GILEAD SCIENCES INC

FORM 10-K405

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

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 0-19731

GILEAD SCIENCES, INC.

(Exact name of registrant as specified in its charter)

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

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 25, 2000 was $2,442,500,000*.

The number of shares outstanding of the Registrant's Common Stock on February 25, 2000 was 44,388,828.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of Registrant's Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the

2000 Annual Meeting are incorporated by reference into Part III of this Report.

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* Based on a closing price of $72.34 per share. Excludes 10,625,287 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 25, 2000. 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

In addition to the historical information contained in this report, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that involve risks and uncertainties. Our actual financial and operating results could differ materially from our expectations. Factors that could cause or contribute to these differences include uncertainties related to future sales of our products and uncertainties relating to clinical results and regulatory approval of our product candidates, as well as the factors listed under "Risk Factors" beginning on page 26 of this report.

GENERAL

Gilead Sciences, Inc. is an independent biopharmaceutical company that seeks to provide accelerated solutions for patients and the people who care for them. We have a broad-based focus on developing and marketing drugs to treat patients with infectious diseases, including viral infections, fungal infections and bacterial infections, and a specialized focus on cancer. We also have expertise in liposomal drug delivery technology, a technology that we use to develop drugs that are safer, easier for patients to tolerate and more effective.

Within our focus areas, we have developed four products that have been approved by the U.S. Food and Drug Administration (FDA). We also have five product candidates in human clinical trials, including two that are in "Phase III" advanced clinical trials. In addition, we continually seek to develop or acquire rights to additional products, compounds and technologies to treat diseases for which no therapies exist or for which patients and the medical community have demanded new and improved therapies.

Developing and selling drugs is a very difficult business. We discuss many of the factors that make this a difficult business under the caption "Risk Factors" beginning on page 26. Perhaps the most challenging aspect of our business is the complex regulatory environment that we operate in. Before we can sell a drug, we must obtain a substantial amount of data about the drug in rigorous clinical trials. The FDA and regulatory authorities in other countries then review the data generated from these trials. The FDA and these other regulatory authorities will not approve a drug if they believe that it is not safe enough, or effective enough, if they believe it cannot be properly manufactured, or if they believe that our clinical trails are unreliable. In addition, our approved drugs are subject to extensive ongoing regulation.

We have been researching and developing drugs at our corporate headquarters in Foster City since we became a company in 1987 and began selling our first commercial product, VISTIDE-Registered Trademark-, in June 1996. In July 1999, we substantially increased the size of our organization when we combined with NeXstar Pharmaceuticals, Inc. in a stock-for-stock merger. Today we have four commercial products and research and development facilities in Foster City, California, Boulder, Colorado, San Dimas, California and Cambridge, U.K. We also have manufacturing operations at our San Dimas facility and in Ireland, and sales and marketing operations in the United States, Europe and Australia.

OUR MARKETED PRODUCTS

The products we have developed that are commercially available include:

- AmBisome-Registered Trademark-: A drug for treating and preventing life-threatening fungal infections;

- Tamiflu-TM-: A drug for treating influenza;

- VISTIDE: A drug for treating CMV retinitis in AIDS patients; and

- DaunoXome-Registered Trademark-: A drug for treating AIDS-related Kaposi's sarcoma.

How these products are sold, and the uses or "indications" that they are approved for, varies with each product and in each country or region where they are sold.

In 1999, we earned revenues of approximately $150.3 million from sales of these products. Of this amount, sales of AmBisome generated aggregate product sales and royalty revenues of approximately $137.5 million, or 81% of our total revenues. Hoffmann-La Roche, our corporate partner who sells Tamiflu, did not begin selling Tamiflu until November 1999. We expect that royalty revenues we earn from sales of Tamiflu in 2000 will decrease the percentage of our total revenues from sales of AmBisome, although we cannot predict with any certainty what our actual revenues from either AmBisome or Tamiflu will be in 2000. We do, however, expect that revenues from sales of AmBisome will continue to constitute a substantial majority of our total revenues in 2000.

AMBISOME

AmBisome is a liposomal formulation of amphotericin B. Amphotericin B is a powerful antifungal agent that is well known for its ability to attack and kill a broad variety of life-threatening fungal infections but also has serious side effects, including kidney toxicity. The patients most likely to suffer from these fungal infections are patients with weakened immune systems including transplant patients, patients infected with the HIV virus, and cancer patients undergoing chemotherapy. By delivering amphotericin B in our proprietary liposomal formulation, studies show that AmBisome reduces the rate and severity of kidney toxicity and injection-related reactions, and allows these patients to receive higher and more effective doses of amphotericin B.

We sell AmBisome in 40 countries, including the United States, all of the European Union, most of the rest of Europe and several countries in Latin America and Asia. AmBisome is primarily used for treating patients who are known to have life-threatening fungal infections. AmBisome is also approved in the United States and nine other countries to treat patients who, because of certain symptoms, are presumed to have fungal infections. In addition, AmBisome is approved in four countries as a precautionary treatment for preventing fungal infections in liver transplant patients, and is approved for treating a rare parasitic infection called visceral leishmaniasis in several countries. In 16 of the countries where we sell AmBisome, including the United States, we are authorized to promote AmBisome as a first choice for treating patients who are known to have a fungal infection--a "first line therapy". In the other 24 countries, we promote AmBisome for use after traditional amphotericin B therapy fails or when traditional amphotericin B cannot be used--a "second line therapy."

In the United States, we co-promote AmBisome with Fujisawa Healthcare through our domestic sales force. Our agreement with Fujisawa entitles us to a percentage of revenues generated from these sales and provides that Fujisawa purchases AmBisome from us at our manufacturing cost. See "Collaborative Relationships--Fujisawa". In the major European countries and in Australia, we sell AmBisome through our international sales force. We also sell AmBisome through independent distributors in a number of countries in Europe, Latin America and Asia. Our corporate partner, Sumitomo, has filed an application requesting approval of AmBisome in Japan. We gave Sumitomo the exclusive right to sell AmBisome in Japan and would receive a percentage of any revenues that they receive from those sales. See "Collaborative Relationships--Sumitomo." Most of our sales of AmBisome are in Europe and we expect this to be the case for the foreseeable future. In most significant European countries, we sell AmBisome in the currency of that country and our revenues could therefore be decreased if the value of the U.S. Dollar were to decrease relative to these other currencies.

Traditional amphotericin B is the most significant competition for AmBisome. In many countries, AmBisome cannot be prescribed until traditional amphotericin B therapy has failed or cannot be used. In addition, there are other lipid-based formulations of amphotericin B that compete with AmBisome and there are other products being developed that are likely to compete with AmBisome in the future. The most significant lipid-based amphotericin B product that currently competes with AmBisome is Abelcet, a drug sold by The Liposome Company. The Liposome Company recently announced that it will be acquired by Elan Corporation, a company with significantly greater resources than we have. Traditional amphotericin B is significantly less expensive than AmBisome, and Abelcet is also less expensive than AmBisome. Fujisawa recently completed a multicenter study in 244 patients comparing AmBisome to Abelcet. This study showed that in neutropenic cancer patients with unresolved fever (cancer patients with low white blood cell counts and continuing fevers), AmBisome was significantly safer than Abelcet yet was equally effective. The FDA has reviewed this study and has allowed Fujisawa to include this comparative data in their labels for AmBisome sold in the United States. We cannot be certain, however, that the medical community will accept the results of this study or that the study will improve the competitive position of AmBisome. See "Competition."

OTHER POTENTIAL USES FOR AMBISOME

AmBisome is also being studied for the following potential uses:

- Fujisawa has completed Phase III clinical trials for treating acute cryptococcal meningitis in AIDS patients and has requested approval from the FDA for this use. We have filed for approval of AmBisome for this use in France.

- Fujisawa is studying AmBisome in Phase II clinical trials for treating "Histoplasmosis" a rare fungal infection that affects persons with compromised immune systems and is most common in the midwestern United States. The results of this study, which showed that AmBisome was safer and more effective than traditional amphotericin B in achieving certain clinical end points, will be presented to the FDA and published.

We cannot be certain that any of these studies will be successful or that the FDA or any other regulatory agencies will approve AmBisome for these other potential uses.

TAMIFLU

Tamiflu is an orally administered pill for the treatment of influenza A and B that was approved by the FDA on October 27, 1999. Tamiflu is in a new class of drugs called neuraminidase inhibitors that act by disabling all common strains of the flu virus and preventing the virus from spreading in a patient. As approved by the FDA, when taken twice daily for five days starting within 48 hours of initial symptoms, studies show that Tamiflu reduces the duration of the flu by an average of 1.3 days. Tamiflu also reduces the severity of flu symptoms and the incidence of secondary infections. Tamiflu is approved for this use in adult patients with uncomplicated influenza. The most common side effect associated with Tamiflu is mild nausea and vomiting.

Hoffmann-La Roche, our corporate partner who developed Tamiflu with us and who has the exclusive right to sell Tamiflu, began selling Tamiflu in the United States in November 1999. In May 1999, Hoffmann-La Roche submitted a Marketing Authorisation Application to the European Commission seeking to have Tamiflu approved under the centralized procedure in the European Union. We cannot be certain if or when this application will be approved. We receive a percentage of the net revenues that Hoffmann-La Roche generates from sales of Tamiflu. See "Collaborative Relationships--Hoffmann-La Roche."

There are several products that have been available to treat the flu for some time, but they have not been shown to be as effective or safe as neuraminidase inhibitors. Relenza, an anti-flu drug sold by

Glaxo Wellcome, is the only other neuraminidase inhibitor that has been approved by the FDA. This drug, which is delivered as an inhaled powder, is direct and significant competition for Tamiflu. Tamiflu currently is the only FDA-approved neuraminidase inhibitor that is available in a pill and we believe that this method of delivery gives Tamiflu a competitive advantage over Relenza. We are aware, however, that Johnson & Johnson is developing a neuraminidase inhibitor that has the potential to be delivered as a once-daily pill. When and if Johnson & Johnson receives approval for this product, it will also be direct and significant competition for Tamiflu. See "Competition."

OTHER POTENTIAL USES FOR TAMIFLU

Tamiflu is also being studied for the following potential uses:

- Hoffmann-La Roche is evaluating Tamiflu in elderly patients aged 65 and older as well as in children between the ages 1-12. The results of the study of Tamiflu in elderly patients and children have been similar to the results of the studies involving adults ages 18-65.

- Hoffmann-La Roche is studying Tamiflu as a preventative medicine--a pill that a healthy person could take to prevent the flu. This study has shown that people in the study groups who have taken Tamiflu are less likely to become infected with the flu than people in the study groups who have not taken Tamiflu.

Drugs tend to have different affects on people in different age groups and it is possible that the FDA will have different criteria to approve Tamiflu for these uses. We cannot be certain that Tamiflu will be approved for any of these additional uses.

Tamiflu is not being marketed as an alternative to influenza vaccinations. Even if Tamiflu is approved as a method to prevent infection with the flu virus, influenza vaccinations will remain the most effective method of preventing the flu.

VISTIDE

VISTIDE is an antiviral medication for the treatment of CMV retinitis in patients with AIDS. CMV retinitis is a condition caused by a viral infection (cytomegalovirus or CMV) that is characterized by lesions that form on a patient's retina. This condition affects persons with weakened immune systems and is most common in patients with AIDS. If left untreated, CMV retinitis can lead to blindness. VISTIDE was approved by the FDA in June 1996 and by the European regulatory authorities in May 1997 based on clinical trials demonstrating that the drug delays the progression of CMV retinitis lesions in newly diagnosed patients, and in previously treated patients who had failed other therapies.

We sell VISTIDE in the United States primarily through our sales force of therapeutic specialists. These specialists promote VISTIDE through direct contact with physicians, hospitals, clinics, and other healthcare providers who are involved in the treatment of patients with CMV retinitis. We also sell VISTIDE to wholesalers and specialty distributors who sell the product in the United States to healthcare providers. See "Marketing and Sales." Outside the United States, Pharmacia & Upjohn has the exclusive right to sell VISTIDE. Pharmacia & Upjohn currently sells VISTIDE in all 15 countries of the European Union as well as 7 other countries throughout the world and is seeking clearance to sell VISTIDE in Colombia, Mexico and New Zealand. Pharmacia & Upjohn pay to us a percentage of any revenues it generates from sales of VISTIDE. See "Collaborative Relationships--Pharmacia & Upjohn."

There are several other products that compete with VISTIDE. Ganciclovir, which is sold by Roche Laboratories, is the most widely prescribed drug treatment for CMV retinitis. Ganciclovir is available in injectable and oral formulations, and the oral formulation is approved for both preventing and treating CMV retinitis. There is a device that is marketed by Bausch & Lomb Incorporated that is implanted in a patient's infected eye and releases ganciclovir directly to the infected area. In addition, AstraZeneca sells an injectable drug for the treatment of CMV retinitis called foscarnet, and CibaVision sells a

CMV retinitis drug called formivirsen, that is injected directly into the eye. There also are drugs in clinical development for the treatment of CMV retinitis that would compete with VISTIDE if they are approved. We believe that VISTIDE has competitive advantages over existing products, including dosing convenience and effectiveness, but we can't be certain that we will be successful in maintaining or increasing VISTIDE's share of the declining CMV retinitis treatment market. See "Competition." The CMV retinitis market has been declining in recent years due to the success of combination antiretroviral drug therapies in treating HIV-infected patients.

The most significant side effect associated with the use of VISTIDE is kidney toxicity. Due to this side effect, certain precautions must be taken when VISTIDE is used, and in certain circumstances VISTIDE may not be used. Each time VISTIDE is given to a patient, the patient must first be tested for warning signs of kidney toxicity. If the patient does not have warning signs of kidney toxicity, VISTIDE may be given to that patient but only in combination with certain solutions that reduce the possibility of kidney toxicity. In addition, VISTIDE may not be given to patients who are receiving other drugs that can cause kidney toxicity. Patients who are receiving other drugs that are known to cause kidney toxicity must discontinue taking those drugs and then wait seven days before using VISTIDE. In certain animal studies, cidofovir, the active ingredient in VISTIDE, has caused cancer. These side effects and dosing limitations are a competitive disadvantage of VISTIDE.

In August 1994, we entered into a license and supply agreement with Bausch & Lomb. This agreement provided that Bausch & Lomb would develop and have the right to market an eye drop formulation of cidofovir for the potential treatment of certain infections of the eye. This agreement and the related funding was terminated by Bausch & Lomb in December 1999 because Bausch & Lomb did not believe they were achieving their performance objectives. We are evaluating this use of cidofovir but have not yet determined if we will continue this development ourselves, seek a partner for this development or terminate this program.

We have an exclusive, worldwide license to patent rights and related technology for cidofovir from IOCB/REGA, and are obligated to pay a percentage of any revenues from sales of VISTIDE or any other products containing cidofovir to IOCB/REGA. See "Collaborative Relationships--
IOCB/REGA."

DAUNOXOME

DaunoXome is a liposomal formulation of the anticancer agent daunorubicin. We have received approval to sell DaunoXome in the United States, Canada and 22 other countries as a primary "first line" therapy for treating patients who suffer from HIV-associated Kaposi's sarcoma. Kaposi's sarcoma is a disease characterized by widely disseminated lesions in the skin, mucous membranes, lymph nodes and viscera that can be life threatening for patients suffering from AIDS.

DaunoXome uses our proprietary liposomal technology to deliver safer and more effective doses of daunorubicin to the disease site. Studies have shown that DaunoXome may actually locate and accumulate in the patient's tumor and allow a patient to receive higher concentrations of daunorubicin at the disease site than could be obtained with an equivalent dose of non-liposomal daunorubicin.

DaunoXome is marketed in the United States and abroad by our therapeutic specialists and, in certain foreign countries, by distributors. The number of HIV-infected patients who develop Kaposi's sarcoma has declined in recent years due to the success of combination therapies in treating HIV patients. This has reduced the overall size of the potential market for drugs that, like DuanoXome, treat these patients.

DaunoXome is also being studied for other potential uses in other forms of cancer including a Phase II clinical trial for certain forms of leukemia. We cannot be certain that any of these studies will be successful or that DaunoXome will ever be approved for any additional uses.

PRODUCTS IN LATE STAGE CLINICAL TRIALS

We have two product candidates in large, late-stage human clinical trials:
tenofovir DF for treating patients with HIV; and adefovir dipivoxil for treating patients with hepatitis B. If these Phase III clinical trials are successful, we will apply with the FDA and other foreign regulatory agencies for approval to sell these drugs. We cannot determine with any certainty whether or not any of these clinical trials will be successful and, if they are successful, whether or not the FDA or any other regulatory agencies will approve either of these drugs for marketing.

TENOFOVIR DISOPROXIL FUMARATE

In September 1999, we presented results from our Phase II clinical trial of tenofovir DF. This study evaluated the safety and effectiveness of three doses of tenofovir DF in combination with other HIV drugs in 189 patients who had been taking other HIV drugs. This randomized, placebo controlled, double blind trial* showed that, following 24 weeks of treatment, higher doses of tenofovir DF were associated with lower levels of the HIV in a treatment-experienced patient population. The study also showed that 24 weeks of dosing with tenofovir DF did not result in an increase of serious adverse events compared to dosing with placebo. The following chart provides more detail regarding the data that was obtained through the 24-week period:

DOSE	AFFECT ON VIRAL LEVELS IN BLOOD (AVERAGE % CHANGE BETWEEN BASELINE AND 24 WEEKS)	STATISTICAL SIGNIFICANCE (COMPARING VIRAL LOAD CHANGES ON TENOFOVIR TO THOSE ON PLACEBO) 1	PERCENTAGE OF PATIENTS EXPERIENCING SERIOUS ADVERSE EVENTS
Placebo (no drug).....	34% Reduction	Not Applicable	11%
75 mg.....	64% Reduction	P=0.014	2%
150 mg.....	60% Reduction	P=0.001	12%
300 mg.....	80% Reduction	P=0.001	6%

1 A smaller number indicates that the results have greater statistical significance (reliability). In general, results begin to have reliability when they are less than 0.05.

Based on these promising results, in November 1999 we began enrolling patients in a 48-week randomized, placebo controlled double blind Phase III clinical trial of a 300 mg dose of tenofovir DF as a component of combination therapy. This trial, which is expected to enroll a total of 600 treatment- experienced patients** at nearly 70 sites in the United States, Europe and Australia, is designed to provide us with conclusive data regarding the safety and effectiveness of tenofovir DF. If this data is favorable, it will, together with data from other late stage clinical trials, form the basis of a marketing application with the FDA. We cannot be certain that the results of our Phase III clinical trials will be the same as the Phase II clinical results, particularly given the much larger patient base and longer dosing period. In addition, even if these data appear favorable to us, the FDA could reject our application for a number of reasons including if they require a higher level of safety or effectiveness, or more data than we anticipated, or if they disagree with our design or interpretation of these trials.

* Randomized means that the patients were randomly divided into four dosing groups and were not selected to be in a particular group. This ensures that the selection process does not affect the results. Placebo controlled means that one of these groups received a placebo (a non-therapeutic substitute) instead of the drug. This allows us to evaluate the health of a patient who received the drug versus a patient who did not receive the drug. Double blind means that neither the physician nor the patient were made aware of the particular group that the patient was in. This ensures that the results within each group are not influenced by any knowledge of the physician or the patient regarding which group the patient is in.

**The patients we enroll in this trial have HIV RNA levels between 400 and 1,000 copies/ml and have maintained a stable antiretroviral regimen of not more than three antiretroviral agents for at least 8 weeks.

One of the major challenges in treating HIV-infected patients is drug resistance. Because many of the existing therapies for treating HIV and AIDS rely on similar drug processes, patients who have developed a resistance to one drug often develop a resistance to other drugs within its class. We believe that tenofovir DF, if eventually approved by the FDA, could be a very important drug for treatment-experienced patients because available data has shown that patients do not develop rapid resistance to tenofovir DF and that tenofovir DF is effective in treating patients who have developed resistance to other therapies. Current data also show that tenofovir DF does not cause patients to develop resistance to currently available therapies. We cannot be certain, however, that the resistance data we may obtain from the much broader and longer term Phase III clinical trials, which are the data the FDA will consider, will show similar resistance characteristics to the data we obtained from the more limited and shorter Phase II clinical trials.

Another major concern in HIV treatment is convenience of dosing. The combination therapies that are having a very positive impact on the health of HIV-infected patients require these patients to take numerous different drugs. Some of these drugs require multiple doses every day taken by injection and many have food and timing restrictions. This results not only in discomfort and inconvenience for patients, but also contributes to patients missing doses or not adhering to their therapy. We believe that nucleotide analogues, like tenofovir DF, can be administered in a once-daily oral pill without food restrictions, a dosing form and schedule that may be very appealing to HIV patients and their physicians.

OTHER POTENTIAL USES FOR TENOFOVIR DF

Tenofovir DF is also being studied for the following potential uses:

- The National Institutes of Health (NIH) is evaluating the use of intravenous tenofovir DF to prevent transmission of HIV from a mother to her unborn child; and

- The NIH is evaluating a form of tenofovir DF in a topical gel to prevent sexual transmission of the HIV virus.

We cannot be certain that these studies will be successful or that tenofovir DF will be approved for treatment of HIV or these other uses.

In December 1999, we discontinued developing adefovir dipivoxil for treating HIV-infected patients. This decision followed a recommendation by an FDA Advisory Panel not to approve a 60 mg dose of adefovir dipivoxil for treating HIV due primarily to concerns of kidney toxicity that developed late in the trials, as well as a desire for additional evidence of treatment benefits. Tenofovir DF has a structure and activity very similar to adefovir dipivoxil. While tenofovir DF has not been associated with kidney toxicity and has shown superior treatment benefits in our Phase II clinical trials, we cannot be certain that the kidney toxicity issues that occurred in the later stages of the Phase III clinical trials for adefovir dipivoxil will not arise in the Phase III clinical trials for tenofovir DF or that we will achieve adequate treatment benefits.

We have an exclusive, worldwide license to patent rights and related technology for tenofovir DF from IOCB/REGA, and would be obligated to pay a percentage of any revenues from sales of tenofovir DF to IOCB/REGA. See "Collaborative Relationships--IOCB/REGA."

ADEFOVIR DIPIVOXIL FOR HEPATITIS B

Hepatitis B is a highly contagious viral infection that can cause acute liver failure. Some patients develop a chronic infection which over many years can lead to complications (such as cirrhosis and cancer) that can lead to death. The Centers for Disease Control and Prevention estimates that there are approximately 350 million people worldwide who are infected with chronic hepatitis B, including 1.25 million people in the United States. Adefovir dipivoxil is a nucleotide analogue reverse

transcriptase inhibitor with a structure similar to tenofovir DF. Adefovir dipivoxil disables the hepatitis B virus by interfering with the activity of certain enzymes that are necessary for the hepatitis B virus to replicate. In randomized, double blind, placebo controlled Phase II clinical trials, a 30 mg dose of adefovir dipivoxil reduced the median hepatitis B viral load by over 99%.

We have two separate Phase III clinical trials to evaluate the safety and effectiveness of adefovir dipivoxil in 10 mg and 30 mg orally-administered pills for treating patients with chronic hepatitis B infection. Both of our Phase III trails were designed as randomized, double blind, placebo controlled studies and are being conducted at clinical sites in the United States, Canada, Europe, Australia and Southeast Asia. One of these trials, which is fully enrolled with 515 patients, is evaluating adefovir dipivoxil for treating patients who test positive for the hepatitis B "e" antigen, the most common type of hepatitis. The other trial, which is evaluating adefovir dipivoxil for treating patients with a type of hepatitis B known as "precore mutant hepatitis B," began enrolling patients in January 2000 and is expected to enroll approximately 180 patients by June 30, 2000. Precore mutant hepatitis B is most common in countries of Southeast Asia and the Mediterranean where evidence suggests that it infects approximately 30-80% of all hepatitis B patients.

A vaccine is available that can prevent the transmission of hepatitis B, but it does not cure patients who become infected with the virus. It is expected that as this vaccine becomes more widely available, the incidence of hepatitis B will significantly decrease. Existing therapies for treating patients who are infected with hepatitis B include the drugs Epivir-HBV (a form of lamivudine that is sold by Glaxo Wellcome) and Intron-A (a form of alpha interferon that is sold by Schering Plough). Epivir-HBV is an orally-administered drug that prevents the virus from replicating in patients. Intron-A is an injectable drug that can provide a reduction in the amount of virus in the blood of some patients, but is often associated with side effects. We believe that if the FDA approves adefovir dipivoxil, Epivir-HBV would be its most significant competition. Of course we cannot be certain that adefovir dipivoxil will be approved for the treatment of hepatitis B and we cannot determine if adefovir dipivoxil would be competitive with Epivir-HBV. See "Competition."

As is the case with HIV, drug resistance is a serious problem with drugs that treat hepatitis B. Available data has shown that hepatitis B patients do not develop rapid resistance to adefovir dipivoxil and that adefovir dipivoxil is effective in treating patients who have developed resistance to other therapies, including Epivir-HBV. Current data also show that adefovir dipivoxil does not cause patients to develop resistance to currently available therapies. We believe that the resistance profile of adefovir dipivoxil could make adefovir dipivoxil an important drug for treating chronic hepatitis B infection. We cannot be certain, however, that the resistance data we may obtain from the much broader and longer term Phase III clinical trials on adefovir dipivoxil will also show these resistance characteristics.

As described above under tenofovir DF, we discontinued development of 60 mg doses of adefovir dipivoxil for treatment of HIV due to safety and benefit concerns from the FDA. Studies have shown that adefovir dipivoxil is more effective against the hepatitis B virus than against the HIV virus, allowing us to use lower doses that have not shown significant kidney toxicity in our clinical trials. We have no clinical data demonstrating the safety or benefits of the 10 mg dose of adefovir dipivoxil for hepatitis B and we cannot be certain that the broad, long term studies of adefovir dipivoxil at 10 mg and 30 mg doses will demonstrate, to the satisfaction of the FDA and other regulatory agencies, that adefovir dipivoxil can be a safe and effective treatment for chronic hepatitis B.

Hepatitis B is most common in China and Southeast Asian countries. We do not have regulatory expertise or marketing capacity in these countries. Therefore, our potential revenues from adefovir dipivoxil for chronic hepatitis B will depend on our ability to establish a collaborative relationship with a corporate partner for these activities. We cannot be certain that we will be able to enter into a collaborative relationship for these activities or that the terms of any such relationship will be favorable

to us. It is also difficult to protect patents in these countries and we could be adversely affected if we were unable to obtain adequate patent protection for adefovir dipivoxil in China and Southeast Asia.

We have an exclusive, worldwide license to patent rights and related technology for adefovir dipivoxil from IOCB/REGA, and would be obligated to pay a percentage of any revenues from sales of adefovir dipivoxil to IOCB/REGA. See "Collaborative Relationships--IOCB/REGA."

OTHER PRODUCTS IN DEVELOPMENT

NX 211

NX 211 is a liposomal formulation of lurtotecan, an anti-cancer compound developed by Glaxo Wellcome. Glaxo Wellcome granted to us the exclusive right to develop and commercialize NX 211, although Glaxo Wellcome can elect to participate in this development and commercialization at certain specified times during the development process. See "Collaborative Relationships--Glaxo Wellcome--NX 211."

Prior to granting us these development and commercialization rights, Glaxo Wellcome conducted Phase II clinical trials on non-liposomal lurtotecan as a treatment for various forms of cancer. These Phase II clinical trials showed that lurtotecan has anti-cancer activity but we believe that Glaxo Wellcome did not continue pursuing development of non-liposomal lurtotecan because they were not convinced that these Phase II clinical trials showed sufficient treatment benefits at safe doses when compared to other available anti-cancer agents. We entered into the development and commercialization relationship with Glaxo Wellcome because we believe that by delivering lurtotecan in a liposome, we may be able to increase the treatment benefits of lurtotecan and give patients doses that are both safe and effective.

We have completed a number of preclinical experiments that indicate that NX 211 can increase the safety and treatment benefit profile of lurtotecan. Based upon these preclinical experiments, we are currently conducting three Phase I clinical trials on NX 211 in the Netherlands, Canada and the United States to determine the safety and pharmaceutical characteristics of NX 211. We expect that the data from these trials will be available during 2000. If these Phase I clinical trails show sufficient safety at doses that we believe could provide significant treatment benefits, we would commence Phase II clinical trials of NX 211 to evaluate NX 211 in ovarian cancer and small-cell lung cancer and potentially other cancer types. We cannot accurately predict the outcome of these clinical trials.

Lurtotecan is in a class of compounds called camptothecins. These compounds work by disrupting a cell's ability to use "topoisomerase I," an enzyme that is required for cells to replicate. Studies show that the ability of these compounds to kill and stop the spread of cancer cells is directly related to the length of time that cancer cells are exposed to the compound. We believe that by formulating lurtotecan in a liposome, we may be able to increase its time of exposure and its treatment benefits.

MIKASOME

MiKasome is a liposomal formulation of amikacin, an antibiotic that is highly effective in treating serious bacterial infections, but is associated with serious side effects such as kidney failure, hearing loss and loss of balance. By encapsulating amikacin in a liposome, we hope to significantly improve its safety, reduce required dosing, increase its potency and permit its use for a broader range of infections. We are evaluating MiKasome in Phase II clinical trials as a potential treatment for complicated urinary tract infections, as well as other infections that are difficult to treat with ordinary antibiotics. It is too early for us to determine if these Phase II clinical trials will show that MiKasome can be a safe and effective treatment for these diseases.

NX 1838

NX 1838 is an aptamer that we identified with our proprietary SELEX technology. We have studied NX 1838 in Phase I clinical trials as a treatment for age-related macular degeneration (AMD). AMD is a disease that causes loss of vision, and is the single leading cause of blindness in the United States and in other developed countries around the world.

In medical studies, NX 1838 has shown the ability to attach to a protein associated with AMD and prevent that protein from causing AMD. Because AMD is not within our strategic focus, we are currently seeking a collaborative partner to complete the development of and to commercialize NX 1838. It is our intention to grant a collaborative partner the exclusive right to develop and commercialize NX 1838 in exchange for the partner paying to us fees and royalties. The partner would be responsible for all future development of NX 1838. We cannot be certain that we will find an appropriate partner for NX 1838 or that NX 1838 will ever become a commercial product.

OUR SCIENCE

We have approximately 180 research scientists in Foster City, California, San Dimas California, Boulder Colorado and Cambridge U.K. These scientists seek to develop new compounds and technologies that we hope will lead to new drug candidates, and work with existing compounds to develop and test new drug candidates. The primary focus of our scientific efforts is developing drugs to treat patients with infectious diseases, including viral infections, fungal infections and bacterial infections, and cancer.

NUCLEOTIDE ANALOGUES

Our scientists are working with our proprietary compounds known as "small molecule nucleotide analogues" to develop treatments for viral infections. These compounds treat viral infections by interfering with the activity of certain proteins that are necessary for the virus to grow. For example, VISTIDE, which was developed with one of these nucleotide analogues, inhibits the activity of certain proteins in the cytomegalovirus that are essential for that virus to spread. Tenofovir DF and adefovir dipivoxil are nucleotide analogues and work by inhibiting the activity of reverse transcriptase, a protein necessary for replication of the HIV virus (tenofovir DF) and the hepatitis B virus (adefovir dipivoxil). Other viruses we are seeking to treat using nucleotide analogues include the herpesviruses and poxviruses. Several nucleotide analogues are also being evaluated in animals for activity against cancer.

We believe that small molecule nucleotide analogues can offer advantages as therapeutics. These advantages include:

- These molecules have demonstrated the ability to work in both infected and uninfected cells. This could enable us to develop drugs that not only treat a patient who is infected with a virus, but that can also prevent a healthy person from becoming infected in the first place; and

- Drugs developed with these molecules have been shown to have treatment activity in a patient for longer periods of time than other available drugs. This could enable us to develop drugs that require less frequent dosing and that are more convenient for patients.

