis may, but shall not be required to, prosecute any alleged infringement or threatened infringement of any assigned Patent Right(s) of which it is aware or which is brought to its attention. Isis shall act in its own name and at its own expense. If Isis has failed to prosecute under the first sentence of this paragraph with respect to alleged or threatened infringement

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relating to any Patent Right(s) (i) two months after it has been notified in writing of such alleged infringement, or (ii) one month before the time limit, if any, set forth in the appropriate laws and regulations for the filing of such actions, whichever comes first, Gilead (or at its election Glaxo) may, but shall not be required to, prosecute any such alleged infringement or threatened infringement of a Patent within the Patent Rights. In any such event, Gilead or Glaxo shall be free to act in its own name and at its own expense.
Notwithstanding the foregoing and as between the parties, Gilead shall have the sole and exclusive right of enforcement with respect to any alleged or threatened infringement of any right within the scope of the license granted in
Section 2.3 of this Agreement. Isis shall cooperate fully with Gilead or Glaxo in any action by Gilead or Glaxo, respectively, under this paragraph, including if required in order to bring such an action, the furnishing of a power of attorney.

6. INDEMNITY AND WARRANTY.

6.1 Indemnity by Isis. Isis will indemnify, save, defend and hold Gilead and its agents, directors and employees harmless from and against any and all suits, claims, actions, demands, liabilities, expenses and/or loss, including reasonable legal expense and attorneys fees, resulting from activities under this agreement by Isis.

6.2 INDEMNITY BY GILEAD. Gilead will indemnify, save, defend and hold Isis and its agents, directors and employees harmless from and against any and all suits, claims, actions, demands, liabilities, expenses and/or loss, including reasonable legal expense and attorney fees, resulting from (i) Gilead's, Gilead's sublicensee's or Gilead's assignee's activities under the licenses provided for in Sections 2.3 and 2.5; (ii) Gilead's contractual obligations to third parties including Glaxo and Glen Research, except to the extent resulting from Isis' activities under this Agreement; or (iii) Gilead's exercise of the Patent Rights prior to the Effective Date.

6.3 WARRANTY. Gilead warrants that it has sufficient right and title to enter into and to perform its obligations under this Agreement. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE PARTIES DISCLAIM ALL WARRANTIES OF ANY NATURE, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF VALIDITY, MERCHANTABILITY, NONINFRINGEMENT, AND FITNESS FOR A PARTICULAR PURPOSE.

7. CONFIDENTIALITY. Confidential Information under the terms of this Agreement is all information relating to the Patent Rights sold, assigned or licensed to Isis under Section 2.1 and the Technology Transfer to Isis by Gilead under Section 4.1. Gilead agrees to treat the Confidential Information as confidential and to protect and maintain the confidentiality thereof. Gilead will use at least the same standard of care as it uses to protect its own Confidential Information to ensure that its employees, agents, and consultants do not disclose or make any unauthorized use of such Confidential Information. Gilead will promptly notify Isis upon discovery of any unauthorized use or disclosure of the Confidential Information. Confidential Information will not include any information which is generally available to the public, is otherwise part of the public domain other than through any act or omission of Gilead in breach of this Agreement, or which is required to be disclosed by law or contract entered into

prior to this Agreement (provided that Isis shall have notice thereof in advance so that it can act to protect its interests should it decide to do so).

8. CONSIDERATION. Isis shall pay Gilead the following noncontingent, non-refundable cash payments as consideration for the assignments provided for in this Agreement: $2,000,000 on the Effective Date, $1,000,000 on the first anniversary of the Effective Date, $1,000,000 on the second anniversary of the Effective Date, and $2,000,000 on the third anniversary of the Effective Date, for total payments of $6,000,000. In the event that Isis defaults on any of these payments, after thirty (30) days notice and an opportunity to cure, then ownership of all Patent Rights will automatically revert to Gilead and Isis will take all actions reasonably requested by Gilead for such purposes, including, without limitation, signing and delivering any applicable assignments and other documents. Isis shall be entitled to no damages exceeding the consideration set forth in this Section 8 for any uncured claim against Gilead respecting Gilead's performance or representations hereunder.