Given the complexity of drug development, we cannot be certain that any drug candidates we develop with this science will have any or all of these advantages. And, even if we do develop drug candidates with some or each of these advantages, the FDA and other regulatory agencies could reject marketing approval of these drug candidates for other reasons, including safety and benefit concerns.

LIPOSOMES

We also have scientists who are focused on applying our liposomal drug delivery technology to develop safer, more effective and more convenient drugs. A lipid is a compound that is made of phospholipids, the basic matter that make up human cell walls. They are hollow spheres into which drugs can be packed. We believe that we can influence the way compounds are released and distributed in the body by placing them in liposomes. This can, in turn, improve the safety and treatment benefits of that compound. For example, we developed AmBisome by incorporating amphotericin B in a liposome. Clinical studies have shown that AmBisome delivers amphotericin B in a manner that results in fewer side effects and improved treatment benefits over conventional amphotericin B, including concentrating the drug at the site of the infection, extending the time the drug remains in the blood stream to prolong the therapeutic effect and reducing kidney toxicity and injection related reactions.

Our current strategy is to use our liposome technology with compounds we develop internally and to identify appropriate compounds developed by third parties for use with this technology. Compounds developed by third parties that are appropriate for our technology include those that, like amphotericin B, have proven therapeutic benefits but suffer from significant side effects, or that suffer from dosing and administration problems. We believe that we can use our liposomal technology to improve the safety of these drugs while maintaining or even improving their therapeutic benefits.

We have identified certain generic compounds (compounds that are not protected by patents) and proprietary compounds owned by third parties that may benefit substantially from our liposomal technology and have begun formulation studies for these compounds. In addition, we have discussed, and will continue to discuss, collaborative relationships with other companies to develop liposomal formulations of their compounds. We also intend to continue internally developing products based on our liposomal technology.

HIV PROTEASE INHIBITORS

We are evaluating a number of small molecule compounds known as "protease inhibitors" for the treatment of HIV. Protease inhibitors act by interfering with the activity of protease, an enzyme that, like transcriptase, is necessary for replication of the HIV virus. We have conducted a number of preclinical experiments on these compounds that have demonstrated anti-viral activity. Our scientists are trying to increase the safety and treatment benefits of these compounds and to reduce resistance concerns with these compounds before conducting further preclinical development.

ANTIBACTERIAL PROGRAM

We have developed a series of small molecule compounds that have shown antibacterial activity in bacteria cultured in test tubes as well as in laboratory animal bacterial infection experiments. These compounds have activity against certain bacteria, including methicillin-resistant STAPHYLOCOCCUS AUREUS, the bacteria responsible for numerous hospital and community acquired infections such as pneumonia, surgical wound infections, and skin and soft tissue infections. This antibiotic resistant strain of STAPHYLOCOCCUS is responsible for approximately 30% of all STAPHYLOCOCCUS AUREUS infections, and is more likely to cause serious illness and death because of its antibiotic resistance. The current focus of this program is to improve the potency of these compounds and their ability to selectively kill bacteria while causing minimal toxic side effects in preclinical animal models.

ADENOSINE RECEPTOR REGULATORS

We are working with the National Institute of Diabetes, Digestive and Kidney Diseases at the National Institutes of Health to study compounds known as "adenosine receptor agonists and antagonists" for the treatment and prevention of neurodegenerative disorders (disorders of the brain and upper spine), particularly stroke. We also intend to evaluate the use of these compounds in

inflammatory and allergic conditions. NIH researchers have developed a number of these compounds, some of which (A3 receptor agonists and antagonists) have shown therapeutic benefits in stroke.

DRUG DISCOVERY TECHNOLOGIES

We have a technology that we call the "SELEX process" that is used to identify potential drug candidates. This process works by identifying drug compounds, known as "aptamers", that tend to bind to the molecule that is causing the disease. Because these aptamers tend to bind to the disease molecules, we believe that they can be effective for treating disease at low doses. We also believe that the SELEX process can reduce the time and cost of discovering and developing drug candidates. NX 1838 is an example of an aptamer identified with the SELEX process. See "Other Products in Development--NX 1838."

MARKETING AND SALES

We established a United States sales force of therapeutic specialists when we began selling VISTIDE in 1996. As a result of our merger with NeXstar in July 1999, we also have marketing subsidiaries in the United Kingdom, Germany, Italy, Spain, France, Portugal and Australia, a marketing operation in Greece, and sales professionals in the United States to promote and sell AmBisome and DaunoXome. AmBisome is also sold by Fujisawa in the United States (where we co-promote the product) and in Canada. Pharmacia & Upjohn promotes and sells VISTIDE in countries outside of the United States and Hoffmann-La Roche promotes and sells Tamiflu everywhere it is sold. See "Collaborative Relationships." On March 6, 2000, we entered into a promotion agreement with The Virco Group. Under this arrangement, our United States therapeutic specialists will promote Virco's HIV resistance monitoring services to HIV-treating physicians through the end of 2001.

Our U.S. sales force currently consists of approximately 30 sales representatives and five regional directors who promote VISTIDE to physicians, hospitals, clinics, and other healthcare providers who treat AIDS patients, AmBisome to infectious disease specialists, hospitals, home health care providers and cancer specialists, and DaunoXome to cancer specialists and hospitals. The U.S. sales force is supported by a managed care/national accounts team, and a marketing and sales support staff of approximately 20 people based at our headquarters in Foster City, California.

Our international marketing subsidiaries are each headed by a general manager who oversees the operations in the market(s) served by that subsidiary. We currently have approximately 140 people located mainly in Europe, including medical, accounting and human resources personnel, who support our international sales and marketing operations. These subsidiaries also assist in obtaining regulatory approvals in the countries where they are located.

In the United States, we also sell VISTIDE to wholesalers and specialty distributors who, in turn, sell the product to physicians, hospitals, clinics, pharmacies and other healthcare providers. Outside of the United States, we have agreements with third-party distributors, including distributors in certain of the countries where we have marketing operations, to promote, sell and distribute AmBisome and DaunoXome. These international distribution agreements generally provide that the distributor has the exclusive right to sell AmBisome and DaunoXome in a particular country or several countries for a specified period of time.

If tenofovir DF is approved by the FDA for treatment of HIV, a larger sales force and additional marketing resources would be required to expand our coverage of healthcare professionals treating HIV patients. It is our current intention to retain the commercial rights to adefovir dipivoxil for hepatitis B in the United States and certain countries in Europe and give a marketing partner rights to this product in Asia and the rest of the world. If we do retain significant commercial rights to adefovir dipivoxil for hepatitis B and the product is approved by the FDA, we would need to increase our sales force and use additional marketing resources to sell this product.

The revenues we receive from sales of AmBisome by Fujisawa, sales of VISTIDE by Pharmacia & Upjohn and sales of Tamiflu by Hoffmann-La Roche depend on the efforts of these marketing partners. We cannot be certain that the efforts by these partners will be successful, that our interests and the interests of our partners will not be in conflict or that any of our partners will not terminate their relationship with us. See "Collaborative Relationships" and "Risk Factors."

VISTIDE is returnable in its original, unopened container up to one year beyond the expiration date or, if damaged when received by the customer. Our customers may return AmBisome or DaunoXome if the shelf life has expired or if the product is damaged or defective when it is received by the customer. AmBisome has an approved shelf life of 36 months in the United States, in Canada and most European countries. DaunoXome has a shelf life of 52 weeks in the United States and 40 weeks in Canada and most European countries. Additionally, certain governmental agency customers are entitled to discounts, and we are required to provide rebates under state Medicaid programs. To date, returns, rebates and discounts have not been material. Fujisawa establishes the return policy for AmBisome in North America and Hoffmann-La Roche establishes the return policy for Tamiflu.

COLLABORATIVE RELATIONSHIPS

As part of our business strategy, we establish collaborations with other companies to assist in the clinical development and/or commercialization of certain of our products and product candidates, and to provide support for our research programs. We also evaluate opportunities for acquiring products or rights to products and technologies from other companies that are complementary to our business. Our existing collaborative relationships are as follows:

HOFFMANN-LA ROCHE

In September 1996, we entered into a collaboration agreement with Hoffmann-La Roche to develop and commercialize therapies to treat and prevent the flu. Under this agreement, we granted Hoffmann-La Roche exclusive worldwide rights to all of our proprietary influenza neuraminidase inhibitors, including Tamiflu. In October 1999, the FDA approved Tamiflu for marketing and in November 1999, Hoffmann-La Roche began selling Tamiflu.

As of December 31, 1999, we have received license fees and milestone payments from Hoffmann-La Roche totaling $29.1 million relating to the execution of this agreement and to regulatory filings and approvals. Hoffmann-La Roche also funded all of the research and development costs for Tamiflu, including reimbursement to us of $26.7 million for the period from January 1, 1997 through the end of 1999. In addition, under this agreement:

- Hoffmann-La Roche is responsible for pricing, promoting and selling Tamiflu on a worldwide basis; and

- Hoffmann-La Roche pays us a percentage of its net revenues from sales of Tamiflu and any other products developed under the collaboration. In certain circumstances, the amount that Hoffmann-La Roche pays to us may be reduced by a percentage of the cost of materials they use to manufacture Tamiflu. We receive payments and recognize revenue from Hoffmann-La Roche in the quarter following the quarter when the sales were made.

The agreement with Roche terminates on a country-by-country basis as patent coverage for Tamiflu (or any other product that may be developed under the agreement) expires. Hoffmann-La Roche has the right to terminate the agreement prior to expiration at any time upon 12 months notice. See "Our Marketed Products--Tamiflu."

FUJISAWA

In 1991, we entered into an agreement with Fujisawa providing that:

- We have the exclusive right to promote and sell AmBisome in all countries, except the United States and Canada;

- Fujisawa has the exclusive right to promote and sell AmBisome in Canada;

- In the United States:

- We have the right to co-promote AmBisome with Fujisawa;

- Fujisawa has primary responsibility for promoting and selling AmBisome in the United States; and

- We receive 20% of the gross profits from the sale of AmBisome in the United States for our co-promotion efforts;

- We receive payments and recognize revenue from Fujisawa in the month following the month when the sales are made;

- We would be required to pay Fujisawa a 4% royalty in connection with sales of AmBisome in significant Asian markets, including Japan, Korea, Taiwan, China and India; and

- We manufacture AmBisome for all sales. Fujisawa purchases AmBisome from us for sale in the United States at a price equal to our cost to manufacture the product and in Canada at that cost plus a specified percentage.

Our agreement with Fujisawa terminates when the last patent covering AmBisome in the United States or Japan expires.

See "Our Marketed Products--AmBisome."

IOCB/REGA

In 1991 and 1992, we entered into agreements with IOCB/REGA relating to nucleotide compounds discovered at these institutions. Under these agreements and later amendments to these agreements:

- We received from IOCB/REGA the exclusive right to manufacture, use and sell the nucleotide compounds covered by this agreement; and

- We are required to pay to IOCB/REGA a percentage of any net revenues generated from sales of our products containing these compounds.

The compounds covered by the agreements with IOCB/REGA include cidofovir, adefovir dipivoxil and tenofovir DF but do not cover Tamiflu or any of our other compounds in clinical or preclinical development. We are currently making quarterly payments to IOCB/REGA based upon a percentage of sales of VISTIDE and, if we receive marketing approval from the FDA, would be obligated to pay additional amounts upon any future sales of adefovir dipivoxil or tenofovir DF.

The agreements with IOCB/REGA terminate on a country-by-country basis as patent coverage for any product licensed under the agreements expires. IOCB/REGA may terminate the licenses under these agreements for a particular product, in a particular country, if we do not make any sales of that product in that country within 12 months after regulatory approval. We also have an agreement with IOCB/REGA that gives us an option to receive an exclusive license to any new developments by IOCB/ REGA during the term of this agreement. Either of us may terminate this agreement on six months notice.

PHARMACIA & UPJOHN

In August 1996, we entered into an agreement with Pharmacia & Upjohn relating to VISTIDE. Under this agreement:

- Pharmacia & Upjohn has the exclusive right to market and sell VISTIDE in all countries outside of the United States;

- We are responsible for maintaining the patents for cidofovir;

- We are required to sell bulk cidofovir to Pharmacia & Upjohn;

- Pharmacia & Upjohn will pay to us a percentage of its net sales of VISTIDE and any other products developed under the collaboration. We receive payments and recognize revenue from Pharmacia & Upjohn in the quarter following the quarter when the sales were made; and

- Pharmacia & Upjohn holds 1,133,786 shares of common stock that it purchased in connection with this agreement. Pharmacia & Upjohn may not sell their shares or acquire additional shares of our stock without our approval until June 2002.

Our agreement with Pharmacia & Upjohn terminates:

- on a country-by-country basis as patent coverage for VISTIDE expires; or

- upon six months notice by Pharmacia & Upjohn.

See "Our Marketed Products--VISTIDE."

SUMITOMO PHARMACEUTICALS CO., LTD.

In 1996, we entered into an agreement with Sumitomo Pharmaceuticals Co., Ltd. that gave Sumitomo the right to develop and market AmBisome in Japan. Sumitomo paid to us $7 million at the time we entered into the agreement and $3 million in March 1998 when it made a regulatory filing to sell AmBisome in Japan. Under the terms of this agreement:

- Sumitomo is required to make a payment of $4 million to us if AmBisome is approved for sale in Japan;

- Sumitimo is required to pay to us a percentage of any revenue they generate from sales of AmBisome; and

- If approved in Japan, we would manufacture AmBisome for sale by Sumitomo in Japan. The price that we would charge Sumitomo for the supply of AmBisome and the percentage of revenues that they would be required to pay to us would be determined by the price of AmBisome in Japan.

This agreement terminates on the later of:

- Ten years after Sumitomo begins selling AmBisome in Japan; or

- The date the last patent for AmBisome in Japan expires.

PROLIGO L.L.C.

We own a 49% interest in Proligo L.L.C., a company that manufactures oligonucleotides. We also have agreements with Proligo and SKW Americas, Inc. (the owner of the other 51% of Proligo) relating to the ownership, operations and funding of Proligo. Under these agreements:

- We contributed a total of $4.9 million to Proligo to fund its operations in late 1999 and early 2000;

- SKW Americas will have the right to purchase our ownership interest in Proligo for a 90-day period beginning on July 29, 2001 for an amount equal to the fair market value of that interest in 1999; and

- Over the next four years, SKW Americas is obligated to pay to us $400,000; and

- Proligo agreed to manufacture oligonucleotides for us. We would pay them an amount equal to their manufacturing cost plus a pre-determined percentage for those oligonucleotides.

Proligo will dissolve and any remaining assets will be distributed to its owners on August 2, 2028, unless the owners of Proligo at that time decide to extend the term. The agreement relating to the manufacture and supply of oligonucleotides expires on August 15, 2008.

SCHERING A.G.

In 1993, we entered into agreements with Schering A.G. Under these agreements Schering has funded our discovery, research, and development of aptamers for "IN VIVO DIAGNOSTICS"--diagnosing diseases and other conditions in humans and animals. Schering funded $250,000 for these activities in 1999. Schering discontinued funding and we discontinued further research and development under these agreements in 1999.

Under these agreements, Schering was given the right to develop and commercialize the aptamers we developed in the collaboration as IN VIVO diagnostic agents or "radiotherapeutics."

If Schering decides to commercialize any product with these aptamers:

- Schering would be required to make certain payments to us upon achieving certain goals relating to regulatory approval for that product. These payments could total up to $6 million for each product developed; and

- Schering would be required to pay to us a percentage of any revenues it receives from selling the product.

We have the right to develop and commercialize products based on aptamers that Schering discovered under this agreement that are not IN VIVO diagnostic agents or radiotherapeutics. If we did commercialize a product resulting from this collaboration, we would be required to pay Schering a percentage of any revenues we receive from sales of those products. The rights to use and develop products granted under these agreements and the obligations to pay revenues from selling products survive termination of the agreements.

GLAXO WELLCOME--NX 211

In May 1998, we entered into agreements with Glaxo Wellcome giving us rights to Glaxo Wellcome's proprietary compound lurtotecan, and granting Glaxo Wellcome rights to use our SELEX process to identify aptamers for therapeutic uses.

Under the agreement relating to lurtotecan, we are developing NX 211, a liposomal formulation of lurtotecan. This agreement provides that:

- We have the exclusive right to develop and commercialize NX 211 unless Glaxo Wellcome elects to participate in these activities;

- We may be required to make payments to Glaxo Wellcome if we achieve certain development goals relating to the regulatory approval of NX 211:

- If Glaxo Wellcome elects to participate in the development and commercialization of NX 211 in certain countries, we would not need to make these payments; and

- If NX 211 is approved for marketing, we would be required to pay to Glaxo Wellcome a percentage of any revenues we generate from sales of NX 211 in any country where Glaxo Wellcome does not participate in the development and commercialization of NX 211;

- Glaxo Wellcome can exercise its right to participate in these development and commercialization activities after we have completed Phase II clinical trials on NX 211 and at the time we commence Phase III clinical trials on NX 211; and

- If Glaxo Wellcome elects to participate in these development and communication activities:

- At the time it elects, it would be required to pay to us a fee and in some cases a percentage of the money that we spent to develop NX 211,

- If it elects to participate in certain countries, including the United States, the major countries in Europe and in Australia, we would have the right to sell NX 211 with Glaxo Wellcome in those countries. We would share with Glaxo Wellcome any profits in any territories where we sell NX 211 with Glaxo Wellcome, and

- If it elects to participate in Asia, including Japan and any of the other countries where we do not have the right to sell the product with Glaxo Wellcome, Glaxo Wellcome would have the exclusive right to promote and sell NX 211 in those countries. Glaxo Wellcome would be required to pay to us a percentage of revenues in any territories where it has the exclusive right to sell NX 211.

NX 211 is still in an early stage of development. We cannot be certain that the data we generate from our Phase I clinical trial for NX 211 will support Phase II clinical trials of NX 211 or that if we complete Phase II clinical trials, that those results would support a Phase III program.

This agreement terminates on the later of:

- Ten years after Glaxo Wellcome begins selling NX 211; or

- The date the last patent for NX 211 expires.

GLAXO WELLCOME--SELEX

At the time we entered into the agreement with Glaxo Wellcome relating to NX 211, we also entered into an agreement giving Glaxo Wellcome the non-exclusive right to use our SELEX technology for five years to identify aptamers.

Under this agreement, if Glaxo Wellcome identifies an aptamer having certain characteristics, they may elect to enter into an additional agreement with us to use the SELEX process to develop and commercialize that aptamer. Under this additional agreement:

- Glaxo Wellcome would be required to pay to us a fee at the time we enter into the agreement;

- Glaxo Wellcome would be required to make payments to us based on achieving certain goals relating to the regulatory approval of any product they develop based on the aptamer; and

- Glaxo Wellcome would be required to pay to us a percentage of any revenues they may generate from sales of any product they develop based on the aptamer.

This agreement terminates on May 27, 2003 except:

- Glaxo Wellcome can extend this agreement for additional one year periods in which case Glaxo Wellcome would be required to pay to us an appropriate fee; and

- Glaxo Wellcome can terminate this agreement earlier at any time on 90 days notice to us.

SOMALOGIC, INC.

In November 1999, we entered into an agreement with Somalogic, Inc., a company formed by Larry Gold, the founder of NeXstar, relating to SELEX technology. Under this agreement:

- We gave Somalogic the exclusive right to use SELEX technology to make and sell in vitro diagnostic products (diagnostic products that are not used in a person or animal);

- We sold to Somalogic certain patents and materials relating to in vitro diagnostics, including robotic SELEX machines;

- We have the right to use the other drug discovery technology that is the subject of this agreement internally to study diseases and in our drug development and clinical trial programs; and

- Somalogic paid to us the first installment of a fee at the time we entered into the agreement and is obligated to pay to us a second and final installment in November 2000.

This agreement terminates on the later of:

- On a country by country basis as patent coverage for this drug discovery technology expires; or

- November 2024.

INTERNATIONAL DISTRIBUTION AGREEMENTS

We have agreements with distributors in Western Europe, Eastern Europe, South America, the Middle East and Africa that grant these distributors the exclusive right to sell AmBisome, and in some cases DaunoXome, in a particular country or countries for a specified period of time. These agreements also provide for collaborative efforts between us and the distributor for obtaining regulatory approval for the product in the particular country and for marketing the product in the country. Most of these agreements establish a price that the distributor must pay for our product and require us to deliver quantities of the product ordered by the distributor.

ACADEMIC AND CONSULTING RELATIONSHIPS

To supplement our research and development efforts, as part of our regular business we enter into arrangements with universities and medical research institutions. These arrangements often provide us with rights to patents, patent applications and technology owned by these institutions in return for payments and fees relating to our use of these rights.

UNIVERSITY OF COLORADO

We have an ongoing collaborative arrangement with the University of Colorado at Boulder relating to our SELEX technology. Under this arrangement:

- The University of Colorado at Boulder has given us all of its present and future rights to:

- inventions covered by patents and patent applications for SELEX technology;

- improvements to SELEX technology it makes or discovers;

- oligonucleotides or other molecules it makes using SELEX technology;

- results of certain research; and

- computer software related to SELEX technology.

- We are required to pay to the University of Colorado at Boulder:

- 2% of the revenues we generate from our sales of SELEX-derived products;

- 15% of any amounts we receive from a third party that are based upon sales by those third parties of SELEX-derived products; and

- 5% of other payments we receive from third parties as a result of certain arrangements we have with those third parties to develop and sell SELEX-derived products.

MANUFACTURING

We manufacture AmBisome and DaunoXome in commercial quantities in two separate but adjacent facilities in San Dimas, California. The Medicines Control Agency of the United Kingdom has approved both of these facilities to manufacture AmBisome and DaunoXome for commercial use. The FDA has approved both these facilities to manufacture AmBisome but only one of these facilities to manufacture DaunoXome for distribution in the United States. To import AmBisome and DaunoXome into the European Union, we own a manufacturing facility in Dublin, Ireland where we perform quality control testing, final labeling and packaging for the European Union and elsewhere.

We hire third parties to manufacture our non-liposomal drugs for clinical and commercial purposes, including VISTIDE, adefovir dipivoxil tablets and tenofovir DF tablets. Hoffmann-La Roche manufactures Tamiflu. We have no commercial-scale manufacturing facilities for our non-liposomal products that are qualified under the FDA's current Good Manufacturing Practices, and we have no current plans to establish these facilities. AmBisome is sold as a freeze-dried product and we currently hire third parties to freeze dry some of the product. We are installing additional freeze drying capacity and when this equipment has been installed and approved by regulatory authorities, we expect that we will no longer rely on third parties for this process. We cannot be certain that the third parties we rely on will perform their obligations effectively and on a timely basis. If these third parties do not perform effectively and timely, our clinical trials or regulatory filings could be delayed or we could be unable to deliver our products to customers on a timely basis and this would adversely affect our operating results.

We use commercially available materials and equipment to manufacture our products. Currently, we obtain the amphotericin B, daunorubicin HCl and cholesterol that we use to manufacture AmBisome and DaunoXome from single approved suppliers. We have one supplier that has been approved by the FDA to manufacture the cidofovir used in VISTIDE and a single FDA approved supplier for the final drug product. We manufacture the active ingredient in tenofovir DF in small quantities at our own facilities and in larger quantities through a contract manufacturer. The final tenofovir DF and adefovir tablets used in our clinical trials are manufactured at three contract manufacturing sites. If any of these sites we use were interrupted for any reason, our ability to complete our clinical trials or ship our products would be impaired and this would adversely affect us.

For our non-liposomal products in particular, we will need to develop additional manufacturing capabilities and establish additional third party suppliers in order to manufacture sufficient quantities of

our product candidates to complete clinical trials and to manufacture sufficient quantities of any candidates that are approved for commercial sale. If we are unable to develop manufacturing capabilities internally or contract for large scale manufacturing with third parties on acceptable terms for our non-liposomal products, our ability to conduct large-scale clinical trials, and meet customer demand for commercial products, would be adversely affected. Manufacturing liposomal products is a particularly complex process and any new liposomal product we develop will require unique and complex variations in our manufacturing process.

We believe that the technology we use to manufacture our products and compounds is proprietary. For our non-liposomal products, we have licensed this technology to contract manufacturers to enable them to manufacture the products and compounds for us. We have agreements with these manufacturers that are intended to restrict them from using or revealing this technology but we cannot be certain that these manufacturers will comply with these restrictions. In addition, these manufacturers could develop their own technology related to the work they perform for us that we may need to manufacture our products or compounds. We could be required to enter into an agreement with that manufacturer if we wanted to use that technology ourselves or allow another manufacturer to use that technology. The manufacturer could refuse to allow us to use their technology or could demand terms to use their technology that are not acceptable.

PATENTS AND PROPRIETARY RIGHTS

Patents and other proprietary rights are extremely important to our business. If we have a properly designed and enforceable patent it can be more difficult for our competitors to use our technology to create competitive products and more difficult for our competitors to obtain a patent that prevents us from using technology we create. As part of our business strategy, we actively seek patent protection both in the U.S. and internationally and file additional patent applications, when appropriate, to cover improvements in our compounds, products and technology. We also rely on trade secrets, internal know-how, technological innovations and agreements with third parties to develop, maintain and protect our competitive position. Our ability to be competitive will depend on the success of this strategy.

We have a number of patents, patent applications and rights to patents related to our compounds, products and technology but we cannot be certain that issued patents will be enforceable or provide adequate protection or that pending patent applications will result in issued patents. The following table shows the actual or estimated patent expiration dates in the United States and Europe for the primary patents that cover the compounds in our marketed products and our product candidates:

PRODUCTS	U.S. PATENT EXPIRATION	EUROPEAN PATENT EXPIRATION
AmBisome	2016*	2008
Tamiflu	2016	2016*
VISTIDE	2010	2012
DaunoXome	2009	2008
PRODUCT CANDIDATES		
tenofovir DF	2017	2017*
adefovir dipivoxil	2014	2011
MiKasome	2015*	2006
NX 211	2013*	2012*
NX 1838	2012*	*

* Applications pending.

Patents covering VISTIDE, adefovir, and lurtotecan (the active ingredient in NX 211) are held by third parties. We acquired exclusive rights to these patents in the agreements we have with these

parties. See "Collaborative Relationships." Patents do not cover the active ingredients in AmBisome, DaunoXome and MiKasome. Instead, we hold patents to the liposomal formulations of these compounds and protect these formulations through trade secrets. We do not have patent filings covering adefovir dipivoxil in China or in certain other Asian countries, although we do have applications pending in various Asian countries, including China, which relate to specific forms and formulations of adefovir dipivoxil. Asia is a major market for hepatitis B therapies.

We may obtain patents for our compounds many years before we obtain marketing approval for them. This limits the time that we can prevent other companies from developing these compounds and therefore reduces the value of the product. However, we can apply for patent term extensions. For example, extensions for the patents on VISTIDE 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 that we are developing but we cannot be certain we will obtain them.

It is also very important that we do not infringe patents or proprietary rights of others and that we do not violate the agreements that grant proprietary rights to us. If we do infringe patents or violate these agreements, we could be prevented from developing or selling products or from using the processes covered by those patents or agreements, or we could be required to obtain a license from the third party allowing us to use their technology. We cannot be certain that, if required, we could obtain a license to any third-party technology or that we could obtain one at a reasonable cost. If we were not able to obtain a required license, we could be adversely affected. In August 1998, we were sued by Chiron who claimed that we were infringing their patents for hepatitis C and related technology. In, December 1999, we agreed to the terms of a settlement agreement with Chiron and, as a result, we agreed to cease certain development activities relating to hepatitis C and made a one-time settlement payment of $0.4 million to Chiron.

Patents relating to pharmaceutical, biopharmaceutical and biotechnology products, compounds and processes like those that cover our existing compounds, products and processes and those that we will likely file in the future, do not always provide complete or adequate protection. Future litigation or reexamination proceedings regarding the enforcement or validity of our existing patents or any future patents could invalidate our patents or substantially reduce their protection. In addition, our pending patent applications and patent applications filed by our collaborative partners may not result in the issuance of any patents or may result in patents that do not provide adequate protection. As a result, we may not be able to prevent third parties from developing the same compounds and products that we are developing. Also, in the United States, patent applications are maintained in secrecy until patents are issued so we cannot be certain that we are the inventor of technologies covered by our pending patent applications or that we were the first to file patent applications for those inventions.

We also rely on unpatented trade secrets and improvements, unpatented internal know-how and technological innovation. In particular, a great deal of our liposomal manufacturing expertise, which is a key component of our liposomal technology, is not covered by patents but is instead protected as a trade secret. We protect these rights mainly through confidentiality agreements with our corporate partners, employees, consultants and vendors. These agreements provide that all confidential information developed or made known to an individual during the course of their relationship with us will be kept confidential and will not be used or disclosed to third parties except in specified circumstances. In the case of employees, the agreements provide that all inventions made by the individual while employed by us will be our exclusive property. We cannot be certain that these parties will comply with these confidentiality agreements, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known or be independently discovered by our competitors. Under some of our research and development agreements, inventions discovered in certain cases become jointly owned by us and our corporate partner and in other cases become the exclusive property of one of us. It can be difficult to determine who owns a particular invention and disputes could arise regarding those inventions.

COMPETITION

Our products and development programs target a number of diseases and conditions, including fungal infections, viral infections and cancer. There are many commercially available products for these diseases, and a large number of companies and institutions are spending considerable amounts of money and resources to develop additional products to treat these diseases. Our current products compete with other available products based primarily on:

- product performance;

- safety;

- tolerability;

- acceptance by doctors;

- patient compliance;

- patent protection;

- ease of use;

- price;

- insurance and other reimbursement coverage;

- distribution;

- marketing; and

- adaptability to various modes of dosing.

Any other products we market in the future will also compete with products offered by our competitors. If our competitors introduce data that shows improved characteristics of their products, improve or increase their marketing efforts or simply lower the price of their products, sales of our products could decrease. We also cannot be certain that any products we develop in the future will compare favorably to products offered by our competitors, or that our existing or future products will compare favorably to any new products that are developed by our competitors. Our ability to be competitive also depends upon our 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 that it takes to develop a product.

In markets where AmBisome has been approved as a first time therapy, it competes against traditional amphotericin B, which is made by Bristol-Myers Squibb Company and numerous generic manufacturers, and we expect to face more competition from new antifungal products, including those produced or currently being developed by major pharmaceutical companies, including Pfizer, Inc. and Merck. There is also a number of other lipid-based amphotericin B products that have been approved in the United States and throughout Europe, including Abelcet, which is sold by The Liposome Company (who recently announced that they will be acquired by Elan Corporation) and Amphotec, which is sold by ALZA Corporation. These products compete against AmBisome as both primary and secondary therapy and have been offered at prices that are less than AmBisome's price.

Tamiflu competes with Relenza, an anti-flu drug that is sold by Glaxo Wellcome, in the United States and Europe. Relenza is a neuraminidase inhibitor that is delivered as an orally-inhaled dry powder. In addition, Johnson & Johnson and Biocryst are developing a neuraminidase inhibitor anti-flu drug that will represent significant competition when and if the FDA approves it. This drug being developed by Johnson and Johnson and Biocryst may be administered as a once-daily pill as opposed to Tamiflu, which must be taken twice daily. We cannot be certain that Tamiflu will compare favorably to this drug based on performance, price, length of dosing, side effects or any other criteria. Johnson & Johnson began Phase III clinical trials of this compound in February 2000 and it could be on the market as early as the winter 2000-2001 flu season.

VISTIDE competes with a number of drugs that also treat CMV retinitis. These drugs include:

- Ganciclovir, a drug that is sold in intravenous and oral formulations by Roche Laboratories and as an ocular implant by Bausch & Lomb Incorporated;

- Foscarnet, an intravenous drug sold by AstraZeneca; and

- Formivirsen, a drug that is injected directly into the eye that is sold by CibaVision.