9. NOTICES. Notices under this Agreement shall be sufficient only if personally delivered, delivered by a major commercial rapid delivery courier service, facsimile or mailed by certified or registered mail, return receipt requested, to a party at its addresses set forth as follows:

If to Isis:	Isis Pharmaceuticals, Inc. 2292 Faraday Avenue Carlsbad, CA 92008 Attn: Executive Vice President, CFO Facsimile: (760) 431-9448
If to Gilead:	Gilead Sciences, Inc. 333 Lakeside Drive Foster City, CA 94404 Attn: Vice President, Intellectual Property Facsimile: (650) 577-6622
If to Glaxo:	Glaxo Wellcome, Inc. Five Moore Drive Research Triangle Park, NC 27709 Attn: Company Secretary Facsimile: (919) 483-0265

10. MISCELLANEOUS. If any provision of this Agreement shall be adjudged by any court of competent jurisdiction to be unenforceable or invalid, that provision shall be limited or eliminated to the minimum extent necessary to continue to effect the intent of the parties, and this Agreement shall otherwise remain in full force and effect and enforceable. Any waivers or amendments shall be effective only if made in writing and signed by a representative of the respective parties authorized to bind the parties. This Agreement shall be governed by the laws of the State of Delaware, excluding conflicts-of-law principles. This Agreement is the complete and exclusive statement of the mutual understanding of the parties and supersedes and cancels all previous written and oral agreements and communications relating to the subject matter of this

Agreement, excluding the Confidential Disclosure Agreement between the parties dated July 29, 1998.

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

ISIS PHARMACEUTICALS, INC.	GILEAD SCIENCES, INC.
By: ----------	By: ----------
Printed: ----------	Printed: ----------
Title: ----------	Title: ----------
Address: 2292 Faraday Avenue Carlsbad, CA 92008	Address: 333 Lakeside Drive Foster City, CA 94404

12/16/98 EXHIBIT A

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12/16/98 EXHIBIT A

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12/16/98 EXHIBIT A

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EXHIBIT B

December 16, 1998

VIA FACSIMILE AND COURIER

Hugh Mackie, Ph.D.
Glen Research Corporation
22825 Davis Drive
Sterling, VA 20164

RE: ASSIGNMENT OF LICENSE AGREEMENT

Dear Hugh:

As we discussed today by phone, Gilead has negotiated a Patent Rights Purchase Agreement with Isis Pharmaceuticals, Inc. ("Isis"), a biopharmaceutical company based in Carlsbad, California, pursuant to which Gilead will assign all of its antisense patent rights to Isis. As part of this Agreement, Gilead will be assigning to Isis the License Agreement between Gilead and Glen Research Corporation dated January 1, 1994, as amended November 19, 1996 (the "License Agreement"). The purpose of this letter is to obtain the formal consent of Glen Research Corporation to the proposed assignment of the License Agreement to Isis, as required by Section 16 of the License Agreement. Please indicate your consent to the assignment by executing and dating this letter in the space indicated below and returning it to my attention via facsimile at (650) 577-5488. When you receive the original copy of the letter please execute and date it (using the same date) and return it to me by courier.

We would be happy to discuss the proposed assignment in more detail with you, or put you in touch with appropriate people at Isis. Please give me a call at (650) 573-4772, or John Milligan at (650) 573-4756, if you have any questions. Thank you for your prompt response to this matter.

Very truly yours,

Jeffrey W. Bird, M.D., Ph.D.
Senior Vice President, Business Operations

ACCEPTED AND AGREED TO:
Glen Research Corporation

By

Name:
Title:

Date:

Exhibit 10.48

THIRD AMENDMENT TO LEASE

This Third Amendment (the "AMENDMENT") to Lease Agreement is made as of August 14, 1998, by and between SPIEKER PROPERTIES, L.P., a California limited partnership ("SPIEKER"), as successor in interest to WCB SEVENTEEN LIMITED PARTNERSHIP, a Delaware limited partnership and GILEAD SCIENCES, INC., a Delaware limited corporation ("GILEAD").

WITNESSETH:

WHEREAS, Spieker, as Landlord, and Gilead, as Tenant, have entered into that certain Lease dated March 27, 1992, amended by Amendment No. 1, dated October 11, 1993, and amended by Amendment No. 2, dated June 24, 1996 with respect to space in the Building commonly known as 331, 344B, 346, and 353 Lakeside Drive, Foster City, California.

NOW, THEREFORE, the parties hereto agree as follows:

1. AMENDMENT OF BASIC LEASE INFORMATION. Those portions, as set forth below, are hereby added to the Basic Lease Information:

PREMISES AND BUILDING:

355 Lakeside Drive, Suites 200 & 210	Approximately 17,371 rentable square feet ("Additional Premises"), as outlined on Exhibit A to this Amendment
PERMITTED USE:	
355 Lakeside Drive, Suites 200 & 210	General office use only
OCCUPANCY DENSITY:	
355 Lakeside Drive, Suites 200 & 210	4/1,000 rentable square feet
PARKING DENSITY:	
355 Lakeside Drive, Suites 200 & 210	4/1,000 rentable square feet
TERM COMMENCEMENT:	
355 Lakeside Drive, Suites 200 & 210	November 1, 1998, or as soon as Landlord can deliver Premises, whichever occurs first
TERM EXPIRATION:	
355 Lakeside Drive, Suites 200 & 210	March 31, 2006
BASE RENT:	
355 Lakeside Drive, Suites 200 & 210	$39,953.30 per month

The Base Rent for the Additional Premises shall be increased annually on each anniversary of the Term Commencement of this Third Amendment to an amount equal to $39,953.30 multiplied by a fraction, the numerator of which is the Consumer Price Index, All Urban Consumers, San Francisco, Oakland, and San Jose, published by the United States Department of Labor, Bureau of Statistics (1982-84=100) as of the month immediately preceding the current Adjustment Date, and the denominator of which is the index as of the month immediately preceding the Commencement Date. There will be a minimum annual increase of 3% and a maximum annual increase of 5%. Adjustment Date is defined as the anniversary date of the Term Commencement.

INITIAL ESTIMATED MONTHLY OPERATING EXPENSES AND PROPERTY TAXES:

355 Lakeside Drive, Suites 200 & 210	$12,854.54 per month
TENANT'S PERCENTAGE SHARE:	
355 Lakeside Drive, Suites 200 & 210	31.45%
LANDLORD'S ADDRESS FOR NOTICE:	
Spieker Properties, L.P.	

393 Vintage Park Drive, Suite 200
Foster City, CA 94404

2. ADDITION TO PREMISES. Tenant shall accept the Additional Premises in its "as-is" condition.

3. TENANT IMPROVEMENTS. Per the terms and conditions as outlined in Exhibit B - Lease Improvement Agreement, Tenant shall receive a one time tenant improvement allowance not to exceed $100,000. The tenant improvement allowance shall only be used for improvements to the Additional Premises.

4. SECURITY DEPOSIT. Notwithstanding anything to the contrary contained in Paragraph 15 of the Lease, the security deposit shall not be less than $300,000 during the term of this Lease.

5. Except as modified by this Amendment, all provisions of the Lease, First Amendment to Lease and Second Amendment to Lease shall remain in full force and effect.

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

GILEAD:
GILEAD SCIENCES, INC.
a Delaware corporation

BY: /s/ Mark L. Perry
Mark L. Perry

Its: Sr. Vice President, Chief Financial Officer and General Counsel

SPIEKER:
SPIEKER PROPERTIES, L.P.
a California limited partnership

By: Spieker Properties, Inc.
a Maryland corporation,
its general partner

By: /s/ Peter H. Schnugg
Peter H. Schnugg
Its: Senior Vice President

[FLOOR PLAN]

EXHIBIT A

EXHIBIT B

LEASE IMPROVEMENT AGREEMENT

This Lease Improvement Agreement ("IMPROVEMENT AGREEMENT") sets forth the terms and conditions relating to construction of the initial tenant improvements described in the Plans to be prepared and approved as provided below (the "TENANT IMPROVEMENTS") in the Premises.

1. PLANS AND SPECIFICATIONS.

1.1 Tenant shall retain the services of a space planner (the "SPACE PLANNER"), to be determined a later date, to prepare a detailed space plan (the "SPACE PLAN") mutually satisfactory to Landlord and Tenant for the construction of the Tenant Improvements in the Premises. Tenant shall submit the Space Plan and any proposed revisions thereto to Landlord for Landlord's approval.