In addition, we are aware that several other companies are developing drugs to treat CMV retinitis.

If approved, tenofovir DF will face substantial competition. A number of drugs to treat HIV infection and AIDS are currently sold or are in advanced stages of clinical development, including 14 products currently sold in the United States. Among the companies that are significant competitors in the HIV/AIDS market are Glaxo Wellcome, Bristol-Myers Squibb, Hoffmann-La Roche, Agouron Pharmaceuticals, Merck & Co. and DuPont Pharma.

Lamivudine is a drug that was developed by Glaxo Wellcome in collaboration with Biochem Pharma. Lamivudine is sold in the United States, China and several other countries and has been shown to be effective in treating patients with hepatitis B. If adefovir dipivoxil is approved to treat hepatitis B, lamivudine will be significant competition.

There are drugs that have been approved, or are awaiting approval, for the treatment of Kaposi's sarcoma in the United States and Europe, including one that is sold in a liposomal formulation. These drugs compete or are expected to compete with DaunoXome.

A number of companies are pursuing the development of technologies competitive with our 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.

We anticipate that we will face increased competition in the future as our competitors introduce new products to the market and new technologies become available. We cannot determine if existing

products or new products that our competitors develop will be more effective, or more effectively marketed and sold, than any that we develop. Competitive products could render our technology and products obsolete or noncompetitive before we recover the money and resources we used to develop these products.

GOVERNMENT REGULATION

Our operations and activities are subject to extensive regulation 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 and other federal and state statutes and regulations govern the testing, manufacture, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of our products. As a result of these regulations, product development and approval is very expensive and time consuming.

The FDA must approve a drug before it can be sold in the United States. The general process for this approval is as follows:

PRE-CLINICAL TESTING

Before we can test a drug candidate in humans, we must study the drug in laboratory experiments and in animals to generate data to support the drug's potential safety and benefits. We submit this data to the FDA in a "investigational new drug application" seeking their approval to test the compound in humans.

CLINICAL TRIALS

If the FDA accepts the investigational new drug application, we study the drug in human clinical trails to determine if the drug is safe and effective. These clinical trials involve three separate phases, which often overlap, and can take many years and are very expensive. These three phases, which are themselves subject to considerable regulation, are as follows:

- PHASE I. The drug is given to a small number of healthy human subjects or patients to test for safety, dose tolerance, pharmacokinetics, metabolism, distribution, and excretion.

- PHASE II. The drug is given to a limited patient population to determine:

- the effect of the drug in treating the disease,

- the best dose of the drug, and

- the possible side effects and safety risks of the drug.

- PHASE III. If a compound appears to be effective and safe in Phase II clinical trials, Phase III clinical trials are commenced to confirm those results. Phase III clinical trials are long-term, involve a significantly larger population, are conducted at numerous sites in different geographic regions and are carefully designed to provide reliable and conclusive data regarding the safety and benefits of a drug. It is not uncommon for a drug that appears promising in Phase II clinical trials to fail in the more rigorous and reliable Phase III clinical trials.

FDA APPROVAL PROCESS

If we believe that the data from the Phase III clinical trials show an adequate level of safety and effectiveness, we file a "new drug application" with the FDA seeking approval to sell the drug for a particular use. The FDA will review the new drug application and often will hold a public hearing where an independent advisory committee of expert advisors asks additional questions regarding the drug. This committee makes a recommendation to the FDA that is not binding on the FDA but is

generally followed by the FDA. If the FDA agrees that the compound has a required level of safety and effectiveness for a particular use, it will allow us to sell the drug in the United States for that use. It is not unusual, however, for the FDA to reject an application because it believes that the drug is not safe enough or effective enough, or because the FDA does not believe that the data submitted is reliable or conclusive.

At any point in this process, the development of a drug could be stopped for a number of reasons including safety concerns and lack of treatment benefit. We cannot be certain that any Phase I, Phase II or Phase III clinical trials that we are conducting, including those for tenofovir DF for HIV and for adefovir dipivoxil for chronic hepatitis B, or any that we conduct in the future, will be completed successfully or within any specified time period. We may choose or the FDA may require us to delay or suspend our clinical trials at any time if it appears that the patients are being exposed to an unacceptable health risk or if the drug candidate does not appear to have sufficient treatment benefit.

The FDA may also require us to complete additional testing, provide additional data or information, improve our manufacturing processes, procedures or facilities or require extensive post-marketing testing and surveillance to monitor the safety or benefits of our product candidates if they determine that our new drug application does not contain adequate evidence of the safety and benefits of the drug. In addition, even if the FDA approves a drug, it could limit the uses of the drug. Approvals can also be withdrawn if the FDA does not believe that we are complying with regulatory standards or if problems are uncovered or occur after approval.

In addition to obtaining FDA approval for each drug, the manufacturing facilities for any drug we sell, including those of companies who manufacture our drugs for us as well as our own, must be approved by the FDA and are subject to periodic inspections by the FDA. Foreign establishments that manufacture products to be sold in the United States must also be approved by the FDA and are subject to periodic regulatory inspection. Manufacturing facilities located in California, including our San Dimas facility and Foster City facility, also must be licensed by the State of California in compliance with local regulatory requirements.

Drugs that treat serious or life-threatening diseases and conditions that are not adequately addressed by existing drugs may be designated as "fast track" products by the FDA and may be eligible for priority (six month) review and accelerated approval. Drugs receiving accelerated approval must be monitored in post-marketing clinical trials in order to confirm the safety and benefits of the drug. Certain products we are developing, including tenofovir DF for HIV, may qualify as fast track products and be eligible for accelerated approval. We have not determined if we would seek "fast track" status of these products if they qualified or the impact of this status on the timing or likelihood of approval of any of these potential products or those of our competitors.

We are also subject to other federal, state and local regulations regarding workplace safety and protection of the environment. We use hazardous materials, chemicals, viruses and various radioactive compounds in our research and development activities and cannot eliminate the risk of accidental contamination or injury from these materials. Any misuse or accidents involving these materials could lead to significant litigation, fines and penalties.

Drugs are also subject to extensive regulation outside of the United States. In the European Union, there is a centralized approval procedure that authorizes marketing of a product in all countries in the European Union (which includes most major countries in Europe). If this procedure is not used, under a decentralized system, an approval in one country of the European Union can be used to obtain approval in another country of the European Union under a simplified application process. After approval under the centralized procedure, pricing and reimbursement approvals are also required in most countries. VISTIDE was approved by the European Union under the centralized procedure. Tamiflu is being reviewed under the centralized procedure but has not yet been approved in Europe.

PRICING AND REIMBURSEMENT

Insurance companies, HMOs and other third-party payors and some governments, seek to limit the amount we can charge for our drugs. For example, in certain foreign markets, pricing negotiations are often required to obtain approval of a product, and in the United States there have been, and we expect that there will continue to be, a number of federal and state proposals to implement drug price control. In addition, managed care organizations are becoming more common in the United States and will continue to seek lower drug prices. The announcement of these proposals or efforts can cause our stock price to lower, and if these proposals are adopted, our revenues would decrease.

Our ability to sell our drugs also depends on the availability of reimbursement from governments and private insurance companies. These governments and insurance companies often demand 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. We expect that other products we are developing, particularly for AIDS indications, will be subject to reimbursement issues. We cannot be certain that any of our other products that obtain regulatory approval will be reimbursed by these government and insurance companies.

Regulatory approval of prices is generally required in most foreign countries. In particular, certain countries will condition their approval of a product on the agreement of the seller not to sell that product for more than a certain price in that country and in the past have required price reductions after or in connection with product approval. We cannot be certain that regulatory authorities in the future will not establish lower prices or that any regulatory action reducing the price of our products in any one country will not have the practical effect of requiring us to reduce our prices in other countries.

HUMAN RESOURCES

As of December 31, 1999, we had approximately 760 full-time employees. We believe that we have good relations with our employees.

RISK FACTORS

In evaluating our business, you should carefully consider the following risks in addition to the other information in this report. Any of the following risks could materially and adversely affect our business, operating results and financial condition.

ANY SIGNIFICANT REDUCTION IN AMBISOME SALES WOULD SIGNIFICANTLY REDUCE OUR OPERATING INCOME, AND COULD REQUIRE US TO SCALE BACK OUR MANUFACTURING OPERATIONS AND REDUCE OUR SALES FORCE. AmBisome sales for the year ended December 31, 1999 were approximately $129.2 million. During the same period, sales of VISTIDE and DaunoXome, were approximately $5.9 million and $4.8 million, respectively. Our corporate partner, Hoffmann-La Roche, began selling Tamiflu in November 1999 but we have not yet recognized any revenues from this product for 1999 sales. In March 2000, we received a payment from Hoffman-La Roche in the amount of $5.4 million for sales in 1999, which will be recognized as royalty revenue in the first quarter of 2000. We expect that revenues from sales of Tamiflu in 2000 will increase, therefore decreasing the percentage of our total revenues from sales of AmBisome, although we cannot predict with any certainty what our actual revenues from either AmBisome or Tamiflu will be in 2000. We do, however, expect that revenues from sales of AmBisome in 2000 will continue to constitute a substantial majority of our total product revenues in 2000.

Accordingly, for the foreseeable future, we expect that we will continue to rely on sales of AmBisome to support our existing manufacturing and sales infrastructure and to provide operating income to offset a significant portion of our administrative, research and development expenditures. Any significant reduction in sales of AmBisome, whether as a result of the introduction of competitive

products or otherwise, would have a material adverse effect on us, including the possibility that we would have to scale back our manufacturing operations and reduce our sales force. There are several products on the market that compete with AmBisome and are generally priced lower than AmBisome. In addition, there are other potentially competitive products in clinical development by major pharmaceutical companies.

TAMIFLU IS A NEW DRUG AND IT IS TOO EARLY TO DETERMINE IF IT WILL GAIN SIGNIFICANT MARKET ACCEPTANCE. Most people who become infected with the flu use over-the-counter drugs to treat the flu symptoms, and rely on their immune system to fight the infection. Tamiflu is in a class of drugs that is a new approach to treating the flu. Tamiflu is available only by prescription and its primary benefit is that it reduces the duration of the illness by an average of 1.3 days. Patients may be reluctant to visit a physician or seek a prescription drug for the flu, physicians may be reluctant to prescribe a flu drug and government reimbursers and private insurance companies may refuse to pay for an anti-flu drug. In order for Tamiflu to be successful, our marketing partner Hoffmann-La Roche will need to increase awareness of this new approach to treating the flu and change the attitudes of patients, physicians, nurses, pharmacies, government reimbursers and insurance companies regarding flu treatment. We cannot be certain that Hoffmann-La Roche will be successful in these efforts.

The 1999-2000 flu season was the first flu season that Tamiflu was available. It is too early to determine if Tamiflu will achieve significant market acceptance. If Tamiflu does not achieve significant market acceptance, we would be adversely affected.

WE DEVELOP DRUGS TO TREAT AIDS AND AIDS-RELATED CONDITIONS, AND THEREFORE WE CAN BE ADVERSELY AFFECTED BY CHANGES IN THE REGULATORY AND COMMERCIAL ENVIRONMENT FOR AIDS THERAPIES. Several of our products and products in development address AIDS or AIDS-related conditions. These products include VISTIDE (cidofovir injection) for CMV retinitis, tenofovir DF for HIV and AIDS, and DaunoXome for HIV-associated Kaposi's sarcoma. The medical, regulatory and commercial environment for AIDS therapies changes quickly and often in ways that we are unable to accurately predict. We develop our AIDS products based upon current policy and the current marketplace for AIDS therapies, as well as our prediction of future policy and the future marketplace for these therapies. Our business will be subject to substantial risk because these policies and markets change quickly and unpredictably and in ways that could have a material adverse impact on our ability to obtain regulatory approval and commercial acceptance of these products.

WE MAY NOT RECEIVE APPROVAL FOR EXPANDED USES FOR EXISTING PRODUCTS OR APPROVAL OF ADDITIONAL PRODUCTS. Additional regulatory approvals will be needed to expand the uses for which AmBisome may be marketed in the countries where it is already approved, and those approvals may or may not be obtained. Similarly, to the extent that we seek to expand the indications for DaunoXome beyond Kaposi's sarcoma, the drug may not be effective for the treatment of other diseases, and we may never obtain additional regulatory approvals. In December 1999, Bausch & Lomb terminated a collaborative program studying the use of an eye drop formulation of cidofovir, the active ingredient in VISTIDE, for the potential treatment of certain eye viruses, because they did not believe the compound achieved their performance objectives.

OUR OPERATIONS DEPEND ON COMPLIANCE WITH COMPLEX FDA AND COMPARABLE INTERNATIONAL REGULATIONS. FAILURE TO OBTAIN BROAD APPROVALS ON A TIMELY BASIS OR TO ACHIEVE CONTINUED COMPLIANCE COULD DELAY COMMERCIALIZATION OF OUR PRODUCTS AND ADVERSELY AFFECT US. The products that we will develop and sell must be approved and will be subject to extensive regulation by the FDA and comparable agencies in other countries. We are continuing clinical trials for both AmBisome and DaunoXome for currently approved and additional uses. We are also conducting clinical trials for five other products, adefovir dipivoxil for hepatitis B infection, tenofovir DF, MiKasome, NX 211 and NX 1838. We anticipate that we will conduct a variety of clinical trials and file 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 their uses. These failures, delays or limitations, as well as other regulatory changes, actions and recalls, could delay commercialization of any products and adversely affect our results of operations.

In addition, even after our products are marketed, the products and their manufacturers are subject to continual review. Later discovery of previously unknown problems with our products, our own manufacturing or the production by third-party manufacturers may result in restrictions on our products or the manufacture of our products, including withdrawal of the products from the market.

RESULTS OF CLINICAL TRIALS AND APPROVAL OF PRODUCTS ARE UNCERTAIN, AND WE MAY BE DELAYED IN OR PROHIBITED FROM SELLING OUR PRODUCTS. We have a number of potential products that have reached the development stage. These potential products include adefovir dipivoxil for hepatitis B, tenofovir DF, MiKasome, NX 211 and NX 1838. We will be required to demonstrate the safety and effectiveness of these and any other products we develop in each intended use through extensive preclinical studies and clinical trials in order to obtain regulatory approval of these 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 or design of our 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.

On November 1, 1999, an FDA Advisory Committee recommended against approval of our application to approve a 60 mg dose of adefovir dipivoxil to treat AIDS. Kidney toxicity associated with this 60 mg dose, as well as a desire for additional data, were the major concerns of this committee. Following this recommendation, we were informed by the FDA that they would not approve our application unless we obtained additional data that satisfied the concerns raised by this committee. Based on these discussions, we terminated our development of adefovir dipivoxil for the treatment of AIDS. We are using 10 and 30 milligram doses of adefovir dipivoxil in our Phase III clinical trials of adefovir dipivoxil for hepatitis B. We believe that these lower doses will not result in the kidney toxicity experienced with 60 milligrams and that adefovir dipivoxil can be effective in treating hepatitis B at this lower dose. We cannot be certain, however, that these lower doses will be both safe enough and have

sufficient treatment benefits to receive FDA approval. Tenofovir DF is in the same class of drugs as adefovir dipivoxil. And, while we have not yet experienced kidney toxicity in our clinical trials of tenofovir DF, the kidney toxicity in our clinical trials of adefovir dipivoxil for AIDS did not arise until the later stages of our clinical trials. We cannot be certain that similar toxicity issues will not arise later in our clinical trials of tenofovir DF. A number of companies in our industry have suffered similar setbacks in advanced clinical trials despite promising results in earlier trials. In the end, we may be unable to develop additional marketable products.

DELAYS IN PATIENT ENROLLMENT FOR CLINICAL TRIALS COULD INCREASE COSTS AND DELAY REGULATORY APPROVALS. The rate of completion of our clinical trials will depend on the rate of patient enrollment. There will be substantial competition to enroll patients in clinical trials for our drugs in development. This competition has delayed our clinical trials in the past. In addition, recent improvements in existing drug therapy, particularly for AIDS, hepatitis B and certain cancers, may make it more difficult for us to enroll patients in our 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.

OUR PRODUCT DEVELOPMENT EFFORTS MAY NOT YIELD MARKETABLE PRODUCTS DUE TO RESULTS OF STUDIES OR TRIALS, FAILURE TO ACHIEVE REGULATORY APPROVALS OR MARKET ACCEPTANCE, PROPRIETARY RIGHTS OF OTHERS OR MANUFACTURING ISSUES. Our success depends on our ability to successfully develop and obtain regulatory approval to market new pharmaceutical products. A significant portion of the research that we will conduct will involve new and unproven technologies. Development of a product requires substantial technical, financial and human resources even if the product is not successfully completed.

Our 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 sufficient treatment benefit or unacceptable toxicity during preclinical studies or clinical trials;

- failure to receive necessary regulatory approvals;

- 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.

WE MAY UNDERESTIMATE DEVELOPMENT COSTS, ADVERSELY AFFECTING OUR

BUSINESS. Due to uncertainties that are part of the development process, we 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 our products could adversely affect our operating results.

WE DEPEND ON RELATIONSHIPS WITH OTHER COMPANIES FOR RESEARCH FUNDING, CLINICAL DEVELOPMENT, SALES AND MARKETING PERFORMANCE AND REVENUES. FAILURE TO MAINTAIN THESE RELATIONSHIPS WOULD NEGATIVELY IMPACT OUR BUSINESS. We rely on a number of significant collaborative relationships with major pharmaceutical companies for our research funding, clinical development and/or sales and marketing performance. These include collaborations with Fujisawa USA Inc., Glaxo Wellcome, Hoffmann-La Roche, Pharmacia & Upjohn, Schering AG and Sumitomo Pharmaceuticals Co. Inc. We also only rely on international distributors for sales of AmBisome in certain countries. Reliance on collaborative relationships poses a number of risks, including:

- we will not be able to control whether our corporate partners will devote sufficient resources to our 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 our 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 our competitors; and

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

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

OUR RIGHTS TO MARKET AMBISOME IN THE UNITED STATES AND CANADA ARE LIMITED BY AN AGREEMENT WITH FUJISAWA. FAILURE OF FUJISAWA TO EFFECTIVELY MARKET AMBISOME MAY REDUCE REVENUES. Our rights to market AmBisome in the United States and Canada are subject to an agreement with Fujisawa Healthcare, Inc. Under the terms of this agreement, we have sole marketing rights to AmBisome in all countries except the United States and Canada, but must pay royalties in connection with sales in most significant Asian markets, including Japan. We co-promote AmBisome with Fujisawa in the United States. We manufacture AmBisome for sale in the United States and Canada and sell AmBisome to Fujisawa at cost in the United States and at cost plus a specified percentage in Canada. Fujisawa collects all revenues from AmBisome sales in the United States and pays us 20% of the gross profits from such sales. The success of AmBisome in the United States will be dependent primarily on the efforts of Fujisawa and in Canada the success of AmBisome will depend entirely on Fujisawa. If Fujisawa fails in its efforts, potential revenues from the sales of AmBisome may be substantially reduced.

FAILURE OF HOFFMANN-LA ROCHE TO EFFECTIVELY MARKET TAMIFLU WOULD REDUCE POTENTIAL REVENUES. Hoffmann-La Roche has sole responsibility for promoting and selling Tamiflu on a worldwide basis and we have no control over their activities. Therefore, we are relying on the efforts of Hoffmann-La Roche for any revenues we receive from the sale of Tamiflu. If Hoffmann-La Roche does not dedicate sufficient resources to the promotion of Tamiflu, or if Hoffmann-La Roche fails in its marketing efforts, the royalties we receive from the sale of Tamiflu would decrease and we would be adversely affected.

INABILITY TO ESTABLISH FUTURE SUCCESSFUL COLLABORATIVE RELATIONSHIPS MAY IMPAIR OUR FINANCIAL RESULTS. We may seek future collaborative relationships with corporate partners to fund some of our research and development expenses and to develop and commercialize some of our potential products. For example, we have been in discussions with several potential corporate partners about collaborative development and commercialization of adefovir dipivoxil for hepatitis B, particularly in Asian territories. Further, we anticipate that our revenues from collaborative agreements will continue to be affected by existing agreements, as well as by the timing of drug development programs of our corporate partners. We may not be able to negotiate acceptable collaborative arrangements in the future, and any arrangements we do negotiate may not be successful. If we fail to establish additional collaborative relationships, we will be required to undertake research, development, marketing and manufacturing of our proposed products at our own expense.

WE HAVE A HISTORY OF LOSSES, EXPECT TO OPERATE AT A LOSS FOR THE FORESEEABLE FUTURE AND MAY NEVER BE PROFITABLE. We have never been profitable on a full-year basis. We may never become profitable. At December 31, 1999, our accumulated deficit was $449.2 million. Our losses have resulted principally

from expenses associated with our research and development programs and, to a lesser extent, from sales, general and administrative expenses. Our product sales and royalty revenues are derived from sales of AmBisome, VISTIDE and DaunoXome and royalty arrangements related to AmBisome and VISTIDE. In addition, we continue to integrate Gilead and NeXstar and unforeseen costs could require us to spend substantially more financial resources that we have anticipated.

OUR EXISTING PRODUCTS AND PRODUCTS UNDER DEVELOPMENT MAY NOT BE ACCEPTED BY PHYSICIANS, INSURERS AND PATIENTS. Many of our products in development, if approved for marketing, would 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, we need 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 we may develop. If our products are not accepted, our results of operations will suffer.

MANY OTHER COMPANIES ARE TARGETING THE SAME DISEASES AND CONDITIONS AS WE ARE. COMPETITIVE PRODUCTS FROM OTHER COMPANIES COULD SIGNIFICANTLY REDUCE THE MARKET ACCEPTANCE OF OUR PRODUCTS. Our products and development programs target a number of diseases and conditions, including viral infections, fungal infections, bacterial 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 our competitors could make our technology and products obsolete or noncompetitive. We expect that competition for the treatment of these diseases will increase in the future as new products enter the market and advanced technologies become available. We will also be competing to license or acquire technology from other companies.

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

THE SIGNIFICANTLY GREATER RESOURCES OF THE MARKETING ORGANIZATIONS OF LARGE PHARMACEUTICAL COMPANIES COULD HINDER OUR ABILITY TO COMPETE SUCCESSFULLY. Our products compete, and the products we 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, our marketing or sales efforts may not compete successfully against the efforts of these other companies.

OUR EXISTING PRODUCTS ARE SUBJECT TO REIMBURSEMENT FROM GOVERNMENT AGENCIES AND OTHER THIRD PARTIES. PHARMACEUTICAL PRICING AND REIMBURSEMENT PRESSURES MAY REDUCE PROFITABILITY. Successful commercialization of our products depends, in part, on the availability of governmental and third party payor reimbursement for the cost of such products and related treatments. Government health administration authorities, private health insurers and other organizations generally provide reimbursement. 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 our sales of AmBisome, VISTIDE and DaunoXome are subject to reimbursement by government agencies, resulting in significant discounts from list price and rebate obligations. If Tamiflu is approved for sale in Europe, its success will also depend largely on obtaining government reimbursement in Europe because in many European countries, including the United Kingdom and France, patients are reluctant to pay for prescription drugs out of their own pockets. We also expect that several of our products in development, particularly for AIDS indications, will have a similar reimbursement profile, if they receive regulatory approval. Even if reimbursement is available, reimbursement policies may adversely affect our ability to sell our 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 twelve months or longer. Product sales, attempts to gain market share or introductory pricing programs of our competitors could require us to lower our prices in these countries, which could adversely affect our results of operations.

MOST OF OUR PRODUCT SALES ARE MADE IN EUROPE, AND CURRENCY FLUCTUATIONS MAY IMPAIR OUR FINANCIAL RESULTS. A majority of our product sales are made in Europe, with 51.3% of our product sales for the year ending December 31, 1999 occurring in the United Kingdom, France, Germany, Italy and Spain. In most significant European markets, we sell AmBisome and DaunoXome in the currency of the country in which they are sold. Accordingly, the prices of these products in U.S. Dollars will vary as the value of the U.S. Dollar fluctuates against these foreign currencies or the Euro. Increases in the value of the U.S. Dollar against foreign currencies may reduce our U.S. Dollar return on the sale of our products. In addition, although we implement hedging techniques with respect to our foreign currency accounts receivable, these techniques do not eliminate the effects of foreign currency fluctuations with respect to anticipated revenues. Therefore our future results will continue to be affected by foreign currency fluctuations.

WE MAY NOT BE ABLE TO OBTAIN EFFECTIVE PATENTS TO PROTECT OUR TECHNOLOGIES FROM USE BY COMPETITORS, AND PATENTS OF OTHER COMPANIES COULD REQUIRE US TO STOP USING OR PAY FOR THE USE OF REQUIRED TECHNOLOGY. Our success will depend to a significant degree on our ability to:

- obtain patents and licenses to patent rights;

- preserve trade secrets; and

- operate without infringing on the proprietary rights of others.

We have rights to United States and foreign issued patents and have filed and will continue to file patent applications in the United States and abroad relating to our 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 our technology. Patent applications in the United States are confidential until a patent is granted. As a result, we would not know if our competitors filed patent applications for technology covered by our pending applications. We also cannot be certain that we were the first to invent the technology that is the subject of our patent applications. Competitors may have filed patent applications or received patents and may obtain additional patents and proprietary rights that block or compete with our patents.

We do not have patent filings covering adefovir dipivoxil per se in China or in certain other Asian countries, although we do have applications pending in various Asian countries, including China, which relate to various forms and formulations of adefovir dipivoxil. Asia is a major market for hepatitis B therapies, one of the potential indications for adefovir dipivoxil. We 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.

Our competitors may file patent applications covering our technology. If so, we 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, we were served with a patent infringement lawsuit filed by Chiron Corporation alleging that our research infringes Chiron's patents covering the hepatitis C NS-3 protein and gene sequences and their use in screening for potential hepatitis C therapeutics. We have ceased our activities with respect to the NS-3 protein and have settled the litigation with Chiron.

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

In addition, we use significant proprietary technology and rely on unpatented trade secrets and proprietary know-how to protect certain aspects of our production and other technologies. Our trade secrets may become known or independently discovered by our competitors.

MANUFACTURING PROBLEMS COULD DELAY PRODUCT SHIPMENTS AND REGULATORY APPROVALS. For VISTIDE, adefovir dipivoxil and tenofovir DF, we rely on third parties for the manufacture of bulk drug substance and final drug product for clinical and commercial purposes. Hoffmann-La Roche is responsible for manufacturing Tamiflu and if they encounter problems in this process, our revenues from the sales of Tamiflu could decrease. We depend on these third parties to perform their obligations effectively and on a timely basis. If these third parties fail to perform as required, our clinical trials or submission of products for regulatory approval may be delayed. These delays could impair our ability to deliver commercial products on a timely basis and could impair our competitive position.

We manufacture AmBisome and DaunoXome at our facilities in San Dimas, California. Our only formulation and manufacturing facilities are in San Dimas, California; although we own a manufacturing facility in Ireland that performs certain quality control testing, labeling and packaging, and we use third parties to fill and lyophilize (freeze dry) certain batches of product as alternate contract suppliers. In the event of a natural disaster, including an earthquake, equipment failure, strike or other difficulty, we may be unable to replace this manufacturing capacity in a timely manner and would be unable to manufacture AmBisome and DaunoXome to meet market needs.

WE MAY NOT BE ABLE TO OBTAIN MATERIALS NECESSARY TO MANUFACTURE OUR PRODUCTS. Many of the materials that we utilize in our operations are made at only one facility. For example, we depend on single suppliers for high quality amphotericin B, daunorubicin HC1 and high quality cholesterol, each of which is used in the manufacture of our liposome products. We have qualified only one supplier with the FDA for the bulk drug substance used in VISTIDE and one different supplier for the final drug product. 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 our financial results. While we have established a second source of bulk drug substance supply for VISTIDE, we have 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 our suppliers were interrupted for any reason, we could be unable to ship AmBisome, VISTIDE or DaunoXome, or supply any of our products in development for clinical trials.

WE HAVE LIMITED EXPERIENCE IN MANUFACTURING NON-LIPOSOMAL PRODUCTS AND COULD BE ADVERSELY AFFECTED IF WE FAIL TO DEVELOP MANUFACTURING CAPACITY. For some of our potential products, we will need to develop further our 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. We cannot be certain that we 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. In addition, our manufacturing operations are subject to routine inspections by regulatory agencies and similar regulations are in effect in other countries.

OUR BUSINESSES MAY GIVE RISE TO PRODUCT LIABILITY CLAIMS NOT COVERED BY INSURANCE OR INDEMNITY AGREEMENTS. The testing, manufacturing, marketing and use of AmBisome, VISTIDE and DaunoXome, as well as 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 we maintain product liability insurance, a single product liability claim could exceed the coverage limits, and multiple claims are possible. If that happens, the insurance coverage we have may not be adequate. A successful product liability claim in excess of our coverage could require us to pay substantial amounts. This could adversely affect our results of operations. Moreover, the amount and scope of any coverage may be inadequate to protect us in the event of a successful product liability claim. In the future such insurance may not be renewed at an acceptable cost or at all. If liability insurance becomes unobtainable, our ability to clinically test and to market our products could be significantly impaired.

Additionally, we are required by governmental regulations to test our products even after they have been sold and used by patients. As a result of such tests, we may be required to, or may determine that, we should recall products already in the market. Subsequent testing and product recalls may increase our potential exposure to product liability claims.

OUR USE OF HAZARDOUS MATERIALS, CHEMICALS, VIRUSES AND RADIOACTIVE COMPOUNDS EXPOSES US TO POTENTIAL LIABILITIES. Our research and development involves the controlled use of hazardous materials, chemicals, viruses and various radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, we could be held liable for significant damages or fines.

ITEM 2. PROPERTIES

Our corporate headquarters, including our principal executive offices and certain of our research facilities are located in Foster City, California. At this location, we lease approximately 221,600 square feet of space in eight proximately located buildings. One of the leases covering 59,039 square feet of space in this group of buildings expires in December 2003 and there are no renewal options. The remaining leases expire in March and September 2006 and we have an option to renew all of these leases for two additional five-year periods.

In Boulder, Colorado, we sublease a facility of approximately 32,000 square feet of office space, which we use as administrative offices. This sublease expires in July 2003. We also lease approximately 60,000 square feet of space, which we use both as research laboratories and as administrative offices. This lease expires in October 2001, but can be renewed at our option for two successive five-year periods.

We also occupy a facility in San Dimas, California under a noncancelable operating lease that expires in May 2003 with two five-year renewal options. This facility has 51,500 square feet of space and houses research and development activities, manufacturing and certain administrative functions.

The facility has been inspected by the State of California for compliance with "current Good Manufacturing Practices" and is licensed by the State of California for pharmaceutical manufacturing. The license is renewable annually. The San Dimas facility has been registered for the commercial production of AmBisome and DaunoXome by the Medicines Control Agency in the United Kingdom (MCA) and the FDA.

We also lease a second manufacturing facility adjacent to our other facility in San Dimas, California. This lease expires in November 2003 with two five-year renewal options. This second facility in San Dimas provides in excess of 70,000 square feet of space, including approximately 45,000 square feet of manufacturing space, and is our primary injectable pharmaceutical production plant. Both the MCA and the FDA have approved the manufacture of AmBisome at this facility.

Finally, the Company owns a 9,700 square foot facility located in Dublin, Ireland, in which the quality control testing, final labeling and packaging are currently being conducted for AmBisome and DaunoXome for the European Union and elsewhere.

ITEM 3. LEGAL PROCEEDINGS

On August 11, 1997, we reached a settlement with The Liposome Company, Inc. in which we each agreed to dismiss all legal proceedings involving patents related to our liposomal formulation of amphotericin B. In the settlement agreement, The Liposome Company agreed not to sue us in connection with the worldwide production and sales of AmBisome and gave us rights to use some of their patents. Under the terms of the settlement Agreement, we are required to make payments based on AmBisome sales over the next several years.