1.2 Based on the approved Space Plan, Tenant shall cause the Space Planner to prepare detailed plans, specifications and working drawings mutually satisfactory to Landlord and Tenant for the construction of the Tenant Improvements (the "PLANS"). Landlord and Tenant shall diligently pursue the preparation of the Plans. Tenant shall submit the Plans and any proposed revisions thereto, including the estimated cost of the Tenant Improvements. All necessary revisions to the Space Plan and the Plans shall be made within two (2) business days after Landlord's response thereto. This procedure shall be repeated until Landlord ultimately approves the Space Plan and Plans.

1.3 Tenant shall be responsible for ensuring that the Plans are compatible with the design, construction and equipment of the Building, comply with applicable Regulations and the Standards (defined below), and contain all such information as may be required to show locations, types and requirements for all heat loads, people loads, floor loads, power and plumbing, regular and special HVAC needs, telephone communications, telephone and electrical outlets, lighting, light fixtures and related power, and electrical and telephone switches, B.T.U. calculations, electrical requirements and special receptacle requirements. The Plans shall also include mechanical, electrical, plumbing, structural and engineering drawings mutually satisfactory to Landlord and Tenant which shall be prepared by the mechanical contractor or contractors, to be determined at a later date. Notwithstanding Landlord's preparation, review and approval of the Space Plan and the Plans and any revisions thereto, Landlord shall have no responsibility or liability whatsoever for any errors or omissions contained in the Space Plan or Plans or any revisions thereto, or to verify dimensions or conditions, or for the quality, design or compliance with applicable Regulations of any improvements described therein or constructed in accordance therewith. Tenant hereby waives all claims against Landlord relating to, or arising out of the design or construction of, the Tenant Improvements.

1.4 Landlord may approve or disapprove the Space Plan or Plans or any proposed revision thereto submitted to Landlord in Landlord's reasonable discretion. Landlord shall not be deemed to have approved the Space Plan, the Plans, or any proposed revisions thereto, unless approved by Landlord in writing. Landlord shall approve or disapprove any Space Plan, Plans or proposed revisions thereto submitted to Landlord for Landlord's approval within five (5) business days after Landlord's receipt thereof.

2. SPECIFICATIONS FOR STANDARD TENANT IMPROVEMENTS.

2.1 Specifications and quantities of standard building components which will comprise and be used in the construction of the Tenant Improvements ("STANDARDS") are set forth in SCHEDULE 1 to this EXHIBIT B. As used herein, "STANDARDS" or "BUILDING STANDARDS" shall mean the standards for a particular item selected from time to time by Landlord for the Building, including those set forth on SCHEDULE 1 of this EXHIBIT B, or such other standards of equal or better quality as may be mutually agreed between Landlord and Tenant in writing.

2.2 No deviations from the Standards are permitted.

3. TENANT IMPROVEMENT COST.

3.1 The cost of the Tenant Improvements shall be paid for by Tenant, including, without limitation, the cost of: Standards; space plans and studies; architectural and engineering fees; permits, approvals and other governmental fees; labor, material, equipment and supplies; construction fees and other amounts payable to contractors or subcontractors; taxes; off-site improvements; remediation and preparation of the Premises for construction of the Tenant Improvements; taxes; filing and recording fees; premiums for insurance and bonds; attorneys' fees; financing costs; and all other costs expended or to be expended in the construction of the Tenant Improvements. Tenant shall reimburse Landlord for actual expenses, estimated to be approximately $1,500, which Landlord may incur in connection with the Tenant Improvements.

3.2 Provided Tenant is not in material default under the Lease, including this Improvement Agreement, Landlord shall contribute a one-time tenant improvement allowance not to exceed $100,000 ("TENANT IMPROVEMENT ALLOWANCE") toward the cost of the initial Tenant Improvements. Provided Tenant is not then in material default under the Lease, including this Improvement Agreement, Landlord shall disburse the Tenant Improvement Allowance to Tenant upon completion of construction of the Tenant Improvements and expiration of the time for filing of any mechanics' liens claimed or which might be filed on account of any work ordered by Tenant or its contractor or any subcontractor, and upon receipt by Landlord of a certificate of completion executed by the Space Planner and Tenant's contractor, and unconditional mechanics' lien releases (which mechanics' lien releases shall be executed by the subcontractors, labor suppliers and materialmen in addition to Tenant's contractor), in each case in form and substance reasonably satisfactory to Landlord, and all appropriate bills and

supporting documentation for the work ordered by Tenant or its contractor or any subcontractor.

3.3 No credit shall be given to Tenant if the cost of the Tenant Improvements is less than the Tenant Improvement Allowance.

4. CONSTRUCTION OF TENANT IMPROVEMENTS.

4.1 Within ten (10) days after Tenant's and Landlord's approval of the Plans including the estimate of the cost of the Tenant Improvements and Landlord's receipt of payment of any such estimated cost exceeding the amount of the Tenant Improvement Allowance, Tenant shall cause the contractor to proceed to secure a building permit and commence construction of the Tenant Improvements provided that the Building has in Landlord's reasonable discretion reached the stage of construction where it is appropriate to commence construction of the Tenant Improvements in the Premises.

4.2 Tenant shall be responsible for obtaining all governmental approvals to the full extent necessary for the construction and installation of the Tenant Improvements and for Tenant's occupancy of the Premises, in compliance with all applicable Regulations.

Tenant shall employ a contractor or contractors, to be approved by Landlord in writing, to construct the Tenant Improvements in conformance with the approved Space Plan and Plans. The construction contracts between Tenant and the approved contractor shall be subject to Landlord's prior reasonable approval and shall provide for progress payments. The contractor(s) shall be duly licensed and Landlord's approval of the contractor(s) shall be conditioned, among other things, upon the contractor's reputation for quality of work, timeliness of performance, integrity and Landlord's prior experience with such contractor.

4.3 Landlord shall not be liable for any direct or indirect damages suffered by Tenant as a result of delays in construction beyond Landlord's reasonable control, including, but not limited to, delays due to strikes or unavailability of materials or labor, or delays caused by Tenant (including delays by the Space Planner, the contractor or anyone else performing services on behalf of Tenant).

4.4 All work to be performed on the Premises by Tenant or Tenant's contractor or agents shall be subject to the following conditions:

(a) Such work shall proceed upon Landlord's written approval of Tenant's contractor, and public liability and property damage insurance carried by Tenant's contractor, and shall further be subject to the provisions of Paragraph 8 of the Lease.

(b) All work shall be done in conformity with a valid building permit when required, a copy of which shall be furnished to Landlord before such work is commenced, and in any case, all such work shall be performed in a good and workmanlike and first-class manner, and in accordance with all applicable Regulations and the requirements and standards of any insurance underwriting board, inspection bureau or insurance carrier insuring the Premises pursuant to the Lease. Notwithstanding any failure by Landlord to object to any such work, Landlord shall have no responsibility for Tenant's failure to comply with all applicable Regulations. Tenant shall be responsible for ensuring that construction and installation of the Tenant Improvements will not affect the structural integrity of the Building.

(c) If required by Landlord or any lender of Landlord, all work by Tenant or Tenant's contractor shall be done with union labor in accordance with all union labor agreements applicable to the trades being employed.

(d) Landlord or Landlord's agents shall have the right to inspect the construction of the Tenant Improvements by Tenant during the progress thereof. If Landlord shall give notice of faulty construction or any other deviation from the approved Space Plan or Plans, Tenant shall cause its contractor to make corrections promptly. However, neither the privilege herein granted to Landlord to make such inspections, nor the making of such inspections by Landlord, shall operate as a waiver of any right of Landlord to require good and workmanlike construction and improvements erected in accordance with the approved Space Plan or Plans.

(e) Tenant shall cause its contractor to complete the Tenant Improvements as soon as reasonably possible.

(f) Tenant's construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in strict accordance with the approved Space Plan or Plans; (ii) Tenant's and its contractor shall submit schedules of all work relating to the Tenant Improvements to Landlord for Landlord's approval within fifteen (15) business days following the selection of the contractor and the approval of the Plans. Landlord shall within five (5) business days after receipt thereof inform Tenant of any changes which are necessary and Tenant's contractor shall adhere to such corrected schedule; and (iii) Tenant shall abide by all rules made by Landlord with respect to the use of freight, loading dock, and service elevators, storage of materials, coordination of work with the contractors of other tenants, and any other matter in connection with this Improvement Agreement, including, without limitation, the construction of the Tenant Improvements.

(g) Tenant or Tenant's contractor or agents shall arrange for necessary utility, hoisting and elevator service with Landlord's contractor and shall pay such reasonable charges for such services as may be charged by Tenant's or Landlord's contractor.