In August 1998, we were sued by Chiron who claimed that we were infringing their patents for hepatitis C and related technology. In December 1999, we agreed to the terms of a settlement agreement with Chiron and, as a result, we made a one-time settlement payment of $0.4 million to Chiron.

We are also a party to various other legal actions that arose in the ordinary course of our business. We do not believe that any of these other legal actions will have any significant impact on our business.

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

Our 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 our 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.

1999	CLOSING HIGH	CLOSING LOW
First Quarter	$ 56 3/4	$ 35 3/4
Second Quarter	$ 52 1/4	$ 36 1/16
Third Quarter	$ 92 3/8	$ 52 1/8
Fourth Quarter	$ 73 25/32	$ 37 1/4
1998		
First Quarter.	$ 42 5/8	35
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 25, 2000, we had 44,388,828 shares of common stock outstanding held by approximately 586 stockholders of record. We have not paid dividends on our common stock since our inception and we do not anticipate paying any in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

GILEAD SCIENCES, INC.
SELECTED CONSOLIDATED FINANCIAL DATA(1)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED DECEMBER 31,				NINE MONTHS ENDED DECEMBER 31,
	1999	1998	1997	1996	1995 (2)
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Total revenues	$ 168,979	$ 151,119	$ 132,258	$ 122,121	$ 50,744
Total costs and expenses	239,838	230,631	220,480	181,403	114,800
Loss from operations	(70,859)	(79,512)	(88,222)	(59,282)	(64,056)
Net loss	(66,486)	(44,758)	(72,893)	(45,614)	(59,225)
Basic and diluted net loss per common share	$ (1.55)	$ (1.09)	$ (1.85)	$ (1.21)	$ (1.97)
Common shares used to calculate basic and diluted net loss per common share	42,826	41,015	39,432	37,641	30,187

	DECEMBER 31,				
	1999	1998	1997	1996	1995
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and marketable securities	$ 294,394	$ 348,743	$ 387,361	$ 338,354	$ 182,657
Working capital	324,104	359,555	396,810	332,352	180,568
Total assets	436,808	487,764	516,989	450,540	275,376
Long-term obligations	5,253	8,883	9,658	18,120	13,330
Convertible subordinated debentures	79,533	80,000	80,000	--	--
Accumulated deficit	(449,232)	(382,746)	(337,988)	(265,095)	(219,481)
Total stockholders' equity (3)	297,292	333,699	357,726	374,649	228,931

(1) Periods prior to the year ended December 31, 1999 have been restated to reflect the merger with NeXstar Pharmaceuticals, Inc. on July 29, 1999, which has been accounted for as a pooling of interests.

(2) In October 1995, we changed our fiscal year end from March 31 to December 31, effective with the nine months ended December 31, 1995.

(3) No dividends have been declared or paid on our common stock.

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

OVERVIEW

We were incorporated in Delaware on June 22, 1987, and are an independent biopharmaceutical company that seeks to provide accelerated solutions for patients and the people who care for them. We discover, develop, manufacture and commercialize proprietary therapeutics for challenging infectious diseases (viral, fungal and bacterial diseases) and cancer. Currently, we market AmBisome-Registered Trademark- ((amphotericin B) liposome for injection), an antifungal agent, DaunoXome-Registered Trademark- (daunorubicin citrate liposome injection), a drug approved for the treatment of Kaposi's sarcoma, and VISTIDE-Registered Trademark- (cidofovir injection) for the treatment of cytomegalovirus ("CMV") retinitis. Hoffmann-La Roche Inc. ("Roche") markets Tamiflu-TM- (oseltamivir phosphate) for the treatment of influenza, under a collaborative agreement. In addition, we are developing products to treat diseases caused by human immunodeficiency virus ("HIV"), hepatitis B virus ("HBV"), bacterial infections and cancer.

On July 29, 1999, we entered into a business combination with NeXstar Pharmaceuticals, Inc. ("NeXstar"). The business combination has been accounted for as a pooling of interests and our historical consolidated financial statements for all years prior to the business combination have been restated in the accompanying consolidated financial statements to include the financial position, results of operations and cash flows of NeXstar.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that involve risks and uncertainties. Our actual financial and operating results could differ materially from our expectations. Some of the factors that could cause these differences are listed below. These factors, as well as other factors that could cause or contribute to these differences, are described in more detail under "Risk Factors" beginning on page 26 of this report.

MERGER INTEGRATION. We continue to integrate Gilead with NeXstar and unforeseen integration issues could disrupt our business or require us to expend substantially more financial resources than anticipated.

REGULATORY PROCESS. The FDA and foreign agencies could reject or limit the commercialization of our products for a number of reasons. If these agencies reject or limit the commercialization of our products, our financial results would be adversely affected.

AMBISOME SALES. We rely on sales of AmBisome for a significant portion of our operating income. If revenues from sales of AmBisome decrease, our operating income would decrease.

MARKET ACCEPTANCE OF PRODUCTS. If our products do not achieve and sustain market acceptance, our results of operations will suffer. Tamiflu is in a new class of drugs that represent a new approach to treating the flu. In order for Tamiflu to achieve significant market acceptance, our marketing partner, Hoffmann-La Roche, must change attitudes toward flu treatment.

COLLABORATIONS. We depend on collaborations for the development and commercialization of certain products and for revenue, including the collaboration with Hoffmann-La Roche for sales of Tamiflu and the collaboration with Fujisawa for sales of AmBisome in the United States and Canada. These collaborations could fail for a number of reasons. We will also seek additional collaborations, including a collaboration for adefovir dipivoxil for the treatment of Hepatitis B virus infection. If our collaborations fail or if we are unable to establish additional collaborations, our financial results would be adversely affected.

FOREIGN CURRENCY FLUCTUATIONS. A significant portion of our sales is in foreign currency. Increases in the value of the U.S. Dollar against foreign currencies can reduce our U.S. Dollar return on these sales and negatively impact our financial condition.

UNCERTAIN FINANCIAL RESULTS. We expect that our financial results will continue to fluctuate from quarter to quarter and that such fluctuations may be substantial. We have never been profitable on a full-year basis and may never achieve or sustain profitability. As of December 31, 1999, our accumulated deficit was $449.2 million.

REVENUES

We had total revenues of $169.0 million, $151.1 million and $132.3 million for the years ended December 31, 1999, 1998 and 1997, respectively. Total revenues include revenues from net product sales, net royalties and contracts, including research and development ("R&D") collaborations.

Net product sales revenue was $139.9 million, $114.2 million and $100.9 million for 1999, 1998 and 1997, respectively. Such revenues are increasingly derived from sales of AmBisome, which represented 92%, 91% and 83% of total product sales revenue in 1999, 1998 and 1997, respectively. We also recognized product sales revenue of $5.9 million and $4.8 million from sales of VISTIDE and DaunoXome, respectively, during 1999. A significant majority of our product sales, particularly sales of AmBisome, are denominated in foreign currencies. In future periods, the combined levels of sales of VISTIDE and DaunoXome are expected to be relatively flat as compared to 1999 amounts.

During 1999, 1998 and 1997, we recorded net royalty revenue of $10.4 million, $7.3 million and $1.6 million, respectively. During this three-year period, the most significant source of royalty revenue was from sales of AmBisome in the United States by Fujisawa Healthcare, Inc. ("Fujisawa"), under a co-promotion arrangement we have with them. During the fourth quarter of 1999, we began recognizing royalty revenues from Fujisawa's sales of AmBisome in the month following the month in which the related product sales occur. Prior to the fourth quarter of 1999, we recognized this royalty revenue in the month the sales occurred. We have recognized net royalty revenue of $8.3 million from

Fujisawa in 1999, which represents 11 months of sales by Fujisawa to customers. Net royalty revenues recognized from Fujisawa's sales of AmBisome in 1998 and 1997 were $4.8 million and $0.7 million, respectively. Substantially all of the remaining net royalty revenue recognized in each year of this three-year period represents royalties from sales of VISTIDE by Pharmacia & Upjohn S.A. ("Pharmacia & Upjohn") outside the United States. In future periods, royalties from sales of VISTIDE are expected to be relatively flat. In October 1999, the U.S. Food and Drug Administration approved Tamiflu for the treatment of influenza A & B in adults. We co-developed Tamiflu with F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche Inc. (collectively, "Roche"), which owns the worldwide commercial rights to the product and is required to pay to us a royalty on net sales. Beginning in 2000, we expect that royalties from sales of Tamiflu will comprise a greater portion of our net royalty revenue. We will recognize royalty revenue from sales of Tamiflu in the quarter following that in which the related product sales occur.

Contract revenue was $18.7 million, $29.6 million and $29.8 million in 1999, 1998 and 1997, respectively. The single most significant source of contract revenue in each of these three years relates to the development of Tamiflu under our R&D collaboration agreement with Roche. Tamiflu is an orally-administered compound developed to treat and potentially to prevent viral influenza in humans. During 1999, 1998 and 1997, we recorded approximately $14.9 million, $16.4 million and $14.2 million, respectively, of contract revenue under this agreement with Roche. The 1999 amount includes $2.1 million of R&D reimbursements and $12.8 million of milestone payments. 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, we recognized as contract revenue R&D reimbursements of $8.2 million and milestone payments of $6.0 million. We are entitled to additional milestone payments of up to $21.2 million upon achieving certain developmental and regulatory milestones. While we may earn additional milestones under the Roche agreement in 2000, R&D reimbursements under the Roche agreement are expected to be slightly lower in 2000 as compared to 1999. Such reimbursements will approximate actual related R&D costs we incur.

In November 1999, we entered into an agreement with Somalogic, Inc. ("Somalogic") under which we assigned to Somalogic a sole and exclusive license to certain intellectual property, including patents and patent applications. Under the terms of the agreement, Somalogic is required to pay to us a total of $2.5 million in two nonrefundable installments. The first installment of $1.5 million was paid in November 1999 and is included in contract revenue in our consolidated statement of operations for the year ended December 31, 1999. The remaining $1.0 million installment is due in November 2000 and, because Somalogic is a developmental stage entity that may require third party financing, we will recognize this amount as contract revenue when received. Contract revenue recognized in 1999 also includes a $1.0 million performance-based milestone payment received from SKW Americas, Inc. ("SKW"). SKW is the 51% owner of Proligo L.L.C. ("Proligo"), an entity in which we hold the remaining 49% ownership interest.

In 1998, we recorded as contract revenue a $3.0 million milestone payment from Sumitomo Pharmaceuticals Co., Ltd., related to a license of AmBisome rights in Japan. Also in 1998, we entered into an agreement with Isis Pharmaceuticals, Inc. ("Isis") under which we sold to Isis the holdings of its antisense patent estate, including patents and patent applications. Under the terms of the agreement, Isis is required to pay to us a total of $6.0 million in four installments. The total sale price of $6.0 million is included in contract revenue in 1998.

Contract revenue for both 1998 and 1997 also includes reimbursement of research expenses under our collaborative agreements with Glaxo Wellcome Inc. ("Glaxo") and Schering A.G. ("Schering"). Under our agreement with Schering related to the discovery and development of aptamers as in vivo diagnostic agents ("Schering Research Agreement"), we recognized $2.4 million of contract revenue in

both 1998 and 1997. The Schering Research Agreement expired in 1999, but a related license agreement remains in effect. Our collaborative agreement with Glaxo was related to its code blocker program. Contract revenue recognized in connection with the Glaxo agreement was $1.8 million in 1998 and $3.0 million in 1997. In June 1998, the agreement and the funding for the program were terminated, resulting in reduced revenue in 1998 as compared to 1997.

During 1997, we recognized in contract revenue a $10.0 million milestone payment under our collaborative agreement with Pharmacia & Upjohn following the marketing authorisation for VISTIDE in the European Union. This is the only milestone payment provided for under that agreement.

COSTS AND EXPENSES

Cost of goods sold was $29.5 million, $23.4 million and $21.6 million for the years ended December 31, 1999, 1998 and 1997, respectively, and resulted from sales of AmBisome, VISTIDE, and DaunoXome. Overall, cost of goods sold has been in the range of 20% to 21% of net product sales in each of the three years presented. In connection with most of our European product sales, we price our products in the currency of the country into which they are sold ("Payment Currencies"). A significant majority of our manufacturing costs are in U.S. Dollars. It is likely that any decline in the value of the Payment Currencies relative to the U.S. Dollar would negatively impact our gross margins since our manufacturing costs would remain approximately the same while our revenues, which are reported in U.S. Dollars, would decline. Except for the potential impact of unpredictable and uncontrollable changes in Payment Currencies relative to the U.S. Dollar, we expect the relationship between cost of goods sold and net product sales to be consistent for the foreseeable future, provided there are no significant changes in the nature or mix of product sales.

Our R&D expenses for the years ended December 31, 1999, 1998 and 1997 were $112.9 million, $127.8 million and $112.2 million, respectively. The 12% decrease in 1999 as compared to 1998 is primarily attributable to our reduced research activities at our Boulder, Colorado facility. In August 1998, we transferred our Boulder-based NeXstar Technology Products division to Proligo, our equity investee. In addition, in October 1998, we reduced our R&D workforce in Boulder by 47 employees and recorded an expense of $1.6 million related to severance packages for the discharged employees. In 1999, we reduced our R&D workforce in Boulder by 30 employees upon completing our merger with NeXstar. Finally, we had a reduced level of involvement in the development of Tamiflu in 1999 as compared to 1998. These decreases were offset in part by greater levels of expense in 1999 for the development programs for adefovir dipivoxil for hepatitis B infection and tenofovir disoproxil fumarate (PMPA oral prodrug) for HIV, as well as an adjustment of $2.9 million to fully reserve our supply of adefovir dipivoxil for HIV. This adjustment was made as a result of our decision to discontinue the development of this product candidate in the United States after a negative recommendation from an FDA advisory panel and discussions with the FDA following this recommendation. The $15.6 million increase in R&D expenses between 1997 and 1998 was primarily attributable to costs associated with Phase III clinical trials for adefovir dipivoxil for HIV, as well as the expanded access program for patients with HIV infection. Increased R&D expenses in 1998 as compared to 1997 also reflect costs associated with the development of adefovir dipivoxil for hepatitis B infection. We expect our R&D expenses to increase in 2000 relative to 1999, primarily reflecting increased expenses related to the continued late-stage development of tenofovir disoproxil fumarate for HIV and adefovir dipivoxil for hepatitis B.

Selling, general and administrative ("SG&A") expenses were $78.3 million, $78.2 million and $70.6 million for the years ended December 31, 1999, 1998 and 1997. During 1999, we recorded $2.3 million of compensation expense related to a NeXstar stock option plan that requires the use of variable plan accounting. This charge was substantially offset by cost savings related to the elimination of duplicate selling, general and administrative positions and functions within the combined Gilead and NeXstar organization. The $7.6 million increase in SG&A expenses in 1998 as compared to 1997 primarily represents costs incurred to:
strengthen the sales and marketing organization in Europe to support increased levels of AmBisome sales; expand sales, marketing and operational capacity in anticipation of the then-planned commercial launch of adefovir dipivoxil for HIV; accrue an executive termination agreement and severance packages for a NeXstar workforce reduction; and, to support a greater level of R&D activities. We expect our SG&A expenses to increase during 2000 to support both ongoing marketing and sales activities and the planned increase in research and development activities.

Expenses attributable to our merger with NeXstar were $18.3 million for the year ended December 31, 1999. These expenses primarily consist of transaction costs, including professional fees, filing fees and printing costs, employee severance costs and the write-down of certain NeXstar property and equipment that are not expected to be used in future operations. Total employee severance costs incurred of $5.3 million relate to the termination of 70 employees, the majority of which were from our Boulder, Colorado facility. As of December 31, 1999, all employees for which severance costs were accrued had been terminated. The balance of this accrued liability was $2.5 million at December 31, 1999 and we anticipate that substantially all remaining accrued severance costs will be paid to former employees by September 2000. We do not expect to achieve any significant ongoing future cost savings as a result of these staff reductions, which were primarily undertaken to functionally realign our organization during the merger integration process. As we continue to grow, increased spending in other areas will offset the effect of these cost savings. We do not expect to recognize any expenses related to the NeXstar merger in future periods.

LITIGATION SETTLEMENT AND RELATED EXPENSES

We reported litigation settlement and related expenses of $0.8 million, $1.3 million and $16.0 million in 1999, 1998 and 1997, respectively. The amount for 1997 was primarily related to the August 1997 settlement with The Liposome Company ("TLC") in which both parties agreed to dismiss all legal proceedings in connection with two United States patents and their international counterparts held by TLC (the "Patent Litigation"). Under the terms of the settlement agreement, we made an initial payment to TLC of $1.8 million and are required to make additional payments beginning in 1998 based on AmBisome sales over the next several years. Because the payments are subject to certain minimum and maximum amounts, $10.0 million of the accounting charge recorded in 1997 represents the net present value of all future minimum payments we are required to make. We do not expect the difference between the future minimum and maximum payments to TLC to be material. During 1997, we recorded additional expenses related to the Patent Litigation of $4.2 million.

GAIN ON SALE OF SUBSIDIARY

In 1998, we recorded a $22.1 million gain on the sale of our 51% interest (the "Interest") in our newly established subsidiary, Proligo, a Delaware limited liability company, to SKW. Proligo was formed in July 1998 and initially consisted of the assets of our NeXstar Technology Products division, a manufacturer of oligonucleotides and specialty chemicals for the pharmaceuticals industry. As payment for the interest, we received $15.0 million and a 49% interest in PerSeptive Biosystems GmbH, a company in Hamburg, Germany (the "Hamburg Company"), which specializes in the manufacture of nucleoside phosphoramidite monomers. In addition, SKW agreed to pay to us $3.0 million in guaranteed payments and up to $20.5 million in performance-based milestones through 2003. As part of the transaction, we contributed $4.9 million and our 49% interest in the Hamburg Company to

Proligo. The 49% interest in the Hamburg Company had a fair value of approximately $5.5 million. SKW contributed $5.1 million and the remaining 51% of the Hamburg Company to Proligo.

INTEREST INCOME AND INTEREST EXPENSE

We had interest income of $16.4 million, $21.8 million and $20.7 million in 1999, 1998 and 1997, respectively. The decrease in interest income in 1999 as compared to 1998 is due to both a declining balance of invested cash as well as slightly lower investment returns in 1999. While the balance of invested cash also decreased from 1997 to 1998, this decrease was offset by greater investment returns in 1998. We expect interest income to continue to decline substantially in 2000, primarily due to decreasing balances of invested cash.

We incurred interest expense of $6.5 million, $7.2 million and $5.1 million in 1999, 1998 and 1997, respectively. The decrease in interest expense in 1999 as compared to 1998 is primarily due to the repayment of debt obligations. Interest expense is greater in 1998 than in 1997 primarily due to the fact that we incurred a full-year's interest expense on our convertible subordinated debentures in 1998. The debentures were issued in mid-1997. We expect interest expense to further decline in 2000 as we continue to repay our debt obligations.

EQUITY IN LOSS OF UNCONSOLIDATED AFFILIATE

During 1999, we recorded $4.7 million as our equity in the loss of Proligo, representing our 49% share of Proligo's net loss for Proligo's fiscal year ended November 30, 1999. In 1998, we recorded $1.1 million as our equity in the loss of Proligo for the period from August 15, 1998 (Proligo's inception date) through November 30, 1998. The Proligo operating loss for December 1999 is approximately $0.9 million of which we will recognize our 49% share (approximately $0.4 million) in 2000. We expect to continue to recognize losses on our equity investment in Proligo during 2000.

Our investment in Proligo is reported in other noncurrent assets on our consolidated balance sheet. The carrying amount of this investment is $7.6 million at December 31, 1999. In October 1999 and January 2000, we funded Proligo with a total of $4.9 million to maintain our percentage ownership interest in Proligo. We presently have no further commitments to provide additional funding to Proligo.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and marketable securities totaled $294.4 million at December 31, 1999, compared to $348.7 million at December 31, 1998. This decrease of $54.3 million is primarily due to the use of cash both to fund operating activities and to purchase capital items, offset by proceeds from issuances of stock under employee stock plans.

Significant changes in working capital during 1999 include a $4.4 million increase in the balance of inventories. During 1999, we began to build our inventory of adefovir dipivoxil in anticipation of the planned launch of adefovir dipivoxil for HIV at the end of the year. We discontinued the development of adefovir dipivoxil for HIV in the United States after a negative recommendation from an FDA advisory panel and discussions with the FDA following the recommendation. While we are not carrying a finished goods component of these inventories, $2.2 million of the $3.8 million increase in raw materials is due to an increased supply of adefovir dipivoxil. This drug substance does not have a limited shelf life and we intend to use it in our development of adefovir dipivoxil for hepatitis B. Our inventories of AmBisome have also increased, consistent with increasing sales. Prepaid expenses and other current assets also increased by $2.5 million. This increase is primarily due to the addition of a $1.0 million receivable from Somalogic. Other noncurrent assets decreased from $19.9 million at December 31, 1998 to $13.4 million at December 31, 1999. In part, this $6.5 million decrease consists of a $2.7 million reduction in the carrying value of our investment in Proligo, a $1.8 million receipt of our receivable from SKW and a $1.0 million repayment of our receivable from Isis. Accrued clinical

and preclinical expenses decreased from $12.8 million at December 31, 1998 to $5.5 million at December 31, 1999. This decrease is largely due to timing issues related to the completion of certain clinical trials and the commencement or advancement of others. At December 31, 1998, other accrued liabilities includes a $5.0 million accrued liability to Roche, which represents Roche's 1998 R&D funding in excess of our related R&D spending. During 1999, we achieved three milestones under our R&D agreement with Roche and recognized $12.8 million of contract revenue as a result. Roche funded a portion of these milestone payments, as well as the $0.7 million of R&D reimbursement revenue for the first quarter of 1999, by permitting us to offset our liability to Roche. Accordingly, the $5.0 million reported as an accrued liability at December 31, 1998 is reported as contract revenue during 1999.

Our accounts receivable balance at December 31, 1999 was $45.6 million as compared to $43.1 million at December 31, 1998. The growth in receivables was primarily due to increased sales of AmBisome and proportionately increased sales of our products in countries in which payments tend to be relatively slow. In certain cases, these slow payment practices reflect the pace at which governmental entities reimburse our customers. Sales to customers in countries that tend to be relatively slow paying have in the past increased, and in the future may further increase, the average length of time that accounts receivable are outstanding. This, in turn, may increase the financial risk of certain of our customers. In certain countries in which payments have been slow, particularly Greece, Spain and Italy, our accounts receivable are significant. At December 31, 1999, our past due accounts receivable for Greece, Spain and Italy totaled approximately $15.8 million, of which approximately $5.0 million was more than 120 days past due. To date, we have experienced only modest losses with respect to the collection of our accounts receivable and believe that the past due accounts receivable for Greece, Spain and Italy are collectible. We continually seek to improve our collection process to ensure that we collect as much as possible from our product sales and that such collections are timely.

We maintain a $10.0 million unsecured line of credit (the "Credit Agreement") that bears interest at a floating rate with a major financial institution. Under the terms of the Credit Agreement, we are required to maintain certain financial ratios and there are limitations on our ability to incur additional debt or to engage in certain significant transactions. The Credit Agreement, which includes a foreign exchange facility, expires on April 16, 2001. As of December 31, 1999, we had no outstanding borrowings under the Credit Agreement.

We believe that our existing capital resources, supplemented by net product revenues and contract and royalty revenues, will be adequate to satisfy our capital needs for the foreseeable future. As of December 31, 1999, we were entitled to additional cash payments of up to $21.2 million from Roche upon achieving specific additional developmental and regulatory milestones, although there can be no assurance that any of the milestones will be met. Our future capital requirements will depend on many factors, including our continuing integration with NeXstar, the progress of our research and development 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 our products under development, the commercial performance of AmBisome and any of our products in development that receive marketing approval, administrative 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.

We 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.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") 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 hedging activities. In June 1999, the FASB issued SFAS No. 137, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES--DEFERRAL OF THE EFFECTIVE DATE OF FASB STATEMENT NO. 133. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000 and, therefore, we will adopt this accounting standard effective January 1, 2001. We have not yet determined the impact of SFAS No. 133 on our financial position or results of operations.

We have recognized nonrefundable technology access fees received in connection with collaboration agreements as revenue when received, when the technology has been transferred and when all contractual obligations relating to the fees are fulfilled. In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "REVENUE RECOGNITION IN FINANCIAL STATEMENTS." Among other things, SAB No. 101 describes the SEC Staff's position on the recognition of certain nonrefundable upfront fees received in connection with research collaborations. We are evaluating the applicability of SAB No. 101 to our existing collaborative agreements. Should we conclude that the approach described in SAB No. 101 is more appropriate, we will change our method of accounting effective January 1, 2000 to recognize such fees over the term of the related agreement. Any required adjustment would be recognized as a cumulative effect of a change in accounting principle.

IMPACT OF YEAR 2000

In prior years, we implemented 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 was to ensure that all computer software and hardware that we use or rely upon is retired, replaced or made Year 2000 compliant before December 31, 1999. To date, we have not experienced any Year 2000-related operational issues and are not aware of any material potential problems that may arise as a result of Year 2000 issues either from our own internal systems or from the products and services of third parties upon which we rely.

The total cost of our Year 2000 compliance efforts was not material to our financial condition or results of operations. External costs of such compliance efforts were approximately $2.1 million. Of this amount, $1.4 million was charged to expense and the remainder has been capitalized. Any remaining expenses related to remediation efforts will be charged to expense as incurred. We will continue to monitor our business-critical computer applications and those of our suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 problems that may arise are promptly addressed.

MARKET RISK DISCLOSURES

FOREIGN CURRENCY EXCHANGE RISK

Our operations include manufacturing and sales activities in the United States as well as sales activities in Europe and Australia. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we distribute our products. Our operating results are exposed to changes in exchange rates between the U.S. Dollar and various foreign currencies, the most significant of which are the Euro, the British Pound and the Australian Dollar. When the U.S. Dollar strengthens against these currencies, the relative value of sales made in the respective foreign currency decreases. Conversely, when the U.S. Dollar weakens, the relative amounts of such sales increase. Overall, we are a net receiver of foreign currencies and, therefore, benefit from a weaker U.S. Dollar and are adversely

affected by a stronger U.S. Dollar relative to those foreign currencies in which we transact significant amounts of business.

To mitigate the impact of changes in currency exchange rates on our foreign currency sales transactions, we enter into foreign exchange forward contracts to hedge our foreign currency accounts receivables. These hedging activities cannot eliminate foreign-exchange risk.

The following table summarizes the notional amounts, average currency exchange rates and fair values of our open foreign exchange forward contracts at December 31, 1999. None of the contracts have maturities that exceed one year. Average rates are stated in terms of the amount of foreign currency per U.S. Dollar. Fair values represent estimated settlement amounts at December 31, 1999 (contract amounts and fair values in thousands):

CURRENCY	CONTRACT AMOUNT	AVERAGE RATE	FAIR VALUE DECEMBER 31, 1999
Australian Dollar	$ 2,147	1.5547	$ (54)
British Pound	7,657	0.6238	(54)
Danish Krone	34	7.3527	--
Euro	31,448	0.9755	20
Norwegian Krone	105	8.0322	--
Swedish Krona	587	8.5494	(2)
Swiss Franc	261	1.5840	1

INTEREST RATE RISK

Our portfolio of available-for-sale investment securities and our fixed-rate liabilities create an exposure to interest rate risk. With respect to the investment portfolio, we adhere to an investment policy that requires us to limit amounts invested in securities based on maturity, industry group, investment type and issuer, except for securities issued by the U.S. government. The goals of our investment policy, in order of priority, are as follows:

1. Safety and preservation of principal and diversification of risk;

2. Liquidity of investments sufficient to meet cash flow requirements; and

3. Competitive after-tax rate of return.

The following table summarizes the expected maturities and average interest rates of our interest-bearing assets and fixed-rate liabilities at December 31, 1999 (dollars in thousands):

	YEARS ENDING DECEMBER 31,							FAIR VALUE DECEMBER 31,
	2000	2001	2002	2003	2004	THEREAFTER	TOTAL	1999
ASSETS								
Available-for-sale Securities	$177,018	$65,346	$18,500	$ --	$ --	$ --	$260,864	$258,341
Average interest rate	6.08%	5.73%	6.32%					
LIABILITIES								
Minimum litigation settlement, including current portion	1,083	1,178	1,281	1,394	1,516	2,084	8,536	8,536
Discount rate	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%		
Long-term debt, including current portion	1,003	807	652	301	--	--	2,763	2,763
Average interest rate	11.54%	11.71%	11.64%	11.50%				
Convertible subordinated debentures	--	--	--	--	79,533	--	79,533	101,802
Interest rate	6.25%	6.25%	6.25%	6.25%	6.25%			

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are set forth beginning at page 53 of this report.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item concerning our directors and executive officers is incorporated by reference to pages 3 through 6 of our Definitive Proxy Statement filed with the SEC pursuant to Regulation 14A in connection with the 2000 Annual Meeting (the "Proxy Statement") under the headings "Nominees" and "Executive Officers."

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The information required by this Item is incorporated by reference to page 14 of the Proxy Statement under the heading "Compliance with Section 16(a) of the Securities Exchange Act of 1934."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to pages 15 through 21 of the Proxy Statement under the headings "Executive Compensation" and "Compensation Committee Report."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to pages 13 through 14 of the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to page 22 of the Proxy Statement under the heading "Certain Transactions" and by reference to pages 15 through 21 of the Proxy Statement under the heading "Executive Compensation."

PART IV

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

(a) The following documents are filed as part of this Form 10-K:

(1) Schedule II is included on page 85 of this report. All other 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	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant.
(2)	3.2	Amended and Restated Certificate of Incorporation of the Registrant
(3)	3.3	Bylaws of the Registrant, as amended and restated March 30, 1999
	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.
(1)	4.4	First Supplemental Indenture dated July 29, 1999 among IBJ Whitehall Bank & Trust Company, NeXstar Pharmaceuticals, Inc. and the Registrant to the Indenture dated July 31, 1997 between IBJ Whitehall Bank & Trust Company and NeXstar Pharmaceuticals, Inc.
(5)	4.5	Indenture dated July 31, 1997 between IBJ Whitehall Bank & Trust Company and NeXstar Pharmaceuticals, Inc. for 6 1/4% Convertible Subordinated Debentures.
(6)	4.6	Amended and Restated Rights Agreement dated as of October 21, 1999 between Gilead Sciences, Inc. and ChaseMellon Shareholder Services, LLC.
(3)	10.1	Form of Indemnity Agreement entered into between the Registrant and its directors and executive officers.
(7)	10.3	Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees.
(2)	10.4	Registrant's 1987 Incentive Stock Option Plan and related agreements.
(2)	10.5	Registrant's 1987 Supplemental Stock Option Plan and related agreements.
	10.7	Registrant's Employee Stock Purchase Plan, as amended March 30, 1999.
	10.8	Registrant's 1991 Stock Option Plan, as amended March 30, 1999.
(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.
(8)	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.

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(9)	10.26	Amendment Agreement, dated October 25, 1993 between Registrant and IOCB/ REGA, and related license agreements and exhibits with certain confidential information deleted.
(10)	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.
(30)	10.33	Registrant's 1995 Non-Employee Directors' Stock Option Plan, as amended January 26, 1999, and related form of stock option grant.
(11)	10.34	Collaborative Research Agreement, dated as of March 25, 1996, by and between Registrant and Glaxo Wellcome Inc. with certain confidential information deleted.
(12)	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.
(12)	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.
(12)	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.
(13)	10.40	License and Supply Agreement between Registrant and Pharmacia & Upjohn S.A. dated August 7, 1996 with certain confidential information deleted.
(13)	10.41	Series B Preferred Stock Purchase Agreement between Registrant and Pharmacia & Upjohn S.A. dated August 7, 1996.
(13)	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.
(14)	10.45	Amended and Restated Co-promotion Agreement between Registrant and Roche Laboratories, Inc. dated September 12, 1997 with certain confidential information deleted.
(15)	10.46	Amendment No. 1 to Collaborative Research Agreement, dated as of December 22, 1997, between Registrant and Glaxo Wellcome Inc.
(31)	10.47	Patent Rights Purchase Agreement between Registrant and Isis Pharmaceuticals, Inc. dated December 18, 1998 with certain confidential information deleted.
(31)	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.
(16)	10.49	Agreement and Plan of Merger dated February 28, 1999 by and among Registrant, Gazelle Acquisition Sub, Inc. and NeXstar Pharmaceuticals, Inc.
(17)	10.52	License Agreement between University Research Corporation and NeXstar Pharmaceuticals, Inc., effective as of July 17, 1991, as amended on October 26, 1992.
(18)	10.53	Amendment No. 2, effective April 5, 1996, and Amendment No. 3, dated September 5, 1996, to the License Agreement between University Research Corporation and NeXstar Pharmaceuticals, Inc., effective as of July 17, 1991, as amended on October 26, 1992.
(17)	10.55	Collaborative Research Agreement between NeXstar Pharmaceuticals, Inc. and Schering A.G., dated as of November 16, 1993.

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(18)	10.56	Letter Agreement between NeXstar Pharmaceuticals, Inc. and Schering A.G., effective February 1, 1997, amending the Collaborative Research Agreement between NeXstar Pharmaceuticals, Inc. and Schering A.G., dated as of November 16, 1993.
(17)	10.57	License Agreement between NeXstar Pharmaceuticals, Inc. and Schering A.G., dated as of November 16, 1993.
(5)	10.60	Master Lease Agreement, dated as of September 9, 1996, between General Electric Capital Corporation and NeXstar Pharmaceuticals, Inc.
(5)	10.61	Master Security Agreement, dated as of March 27, 1997, between General Electric Capital Corporation and NeXstar Pharmaceuticals, Inc.
(5)	10.62	NeXagen, Inc. 1993 Incentive Stock Plan, adopted February 8, 1993, as amended.
(20)	10.63	NeXstar Pharmaceuticals, Inc.'s 1995 Director Option Plan, adopted July 25, 1995.
(21)	10.64	Vestar, Inc. 1988 Stock Option Plan.
(21)	10.65	Lease, dated March 26, 1987, between Vestar, Inc. and Majestic Realty Co. and Patrician Associates, Inc. and Amendment No. 1 thereto and Amendment No. 2 thereto, dated as of June 8, 1992.
(19)	10.66	Third Amendment, dated January 11, 1996, between Majestic Realty Co. and Patrician Associates, Inc. and the Registrant, to Lease, dated March 26, 1987, between Vestar, Inc. and Majestic Realty Co. and Patrician Associates, Inc.
(22)	10.67	Assignment and Royalty Agreement, dated December 21, 1990, effective as of June 2, 1989, between Vestar, Inc. and City of Hope National Medical Center.
(19)	10.68	License Agreement, effective as of August 12, 1986, between Vestar, Inc. and The Regents of the University of California.
(21)	10.69	Agreement by and between Fujisawa USA, Inc. and Vestar, Inc., dated August 9, 1991, and Amendment No. 1 thereto, dated as of May 17, 1994.
(20)	10.70	Amendment No. 2 to agreement between Fujisawa USA, Inc. and Vestar, Inc., dated as of April 3, 1995, between Fujisawa USA, Inc. and Vestar, Inc. with certain confidential information deleted.
(19)	10.71	Amendment No. 3 to Agreement between Fujisawa USA, Inc. and the Registrant, dated March 4, 1996, to the Agreement by and between Fujisawa USA, Inc. and Vestar, Inc., dated August 9, 1991.
(21)	10.72	Lease, dated April 13, 1992, between Vestar, Inc. and Majestic Realty Co. and Patrician Associates, Inc.
(19)	10.73	First Amendment to Lease, dated April 10, 1993, between Majestic Realty Co. and Patrician Associates, Inc. and Vestar, Inc. amending Lease, dated April 13, 1992, between Majestic Realty Co. and Patrician Associates, Inc. and Vestar, Inc.
(21)	10.74	Master Lease Agreement, dated June 29, 1994, between Vestar, Inc. and Comdisco, Inc.
(23)	10.75	Amendment No. 1, dated December 5, 1997, between NeXstar Pharmaceuticals, Inc. and Comdisco, Inc. to the Master Lease Agreement, dated June 29, 1994, between Vestar, Inc. and Comdisco, Inc.
(19)	10.76	Royalty Agreement, dated October 30, 1995, between NeXstar Pharmaceuticals, Inc. and Amplimed Corporation.
(24)	10.77	Pharmaceutical Pricing Agreement between the Secretary of Veterans Affairs and NeXstar Pharmaceuticals, Inc., dated April 30, 1996.
(24)	10.78	Master Agreement between Secretary of Veterans Affairs and NeXstar Pharmaceuticals, Inc., dated April 30, 1996.
(24)	10.79	Pharmaceutical Pricing Agreement between the Secretary of Health and Human Services and NeXstar Pharmaceuticals, Inc., dated April 30, 1996.

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(24)	10.80	Rebate Agreement between the Secretary of Health and Human Services and the Registrant, dated April 30, 1996.
(25)	10.81	Industrial Real Estate Lease, dated July 1, 1996, by and between Wilderness Place, Ltd. and NeXstar Pharmaceuticals, Inc.
(26)	10.82	Sublease Agreement, dated July 31, 1996, between Sybase, Inc. and NeXstar Pharmaceuticals, Inc.
(18)	10.83	License and Distribution Agreement, dated September 26, 1997, by and between Sumitomo Pharmaceuticals Co., Ltd. and NeXstar Pharmaceuticals, Inc. with certain confidential information deleted.
(27)	10.84	Settlement Agreement, dated August 11, 1997, by and among NeXstar Pharmaceuticals, Inc., Fujisawa U.S.A., Inc. and The Liposome Company, Inc. with certain confidential information deleted.
(27)	10.85	Credit Agreement, dated September 1, 1997, by and between NeXstar Pharmaceuticals, Inc. and Wells Fargo Bank, National Association.
(28)	10.86	First Amendment to Credit Agreement, dated May 1, 1998, by and between NeXstar Pharmaceuticals, Inc. and Wells Fargo Bank, National Association amending Credit Agreement, dated September 1, 1997, by and between NeXstar Pharmaceuticals, Inc. and Wells Fargo Bank, National Association.
(28)	10.87	Letter agreement, dated September 1, 1998, between NeXstar Pharmaceuticals, Inc. and Wells Fargo Bank, National Association amending Credit Agreement, dated September 1, 1997, as amended, by and between NeXstar Pharmaceuticals, Inc. and Wells Fargo Bank, National Association.
(28)	10.88	Second Amendment to Credit Agreement, dated November 1, 1998, by and between NeXstar Pharmaceuticals, Inc. and Wells Fargo Bank, National Association amending Credit Agreement, dated September 1, 1997, as amended, by and between NeXstar Pharmaceuticals, Inc. and Wells Fargo Bank, National Association.
(28)	10.89	Amended and Restated Limited Liability Company Agreement of Proligo L.L.C., dated August 15, 1998, by and among NeXstar Pharmaceuticals International, Inc., SKW Americas, Inc. and NeXstar Pharmaceuticals, Inc.
(29)	10.90	Amendment, dated April 30, 1998, between Sumitomo Pharmaceuticals Co., Ltd. (Sumitomo) and NeXstar Pharmaceuticals, Inc. to the License and Distribution Agreement, dated September 26, 1996, between Sumitomo and NeXstar Pharmaceuticals, Inc.
	10.91	Lease agreement between THW Partners Limited Partnership and Registrant dated January 25, 2000.
	21.1	Subsidiaries of the Registrant.
	23.1	Consent of Ernst & Young LLP, Independent Auditors.
	23.2	Consent of PricewaterhouseCoopers LLP, Independent Auditors.
	24.1	Power of Attorney. Reference is made to page 86.
	27.1	Financial Data Schedule.

(1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on August 6, 1999 and incorporated herein by reference.

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

(3) Filed as an exhibit to Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1998 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 NeXstar Pharmaceutical, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference.

(6) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on October 22, 1999 and incorporated herein by reference.

(7) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-55680) or amendments thereto 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, 1993 and incorporated herein by reference.

(9) 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.

(10) 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.

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

(12) 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.

(13) 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.

(14) 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.

(15) 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.

(16) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 9, 1999 and incorporated herein by reference.

(17) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Registration Statement on Form S-1 (File No. 33-72142), declared effective by the Securities and Exchange Commission on January 28, 1994, and incorporated herein by reference.

(18) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-K for the fiscal year ended December 31, 1996, and incorporated herein by reference.

(19) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-K for the fiscal year ended December 31, 1995, and incorporated herein by reference.

(20) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-Q for the quarterly period ended September 30, 1995, and incorporated herein by reference.

(21) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-K for the fiscal year ended December 31, 1994, and incorporated herein by reference.

(22) Filed on March 22, 1991 as an exhibit to NeXstar Pharmaceuticals, Inc.'s Registration Statement on Form S-2 (File No. 33-39549), and incorporated herein by reference.

(23) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-K for the year ended December 31, 1997, and incorporated herein by reference.

(24) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-Q for the quarterly period ended March 31, 1996, and incorporated herein by reference.

(25) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-Q for the quarterly period ended June 30, 1996, and incorporated herein by reference.

(26) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-Q for the quarterly period ended September 30, 1996, and incorporated herein by reference.

(27) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-Q for the quarterly period ended September 30, 1997, and incorporated herein by reference.

(28) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-Q for the quarter ended September 30, 1998, and incorporated herein by reference.

(29) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference.

(30) Filed as an Exhibit to Registrant's Form 10-K/A for the year ended December 31, 1998, and incorporated herein by reference.

(31) Filed as an Exhibit to Registrant's Form 10-K for the year ended December 31, 1998, and incorporated herein by reference.

(B) REPORTS ON FORM 8-K

On March 9, 1999, the Registrant filed a Current Report on Form 8-K regarding the proposed merger with NeXstar Pharmaceuticals, Inc. On August 6, 1999, the Registrant filed a Current Report on Form 8-K regarding its merger with NeXstar. On August 8, 1999, the Registrant filed a Current Report on Form 8-K relating to the Supplemental Indenture for its 6 1/4% Convertible Subordinated Debentures. On September 15, 1999 the Registrant filed an additional Current Report on Form 8-K regarding its merger with NeXstar, which included audited supplemental consolidated balance sheets of Gilead as of December 31, 1998 and 1997 and the related supplemental consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998 together with the related supplemental financial statement schedule of Gilead, representing Gilead's and NeXstar's combined operations for these periods. On October 22, 1999, the Registrant filed a Current Report on From 8-K relating to its Amended and Restated Rights Agreement.

GILEAD SCIENCES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997,

CONTENTS

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, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedule listed in the Exhibit Index. These financial statements and schedule are the responsibility of the management of Gilead Sciences, Inc. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the financial statements of Proligo L.L.C., a limited liability company, the investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting. The investment in Proligo L.L.C. represents 1.7% and 2.1% of consolidated total assets at December 31, 1999 and 1998, respectively, and the Company's equity in the net loss of Proligo L.L.C. is $4,656,000 and $1,101,000 in 1999 and 1998, respectively. The 1999 and 1998 financial statements of Proligo L.L.C. have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the 1999 and 1998 consolidated financial statements relates to data included for Proligo L.L.C., it is based solely on their report.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gilead Sciences, Inc. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. Also in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

ERNST & YOUNG LLP

Palo Alto, California
January 24, 2000

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and
Members of Proligo LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of members' equity and of cash flows present fairly, in all material respects, the financial position of Proligo LLC and its subsidiary at November 30, 1999 and 1998, and the results of their operations and their cash flows for the year ended November 30, 1999 and the period from August 15, 1998 through November 30, 1998, in conformity with generally accepted accounting principles in the United States. 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 of these financial statements in accordance with generally accepted auditing standards in the United States which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Denver, Colorado
January 7, 2000

GILEAD SCIENCES, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	DECEMBER 31,	
	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,011	$ 101,136
Marketable securities	247,383	247,607
Accounts receivable, net of allowance for doubtful accounts of $2,333 in 1999 and $1,480 in 1998	45,599	43,090
Inventories	20,959	16,550
Prepaid expenses and other	11,029	8,506
Total current assets	371,981	416,889
Property, plant and equipment, net	51,398	51,019
Other noncurrent assets	13,429	19,856
	$ 436,808	$ 487,764
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,481	$ 7,662
Accrued clinical and preclinical expenses	5,467	12,841
Accrued compensation and employee benefits	9,901	9,387
Other accrued liabilities	15,004	19,327
Deferred revenue	4,833	3,275
Long-term obligations due within one year	3,191	4,842
Total current liabilities	47,877	57,334
Accrued litigation settlement expenses due after one year	6,853	7,848
Long-term obligations due after one year	5,253	8,883
Convertible subordinated debentures	79,533	80,000
Commitments and contingencies		
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 (liquidation preference of $40,000)	--	1
Common stock, par value $.001 per share; 100,000,000 shares authorized; 44,092,779 shares and 41,562,837 shares issued and outstanding at December 31, 1999 and 1998, respectively	44	42
Additional paid-in capital	749,081	716,964
Accumulated other comprehensive loss	(2,527)	(337)
Deferred compensation	(74)	(225)
Accumulated deficit	(449,232)	(382,746)
Total stockholders' equity	297,292	333,699
	$ 436,808	$ 487,764

See accompanying notes

GILEAD SCIENCES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Revenues:			
Product sales, net	$139,890	$114,176	$100,887
Royalty revenue, net	10,431	7,305	1,560
Contract revenue	18,658	29,638	29,811
Total revenues	168,979	151,119	132,258
Expenses:			
Cost of goods sold	29,546	23,357	21,646
Research and development	112,888	127,773	112,177
Selling, general and administrative	78,347	78,234	70,626
Merger related expenses	18,303	--	--
Litigation settlement and related expenses	754	1,267	16,031
Total costs and expenses	239,838	230,631	220,480
Loss from operations	(70,859)	(79,512)	(88,222)
Gain on sale of a majority interest in a Subsidiary	--	22,132	--
Interest income	16,435	21,765	20,706
Interest expense	(6,518)	(7,183)	(5,055)
Loss before provision for income taxes and equity in loss of unconsolidated affiliate	(60,942)	(42,798)	(72,571)
Provision for income taxes	888	859	322
Equity in loss of unconsolidated affiliate	(4,656)	(1,101)	--
Net loss	$(66,486)	$(44,758)	$(72,893)
Basic and diluted net loss per common share	$ (1.55)	$ (1.09)	$ (1.85)
Common shares used to calculate basic and diluted net loss per common share	42,826	41,015	39,432

See accompanying notes

GILEAD SCIENCES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	PREFERRED STOCK	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	DEFERRED COMPENSATION	ACCUMULATED DEFICIT
Balance at December 31, 1996	$ --	38,757,298	$39	$640,762	$ (141)	$(916)	$(265,095)
Net loss	--	--	--	--	--	--	(72,893)
Unrealized gain on available-for-sale short-term investments, net	--	--	--	--	255	--	--
Foreign currency translation adjustment	--	--	--	--	(164)	--	--
Comprehensive loss	--	--	--	--	--	--	--
Issuance of warrant to related party	--	--	--	353	--	--	--
Stock repurchases	--	(155)	--	--	--	--	--
Employee stock purchase plan	--	123,909	--	2,799	--	--	--
Option exercises	--	1,251,556	1	12,176	--	--	--
Warrant exercises	--	292,609	--	27	--	--	--
Issuance of 1,133,786 shares of preferred Stock	1	--	--	39,999	--	--	--
Compensation expense related to stock option transactions	--	--	--	44	--	(44)	--
Amortization of deferred compensation	--	--	--	--	--	523	--
Balance at December 31, 1997	1	40,425,217	40	696,160	(50)	(437)	(337,988)
Net loss	--	--	--	--	--	--	(44,758)
Unrealized loss on available-for-sale short-term investments, net	--	--	--	--	(301)	--	--
Foreign currency translation adjustment	--	--	--	--	14	--	--
Comprehensive loss	--	--	--	--	--	--	--
Private issuance of common stock	--	364,257	1	9,982	--	--	--
Employee stock purchase plan	--	133,404	--	2,879	--	--	--
Option exercises	--	639,959	1	7,509	--	--	--
Amortization of deferred compensation	--	--	--	--	--	212	--
Amounts recognized under compensatory stock transactions	--	--	--	434	--	--	--
Balance at December 31, 1998	1	41,562,837	42	716,964	(337)	(225)	(382,746)
Net loss	--	--	--	--	--	--	(66,486)
Unrealized loss on available-for-sale short-term investments, net	--	--	--	--	(1,602)	--	--
Foreign currency translation adjustment	--	--	--	--	(588)	--	--
Comprehensive loss	--	--	--	--	--	--	--
Employee stock purchase plan	--	100,166	--	3,075	--	--	--
Option exercises, net	--	1,253,223	1	26,139	--	--	--
Warrant exercises, net	--	32,302	--	80	--	--	--
Conversion of 1,133,786 shares of preferred stock	(1)	1,133,786	1	--	--	--	--
Conversion of convertible subordinated debentures	--	10,465	--	467	--	--	--
Amortization of deferred compensation	--	--	--	--	--	151	--
Amounts recognized under compensatory stock transactions	--	--	--	2,356	--	--	--
Balance at December 31, 1999	$ --	44,092,779	$44	$749,081	$(2,527)	$ (74)	$(449,232)

	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1996	$374,649
Net loss	(72,893)
Unrealized gain on available-for-sale short-term investments, net	255
Foreign currency translation adjustment	(164)
Comprehensive loss	(72,802)

Issuance of warrant to related party	353
Stock repurchases	--
Employee stock purchase plan	2,799
Option exercises	12,177
Warrant exercises	27
Issuance of 1,133,786 shares of preferred Stock	40,000
Compensation expense related to stock option transactions	--
Amortization of deferred compensation	523
Balance at December 31, 1997	357,726
Net loss	(44,758)
Unrealized loss on available-for-sale short-term investments, net	(301)
Foreign currency translation adjustment	14
Comprehensive loss	(45,045)
Private issuance of common stock	9,983
Employee stock purchase plan	2,879
Option exercises	7,510
Amortization of deferred compensation	212
Amounts recognized under compensatory stock transactions	434
Balance at December 31, 1998	333,699
Net loss	(66,486)
Unrealized loss on available-for-sale short-term investments, net	(1,602)
Foreign currency translation adjustment	(588)
Comprehensive loss	(68,676)
Employee stock purchase plan	3,075
Option exercises, net	26,140
Warrant exercises, net	80
Conversion of 1,133,786 shares of preferred stock	--
Conversion of convertible subordinated debentures	467
Amortization of deferred compensation	151
Amounts recognized under compensatory stock transactions	2,356
Balance at December 31, 1999	$297,292

See accompanying notes

GILEAD SCIENCES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net loss	$ (66,486)	$ (44,758)	$ (72,893)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	12,623	13,231	15,226
Compensation expense from stock option transactions	2,356	434	--
Gain on sale of a majority interest in a subsidiary	--	(22,483)	--
Equity in loss of unconsolidated affiliate	4,656	1,101	--
Litigation settlement charges	754	827	10,017
Net additions to (reductions of) allowance for doubtful accounts	888	(407)	(114)
Reduction in allowance for note receivable	--	(550)	--
Net unrealized loss (gain) on foreign currency transactions	2,846	(1,628)	100
Changes in operating assets and liabilities:			
Accounts receivable	(7,041)	(6,523)	(6,118)
Inventories	(4,409)	860	(1,004)
Prepaid expenses and other assets	(349)	5,298	(13,691)
Accounts payable	1,443	(502)	(4,847)
Accrued liabilities	(11,389)	10,159	9,738
Deferred revenue	1,558	(6,383)	9,131
Net cash used in operating activities	(62,550)	(51,324)	(54,455)
INVESTING ACTIVITIES:			
Purchases of marketable securities	(186,997)	(488,407)	(430,498)
Sales of marketable securities	101,943	390,426	198,515
Maturities of marketable securities	83,677	166,129	100,944
Capital expenditures	(12,475)	(11,010)	(13,832)
Proceeds from sale of a majority interest in a subsidiary, net of closing costs	--	14,652	
Proceeds from sale of investment in life science enterprise	--	--	2,683
Investment in unconsolidated affiliate	(2,450)	(4,900)	--
Payments received on note receivable	--	550	706
Net cash provided by (used in) investing activities	(16,302)	67,440	(141,482)
FINANCING ACTIVITIES:			
Proceeds from issuance of preferred stock	--	--	40,000
Proceeds from issuances of common stock	29,295	20,372	15,003
Payments on short-term borrowings, net	--	(5,102)	(7,438)
Proceeds from issuance of long-term debt	74	4,478	20,334
Repayments of long-term debt	(5,394)	(6,606)	(32,650)
Proceeds from issuance of convertible subordinated debentures, net of offering costs	--	--	77,200
Net cash provided by financing activities	23,975	13,142	112,449
Effect of exchange rate changes on cash	752	573	1,201
Net increase (decrease) in cash and cash equivalents	(54,125)	29,831	(82,287)
Cash and cash equivalents at beginning of year	101,136	71,305	153,592
Cash and cash equivalents at end of year	$ 47,011	$ 101,136	$ 71,305
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	$ 6,234	$ 6,793	$ 2,815
Income taxes paid	527	790	253
DISCLOSURES OF GAIN ON SALE OF A MAJORITY INTEREST IN A SUBSIDIARY:			
Cash receipts, net of closing costs	$ --	$ 14,652	$ --
Receipt of 49% interest in manufacturing facility	--	5,500	--
Net present value of guaranteed payments	--	2,668	--
Other	--	63	--
Net book value of 51% interest sold	--	(751)	--
	$ --	$ 22,132	$ --
SCHEDULE OF NON-CASH INVESTMENT AND FINANCING ACTIVITIES:			
Purchase of equipment and leasehold improvements through accounts payable	$ 124	$ 757	$ 889

Common stock issued upon conversion of debentures.....	467	--	--

See accompanying notes

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND ORGANIZATION

Gilead Sciences, Inc. (the "Company" or "Gilead") was incorporated in Delaware on June 22, 1987, and is an independent biopharmaceutical company that seeks to provide accelerated solutions for patients and the people who care for them. The Company discovers, develops, manufactures and commercializes proprietary therapeutics for challenging infectious diseases (viral, fungal and bacterial infections) and cancer. Gilead also has expertise in liposomal drug delivery technology. Currently, the Company markets AmBisome-Registered Trademark- ((amphotericin B) liposome for injection), an antifungal agent, DaunoXome-Registered Trademark- (daunorubicin citrate liposome injection), a drug approved for the treatment of Kaposi's Sarcoma, and VISTIDE-Registered Trademark- (cidofovir injection) for the treatment of cytomegalovirus ("CMV") retinitis. Hoffmann-La Roche, Inc. markets Tamiflu-TM- (oseltamivir phosphate) for the treatment of influenza, under a collaborative agreement with the Company. In addition, the Company is developing products to treat diseases caused by human immunodeficiency virus ("HIV") and hepatitis B virus ("HBV"), bacterial infections and cancer.

As more fully described in Note 2, on July 29, 1999, Gilead entered into a business combination (the "Merger") with NeXstar Pharmaceuticals, Inc. ("NeXstar"). The business combination has been accounted for as a pooling of interests and the historical consolidated financial statements of Gilead for all years prior to the business combination have been restated to include the financial position, results of operations and cash flows of NeXstar. No material adjustments were necessary to conform the accounting policies of the two companies. Costs of the Merger were charged to operations in 1999.

The accompanying consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. Significant intercompany transactions have been eliminated. Certain reclassifications have been made to prior year amounts to be consistent with the current year presentation.

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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

Product sales revenue is recognized upon passage of legal title of the inventory and satisfaction of all of the Company's performance obligations. The Company does not provide its customers with a general right of product return. However, the Company will accept returns of product that has expired or is deemed to be damaged or defective. Provisions are made for doubtful accounts, estimated product returns, cash discounts and government discounts and rebates.

In connection with most of its European product sales, the Company prices its products in the currency of the country into which they are sold ("Payment Currencies"). A significant majority of the Company's manufacturing costs are in U.S. Dollars. Therefore, any decline in the value of the Payment Currencies relative to the U.S. Dollar is likely to negatively impact gross margins since the Company's manufacturing costs would remain approximately the same while its revenue in terms of U.S. Dollars

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) would decline. Periodically, the Company's gross margin is adversely affected by such currency fluctuations.

Contract revenue recognized under the Company's collaborative research and development ("R&D") arrangements, license and supply agreements and intellectual property sales and license agreements is recorded as earned based upon the performance requirements of the underlying contracts. Milestone payments are recognized as revenue when all of the Company's performance obligations have been met, the amount of the milestone payment is readily determinable and the Company has a unilateral right to demand a nonrefundable payment. Payments received in advance under such agreements are recorded as deferred revenue until earned.

Royalty revenue from sales of AmBisome is recognized in the month following that in which the corresponding sales occur. Royalty revenue from sales of VISTIDE is recognized when received, which is in the quarter following that in which the corresponding sales occur. Royalty revenue from sales of Tamiflu will also be recognized in the quarter following that in which the related sales occur, beginning in the first quarter of 2000.

RESEARCH AND DEVELOPMENT COSTS

All R&D costs, including those funded by third parties, are charged to expense as incurred.

STOCK-BASED COMPENSATION

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, the Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations in accounting for its employee stock option plans. Under APB No. 25, if the exercise price of the Company's employee and director stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized. See Note 11 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. The impact of convertible debentures, stock options and warrants 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 AND 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. Gilead may enter into overnight repurchase agreements under which it purchases securities with an obligation to resell them the following day. Securities purchased under agreements to resell are recorded at face value and reported as cash and cash equivalents. Under the Company's investment policy, it may enter into repurchase agreements ("repos") with major banks and authorized dealers provided that such

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) repos are collateralized by U.S. government securities with a fair value of at least 102% of the fair value of securities sold to Gilead.

MARKETABLE SECURITIES

Management determines the appropriate classification of its marketable debt securities at the time of purchase and reevaluates such designation at each balance sheet date. All of the Company's marketable debt securities are classified as available-for-sale and carried at estimated fair values and reported in either cash equivalents or marketable securities. At December 31, 1999, cash and cash equivalents include $14.3 million of securities designated as available-for-sale ($89.2 million at December 31, 1998). 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

Gilead is subject to credit risk from its portfolio of cash equivalents and marketable securities. By policy, the Company limits amounts invested in such 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 from these financial instruments. The goals of the Company's investment policy, in order of priority, are as follows:

1. Safety and preservation of principal and diversification of risk;

2. Liquidity of investments sufficient to meet cash flow requirements; and

3. Competitive after-tax rate of return.

Gilead is also subject to credit risk from its accounts receivable related to product sales. A majority of the Company's trade accounts receivable arises from sales of AmBisome, primarily through sales to the Company's European subsidiaries and export sales to its distributors in Europe. The Company performs credit evaluations of its customers' financial condition and has not required collateral. To date, the Company has experienced only modest credit losses with respect to its accounts receivable.

INVENTORIES

Raw materials, work in process and finished goods inventories are recorded at the lower of cost or market, with cost determined on a first-in, first-out basis. Management periodically reviews the composition of inventory in order to identify obsolete, slow-moving or otherwise unsaleable items. If such items are observed and there are no alternate uses for the inventory, the Company will take a write-down to net realizable value in the period that the units are identified as impaired. Historically, inventory write-downs have been insignificant and consistent with management's expectations.

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

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method. Estimated useful lives are as follows:

DESCRIPTION	ESTIMATED USEFUL LIFE (IN YEARS)
Building and improvements	20
Laboratory and manufacturing equipment	4-8
Office and computer equipment	2-7

Office and computer equipment includes capitalized computer software. All of the Company's capitalized software is purchased. The Company has no internally developed computer software. Leasehold improvements and capitalized leased equipment are amortized over the shorter of the lease term or the item's useful life.

LONG-LIVED ASSETS

The carrying value of long-lived assets is reviewed on a regular basis for the existence of facts or circumstances both internally and externally that may suggest impairment. Specific potential indicators of impairment include:

- a significant decrease in the fair value of an asset;

- a significant change in the extent or manner in which an asset is used or a significant physical change in an asset;

- a significant adverse change in legal factors or in the business climate that affects the value of an asset or an adverse action or assessment by a regulator;

- an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset; and

- operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an income-producing asset.

Should there be indication of impairment, the Company will confirm this by comparing the estimated future cash flows expected to result from the use of the asset and its eventual disposition to the carrying amount of the asset. In estimating these future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. If the sum of the expected future cash flows (undiscounted and without interest changes) is less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its fair value, will be recognized. The cash flow estimates used in such calculations are based on management's best estimates, using appropriate and customary assumptions and projections at the time.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) OTHER ACCRUED LIABILITIES

At December 31, 1999 and 1998, other accrued liabilities includes $2.4 million and $2.1 million, respectively, of accrued litigation settlement costs. See the Patent Matters discussion in Note 10.

At December 31, 1999 and 1998, other accrued liabilities includes $1.3 million and $5.0 million, respectively, due to F. Hoffmann-La Roche, Ltd. and Hoffmann-La Roche, Inc. (collectively, "Roche"). See the Hoffmann-La Roche discussion in Note 4.

FOREIGN CURRENCY TRANSLATION, TRANSACTIONS AND CONTRACTS

Adjustments resulting from translating the financial statements of the Company's foreign subsidiaries into U.S. Dollars are excluded from the determination of net income and are accumulated in a separate component of stockholders' equity. Net foreign exchange transaction losses are reported as a selling, general and administrative expense in the consolidated statements of operations. In 1999, 1998 and 1997 such amounts were $0.5 million, $0.3 million and $0.3 million, respectively.

The Company hedges certain of its foreign currency exposures related to outstanding trade accounts receivable and firmly committed purchase transactions with foreign exchange forward contracts. 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 the 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. At December 31, 1999, the Company has recorded an immaterial net unrealized loss on its open foreign exchange forward contracts. The Company does not enter into speculative foreign currency transactions and does not write options.

In accounting for hedges of accounts receivable, the Company's aggregate net foreign currency transaction gain or loss is reported as a selling, general and administrative expense. The Company recognizes the net unrealized gain or loss on outstanding forward contracts based on the difference between the contract exchange rate and the market exchange rate at each balance sheet date. With respect to hedges of firmly committed purchase transactions, unrealized gains and losses on the underlying forward contracts are deferred and reported as a component of the related transaction in the period in which it occurs.

At December 31, 1999 and 1998, the Company had forward exchange contracts outstanding of $42.9 million and $42.4 million, respectively. None of these contracts have maturities that exceed one year.

The Company presently does not hedge its net investment in any of its foreign subsidiaries.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, certain other non-current assets, forward foreign exchange contracts, accounts payable, long-term obligations and convertible subordinated debentures. Cash and cash equivalents, marketable securities and substantially all of the forward foreign exchange contracts are reported at their respective fair values on the balance sheet. Management believes the remaining financial instruments, with the exception of the convertible subordinated debentures, are reported on the balance sheet at amounts that approximate current fair values. The fair value of the convertible subordinated debentures at December 31, 1999 and 1998 was $101.8 million and $69.4 million, respectively (such fair values being determined by a market maker for the convertible subordinated debentures). This compares to a carrying value of $79.5 million and $80.0 million at December 31, 1999 and 1998, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") 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 hedging activities. In June 1999, the FASB issued SFAS No. 137, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES--DEFERRAL OF THE EFFECTIVE DATE OF FASB STATEMENT NO. 133. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000 and, therefore, the Company will adopt this accounting standard effective January 1, 2001. Management has not yet determined the impact of SFAS No. 133 on its financial position or results of operations.