(h) Tenant's entry to the Premises for any purpose, including, without limitation, inspection or performance of Tenant construction by Tenant's agents, prior to the date Tenant's obligation to pay rent commences shall be subject to all the terms and conditions of the Lease except the payment of Rent. Tenant's entry shall mean entry by Tenant, its officers, contractors, licensees, agents, servants, employees, guests, invitees, or visitors.

(i) Tenant shall promptly reimburse Landlord upon demand for any reasonable expense actually incurred by the Landlord by reason of faulty work done by Tenant or its contractors or by reason of any delays caused by such work, or by reason of inadequate clean-up.

(j) Tenant hereby indemnifies and holds Landlord harmless with respect to any and all costs, losses, damages, injuries and liabilities relating in any way to any act or omission of Tenant or Tenant's contractor or agents, or anyone directly or indirectly employed by any of them, in connection with the Tenant Improvements and any breach of Tenant's obligations under this Improvement Agreement, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements. Such indemnity by Tenant, as set forth above, shall also apply with respect to any and all costs, losses, damages, injuries, and liabilities related in any way to Landlord's performance or any ministerial acts reasonably necessary (i) to permit Tenant to complete the Tenant Improvements, and (ii) to enable Tenant to obtain any building permit or certificate of occupancy for the Premises.

(k) Tenant shall use its best efforts to contractually require its contractor and the subcontractors utilized by Tenant's contractor to guarantee to Tenant and for the benefit of Landlord that the portion of the Tenant Improvements for which it is responsible shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Pursuant to such guarantee, each of Tenant's contractor and the subcontractors utilized by Tenant's contractor shall be responsible for the replacement or repair, without additional

charge, of all work done or furnished in accordance with its contract that shall become defective within one (1) year after the later to occur of (i) completion of the work performed by such contractor of subcontractors and
(ii) the Term Commencement Date. The correction of such work shall include, without additional charge, all additional expenses and damages incurred in connection with such removal or replacement of all or any part of the Tenant Improvements, and/or the Building and/or common areas that may be damaged or disturbed thereby. Tenant shall use its best efforts to ensure that all such warranties or guarantees as to materials or workmanship of or with respect to the Tenant Improvements shall be contained in the construction contract or subcontract and shall be written such that such guarantees or warranties shall inure to the benefit of both Landlord and Tenant, as their repective interests may appear, and can be directly enforced by either. Tenant covenants to give to Landlord any assignment or other assurances which may be necessary to effect such rights of direct enforcement.

5. INSURANCE REQUIREMENTS.

5.1 All of Tenant's contractors shall carry worker's compensation insurance covering all of their respective employees, and shall also carry public liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in the Lease.

5.2 Tenant shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Tenant Improvements, and such other insurance as Landlord may reasonably require, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to the Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord including, but not limited to, the requirement that all of Tenant's contractors shall carry excess liability and Products and Completed Operation coverage insurance, each in amounts not less than $500,000 per incident, $1,000,000 in aggregate, and in form and with companies as are required to be carried by Tenant as set forth in the Lease.

5.3 Certificates for all insurance carried pursuant to this Improvement Agreement must comply with the requirements of the Lease and shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the contractor's equipment is moved onto the site. In the event the Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall promptly repair the same at Tenant's sole cost and expense. Tenant's contractors shall maintain all of the foregoing insurance coverage in force until the Tenant Improvements are fully completed and accepted by Landlord, except for any Product and Completed Operation Coverage insurance required by Landlord, which is to be maintained for the remaining Lease Term following completion of the work and acceptance by Landlord and Tenant. All policies carried under this Paragraph 5 shall name Landlord and Tenant as "Additional Insureds". All insurance maintained by Tenant's contractors shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the owner and that any other insurance maintained by owner is excess and noncontributing with the insurance required hereunder.