The Company has recognized nonrefundable technology access fees received in connection with collaboration agreements as revenue when received, when the technology has been transferred and when all contractual obligations of the Company relating to the fees are fulfilled. In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "REVENUE RECOGNITION IN FINANCIAL STATEMENTS." Among other things, SAB No. 101 describes the SEC Staff's position on the recognition of certain nonrefundable upfront fees received in connection with research collaborations. The Company is evaluating the applicability of SAB No. 101 to its existing collaborative agreements. Should the Company conclude that the approach described in SAB No. 101 is more appropriate, it will change its method of accounting effective January 1, 2000 to recognize such fees over the term of the related agreement. Any required adjustment would be recognized as a cumulative effect of a change in accounting principle.

2. ACQUISITION OF NEXSTAR

On July 29, 1999, the Company acquired all of the outstanding common stock of NeXstar pursuant to an Agreement and Plan of Merger dated as of February 28, 1999. As a result, NeXstar became a wholly owned subsidiary of Gilead. In connection with the Merger, Gilead issued a total of 11.2 million shares of Gilead common stock, or 0.3786 of a share of Gilead common stock for each share of NeXstar common stock, to NeXstar's stockholders as consideration for all shares of common stock of NeXstar. In addition, holders of options and warrants outstanding at the time of the Merger to purchase an aggregate of approximately 2.2 million shares of NeXstar common stock will receive, upon

2. ACQUISITION OF NEXSTAR (CONTINUED) exercise of such options and warrants, the same fraction of a share of Gilead common stock, and holders of $80.0 million principal amount of 6.25% Convertible Subordinated Debentures of NeXstar ("Debentures") have the right to convert the Debentures into approximately 1.8 million shares of Gilead common stock. The Merger is intended to qualify as a tax-free reorganization and has been accounted for as a pooling of interests.

The table below presents the separate results of operations for Gilead and NeXstar for the periods prior to the merger and combined results after the merger:

(IN THOUSANDS)	GILEAD	NEXSTAR	MERGER-RELATED ADJUSTMENTS	TOTAL
Year ended December 31, 1999				
Revenues	$ 24,659	$144,320	$ --	$168,979
Net income (loss)	(73,534)	25,351	(18,303)(a)	(66,486)
Year ended December 31, 1998				
Revenues	$ 32,570	$118,549	$ --	$151,119
Net income (loss)	(56,075)	10,920	397(b)	(44,758)
Year ended December 31, 1997				
Revenues	$ 40,037	$ 92,221	$ --	$132,258
Net income (loss)	(27,993)	(43,910)	(990)(b)	(72,893)

(a) Merger-related costs

(b) Adjustment required to conform accounting policy. NeXstar's policy was to capitalize certain patent and trademark costs, while it was Gilead's policy to charge such items to selling, general and administrative expense in the period incurred. The accompanying financial statements have been restated for all periods such that all patent and trademark costs are expensed as incurred.

As a result of its merger with NeXstar, Gilead incurred merger-related costs consisting of transaction costs (primarily professional fees, filing fees, printing costs and other related charges), employee severance costs and the write-down of certain NeXstar assets that will not be used in continuing operations. The following table shows the details of the merger-related costs and accruals at December 31, 1999:

(IN THOUSANDS)	CHARGED TO EXPENSE THROUGH DECEMBER 31, 1999	UTILIZED	DECEMBER 31, 1999 ACCRUAL BALANCE
Merger transaction costs	$12,214	$12,196	$ 18
Employee severance	5,309	2,821	2,488
Write-down of NeXstar assets	536	N/A	N/A
Other	244	244	--
Total	$18,303	$15,261	$2,506

As of December 31, 1999, all employees for which severance costs were accrued had been terminated. The Company anticipates that substantially all remaining accrued severance costs will be paid to former employees by September 2000.

3. AVAILABLE-FOR-SALE SECURITIES

The following is a summary of available-for-sale securities. Estimated fair values of available-for-sale securities are based on prices obtained from commercial pricing services (in thousands).

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
DECEMBER 31, 1999				
U.S. treasury securities and obligations of U.S. Government agencies	$133,444	$512	$(1,243)	$132,713
Certificates of deposit	5,309	1	--	5,310
Corporate debt securities	70,726	19	(583)	70,162
Asset-backed securities	39,554	2	(266)	39,290
Other debt securities	14,256	--	--	14,256
Total	$263,289	$534	$(2,092)	$261,731
DECEMBER 31, 1998				
U.S. treasury securities and obligations of U.S. Government agencies	$ 78,846	$ 62	$ (123)	$ 78,785
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	95,626	--	--	95,626
Total	$336,771	$380	$ (337)	$336,814

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

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Proceeds from sales	$101,943	$390,426	$198,515
Gross realized gains on sales	$ 92	$ 1,127	$ 229
Gross realized losses on sales	$ (475)	$ (654)	$ (142)

At December 31, 1999, $128.4 million of the Company's portfolio of marketable securities (excluding asset-backed securities) has a contractual maturity of less than one year and $94.0 million of the portfolio has a contractual maturity greater than one year but less than three years. None of the estimated maturities of the Company's asset-backed securities exceed three years.

4. COLLABORATIVE ARRANGEMENTS AND CONTRACTS

FUJISAWA

The Company's rights to market AmBisome are subject to an agreement between the Company and Fujisawa Healthcare, Inc., as successor to Fujisawa USA, Inc. ("Fujisawa"). Under the terms of the Fujisawa agreement, as amended, Fujisawa and the Company co-promote AmBisome in the United

4. COLLABORATIVE ARRANGEMENTS AND CONTRACTS (CONTINUED) States, Fujisawa has sole marketing rights to AmBisome in Canada and the Company has exclusive marketing rights to AmBisome in the rest of the world, provided the Company pays royalties to Fujisawa in connection with sales in most significant Asian markets, including Japan. In connection with sales in the United States, Fujisawa purchases AmBisome from the Company at cost. Fujisawa collects all payments from the sale of AmBisome in the United States, and the Company receives 20% of the gross profits from the sale of AmBisome in the United States. The Company also sells AmBisome to Fujisawa Canada at cost plus a specified percentage. In 1999, 1998 and 1997, the Company recorded $8.3 million, $4.8 million and $0.7 million of royalty income, respectively, in connection with the agreement between the Company and Fujisawa.

SUMITOMO

In September 1996, the Company and Sumitomo Pharmaceuticals Co., Ltd. ("Sumitomo") entered into an agreement ("Sumitomo License") pursuant to which Sumitomo has agreed to develop and market AmBisome in Japan. Under the terms of the Sumitomo License, Sumitomo paid the Company an initial $7.0 million licensing fee (less withholding taxes of $0.7 million) in October 1996 and a $3.0 million milestone payment (less withholding taxes of $0.3 million) in March 1998. Sumitomo also is required to make additional payments to the Company if certain clinical and commercial milestones are met and to pay the Company royalties on all Japanese AmBisome sales. AmBisome is not yet approved for marketing in Japan.

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 1996, Roche made an initial license fee payment to Gilead of $10.3 million. 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. During 1999, Gilead recognized a total of $12.8 million of additional milestone payments due to the commencement of certain clinical trials in Japan, the filing of a marketing authorisation application to market Tamiflu in the European Union, and the filing and subsequent approval of a New Drug Application ("NDA") to market Tamiflu in the United States. As of December 31, 1999, Gilead is entitled to additional cash payments of up to $21.2 million upon achieving additional developmental and regulatory milestones. In addition, Roche is required to pay Gilead royalties on net product sales. No revenues from Roche's sales of Tamiflu have been recognized as net royalty revenue as of December 31, 1999. The Company will recognize royalty revenue from sales of Tamiflu in the quarter following that in which the related product sales occur.

Under the Roche Agreement, Roche also reimburses the Company for its related R&D costs under the 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.

4. COLLABORATIVE ARRANGEMENTS AND CONTRACTS (CONTINUED) 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, 1999, 1998 and 1997, the Company recorded approximately $2.1 million, $16.4 million and $8.2 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 and recognized in contract revenue 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.

PHARMACIA & UPJOHN

In August 1996, the Company and Pharmacia & Upjohn S.A. ("Pharmacia & Upjohn") entered into a License and Supply Agreement ("Pharmacia & Upjohn Agreement") to market VISTIDE in all countries outside the United States. Under the terms of the Pharmacia & Upjohn Agreement, Pharmacia & Upjohn 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 triggered an additional cash milestone payment of $10.0 million by Pharmacia & Upjohn to the Company. Also as a result of achieving this milestone, in the second quarter of 1997 the Company issued and Pharmacia & Upjohn purchased 1,133,786 shares of Series B Convertible Preferred Stock for approximately $40.0 million, or $35.28 per share. The preferred stock automatically converted into an equal number of shares of common stock in 1999. For additional information about the preferred stock, refer to Note 11.

Under the terms of the Pharmacia & Upjohn Agreement and related agreements covering expanded access programs for VISTIDE outside of the United States, the Company is responsible for maintaining the cidofovir patent portfolio and for supplying to Pharmacia & Upjohn bulk cidofovir used to manufacture the finished VISTIDE product ("Product"). Gilead is entitled to receive a royalty based upon Pharmacia & Upjohn's sales of Product. It receives a portion of the royalty upon shipping either bulk drug substance or Product to Pharmacia & Upjohn, and the remainder upon Pharmacia & Upjohn'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, 1999, the Company has recorded on its balance sheet approximately $3.7 million of such deferred revenue ($3.3 million at December 31, 1998). The Company recognized royalty revenue of $2.0 million, $1.7 million and $0.7 million in 1999, 1998 and 1997, respectively, from sales of VISTIDE outside of the United States by Pharmacia & Upjohn.

SOMALOGIC

In November 1999, Gilead and Somalogic, Inc. ("Somalogic") entered into an agreement whereby Gilead assigned to Somalogic under a sole and exclusive license certain intellectual property related to the SELEX process, including patents and patent applications. Under the terms of the agreement, Somalogic is required to pay Gilead a total of $2.5 million in two nonrefundable installments. The first $1.5 million was paid in November 1999 and is included in contract revenue in the Company's

4. COLLABORATIVE ARRANGEMENTS AND CONTRACTS (CONTINUED) consolidated statement of operations for the year ended December 31, 1999. The remaining $1.0 million is due in November 2000 and, because Somalogic is a developmental stage entity that may require third party financing, Gilead will recognize this amount as contract revenue when received. Gilead has no ongoing research or funding obligations under the agreement. At December 31, 1999, the $1.0 million payment due in November 2000 is reported as deferred revenue on the consolidated balance sheet.

SCHERING A.G.

In 1993, the Company entered into a collaborative research agreement ("Schering Research Agreement") and license agreement ("Schering License Agreement") with Schering A.G. Under the Schering Research Agreement, Schering A.G. has funded research at Gilead for the discovery and development of aptamers as IN VIVO diagnostic agents. The level of funding under this agreement has varied over the five-year term, from $1.0 million to $2.4 million annually. In March 1999, Schering A.G. agreed to fund $0.3 million under the Schering Research Agreement for the first half of 1999, which Gilead received and reported in contract revenue in 1999. The Schering Research Agreement expired in 1999 and the Company does not expect to receive any additional payments thereunder.

Under the Schering License Agreement, Schering A.G. has the right to develop and commercialize aptamers as IN VIVO diagnostic agents or radiotherapeutics discovered and developed under the Schering Research Agreement. Schering A.G. is required to make milestone and royalty payments to the Company upon commercialization and sale of any products developed under the collaboration with the Company. The milestone payments for any one product total $6.0 million and are triggered by the filing of an Investigational New Drug application, the initiation of Phase III clinical trials, the filing of an NDA and approval of a product for commercial sale. The Schering License Agreement, which was still in effect as of December 31, 1999, permits the Company to develop and commercialize aptamers discovered under the Schering Research Agreement outside the field of IN VIVO diagnostic agents or radiotherapeutics, subject to royalty payments to Schering A.G.

ISIS PHARMACEUTICALS

In December 1998, Gilead and Isis Pharmaceuticals, Inc. ("Isis") entered into an agreement under which Gilead sold to Isis certain intellectual property, including patents and patent applications covering antisense chemistry and antisense drug delivery systems. Under the terms of the agreement, Isis is required to pay to Gilead a total of $6.0 million in four nonrefundable installments. The first installment of $2.0 million was paid in December 1998, the second installment of $1.0 million was paid in December 1999 and the remaining $3.0 million is payable in two additional payments (one payment of $1.0 million in 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. Gilead has no ongoing research or funding obligations under the agreement.

GLAXO WELLCOME

In May 1998, the Company entered into a three-part collaboration with Glaxo Wellcome Inc. ("Glaxo") in which (a) Glaxo received a non-exclusive right to use the Company's proprietary SELEX process for target validation; (b) the Company received the exclusive rights (subject to Glaxo's right to

4. COLLABORATIVE ARRANGEMENTS AND CONTRACTS (CONTINUED) elect to participate in such activities) to develop and commercialize NX 211, a liposomal formulation of Glaxo's proprietary topoisomerase I inhibitor (lurtoctecan); and (c) Glaxo acquired 364,257 shares of the Company's common stock for $10.0 million in a private offering.

In July 1990, the Company entered into a collaborative research agreement with Glaxo with respect to the Company's antisense technology. 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, 1999 and 1997, which is reported as contract revenue. This agreement was terminated in 1999 and the Company will not receive any additional payments in the future.

5. INVENTORIES

Inventories are summarized as follows (in thousands):

	DECEMBER 31,	
	1999	1998
Finished goods	$ 3,463	$ 3,672
Work in process	6,793	5,962
Raw materials	10,703	6,916
	$20,959	$16,550

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in thousands):

	DECEMBER 31,	
	1999	1998
Building and improvements (including leasehold improvements)	$ 46,597	$ 44,700
Laboratory and manufacturing equipment	27,204	26,568
Office and computer equipment	20,127	18,969
Capitalized leased equipment	16,042	17,385
Construction in progress	5,540	639
	115,510	108,261
Less accumulated depreciation and amortization	(64,112)	(57,242)
	$ 51,398	$ 51,019

7. INVESTMENT IN UNCONSOLIDATED AFFILIATE

In late 1997, the Company established its NeXstar Technology Products division which included the Company's proprietary technology called Product Anchored Sequential Synthesis ("PASS"), a method of synthesizing the oligonucleotides that are the basis for the products being developed using the SELEX process. In July 1998, the Company established Proligo L.L.C., a Delaware limited liability company ("Proligo"), as a wholly owned subsidiary and transferred all of the assets of the NeXstar Technology Products division to Proligo. Proligo supplies nucleic acid and peptide synthesis products to the pharmaceutical and biopharmaceutical industry for sale and use as laboratory research reagents and in therapeutic and diagnostic products.

On August 15, 1998, the Company sold a 51% interest (the "Interest") in Proligo to SKW Americas, Inc. ("SKW"). As payment for the Interest, the Company received $15.0 million in cash and a 49% interest in PerSeptive Biosystems GmbH, a company in Hamburg, Germany (the "Hamburg Company"), which specializes in the manufacture of nucleoside phosphoramidite monomers. The 49% interest in the Hamburg Company had a fair market value of approximately $5.5 million. In addition, SKW agreed to pay the Company $3.0 million in guaranteed payments (discounted at 8.5% for gain recognition purposes) and up to $20.5 million in performance-based milestones over the next four years. During 1999, the Company received $2.6 million of the guaranteed payments from SKW. The Company also received a performance-based milestone payment of $1.0 million, which is reported in contract revenue on the consolidated statement of operations. As part of the original transaction, the Company contributed $4.9 million and its 49% interest in the Hamburg Company to Proligo. The Company recorded a $22.1 million gain in connection with this sale in 1998. SKW contributed $5.1 million and the remaining 51% interest in the Hamburg Company to Proligo. Also in connection with this transaction, the Company and Proligo agreed that Proligo would manufacture oligonucleotides required by the Company at cost plus a fixed percentage. During 1999, the Company purchased oligonucleotides from Proligo for a total of $0.4 million. This entire amount has been charged to R&D expense.

The Company accounts for its investment in Proligo using the equity method of accounting. The net book value of its investment at December 31, 1999 and 1998 was approximately $7.6 million and $10.3 million, respectively, and is reported in other noncurrent assets on the Company's consolidated balance sheets. In 1999, the Company recorded its equity in the loss of Proligo of $4.7 million, which represents its 49% share of Proligo's loss for its fiscal year ended November 30, 1999. In 1998, the Company recorded its equity in the loss of Proligo of $1.1 million for the period from August 15, 1998 through November 30, 1998. The Proligo operating loss for December 1999 was approximately $0.9 million, of which the Company will recognize its 49% share in 2000.

In October 1999, the Company made a capital contribution to Proligo of $2.5 million to maintain its 49% ownership interest. The Company also agreed to contribute an additional $2.5 million in 2000, again to maintain its 49% ownership interest. Upon making this capital contribution in January 2000, the Company has no commitments to provide additional funding to Proligo.

8. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

	DECEMBER 31,	
	1999	1998
Capital lease obligations: Interest payable monthly at 6.89% to 13.91%	$5,681	$7,901
Adjustable rate debt: Quarterly installments through 2000; unsecured; interest payable quarterly based on applicable LIBOR rates	--	1,313
Fixed rate debt: Monthly installments through 2003; secured by equipment; interest payable monthly at 9.69% to 12.62%	2,763	4,511
Total long-term obligations	8,444	13,725
Less current portion	(3,191)	(4,842)
Long-term obligations due after one year	$5,253	$8,883

Maturities of all long-term obligations, including capital lease obligations, due subsequent to December 31, 1999 are as follows (in thousands):

YEAR ENDING DECEMBER 31,	AMOUNT
2000	$3,191
2001	3,050
2002	1,902
2003	301
Total	$8,444

The terms of the various debt agreements require the Company to comply with certain financial and operating covenants. At December 31, 1999, the Company was in compliance with all such covenants.

9. CONVERTIBLE SUBORDINATED DEBENTURES

During the third quarter of 1997, the Company sold $80.0 million of 6.25% Debentures due 2004 in a private offering to SBC Warburg Inc. and Oppenheimer & Co., Inc., which resold the Debentures to a group of private investors. The Debentures were issued pursuant to an indenture and are convertible into a total of up to 1,794,844 shares of the Company's common stock at $44.57 per share, which was greater than the fair market value of the Company's common stock at the time the Debentures were issued. The Company reserved 1,794,844 shares of its authorized common stock for issuance upon conversion of the Debentures. The Debentures are redeemable in whole or in part, at the option of the Company, at any time on or after August 10, 2000, at specified redemption prices plus accrued interest. During 1999, holders of $0.5 million of Debentures converted their holdings into 10,465 shares of common stock.

10. COMMITMENTS AND CONTINGENCIES

LEASES AND FINANCING ARRANGEMENTS

The Company has entered into long-term noncancelable operating leases for facilities in Boulder, Colorado, Foster City, California and San Dimas, California. The leases contain the following terms:

LOCATION	TERMINATION DATE	RENEWAL OPTIONS
Boulder, CO	October 2001	Two five-year terms
Boulder, CO	July 2003	None
Foster City, CA	December 2003	None
Foster City, CA	March 2006	Two five-year terms
Foster City, CA	September 2006	Two five-year terms
San Dimas, CA	May 2003	Two five-year terms
San Dimas, CA	November 2003	Two five-year terms

Rent expense net of sublease income under the Company's operating leases totaled approximately $7.9 million, $6.8 million and $6.8 million for the years ended December 31, 1999, 1998 and 1997, respectively.

The Company has entered into certain financing and sale-leaseback transactions and related equipment and facilities improvement master lease and financing agreements for manufacturing equipment, general laboratory and scientific equipment, office equipment, furniture, fixtures and facilities improvements. Title to assets acquired under the Company's lease lines of credit resides with the lessor. The Company has the option to purchase the assets at the end of the lease terms at fair market value. The leases have terms ranging from three to five years. At December 31, 1999, no amounts were available under such agreements.

Aggregate noncancelable future minimum rental payments under operating and capital leases, net of aggregate future minimum rentals to be received by the Company under noncancelable subleases, are as follows (in thousands):

YEARS ENDING DECEMBER 31,	OPERATING LEASES, NET OF NONCANCELABLE SUBLEASES	CAPITAL LEASES
2000	$ 8,458	$ 2,607
2001	8,430	2,449
2002	9,661	1,294
2003	8,999	--
2004	5,672	--
Thereafter	6,870	--
	$48,090	6,350
Less amount representing interest		(669)
Total capital lease obligations		5,681
Less current portion		(2,192)
Capital lease obligations due after one year		$ 3,489

10. COMMITMENTS AND CONTINGENCIES (CONTINUED) 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, 1999, a total of $0.5 million was secured under this letter of credit arrangement.

CONTINGENT LIABILITIES

In connection with the August 1998 sale of a majority interest in its subsidiary, Proligo, as described in Note 7, the Company transferred certain property and equipment with a net book value of $4.5 million to Proligo. The majority of such property and equipment is financed or leased by the Company in accordance with the financing arrangements and sale-leaseback transactions described above. Concurrent with this transfer of property and equipment, the Company transferred the underlying debt to Proligo pursuant to various Sublease, Consent and Assignment Agreements (collectively, the "Sublease Agreements"). As a result, the Company is required to pay the debt financing and lease liabilities to the financial institutions and lessors directly for Proligo's share of the liabilities. Proligo is required to reimburse the Company for these amounts and is bound by the same terms and conditions as those in the Company's agreements with the financial institutions and lessors. If Proligo were to default on its obligations under the Sublease Agreements, the Company would continue to be liable for amounts outstanding as of the date of the default. However, in this event, SKW would be obligated to reimburse the Company for 51% of such amounts paid. At December 31, 1999, Proligo was current with respect to its reimbursements to the Company and the balance of Proligo's future lease and debt obligations under the Sublease Agreements was $1.9 million.

Additionally, the Company and Proligo entered into Assignment, Assumption and Consent Agreements ("Agreements") with the landlords of two laboratory facilities Proligo occupies. Under the Agreements, Proligo has assumed the obligations to the landlords, but the Company remains contingently liable in the event of default. The total unpaid amount of such operating lease commitments as of December 31, 1999 was approximately $0.4 million.

Gilead has subleased certain of its facilities, primarily in California, through 2001. If any of the sublessees default on their obligations under these subleases, the Company would be primarily liable to the original lessor. The total amount due under these subleases as of December 31, 1999 is $3.0 million.

SHORT-TERM BORROWINGS

In September 1997, the Company entered into an unsecured bank line of credit for $10.0 million (the "Credit Agreement"). Under the terms of the Credit Agreement, the Company is required to maintain certain financial ratios. There are also limitations on the Company's ability to incur additional debt or to engage in certain significant transactions. The Credit Agreement, which includes a foreign exchange facility, was being renegotiated as of December 31, 1999 and was subsequently extended until April 2001. There were no amounts outstanding under this agreement as of either December 31, 1999 or 1998.

10. COMMITMENTS AND CONTINGENCIES (CONTINUED) PATENT MATTERS

On August 11, 1997, the Company and The Liposome Company, Inc. ("TLC") reached a settlement ("Settlement Agreement") in which the two companies agreed to dismiss all legal proceedings involving TLC's reexamined U.S. Patent No. 4,880,635 ("TLC 635 Patent") and U.S. Patent No. 5,578,320 ("TLC 320 Patent") and their international counterparts. The legal proceedings related to whether AmBisome, the Company's liposomal formulation of amphotericin B, infringed TLC's patents because of the manner in which it is freeze dried (lyophilized). In the Settlement Agreement between the parties, TLC granted the Company immunity from suit in connection with the worldwide production and sales of AmBisome and a worldwide right to use both the TLC 635 Patent and the TLC 320 Patent. Under the terms of the Settlement Agreement, the Company made an initial payment to TLC of $1.8 million and was required to make payments beginning in 1998 based on AmBisome sales over the next several years. Because the payments are subject to certain minimum and maximum amounts, the Company recorded accounting charges in 1997 of $11.8 million, of which $10.0 million represented the net present value of all future minimum payments and $1.8 million represented the initial cash payment. Beginning in 1998, the Company is recording an expense each quarter based on the difference between all future minimum payments and the expense recorded in 1997. In addition, beginning in 1998, the Company is recognizing as cost of goods sold the difference between the minimum and maximum payments, if any. The Company does not expect the difference between its future minimum and maximum payments to TLC to be material.

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 alleged that Gilead conducted scientific research that infringes Chiron patents covering the hepatitis C protein and gene sequences and their use in screening for potential hepatitis C therapeutics. In, December 1999, Gilead and Chiron agreed to the terms of a settlement agreement and, as a result, the Company made a one-time settlement payment of $0.4 million to Chiron at that time.

LEGAL PROCEEDINGS

The Company is involved from time to time in legal proceedings arising in the ordinary course of its business. In the opinion of management, none of these matters is expected to have a material adverse effect on the financial position or operations of the Company based on factors currently known to management.

11. STOCKHOLDERS' EQUITY

PREFERRED STOCK

The Company has 5,000,000 shares of authorized preferred stock issuable in series. The Company's Board of Directors ("Board") 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 ("Preferred Stock") to Pharmacia & Upjohn for approximately $40.0 million, or $35.28 per share. On

11. STOCKHOLDERS' EQUITY (CONTINUED) July 15, 1999, the average of the closing price of the Company's common stock for the thirty days then ended was $49.79. This event triggered the automatic conversion of the Preferred Stock owned by Pharmacia & Upjohn into the Company's common stock. Accordingly, the Preferred Stock converted into 1,133,786 shares of common stock at the original issue price of $35.28 per share on July 16, 1999.

EMPLOYEE STOCK PURCHASE PLAN

Under Gilead's Employee Stock Purchase Plan ("ESPP"), employees can purchase shares of Gilead 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 1,580,000 shares of common stock are reserved for issuance under the ESPP. As of December 31, 1999, 881,283 shares had been issued under the ESPP (794,049 shares as of December 31, 1998).

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, Gilead 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, Gilead 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 Board 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 Board and expire after ten years. No shares are available for grant of future options under any of these plans.

In November 1991, Gilead 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 Board, 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 Gilead's common stock on the date of grant. The options vest over five years pursuant to a formula determined by the Board and expire after ten years. At December 31, 1999, 3,185,020 shares were available for grant of future options.

In November 1995, Gilead 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 Gilead's common stock on the date of grant. The options vest over five

11. STOCKHOLDERS' EQUITY (CONTINUED) years from the date of grant in quarterly 5 percent installments and expire after ten years. At December 31, 1999, 239,000 shares were available for grant of future options under the Directors' Plan.

NeXstar's stock plans include the 1988 Stock Option Plan ("1988 Plan"), the 1993 Incentive Stock Plan, and the 1995 Director Option Plan (collectively, "NeXstar Plans"). Options pursuant to the 1988 Stock Option Plan and the 1993 Incentive Stock Plan that were issued and outstanding as of July 29, 1999 have been converted into options to purchase Gilead common stock as a result of the Merger and remain subject to their original terms and conditions. Options outstanding under the 1995 Director Option Plan became fully vested at the close of the Merger and are exercisable for a period of 24 months thereafter. No shares are available for grant of future options under any of the NeXstar Plans.

NeXstar's 1988 Plan allows certain option holders to execute cashless exercises of options. In a cashless exercise transaction, the option holder specifies how many shares will be exercised and the Company issues the specified number of shares, less the number that would be required to cover the exercise price based on the fair value of the stock on the exercise date. During 1999, several option holders performed cashless exercises. As a result, NeXstar' 1988 Plan is considered to be a variable plan and, therefore, the Company recognized compensation expense of $2.3 million. Of this amount, $1.5 million relates to exercised options and the remaining $0.8 million relates to options that remain outstanding under the 1988 Plan at December 31, 1999.

The following table summarizes activity under all Gilead and NeXstar stock option plans for each of the three years in the period ended December 31, 1999. 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					
	1999		1998		1997	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, Beginning of year	5,656	$24.38	5,246	$22.36	5,569	$17.77
Granted	1,669	54.84	1,428	27.49	1,263	30.67
Forfeited	(371)	33.61	(378)	31.20	(333)	24.49
Exercised	(1,323)	21.52	(640)	11.74	(1,253)	9.73
Outstanding, end of year	5,631	$33.36	5,656	$24.38	5,246	$22.36
Exercisable, end of year	2,276	$22.56	2,518	$20.51	2,190	$17.08
Weighted Avg. Fair Value of Options Granted		$33.53		$15.46		$16.51

11. STOCKHOLDERS' EQUITY (CONTINUED)

The following is a summary of Gilead options outstanding and options exercisable at December 31, 1999 (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--$22.50	1,464	4.59	$14.61	1,162	$13.55
$22.88--$27.65	1,338	7.69	$24.88	418	$25.21
$29.63--$41.06	1,409	6.72	$34.55	601	$34.06
$41.27--$85.95	1,420	8.96	$59.50	95	$48.25
Total.....	5,631	6.96	$33.36	2,276	$22.56

PRO FORMA DISCLOSURES

The table below presents the combined net loss and basic and diluted loss per common share if compensation cost for both Gilead's and NeXstar's stock option plans had been determined based on their estimated fair values at the grant dates for awards under those plans.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Pro forma net loss (in thousands).....	$(93,816)	$(61,444)	$(87,393)
Pro forma basic and diluted net loss per share.....	$ (2.19)	$ (1.50)	$ (2.22)

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

	1999	1998	1997
Expected life in years (from vesting date)--Stock options.....	1.86	1.44 to 1.78	1.00 to 1.75
Expected life in years--ESPP	1.21	1.51	0.75
Interest rate--Stock options.....	5.6%	4.7% to 5.5%	5.6% to 6.2%
Interest rate--ESPP.....	5.0%	5.2%	5.6%
Volatility(1).....	67%	66%	66%
Expected dividend yield.....	0%	0%	0%

(1) NeXstar's volatility rates for 1998 and 1997 were 61% and 52%, respectively.

The weighted average estimated fair value of each Gilead ESPP option granted for the years ended December 31, 1999, 1998 and 1997 was $16.22, $11.97 and $9.57, respectively.

11. STOCKHOLDERS' EQUITY (CONTINUED) 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% or more of the Company's common stock, the Rights permit the holders (other than the 15% holder) to purchase Gilead common stock at a 50% discount from the market price at that time, upon payment of an exercise price of a specified exercise price 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% discount from the market price at that time. Under certain conditions, the Rights may be redeemed by the Board 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.

In October 1999, the Board of Directors approved an amendment to the Plan. This amendment provides, among other things, for an increase in the exercise price of the right under the Plan from $60 to $400 and an extension of the term of the Plan from November 21, 2004 to October 20, 2009.

12. COMPREHENSIVE INCOME

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,		
	1999	1998	1997
Net gain (loss) on sales of securities included in interest income	$ (383)	$ 473	$ 87
Other comprehensive income:			
Net unrealized gain (loss) arising during the year	$(1,985)	$ 172	$342
Reclassification adjustment	383	(473)	(87)
Net unrealized gain (loss) reported in other comprehensive income	$(1,602)	$(301)	$255

The balance of accumulated other comprehensive loss as reported on the balance sheet consists of the following components (in thousands):

	DECEMBER 31,	
	1999	1998
Net unrealized (loss) gain on available-for-sale securities	$(1,559)	$ 43
Cumulative loss on foreign currency translation	(968)	(380)
Accumulated other comprehensive loss	$(2,527)	$(337)

13. DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

Effective January 1, 1998, the Company adopted SFAS No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION." Statement No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company has determined that it only has one reportable segment because management has organized the business along its functional lines.

PRODUCT SALES REVENUES

Product sales revenues consisted of the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
AmBisome	$129,177	$103,430	$ 83,918
DaunoXome	4,775	4,672	5,234
VISTIDE	5,938	6,074	11,735
	$139,890	$114,176	$100,887

REVENUES FROM EXTERNAL CUSTOMERS AND COLLABORATIVE PARTNERS BY GEOGRAPHIC REGION

The following table summarizes revenues from external customers and collaborative partners by geographic region. Revenues are attributed to countries based on the location of the customer or collaborative partner (in thousands).

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
United States	$ 28,389	$ 23,601	$ 17,679
Germany	21,647	22,254	17,063
United Kingdom	19,259	17,241	17,794
Switzerland	15,763	16,400	14,200
Italy	16,293	13,420	10,993
Spain	14,625	11,934	8,880
France	8,347	4,993	3,155
Sweden	4,400	1,696	10,802
Other European countries	27,100	25,340	23,665
Other foreign countries	13,156	14,240	8,027
Consolidated total	$168,979	$151,119	$132,258

13. DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION (CONTINUED)

At December 31, 1999, the net book value of the Company's property, plant and equipment was $51.4 million. Approximately 93% of such assets were located in the United States. At December 31, 1998, the net book value of the Company's property, plant and equipment was approximately $51.0 million. Approximately 92% of such assets were located in the United States.

MAJOR CUSTOMER

In 1999, 1998 and 1997, sales to one distributor accounted for approximately 14%, 13% and 14% of product revenues, respectively.

14. INCOME TAXES

The Company has no deferred provision for income taxes. The current provision for income taxes consists of the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Current:			
Federal	$ 65	$160	$ --
State	30	21	--
Foreign	793	678	322
	$888	$859	$322

Foreign pre-tax income (loss) was $2.0 million, 0.1 million and ($2.8) million in 1999, 1998 and 1997, respectively.

The difference between the provision for taxes on income and the amount computed by applying the federal statutory income tax rate to income before provision for income taxes and equity in loss of unconsolidated affiliate is explained below (in thousands):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Loss before provision for income taxes	$(60,942)	$(42,798)	$(72,571)
Tax at federal statutory rate	$(20,720)	$(14,552)	$(24,675)
Unbenefitted losses	21,074	14,698	24,660
Other	534	713	337
	$ 888	$ 859	$ 322

At December 31, 1999, the Company had U.S. federal and state net operating loss carryforwards of $413.3 million and $69.8 million, respectively. The federal net operating loss carryforwards will expire at various dates beginning in 2001 through 2019, if not utilized. The state net operating loss carryforwards will expire at various dates from 2000 through 2012, if not utilized. Utilization of net operating losses may be subject to an annual limitation due to ownership change limitations provided in

14. INCOME TAXES (CONTINUED) the Internal Revenue Code and similar state provisions. This annual limitation may result in the expiration of the net operating losses and credits before utilization.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1999 and 1998 are as follows (in thousands):

	DECEMBER 31,	
	1999	1998
Net operating loss carryforwards	$ 144,600	$ 125,439
Research and other credits	27,400	24,985
Capitalized R&D for California	14,800	11,200
Other, net	7,400	8,987
Total deferred tax assets	$ 194,200	$ 170,611
Valuation allowance	(194,200)	(170,611)
Net deferred tax assets recognized	$ --	$ --

The valuation allowance increased by $23.6 million and $34.2 million for the years ended December 31, 1999 and 1998, respectively. Approximately $24.4 million of the valuation allowance at December 31, 1999 relates to the tax benefits of stock option deductions, which will be credited to additional paid-in capital when realized.

15. RETIREMENT SAVINGS PLAN

As of December 31, 1999, Gilead maintained two separate retirement savings plan pursuant to which eligible employees may defer compensation for income tax purposes under Section 401(k) of the Internal Revenue Code of 1986 ("Savings Plans"). One Savings Plan primarily covers NeXstar employees ("NeXstar Plan"), while the other Savings Plan primarily covers all other eligible employees of the combined company ("Gilead Plan"). Under the NeXstar Plan, employee contributions are discretionary, but may not exceed 15% of eligible annual compensation. In addition, the NeXstar Plan includes a Company match of 50% of employee contributions up to a maximum of 6% of eligible annual compensation. For the years ended December 31, 1999, 1998, and 1997, the Company recorded contribution expenses related to the NeXstar Plan of approximately $0.5 million, $0.5 million and $0.6 million, respectively. At December 31, 1999, approximately $0.9 million, representing 17,225 shares of the Company's common stock, was held by the NeXstar Plan in trust for plan participants. Effective February 1995, contributions to the NeXstar Plan may not be invested in the Company's common stock.

16. RELATED PARTY TRANSACTIONS

During 1999 and 1998, Gilead paid an aggregate of $6.7 million and $4.7 million, respectively, to PharmaResearch Corporation, a contract research organization, for services rendered in connection

16. RELATED PARTY TRANSACTIONS (CONTINUED) with clinical studies. A member of the Board is a senior advisor to an investment fund that owns a controlling interest in PharmaResearch Corporation.

17. QUARTERLY RESULTS (UNAUDITED)

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

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
1999				
Total revenues	$38,276	$43,537	$38,390	$48,776
Total costs and expenses	54,937	55,791	69,608	59,502
Net loss	(15,476)	(11,691)	(30,365)	(8,954)
Basic and diluted net loss per share	(.37)	(.28)	(.70)	(.20)
1998				
Total revenues	$41,513	$35,289	$31,866	$42,451
Total costs and expenses	55,209	57,528	53,483	64,411
Net income (loss)	(10,066)	(18,287)	2,202	(18,607)
Basic and diluted net income (loss) per share	(.25)	(.45)	.05	(.45)

GILEAD SCIENCES, INC.
SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EXPENSE	ADDITIONS CHARGED TO OTHER	DEDUCTIONS	BALANCE AT END OF PERIOD
YEAR ENDED DECEMBER 31, 1999					
Allowance for doubtful accounts.....	$ 1,480	$1,059	$ --	$ 206	$ 2,333
Valuation allowance for deferred tax assets.....	170,611	--	23,589(3)	--	194,200
	$172,091	$1,059	$23,589	$ 206	$196,533
YEAR ENDED DECEMBER 31, 1998					
Allowance for doubtful accounts.....	$ 1,883	$ (294)(1)	$ --	$ 109	$ 1,480
Allowance for other noncurrent assets...	1,737	(550)(2)	--	1,187(2)	--
Valuation allowance for deferred tax assets.....	136,411	--	34,200(3)	--	170,611
	$140,031	$ (844)	$34,200	$1,296	$172,091
YEAR ENDED DECEMBER 31, 1997					
Allowance for doubtful accounts.....	$ 2,002	$ 306	$ --	$ 425	$ 1,883
Allowance for other noncurrent assets...	1,737	--	--	--	1,737
Valuation allowance for deferred tax assets.....	106,380	--	30,031(3)	--	136,411
	$110,119	$ 306	$30,031	$ 425	$140,031

(1) In August 1996, a major customer of the Company filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The total receivable outstanding from that customer as of December 31, 1996 of $0.6 million was reserved. In 1997, the Company collected approximately $0.1 million of this amount by assigning its claim to a third party. In 1998, the Company reversed that portion of the allowance for doubtful accounts no longer deemed necessary.

(2) The Company accepted $550,000 in full settlement of an outstanding note receivable that was fully reserved on the balance sheet.

(3) Charged to deferred tax benefit.

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

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.

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 29, 2000
/s/ SHARON SURREY-BARBARI Sharon Surrey-Barbari	Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2000
/s/ DONALD H. RUMSFELD Donald H. Rumsfeld	Chairman of the Board of Directors	March 29, 2000
/s/ PAUL BERG Paul Berg	Director	March 29, 2000

SIGNATURE	TITLE	DATE
/s/ ETIENNE F. DAVIGNON Etienne F. Davignon	Director	March 29, 2000
/s/ JAMES M. DENNY, SR. James M. Denny, Sr.	Director	March 29, 2000
/s/ GORDON E. MOORE Gordon E. Moore	Director	March 29, 2000
/s/ GEORGE P. SHULTZ George P. Shultz	Director	March 29, 2000

OFFICE/LIGHT MANUFACTURING LEASE
(2900 Center Green Court South)

(Boulder, Colorado)

LEASE SUMMARY

1.	Landlord:	THW Partners Limited Partnership, a Colorado limited partnership
2.	Tenant:	Gilead Sciences, Inc., a Delaware corporation
3.	Guarantor:	None
4.	Premises:	Second Floor, 2900 Center Green Court South, Boulder, Colorado
5.	Rentable Square Feet:	Approximately 10,207 square feet
6.	Commencement Date:	March 1, 2000
7.	Expiration Date:	February 28, 2005
8.	Term:	Five (5) years
9.	Rent Commencement Date:	March 1, 2000
10.	Initial Rent: (Annually)	$173,519
11.	Initial Rent: (Monthly)	$14,459.92
12.	Increase in Base Rent:	3% annual increase on Base Rent during years two, three, four and five
13.	Operating Expenses:	Pro rata share of increases over 1999 Base Year
14.	Tenant's Pro Rata Share of the Building Complex:	30.10%

15.	Security Deposit:	$14,459.92 in cash or acceptable letter of credit
16.	Parking Spaces:	None assigned
17.	Tenant Finish Allowance	$112,277.00 per Workletter
18.	Option on Additional Space:	None
19.	Option to Renew:	Two 5-year terms @ 95% of Market Rates
20.	Right of First Offer:	Yes
	EXHIBITS:	
	A	- Premises
	B	- Legal Description
	C	- Estoppel and Commencement Date Certificate
	D	- Work Letter Agreement
	E	- Rules and Regulations
	F	- Other Rights of Opportunity to Lease Space

Note: This Lease Summary does not in any way modify the terms of the Lease, but rather is for information purposes only. The Lease should be consulted for the specific terms of the Lease Agreement.

OFFICE/LIGHT MANUFACTURING LEASE
(2900 Center Green Court South)

(Boulder, Colorado)

THIS LEASE is made this _____ day of January, 2000, between THW PARTNERS LIMITED PARTNERSHIP, a Colorado limited partnership ("Landlord") and GILEAD SCIENCES, INC., a Delaware corporation ("Tenant").

1. PREMISES: Landlord hereby leases to Tenant those certain premises designated on the Plans attached hereto as EXHIBIT A and incorporated herein by this reference (the "Premises"), consisting of a total of approximately 10,207 square feet of space and known as the second floor in the building at 2900 Center Green Court South in Boulder, Colorado (hereinafter the "Building"), located on the real property more particularly described on EXHIBIT B attached hereto and incorporated herein by this reference, together with a non-exclusive right, subject to the provisions hereof, to use all appurtenances thereunto, including, but not limited to, parking areas, and any other areas designated by Landlord for use by tenants of the Building (the Building, the real property on which the same is situated, parking areas, other buildings thereon and areas and appurtenances are hereinafter collectively sometimes called the "Building Complex"). This Lease is subject to the terms, covenants and conditions set forth herein and Tenant and Landlord each covenant as a material part of the consideration for this Lease to keep and perform each and all of said terms, covenants and conditions to be kept and performed by them.

2. TERM:

(a) The term of this Lease shall be for Five (5) years (the "Primary Lease Term") commencing at 12:01 a.m. on March 1, 2000 (the "Commencement Date") and terminating at 11:59 p.m. on February 28, 2005 (the "Termination Date"), unless sooner terminated pursuant to the terms hereof. If Landlord constructs the tenant improvements pursuant to the Workletter (Exhibit D), in the event that the Premises are not "Ready for Occupancy," as such term is defined in Paragraph 20 hereof, prior on or before the Commencement Date, the Commencement Date (and the date for commencement of rental payments) shall mean and refer to the date the Premises are Ready for Occupancy. If Tenant constructs the tenant improvements pursuant to the Workletter (Exhibit D), the Commencement Date and the date for commencement of rental payments may be deferred as a result of any Landlord Delays, as described in Paragraph 20 hereof.

(b) If, as a result of the postponement or acceleration of the Commencement Date, the term would begin other than on the first day of the month, Tenant shall pay proportionate rent at the same monthly rate set forth herein (also in advance) for such partial month and all other terms and conditions of this Lease shall be in force and effect during such partial month, and the end of the term hereof shall be adjusted to a date which is the last day of the month five (5) years after the Commencement Date. Tenant agrees to execute and deliver to Landlord, in form attached hereto as EXHIBIT C, an Estoppel and Commencement Date Certificate, within thirty (30) days of the date the term commences, certifying as to the actual

commencement and termination dates of the term, the rent commencement date, if different, and such other matters as may be required by Landlord.

3. RENT: Tenant shall pay rent to Landlord for the Premises from the Commencement Date through December 31, 2000 at the rate of One Hundred Seventy Three Thousand, Five Hundred and Nineteen Dollars ($173,519) per year, payable in equal monthly installments of Fourteen Thousand Four Hundred Fifty Nine and 92/100 Dollars ($14,459.92).

A portion of the foregoing rent is Tenant's Pro-Rata Share of Operating Expenses for the calendar year 1999, the exact amount of which remains to be determined. The balance of the foregoing rent is defined as "Base Rent."

On January 1, 2001, and on each January 1st thereafter throughout the term and any extended term of this Lease, the Operating Expense component of the rent shall be adjusted as provided in paragraph 5.b. of this Lease.

On March 1, 2001, and on each March 1st thereafter throughout the term and any extended term of this Lease, the Base Rent due for the ensuing year shall be increased by 3% of the Base Rent payable during the preceding year.

All installments of Rent shall be payable in advance, on the first (1st) day of each calendar month during the term hereof. Rent for the first and last months of the term, hereof shall be prorated based upon the number of days during each of said months that the Lease term was in effect. One monthly installment of Rent shall be due and payable on the date of execution of this Lease by Tenant. All Rent shall be paid without notice, demand, deduction or offset, at the office of Landlord or to such other person or at such other place as Landlord may designate in writing. Tenant shall pay to Landlord as "Additional Rent" all other sums due under this Lease.

4. SECURITY DEPOSIT: It is agreed that Tenant, concurrently with the execution of this Lease, has deposited with Landlord, and will keep on deposit at all times during the term hereof, a sight draft letter of credit from a reputable financial institution satisfactory to Landlord, payable to Landlord, in the amount of Fourteen Thousand Four Hundred Fifty Nine and 92/100 Dollars ($14,459.92), the receipt of which is hereby acknowledged, as security for the payment by Tenant of the rent and all other sums herein agreed to be paid and for the faithful performance of all the terms, conditions and covenants of this Lease. If, at any time during the term hereof, Tenant shall be in default in the performance of any provisions of this Lease, Landlord shall have the right, but shall not be obligated, to draw upon said letter of credit and to use the proceeds therefrom, or so much thereof as necessary, in payment of any rent in default, reimbursement of any expense incurred by Landlord, and in payment of any damages incurred by the Landlord by reason of Tenant's default. In such event, Tenant shall, on written demand of Landlord, forthwith remit to Landlord a sufficient amount in cash to restore said deposit to its original amount. In the event said deposit has not been utilized as aforesaid, said deposit, or as much thereof as has not been utilized for such purposes, shall be refunded to Tenant, without interest, within sixty (60) days after the termination of this Lease upon full performance of this Lease by Tenant and vacation of the Premises by Tenant. Landlord shall have the right to commingle any cash portion

of said deposit with other funds of Landlord. Landlord may assign the letter of credit and deliver any cash funds deposited herein by Tenant to any purchaser of Landlord's interest in the Premises who assumes all of Landlord's obligations under this Lease and holds such letter of credit and/or cash pursuant to the terms of this Lease, in the event such interest is sold, and thereupon Landlord shall be discharged from further liability with respect to such deposit. If said letter of credit is not assignable, Tenant agrees to replace the letter of credit payable to Landlord with one payable to any such purchaser of the Premises. If the valid claims of Landlord exceed the amount of said deposit, Tenant shall remain liable for the balance of such claims.

5. ADDITIONAL RENT:

(a) The following terms shall have the following meanings with respect to the provisions of this Paragraph 5:

(1) "Building Complex Rentable Area" shall mean all rentable space available for lease in the Building Complex, calculated on the basis set forth in BOMA Publication #ANSIZ-65.1-1980. If there is a significant change in the aggregate Building Complex Rentable Area, of a permanent nature, as a result of an addition to the Building Complex, partial destruction thereof or similar circumstance, Landlord's Accountants (as herein defined) shall determine and make an appropriate adjustment to the provisions herein.

(2) "Tenant's Pro Rata Share" shall mean a fraction, the numerator of which is the BOMA Rentable Area of the Premises (i.e. 10,207 square feet) and the denominator of which is the Building Complex Rentable Area (i.e. 33,909 square feet), and is equal to 30.10%. At such time, if ever, any space is added to or subtracted from the Premises pursuant to the terms of this Lease, Tenant's Pro Rata Share shall be increased or decreased accordingly.

(3) "Operating Expenses" shall mean:

A. All operating expenses of any kind or nature which are necessary, ordinary or customarily incurred with respect to the operation and maintenance of the Building Complex as determined in accordance with generally accepted accounting principles and shall include, but not be limited to:

(i) Costs of supplies, including but not limited to the cost of "relamping" all Building lighting as the same may be required from time to time;

(ii) Costs incurred in connection with obtaining and providing energy for the Building Complex, including but not limited to costs of propane, butane, natural gas, steam, electricity, solar energy and fuel oils, coal or any other energy sources as well as costs for heating, ventilation, and air conditioning services ("HVAC");

(iii) Costs of water and sanitary and storm drainage services;

(iv) Costs of janitorial and security services, if any;

(v) Costs of general maintenance and repairs, including costs under HVAC and other mechanical maintenance contracts; and repairs and replacements of equipment used in connection with the maintenance and repair work;

(vi) Costs of maintenance and replacement of landscaping, sprinkler systems; and costs of supplies, maintenance, repair, striping and repaving of parking areas, common areas, plazas and other areas of the Building Complex, including trash and snow removal;

(vii) Insurance premiums, including fire and all-risk coverage, together with loss of rent endorsement; public liability insurance; and any other insurance carried by Landlord on the Building Complex or any component parts thereof;

(viii) Labor costs, including wages and other payments, costs to Landlord of workmen's compensation and disability insurance, payroll taxes, welfare fringe benefits incurred directly in connection with the operation of the Building Complex, and all legal fees and other costs or expenses incurred in resolving any labor disputes;

(ix) Professional building management fees not to exceed market rate management fees in the Boulder area;

(x) Legal, accounting, inspection and other consultation fees (including, without limitation, fees charged by consultants retained by Landlord for services that are designed to produce a reduction in Operating Expenses or reasonably to improve the operation, maintenance or state of repair of the Building Complex) incurred for the normal prudent operation of the Building Complex (but not those incurred in connection with Landlord's business relationship or dealings with tenants or prospective tenants);

(xi) The costs of capital improvements and structural repairs and replacements made in or to the Building Complex or the cost of any machinery or equipment installed in the Building Complex in order to conform to changes, subsequent to the Lease Commencement Date, in any applicable laws, ordinances, rules, regulations or orders of any governmental or quasi-governmental authority having jurisdiction over the Building Complex (herein, "Required Capital Improvement"); and the costs of any capital improvements and structural repairs and replacements designed primarily to reduce Operating Expenses (herein, "Cost Savings Improvements"). The expenditures for Required Capital Improvements and Cost Savings Improvements shall be amortized and included within annual Operating Expenses over the useful life of such capital improvement or structural repair or replacement (as determined by Landlord's accountants), provided that the amortized amount of any Cost Savings Improvement shall be limited in any year to the reduction in Operating Expenses as a result thereof. Landlord shall apprise Tenant of its plans to make any Required Capital Improvement or Cost Savings Improvement prior to commencement of work on such improvements. The foregoing shall not, however, imply that Tenant has any right to approve of such improvements or be construed to

require Tenant's consent to any such improvement;

(xii) All real property taxes and assessments ("Taxes and Assessments") levied against the Building Complex by any governmental or quasi-governmental authority, including any taxes, assessments, surcharges, or service or other fees of a nature not presently in effect which shall hereafter be levied on the Building Complex as a result of the use, ownership or operation of the Building Complex or for any other reason, whether in lieu of or in addition to any current real estate taxes and assessments; provided, however, that any taxes which shall be levied on the rentals of the Building Complex shall be determined as if the Building Complex were Landlord's only property and provided further, that in no event shall the term "Taxes and Assessments", as used herein, include any federal, state or local income taxes levied or assessed on Landlord, unless such taxes are a specific substitute for real property taxes; such term shall, however, include gross taxes on rentals and expenses incurred by Landlord for tax consultants and in contesting the amount or validity of any such Taxes or Assessments (all of the foregoing are collectively referred to herein as "Taxes"). "Assessments" shall include any and all so-called special assessments, license tax, business license fee, business license tax, commercial rental tax, levy, charge or tax imposed by any authority having the direct power to tax, including any city, county, state or federal government, or any school, agricultural, lighting, water, drainage or other improvement or special district thereof, against the Premises, the Building or the Building Complex, or against any legal or equitable interest of Landlord therein. For the purposes of this Lease, any special assessment shall be deemed payable in such number of installments as is permitted by law, whether or not actually so paid. If the Building Complex has not been fully assessed as a completed project, for the purposes of computing the Real Estate Taxes for any adjustment required herein, the same shall be increased by Landlord's Accountants, in accordance with their estimate of what the assessment will be, upon full completion of the Building Complex, including installation of all tenant finish items. The terms "taxes" and "assessments" as used herein shall not include any interest, penalties or fines resulting from delinquency in payments or other causes.

(xiii) Any other expense which under generally accepted accounting principles would be considered a normal maintenance or operating expense. If Landlord selects an accrual accounting basis for calculating Operating Expenses, Operating Expenses shall be deemed to have been paid when such expenses have accrued in accordance with generally accepted accounting principles.

B. But shall expressly exclude Landlord's income taxes; leasing commissions, advertising and promotional expenses; interest on debt or amortization payments on any mortgages or deeds of trust; depreciation, costs of repairs or other work occasioned by fire, windstorm or other casualty to the extent of insurance proceeds received; costs and expenditures which Landlord has treated (or which Landlord should, in accordance with U.S. Generally Accepted Accounting Principals treat), for its accounting purposes, as a capital expenditure, other than Required Capital Improvements and Cost Savings Improvements referred to in Paragraph 5(a)(3)(xi) above, and any other expense which under generally accepted accounting principles would not be considered a normal maintenance or operating expense, except as otherwise specifically provided herein.

b. It is hereby agreed that Tenant shall pay to Landlord as Additional Rent, commencing January 1, 2001, Tenant's Pro Rata Share of the amount by which Operating Expenses for the calendar year 2000 exceed the Operating Expenses for the calendar year 1999, payable monthly, on the same date and at the same place Base Rent is payable. In a like manner, Additional Rent shall be adjusted as of each January 1st during the Term. Landlord shall deliver to Tenant, as soon as practicable following the end of any calendar year, a calculation of the Operating Expenses for the calendar year just ended and the adjustment in rent resulting from any excess of such Operating Expenses over the Operating Expenses for the base year of 1999 (the "Budget Sheet"). Until receipt of the Budget Sheet, Tenant shall continue to pay its monthly Tenant's Pro Rata Share of Operating Expenses based upon the amount paid during the preceding calendar year. To the extent that the Budget Sheet reflects Tenant's Pro Rata Share of Operating Expenses for the new calendar year greater than the amount actually paid to the date of receipt of the Budget Sheet for the new calendar year, Tenant shall pay such amount to Landlord within thirty (30) days of receipt of the Budget Sheet. Upon receipt of the Budget Sheet, Tenant shall thereafter pay the amount of its monthly Tenant's Pro Rata Share of Operating Expenses as set forth in the Budget Sheet.

c. If the Lease term hereunder covers a period of less than a full calendar year during the last calendar year of the term hereof, Tenant's Pro Rata Share of Operating Expenses for such partial year shall be adjusted accordingly to reflect the number of months in such year during which Tenant leased the Premises.

d. Tenant shall have the right at its own expense and at a reasonable time (after written notice to Landlord) within ninety (90) days after receipt of the Budget Sheet to audit Landlord's books relevant to the Additional Rent due under this Paragraph 5. Landlord shall fully cooperate with Tenant in connection with such audit. In the event Tenant does not audit Landlord's books and deliver the results thereof to Landlord within said 90-day period, the terms and amounts set forth in the Budget Sheet shall be deemed conclusive and final and Tenant shall have no further right to adjustment unless the failure to complete such audit is caused by Landlord's failure to provide or make available to Tenant the information necessary to complete such audit, in which case such time period shall be appropriately expanded. In the event Tenant's examination reveals that an error has been made in Landlord's determination of Tenant's Pro Rata Share of Operating Expenses and Real Estate Taxes and Landlord agrees with such determination, then the amount of such adjustment shall be payable by Landlord or Tenant, to the other party as the case may be. In the event Tenant's examination reveals an error has been made in Landlord's determination of Tenant's Pro Rata Share of Operating Expenses and Real Estate Taxes, and Landlord disagrees with the results thereof, Landlord shall have thirty (30) days to obtain, at its own expense, an audit from an accountant of its choice to determine Tenant's Pro Rata Share of Operating Expenses and Real Estate Taxes. In the event Landlord's accountant and Tenant's accountant are unable to reconcile their audits, both accountants shall mutually agree upon a third accountant, whose determination of Tenant's Pro Rata Share of Operating Expenses and Real Estate Taxes shall be conclusive. In the event the amount of error by Landlord is determined to be ten percent (10%) or more, the reasonable costs of the three audits made pursuant to this

subparagraph shall be paid by Landlord. In the event the amount of error by Landlord is determined to be less than ten percent (10%), the reasonable costs of the three audits made pursuant to this subparagraph shall be paid by Tenant.

e. Landlord's failure during the Lease term to prepare and deliver any statements or bills, or Landlord's failure to make a demand under this Paragraph or under any other provision of this Lease shall not in any way be deemed to be a waiver of, or cause Landlord to forfeit or surrender its rights to collect any items of Additional Rent which may have become due pursuant to this Paragraph during the term of this Lease. Tenant's liability for all Additional Rent due under this Paragraph 5 shall survive the expiration or earlier termination of this Lease.

f. Notwithstanding anything in this paragraph 5 to the contrary, Tenant shall only be responsible for Additional Rent resulting from an increase in Operating Expenses over Base Operating Expenses commencing on the first day of January, 2001, based on any increase or estimated increase of Operating Expenses during the calendar year 2000 over those incurred during 1999. Thereafter, adjustments in the amount of any Additional Rent shall occur as of the first day of each calendar year during the remaining Initial Term and any Extended Term of this Lease.

6. CHARACTER OF OCCUPANCY:

(a) The Premises are to be occupied for office and light manufacturing uses not inconsistent with the character and type of tenancy found in comparable first-class office/light manufacturing buildings in the Boulder area and for no other purpose without the prior written consent of Landlord. By way of limitation, the term "light manufacturing uses" shall include only the packaging and distribution of pharmaceutical products and not the manufacture or testing of pharmaceutical products.

(b) Tenant shall not suffer nor permit the Premises nor any part thereof to be used in any manner, nor anything to be done therein, nor suffer or permit anything to be brought into or kept therein, which would in any way (i) make void or voidable any fire or liability insurance policy then in force with respect to the Building Complex, (ii) make unobtainable from reputable insurance companies authorized to do business in Colorado any fire insurance with extended coverage, or liability, boiler or other insurance required to be furnished by Landlord under the terms of any lease or mortgage to which this Lease is subordinate, at standard rates, (iii) cause or in Landlord's reasonable opinion be likely to cause physical damage to the Building Complex or any part thereof, (iv) constitute a public or private nuisance, (v) impair, in the reasonable opinion of Landlord, the appearance, character or reputation of the Building Complex, (vi) discharge objectionable fumes, vapors or odors into the air conditioning system or into any flues or vents not designed to receive them or otherwise in such manner as may unreasonably offend other occupants of the Building Complex, (vii) impair or interfere with any of the Building Complex services or impair or interfere with or tend to impair or interfere with the use of any of the other areas of the Building Complex by, or occasion discomfort, or annoyance to Landlord or any of the other tenants or occupants of the Building Complex, any such impairment or interference to be based upon the reasonable opinion of Landlord, (viii) increase on an ongoing

periodic basis the pedestrian traffic in and out of the Premises or the Building Complex above an ordinary level, (ix) create waste in, on or around the Premises, Building, or Building Complex, or (x) make any noise or set up any vibration which will disturb other tenants, except in the course of permitted repairs or alterations at times permitted by Landlord.

(c) Tenant shall not use the Premises nor permit anything to be done in or about the Premises or Building Complex in any way which will conflict with any law, statute, ordinance, protective covenants affecting the Building Complex or governmental or quasi-governmental rules or regulations now in force or which may hereafter be enacted or promulgated. Tenant shall give prompt written notice to Landlord of any notice it receives of the violation of any law or requirement of any public authority with respect to the Premises or the use or occupation thereof. Landlord shall give prompt written notice to Tenant of any notice it receives relative to the violation by Tenant of any law or requirement of any public authority with respect to the Premises or the use or occupation thereof.

7. SERVICES AND UTILITIES:

(a) Landlord agrees, and in accordance with standards from time to time prevailing for first-class office/light manufacturing buildings in the Boulder area: (i) to furnish water to the Building for use in lavatories and drinking fountains (and to the Premises if the plans for the Premises so provide); (ii) to furnish heating and air conditioning service;
(iii) to furnish all gas and electric services reasonably required in and to the Premises, (iv) to furnish such snow removal services to the Building Complex as may, in the judgment of Landlord, be reasonably required for safe access to the Building Complex, and (v) to provide and pay for all reasonable and normal management and operating expenses of the Building and the Premises, including trash removal (except janitorial services and maintenance within the Premises).

(b) If Tenant requires water in excess of that usually furnished or supplied for use in the Premises as general office space, Tenant shall first procure the consent of Landlord for the use thereof. Tenant agrees to pay to Landlord such amounts as Landlord determines are necessary to cover the costs of such increased use of water, including, but not limited to, the cost of installation, monitoring, maintenance and repair of any check meter or other instrument necessary to measure the use of additional water. Landlord additionally reserves the right and at its option shall be entitled to cause the Premises to be separately metered for water usage.

(c) Tenant agrees that Landlord shall not be liable for failure to supply any required services during any period when Landlord uses reasonable diligence to supply such services, or during any period Landlord is required to reduce or curtail such services pursuant to any applicable laws, rules or regulations, now or hereafter in force or effect, it being understood and agreed to by Tenant that Landlord may discontinue, reduce or curtail such services, or any of them, at such times as it may be necessary by reason of accident, unavailability of employees, repairs, alterations, improvements, strikes, lockouts, riots, acts of God, application of applicable laws, statutes, rules and regulations, or due to any other happening beyond the reasonable control of Landlord. In the event of any such interruption, reduction or discontinuance of Landlord's

services, Landlord shall not be liable for damages to persons or property as a result thereof, nor shall the occurrence of any such event in any way be construed as an eviction of Tenant or cause or permit an abatement, reduction or setoff of rent, or operate to release Tenant from any of Tenant's obligations hereunder, so long as such services are resumed within a reasonable period of time.

(d) In the event that Tenant has any special or additional electrical or mechanical requirements related to its use of the Premises, any such electrical or mechanical equipment must be located within the Premises. Such electrical or mechanical requirements, for the purposes hereof, shall include by way of example, but not limitation, any internal telephone system. The foregoing shall in no way be construed as granting to Tenant additional rights to use any such special or additional electrical or mechanical equipment in its Premises without the prior written consent of Landlord. Any additional cost or expense related to or resulting from such electrical or mechanical requirements shall be the sole obligation of Tenant. Landlord acknowledges that Tenant occupies space in other locations, and that the Premises and the other locations will be interconnected with telephone and computer services. However, such interconnection shall not involve any electrical, mechanical or telecommunication equipment located on the outside of the Building or within the Building other than in the Premises or involve any structural penetration or wiring within walls or roof of the Building or Premises, without the Landlord's prior written consent.