6. COMPLETION AND RENTAL COMMENCEMENT DATE.

6.1 Tenant's obligation to pay Rent under the Lease shall commence on the Scheduled Term Commencement Date and the Scheduled Term Commencement Date shall be the Term Commencement Date notwithstanding anything to the contrary contained in the Basic Lease Information, provided that Landlord shall have provided Tenant with full access to the premises on such date. However, Landlord Delays (as defined below) shall extend the Term Commencement Date, but only in the event that substantial completion of the Tenant Improvements is delayed despite Tenant's reasonable efforts to adapt and compensate for such delays. In addition, no Landlord Delays shall be deemed to have occurred unless Tenant has provided notice, in compliance with the Lease, to Landlord specifying that a delay shall be deemed to have occurred because of actions, inactions or circumstances specified in the notice in reasonable detail. If such actions, inactions or circumstances are not cured by Landlord within one (1) business day after receipt of such notice ("COUNT DATE"), and if such actions, inaction or circumstances otherwise qualify as a Landlord Delay, then a Landlord Delay shall be deemed to have occurred commencing as of the Count Date. The Term Commencement Date shall be extended by one day for each day from the Count Date that a Landlord Delay has occurred, as calculated as provided above. The term "Landlord Delays," as such term may be used in this Improvement Agreement, shall mean any delays in the completion of the Tenant Improvements which are due to any act or omission of Landlord, its agents or contractors. Landlord Delays shall include, but shall not be limited to: (i) delays in the giving of authorizations or approvals by Landlord, (ii) delays due to the acts or failures to act, of Landlord, its agents or contractors, where such acts or failures to act delay the completion of the Tenant Improvements, provided that Tenant acts in a commercially reasonable manner to mitigate any such delay, (iii) delays due to the interference of Landlord, its agents or contractors with the completion of the Tenant Improvements or the failure or refusal of any party to permit Tenant, its agents and contractors, access to and use of the Building or any Building facilities or services, including elevators and loading docks, which access and use are necessary to complete the Tenant Improvements, and (iv) delays due to Landlord's failure to allow Tenant sufficient access to the Building and/or the Premises during Tenant's move into the Premises.

6.2 Within ten (10) days after completion of construction of the Tenant Improvements, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of the county in which the Building is located in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall cause the Space Planner and the contractor (i) to update the approved working drawings as necessary to reflect all changes made to the approved working drawings during the course of construction, (ii) to certify to the best of their knowledge that the "record-set" of as-built drawings are true and correct, which certification shall survive the expiration or termination of the Lease, and (c) to deliver to Landlord two (2) sets of copies of such record set of drawings within ninety
(90) days following issuance of a certificate of occupancy for the Premises, and
(iii) Tenant shall deliver to Landlord a copy of all warranties, guarantees, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

6.3 A material default under this Improvement Agreement shall constitute a default under the Lease, and the parties shall be entitled to all rights and remedies under the Lease in the event of a material default hereunder by the other party (notwithstanding that the Term thereof has not commenced).

6.4 Without limiting the "as-is" provisions of the Amendment, except for the Tenant Improvements, if any, to be constructed by Landlord pursuant to this Improvement Agreement, Tenant accepts the Premises in its "as-is" condition and acknowledges that it has had an opportunity to inspect the Premises prior to signing the Amendment.

SCHEDULE 1
TO EXHIBIT B

BUILDING STANDARDS

The following constitutes the Building Standard tenant improvements ("STANDARDS") in the quantities specified:

1. Doors (existing)	Light Oak
2. Ceiling Tiles (existing)	2' X 2' - Armstrong Cortega Minaboard
3. Window Treatment (existing)	Manufacturer: Bali Quality: 1" Blind Color: Beige
4. Hardware Sets (existing)	Stainless Steel
5. Window Mullions (existing)	Existing Color

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We 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 1995 Non-Employee Directors' Stock Option Plan, 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 21, 1999, with respect to the consolidated financial statements of Gilead Sciences, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 19, 1999

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND ON PAGES 4 AND 5 OF EXHIBIT 13.1 TO THE COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	32,475
SECURITIES	247,464
RECEIVABLES	0
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	288,310 [1]
PP&E	27,838
DEPRECIATION	17,656
TOTAL ASSETS	302,860
CURRENT LIABILITIES	31,750
BONDS	563
PREFERRED MANDATORY	0
PREFERRED	1
COMMON	31
OTHER SE	270,515
TOTAL LIABILITY AND EQUITY	302,860
SALES	6,074
TOTAL REVENUES	32,570
CGS	594
TOTAL COSTS	106,895
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	192
INCOME PRETAX	(56,075)
INCOME TAX	0
INCOME CONTINUING	(56,075)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(56,075)
EPS PRIMARY	(1.85)
EPS DILUTED	(1.85)

[1] CURRENT ASSETS INCLUDES RECEIVABLES, ALLOWANCES, INVENTORY AND OTHER CURRENT ASSETS.