(e) Tenant at its sole cost and expense shall take good care of the Premises, ordinary wear and tear excepted, and keep the same free from waste at all times, and pay all charges for janitorial services performed in the leased Premises during the term of this Lease.

8. QUIET ENJOYMENT: Subject to the provisions of this Lease, Landlord covenants that Tenant, on paying the rent and performing the covenants of this Lease on its part to be performed, shall and may peacefully and quietly have, hold and enjoy the Premises for the term of this Lease. Landlord shall not be responsible for the acts or omissions of any other tenant or third party which may interfere with Tenant's use and enjoyment of the Premises. In the event of any transfer or transfers of Landlord's interest in the Premises or in the real property of which the Premises are a part, other than a transfer for security purposes only, the transferor shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer; provided that the transferee agrees to accept and perform all obligations and responsibibilities of Landlord under this Lease from and after the date of transfer and agrees to accept and acknowledge all rights of Tenant under this Lease from and after the date of transfer.

9. MAINTENANCE AND REPAIRS:

(a) Notwithstanding any other provisions of this Lease, Landlord shall repair and maintain in good order, condition and repair the roof, foundations, and exterior walls of the Building excluding store fronts, glass windows, door closure devices, door frames and locks, except to the extent such maintenance and repairs are caused by the negligent act or omission of Tenant, its agents, servants, employees, licensees or invitees, in which case Tenant shall either, at its option: (i) pay to Landlord,

on demand, the cost of such maintenance and repairs performed by Landlord less the amount of any insurance proceeds received by Landlord on account thereof, if applicable; or (ii) promptly repair and maintain the damage it has caused to the Premises, doing so in accordance with building standards and in compliance with all local building codes and governmental regulations and with the requirements of this Lease dealing with alterations, maintenance and repairs. Landlord shall also maintain and keep in good order public portions of the Building Complex, including but not limited to landscaping, walkways and parking areas.

(b) Tenant, at Tenant's sole cost and expense, shall maintain, in good order, condition and repair, the Premises, including the interior surfaces of the ceilings, interior walls and floors, all doors, interior and exterior glass and windows, store fronts, door closure devices, door frames and locks, plumbing (excluding restrooms) and electrical wiring, switches, fixtures and other mechanical items, and shall replace light bulbs within the Premises as necessary. In the event Tenant fails to so maintain the Premises in good order, condition and repair, ordinary wear and tear excepted, Landlord shall give Tenant notice to do such acts as are reasonably required to maintain the Premises. In the event Tenant fails to promptly commence such work and diligently pursue it to completion, then Landlord shall have the right, but shall not be required, to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Tenant shall reimburse Landlord for all costs and expenses incurred in performing such work within ten (10) days of invoice. Landlord shall have no liability to Tenant for any damage, inconvenience or interference with the use of the Premises by Tenant as a result of performing any such work.

(c) Landlord and Tenant shall each do all acts required to comply with all applicable laws, ordinances, regulations and rules of any public authority relating to their respective maintenance obligations as set forth herein.

10. ALTERATIONS AND ADDITIONS:

(a) Other than is provided for in Exhibit D, Tenant shall make no permanent alterations, additions or improvements to the Premises or any part thereof without obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Tenant shall submit any such request to Landlord at least thirty (30) days prior to the proposed commencement date of such work. Landlord may impose, as a condition to such consent, and at Tenant's sole cost, such reasonable requirements as Landlord may deem necessary in its judgment, including without limitation, the manner in which the work is done, a right of approval of the contractor by whom the work is to be performed and the times during which the work is to be accomplished, approval of all plans and specifications and the procurement of all licenses and permits. Landlord shall be entitled to post notices on and about the Premises with respect to Landlord's non-liability for mechanics' Liens and Tenant shall not permit such notices to be defaced or removed. Tenant further agrees not to connect any apparatus, machinery or device to the Building systems, including electric wires, water pipes, fire safety, heating and mechanical systems, without the prior written consent of Landlord.

(b) All alterations, improvements and additions to the Premises,

including, by way of illustration but not by limitation, all counters, screens, grilles, special cabinetry work, partitions, paneling, carpeting, drapes or other window coverings and light fixtures, but excluding any computer systems, telephone or other communication systems and similar equipment, shall be deemed a part of the real estate and the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof without molestation, disturbance or injury at the end of the Lease term, whether by lapse of time or otherwise. With respect to any alterations, improvements and additions made to the Premises without Landlord's prior written consent, Landlord, by notice given to Tenant no later than fifteen
(15) days prior to the end of the term, may elect to have Tenant remove all or any of such alterations, improvements or additions (excluding non-movable office walls), and in such event, Tenant shall promptly remove, at its sole cost and expense, such alterations, improvements and additions and restore the Premises to the condition in which the Premises were prior to the making of the same, reasonable wear and tear excepted. Any such removal, whether required or permitted by Landlord, shall be at Tenant's sole cost and expense, and Tenant shall restore the Premises to the condition in which the Premises were prior to the making of the same, reasonable wear and tear excepted. All movable partitions, machines and equipment which are installed in the Premises by or for Tenant, without expense to Landlord, and which can be removed without structural damage to or defacement of the Building or the Premises, and all furniture, furnishings and other articles of personal property owned by Tenant and located in the Premises (all of which are herein called "Tenant's Property") shall be and remain the property of Tenant. If any of Tenant's Property is removed, however, Tenant shall repair or pay the cost of repairing any damage to the Building or the Premises resulting from such removal. All additions or improvements which are to be surrendered with the Premises shall be surrendered with the Premises, as a part thereof, at the end of the term or the earlier termination of this Lease.

(c) If Landlord permits persons requested by Tenant to perform any alterations, repairs, modifications or additions to the Premises, then prior to the commencement of any such work, Tenant shall deliver to Landlord certificates issued by insurance companies qualified to do business in the State of Colorado evidencing that workmen's compensation, public liability insurance and property damage insurance, all in amounts, with companies and on forms satisfactory to Landlord, are in force and maintained by all such contractors and subcontractors engaged by Tenant to perform such work. All such policies shall name Landlord as an additional insured and shall provide that the same may not be canceled or modified without thirty
(30) days prior written notice to Landlord.

(d) Tenant, at its sole cost and expense, shall cause any permitted alterations, decorations, installations, additions or improvements in or about the Premises to be performed in compliance with all applicable requirements of insurance bodies having jurisdiction, and in such manner as not to interfere with, delay, or impose any additional expense upon Landlord in the construction, maintenance or operation of the Building, and so as to maintain harmonious labor relations in the Building.

11. ENTRY BY LANDLORD:

(a) Landlord and its agents shall have the right to enter the Premises

at all reasonable times and upon reasonable notice for the purpose of examining or inspecting the same, to supply any services to be provided by Landlord hereunder, to show the same to prospective purchasers and prospective tenants of the Building, and to make such alterations, repairs, improvements or additions to the Premises or to the Building as Landlord may deem necessary or desirable. Landlord and its agent may enter the Premises at all times and without advance notice and without liability to Tenant for damage caused by such entry, whether forced or otherwise, for the purpose of responding to an actual or apparent emergency. If, during the last 60 days of the term hereof, Tenant shall have removed substantially all of its property from the Premises, Landlord may immediately enter and alter, renovate and redecorate the Premises without elimination or abatement of rent or incurring liability to Tenant for any compensation.

12. MECHANIC'S LIENS: Except to the extent of Landlord's obligation to pay for tenant finish, as provided for in Exhibit D, Tenant shall pay or cause to be paid all costs for work done by or on behalf of Tenant or caused to be done by or on behalf of Tenant on the Premises of a character which will or may result in liens against Landlord's interest in the Premises, Building or Building Complex and Tenant will keep the Premises, Building and Building Complex free and clear of all mechanic's liens and other liens on account of work done for or on behalf of Tenant or persons claiming under Tenant. Except to the extent of Landlord's obligation to pay for tenant finish, as provided for in Exhibit D, Tenant hereby agrees to indemnify, defend and save Landlord harmless of and from all liability, loss, damages, costs or expenses, including reasonable attorneys' fees, incurred in connection with any claims of any nature whatsoever for work performed for, or materials or supplies furnished to Tenant, including lien claims of laborers, materialmen or others. Should any such liens be filed or recorded against the Premises, Building or Building Complex with respect to work done for or materials supplied to or on behalf of Tenant or should any action affecting the title thereto be commenced, Tenant shall cause such liens to be released of record within five (5) days after notice thereof pursuant to the means provided therefore under Colorado statute. If Tenant desires to contest any such claim of lien, Tenant shall nonetheless cause such lien to be released of record by the posting of adequate security with a court of competent jurisdiction as may be provided by Colorado's mechanics lien statutes. If Tenant shall be in default in paying any charge for which such a mechanics lien or suit to foreclose such a lien has been recorded or filed and shall not have caused the lien to be released as aforesaid, after consulting with Tenant, Landlord may (but without being required to do so) pay such lien or claim and any costs associated therewith, and the amount so paid, together with reasonable attorneys' fees incurred in connection therewith, shall be immediately due from Tenant to Landlord as Additional Rent.

13. DAMAGE TO PROPERTY, INJURY TO PERSONS:

(a) Tenant, as a material part of the consideration to be rendered to Landlord under this Lease, hereby waives all claims of liability that Tenant or Tenant's legal representatives, successors or assigns may have against Landlord, and Tenant hereby indemnifies and agrees to hold Landlord harmless from any and all claims of

liability for any injury or damage to any person or property whatsoever: (1) occurring in, on or about the Premises or any part thereof; and (2) occurring in, on or about the Building Complex, to the extent such injury or damage is caused by the negligent act or omission of Tenant, its agents, contractors, employees, licensees or invitees. Tenant further agrees to indemnify and to hold Landlord harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act of negligence of Tenant, or any of its agents, contractors, employees, licensees or invitees. Such indemnities shall include by way of example, but not limitation, all costs, reasonable attorneys' fees, expenses and liabilities incurred in or about any such claim, action or proceeding.

(b) Landlord shall not be liable to Tenant for: (i) any damage by or from any act or negligence of any co-tenant or other occupant of the Building Complex, or by any owner or occupant of adjoining or contiguous property, or (ii) any injury or damage to persons or property resulting in whole or in part from the criminal activities of others, unless Landlord has received actual and timely knowledge of any threat, occurrance or event which poses a risk of injury or damage to Tenant, unless Landlord has a legal and practical remedy available to it to abate, remedy or eliminate such risk, and unless Landlord has failed to take reasonable steps to abate, remedy or eliminate such risk. To the extent not covered by normal fire and extended coverage insurance, Tenant agrees to pay for all damage to the Building Complex, as well as all damage to persons or property of other tenants or occupants thereof, caused by the misuse or negligent act or omission of Tenant or any of its agents, contractors, employees, licensees or invitees.

(c) Neither party nor their agents or employees shall be liable to the other party for the loss or damage to any property occurring by theft or otherwise, nor for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the Building Complex or from the pipes, appliances or plumbing works therein or from the roof, street or subsurface or from any other place or resulting from dampness, or any other cause whatsoever; provided, however, nothing contained herein shall be construed to relieve either party from liability for any personal injury or property damage resulting from its negligence. Neither Landlord nor its agents or employees shall be liable for interference with the lights, view or other incorporeal hereditaments, nor shall Landlord be liable to Tenant or its officers, employees, guests or invitees for any damages arising from any latent defect in the Premises or in the Building or Building Complex unless resulting from Landlord's negligence. Each party shall give prompt notice to the other in case of fire or accidents in or about the Premises or the Building or of defects therein or in the fixtures or equipment located therein.

(d) In case any claim, demand, action or proceeding is made or brought against Landlord or Tenant, its agents or employees, by reason of any obligation on the other party's part to be performed under the terms of this Lease, or arising from any act or negligence of either party, its agents or employees, or which gives rise to either party's obligation to indemnify the other, the party shall be responsible for all costs and expenses, including but not limited to reasonable attorneys' fees incurred in defending or prosecution of the same, as applicable.

(e) Landlord, as a material part of the consideration to be rendered to Tenant under this Lease, hereby waives all claims of liability that Landlord or Landlord's legal representatives, successors or assigns may have against Tenant and Landlord hereby indemnifies and agrees to hold Tenant harmless from any and all claims of liability for any injury or damage to any person or property whatsoever: (1) occurring in, on or about the Premises or any part thereof: and (2) occurring in, on or about the Building Complex, to the extent such injury or damage is caused by the negligent act or omission of Landlord, its agents, contractors, or employees. Landlord further agrees to indemnify and hold Tenant harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Landlord's part to be performed under the terms of this Lease, or arising from any act of negligence of Landlord, or any of its agents, contractors, or employees. Such indemnities shall include by way of example, but not limitation, all costs, reasonable attorneys' fees, expenses and liabilities incurred in or about any such claim, action or proceeding.

14. INSURANCE:

(a) Landlord agrees to carry and maintain the following insurance during the term of this Lease and any extension hereof: fire and extended coverage and general public liability insurance against claims for personal injury, including death and property damage in or about the Premises and the Building or the Building Complex (excluding Tenant's Property), such insurance to be in amounts sufficient to provide reasonable protection for the Building Complex. Such insurance may expressly exclude property paid for by tenants or paid for by Landlord for which tenants have reimbursed Landlord located in or constituting a part of the Building or the Building Complex. Such insurance shall afford coverage for damages resulting from (a) fire, (b) perils covered by extended coverage insurance, and (c) explosion of steam and pressure boilers and similar apparatus located in the Building or the Building Complex. All such insurance shall be procured from a responsible insurance company or companies authorized to do business in Colorado and may be obtained by Landlord by endorsement on its blanket insurance policies.

(b) Tenant shall procure and maintain at its own cost at all times during the term of this Lease and any extensions hereof, hazard, fire and extended coverage on Tenant's property and the contents of the Premises, comprehensive general liability insurance, including coverage for bodily injury, property damage, personal injury, products, host liquor legal liability and broad form property damage with the following limits of liability: One Million Dollars ($1,000,000.00) each occurrence combined single limit for bodily injury, property damage and personal injury; One Million Dollars ($1,000,000.00) aggregate for bodily injury and property damage and for products liability. All such insurance shall be procured from a responsible insurance company or companies authorized to do business in Colorado, and shall be otherwise satisfactory to Landlord. All such policies shall name Landlord as an additional insured, and shall provide that the same may not be canceled or materially altered except upon thirty (30) days prior written notice to Landlord. All insurance maintained by Tenant shall be primary to any insurance provided by Landlord. If Tenant obtains any general liability insurance policy on a claims-made basis, Tenant shall provide continuous liability coverage for claims arising during the entire term of this Lease, regardless of when

such claims are made, either by obtaining an endorsement providing for an unlimited extended reporting period in the event such policy is canceled or not renewed for any reason whatsoever or by obtaining new coverage with a retroactive date the same as or earlier than the expiration date of the canceled or expired policy. Tenant shall provide certificate(s) of such insurance to Landlord upon commencement of the Lease term and at least thirty
(30) days prior to any annual renewal date thereof and upon request from time to time and such certificate(s) shall disclose that such insurance names Landlord as an additional insured, in addition to the other requirements set forth herein. The limits of such insurance shall not, under any circumstances, limit the liability of Tenant hereunder.

(c) Each party agrees to use its best efforts to include in each of its policies insuring against loss, damage or destruction by fire or other casualty a waiver of the insurer's right of subrogation against the other party, or if such waiver should be unobtainable or unenforceable (i) an express agreement that such policy shall not be invalidated if the insured waives the right of recovery against any party responsible for a casualty covered by the policy before the casualty; or (ii) any other form of permission for the release of the other party. If such waiver, agreement or permission shall not be, or shall cease to be, obtainable without additional charge or at all, the insured party shall so notify the other party promptly after learning thereof. In such case, if the other party shall so elect and shall pay the insurer's additional charge therefor, such waiver, agreement or permission shall be included in the policy, or the other party shall be named as an additional insured in the policy. Each such policy which shall so name a party hereto as an additional insured shall contain, if obtainable, agreements by the insurer that the policy will not be canceled without at least thirty (30) days prior notice to both insureds and that the act or omission of one insured will not invalidate the policy as to the other insured. Any failure by either party, if named as an additional insured, promptly to endorse to the order of the other party, without recourse, any instrument for the payment of money under or with respect to the policy of which the other party is the owner or original or primary insured, shall be deemed a default under this Lease.

(d) Each party hereby releases the other party with respect to any claim (including a claim for negligence) which it might otherwise have against the other party for loss, damage or destruction with respect to its property (including the Building, Building Complex, the Premises and rental value or business interruption) occurring during the term of this Lease to the extent to which it is insured under a policy or policies containing a waiver of subrogation or permission to release liability or naming the above party as an additional insured as provided above.

15. DAMAGE OR DESTRUCTION TO BUILDING:

(a) In the event that the Premises or the Building are damaged by fire or other insured casualty and the insurance proceeds have been made available therefor by the holder or holders of any mortgages or deeds of trust covering the Building, the damage shall be repaired by and at the expense of Landlord to the extent of such insurance proceeds are available therefor, provided such repairs and restoration can, in Landlord's reasonable opinion, be made within one hundred fifty (150) days after the occurrence of such damage without the payment of overtime or

other premiums, and until such repairs and restoration are completed, the Base Rent shall be abated in proportion to the part of the Premises which is unusable by Tenant in the conduct of its business, as may be reasonably determined by Landlord, (but there shall be no abatement of Base Rent by reason of any portion of the Premises being unusable for a period equal to one day or less). Landlord agrees to notify Tenant within forty-five (45) days after such casualty if it estimates that it will be unable to repair and restore the Premises within said one hundred fifty (150) day period. Such notice shall set forth the approximate length of time Landlord estimates will be required to complete such repairs and restoration. Notwithstanding anything to the contrary contained herein, if Landlord cannot or estimates it cannot make such repairs and restoration within said one hundred fifty (150) day period or fails to do complete such repairs and restoration within said 150-day period, then Tenant may, by written notice to Landlord, cancel this Lease, provided such notice is given to Landlord within fifteen (15) days after Landlord notifies Tenant of the estimated time for completion of such repairs and restoration, or within 15 days following the expiration of said 150-day period, as the case may be. Notwithstanding the preceding sentence, Tenant may not cancel this Lease as hereinabove stated if the damage to the Premises or the Building is in whole or in part the result of the act, omission, fault or negligence of Tenant, its agents, contractors, employees, licensees or invitees. Except as provided in this Paragraph 15, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business or property arising from the making of any such repairs, alterations or improvements in or to the Building, Premises or fixtures, appurtenances and equipment. Tenant understands that Landlord will not carry insurance of any kind on Tenant's Property, including furniture and furnishings, or on any fixtures or equipment removable by Tenant under the provisions of this Lease, or any improvement installed in the Premises by or on behalf of Tenant, and that Landlord shall not be obligated to repair any damage thereto or replace the same.

(b) In case the Building throughout shall be so injured or damaged, whether by fire or otherwise (though the Premises may not be affected, or if affected, can be repaired within said 150 days) that Landlord, within sixty (60) days after the happening of such injury, shall decide not to reconstruct or rebuild the Building, then notwithstanding anything contained herein to the contrary, upon notice in writing to that effect given by Landlord to Tenant within said sixty (60) days, Tenant shall pay the rent, properly apportioned up to date of such casualty, this Lease shall terminate from the date of delivery of said written notice, and both parties hereto shall be released and discharged from all further obligations hereunder (except those obligations which expressly survive termination of the Lease term). A total destruction of the Building shall automatically terminate this Lease.

16. CONDEMNATION:

(a) If the whole of the Premises or so much thereof as to render the balance unusable by Tenant for the proper conduct of its business (in the reasonable opinion of Tenant) shall be taken under power of eminent domain or transferred under threat thereof, then this Lease, at the option of either Landlord or Tenant exercised by either party giving notice to the other of such election within thirty (30) days after such conveyance or taking possession, whichever is earlier, shall forthwith cease and terminate and the rent shall be duly apportioned as of the date of such taking or

conveyance. No award for any partial or entire taking of the real property and its fixtures which constitute part of the real property under the terms of this Lease shall be apportioned and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof. Notwithstanding the foregoing, Tenant shall be entitled to seek, directly from the condemning authority, an award for its removable trade fixtures, equipment and personal property and relocation expenses, if any, to the extent Landlord's award is not diminished. In the event of a partial taking which does not result in a termination of this Lease, Base Rent and Additional Rent and other obligations hereunder shall be reduced in proportion to the reduction in the size of the Premises so taken and this Lease shall be modified accordingly. Promptly after obtaining knowledge thereof, Landlord or Tenant, as the case may be, shall notify the other of any pending or threatened condemnation or taking affecting the Premises or the Building.

(b) If all or any portion of the Premises shall be condemned or taken for governmental occupancy for a limited period, this Lease shall not terminate and Landlord shall be entitled to receive the entire amount of any such award or payment thereof as damages, rent or otherwise. Tenant hereby assigns to Landlord any award which may be made in such temporary taking, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof. Tenant shall be entitled to receive an abatement of Base Rent and Additional Rent and other rental obligations hereunder during the period of time possession is taken and in proportion to the reduction in the size of the Premises so taken.

17. ASSIGNMENT AND SUBLETTING:

(a) Except as expressly provided in this Paragraph 17, Tenant shall not, voluntarity, involuntarily or otherwise, sublet all or any portion of the Premises or assign all or any portion of Tenant's rights under this Lease or permit any part of the Premises to be used or occupied by any persons other than Tenant and its employees, nor shall Tenant permit any part of the Premises to be used or occupied by any licensee or concessionaire or permit any persons other than Tenant, its employees and invitees, to be upon the Premises. Tenant shall not voluntarily, by operation of law, or otherwise, assign, transfer or encumber this Lease or any interest herein nor sublet or part with possession of all or any part of the Premises (any and all of which shall hereinafter be referred to as "Transfer") without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed.

Landlord shall be under no obligation to consent to any sublease, transfer or assignment if: (i) Tenant is then in default of any term or condition of this Lease or (ii) any event has occurred which, with the giving of notice, the passage of time, or both would constitute a default hereunder.

No such sublease or assignment shall relieve Tenant of its obligations hereunder, except as expressly provided for in this Paragraph 17.

Any Transfer without the prior written consent of Landlord shall constitute a

default hereunder and shall be void AB INITIO and shall confer no rights upon any third party, notwithstanding Landlord's acceptance of rent payments from any purported transferee.

Tenant may, without Landlord's consent being first required, assign this Lease or sublet all or any portion of the Premises to a wholly owned subsidiary of Tenant, to a corporate parent of Tenant owning a majority of the issued and outstanding common stock of Tenant, or to a corporation the majority of whose stock is held by a corporate parent of Tenant. No such assignment or subletting shall relieve Tenant of its obligations hereunder.

Landlord's consent to any requested assignment of this Lease or subletting of all or any part of the Premises (other than those expressly permitted in the preceding paragraph) shall be subject to the following conditions:

(1) such consent and resulting subletting or assignment shall not relieve Tenant of its primary obligations hereunder, including the obligation for payment of all rents due hereunder;

(2) Should Tenant default of the payment of Rent or Additional Rent hereunder, Landlord, at its option and from time to time, may collect the rent from the subtenant or assignee, and apply the net amount collected to the rent herein reserved, but no such collection shall be deemed an acceptance by Landlord of the subtenant or assignee as the tenant hereof, or a release of Tenant from further performance of covenants on the part of Tenant herein contained;

(3) any such subtenant or assignee shall be a company or other entity of good repute, engaged in a business or profession compatible with and in keeping with the then standards of the Building and financially capable of performing its obligations with respect to the Premises; and

(4) such subtenant or assignee shall assume and agree to perform all of Tenant's obligations under this Lease insofar as they pertain to the space so sublet or assigned.

(5) Tenant is not in default of any term or condition of this Lease at the time it requests Landlord's consent.

(b) In the event of any Transfer of this Lease or all or any part of the Premises by Tenant without Landlord's consent (other than those expressly permitted above), Landlord in addition to any rights contained herein, shall have the following options at its reasonable discretion:

(1) To collect and receive the excess of rent due to Tenant from such sublessee or assignee over the Base Rent due hereunder;

(2) To give Tenant written notice of Landlord's intention to terminate this Lease on the date such notice is given or on any later date specified therein, whereupon, on the date specified in such notice, Tenant's right to possession

of the Premises shall cease and this Lease shall thereupon be terminated, except as to any uncompleted obligations of Tenant; or

(3) To re-enter and take possession of the Premises or the part thereof subject to such Transfer, and to enforce all rights of Tenant, and receive and collect all rents and other payments due to Tenant, in accordance with such sublet or assignment of the Premises, or any part thereof, as if Landlord was the sublettor or assignor, and to do whatever Tenant is permitted to do pursuant to the terms of such sublease or assignment.

(c) The sale of all or a majority of the stock of Tenant, or the sale of all or substantially all of the assets of Tenant shall constitute a Transfer for purposes of this Lease, unless such sale is to a "Permitted Transferee." A Permitted Transferee is any entity that (i) has a tangible net worth of not less that $15,000,000, (ii) has cash or cash equivalents of not less than $5,000,000, (iii) whose total liabilities to tangible net worth do not exceed 1/5 to 1, and (iv) agrees in writing to honor each of the provisions of this Lease. Without limiting the generality of the foregoing and notwithstanding any other provisions of this Lease, no consent shall be required for, and no default shall occur as a result of: (i) the transfer of all or more than a majority of the capital stock of Tenant to any Permitted Transferee, or the transfer of all or substantially all of the assets of Tenant to any Permitted Transferee, or (ii) the assignment of this Lease to any Permitted Transferee who becomes the holder of all or more than a majority of the capital stock of Tenant or all or substantially all of the assets of Tenant.

(d) At the time of making a request for Landlord's consent to a Transfer and not less than thirty (30) days prior to the proposed effective date thereof, Tenant shall provide to Landlord such information as Landlord, its accountants and attorneys, shall reasonably require with respect to such proposed Transfer, including but not limited to name and address of the proposed transferee, description of business operations, financial information and certificate of corporate authority and good standing or partnership certificate, as applicable.

(e) Consent of Landlord to a Transfer shall not relieve Tenant from seeking consent to any subsequent Transfers.

(f) Subletting or assignments of a sublease by subtenants shall not be permitted under any circumstances. Further, no option to renew or extend the term of this Lease or to lease additional space, if any, shall be exercisable by any subtenant. If Tenant obtains Landlord's consent to an assigment of this Lease, the assignee shall be entitled to sublease and further assign this Lease and to exercise the Tenant's rights to renew or extend the term of this Lease or to lease additional space, all as provided herein and subject to the terms and conditions as herein prescribed.

(g) All subleases or assignments shall be in writing and a copy thereof provided to Landlord within ten (10) days of its effective date. All subleases shall further contain an express provision that in the event of any default by Tenant in the payment of rent or additional rent due hereunder and upon notice thereof to the Tenant and subtenant from Landlord, all rentals payable by the subtenant shall be paid directly to Landlord, for the Tenant's account, until subsequent notice from Landlord that such

default has been cured. Notwithstanding the foregoing, receipt by Landlord of rent directly from the subtenant shall not be considered a waiver of the default on the part of Tenant, nor an acceptance of such subtenant.

18. ESTOPPEL CERTIFICATE: Landlord and Tenant agree that, at any time and from time to time, on or before five (5) days after written request by the other party, to execute, acknowledge and deliver to the requesting party and the requesting party's lender or purchaser an estoppel certificate certifying (to the extent it believes the same to be true) that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified, and stating the modifications), that there have been no defaults thereunder by Landlord or Tenant (or if there have been defaults, setting forth the nature thereof), the date to which the rent and other charges have been paid, if any, that Tenant claims no present charge, lien, claim or offset against rent, the rent is not prepaid for more than one month in advance and such other matters as may be reasonably required by the requesting party, its lender or mortgagee, or any potential purchaser of the Building or Tenant's leasehold estate, it being intended that any such statement delivered pursuant to this Paragraph may be relied upon by any prospective purchaser of all or any portion of Landlord's interest herein, or a holder of any mortgage or deed of trust encumbering any portion of the Building Complex or the leasehold estate of Tenant. Landlord's or Tenant's failure or refusal to deliver such statement within such time shall be a default under this Lease. Notwithstanding the foregoing, in the event that Tenant does not execute the statement required by this Paragraph within 10 business days of written request, then, so long as such failure or delay is not due to Tenant's refusal to include additional matters that are not reasonable, or the requesting party's refusal to permit disclosure by Tenant of exceptions to such statement, Tenant hereby grants to Landlord a power of attorney coupled with an interest to act as Tenant's attorney in fact for the purpose of executing such statement or statements required by this Paragraph. Such power of attorney shall not grant Landlord the right to execute a statement that includes any matters that are not expressly covered in this Paragraph or that does not include any exceptions that may have been raised by Tenant or of which Landlord is aware.

19. DEFAULT:

(a) The following events (herein referred to as an "event of default") shall constitute a default by Tenant hereunder;

(1) Tenant shall fail to pay when due any installment of Base Rent, Additional Rent or any other amounts payable hereunder;

(2) This Lease or the estate of Tenant hereunder shall be transferred to or shall pass to or devolve upon any other person or party in violation of the provisions of this Lease;

(3) This Lease or the Premises or any part thereof shall be taken upon execution or by other process of law directed against Tenant, or shall be taken upon or subject to any attachment at the instance of any creditor or claimant against Tenant, and said attachment shall not be discharged or disposed of within forty-five (45) days after the levy thereof;

(4) Tenant shall file a petition in bankruptcy or insolvency or for reorganization or arrangement under the bankruptcy laws of the United States or under any insolvency act of any state, or shall voluntarily take advantage of any such law or act by answer or otherwise, or shall be dissolved or shall make an assignment for the benefit of creditors;

(5) Involuntary proceedings under any such bankruptcy law or insolvency act or for the dissolution of Tenant shall be instituted against Tenant, or a receiver or trustee shall be appointed of all or substantially all of the property of Tenant, and such proceedings shall not be dismissed or such receivership or trusteeship vacated within thirty
(30) days after such institution or appointment;

(6) Tenant shall abandon or permanently vacate the Premises for ten (10) consecutive days while in default in the payent of rent or additional rent due hereunder;

(7) Tenant shall fail to perform any of the other agreements, terms, covenants or conditions hereof on Tenant's part to be performed, and such nonperformance shall continue for a period of fifteen
(15) days after notice thereof by Landlord to Tenant; provided, however, that if Tenant cannot reasonably cure such nonperformance within fifteen (15) days, Tenant shall not be in default if it commences cure within said fifteen
(15) days and diligently pursues the same to completion, with completion occurring in all instances within sixty (60) days;

(8) Tenant shall fail to obtain a release of any mechanic's lien, as required herein;

(9) All or any part of the personal property of Tenant is seized, subject to levy or attachment, or similarly repossessed or removed from the Premises and Tenant is consequently unable to conduct its business operations from the Premises.

(b) Upon the occurrence of an event of default, Landlord shall have the right, at its election, then or at any time thereafter and while any such event of default shall continue, either:

(1) To give Tenant written notice of Landlord's intention to terminate this Lease on the date such notice is given or on any later date specified herein, whereupon, on the date specified in such notice, Tenant's right to possession of the Premises shall cease and this Lease shall thereupon be terminated; PROVIDED, HOWEVER, all of Tenant's obligations, including, but not limited to, repayment of the Tenant Build-Out Allowance paid by Landlord on behalf of Tenant pursuant to the terms of the Work Letter Agreement executed by Landlord and Tenant in the form attached hereto as EXHIBIT D, with interest at the rate of 18% per annum, compounded annually,

computed from the date(s) of payment by Landlord (such sum with interest hereinafter referred to as the "Allowance Recovery") and the amount of Base Rent and other obligations reserved in this Lease for the balance of the term hereof, shall immediately be accelerated and due and payable in the manner and to the extent provided in paragraph 19(d), below.

(2) To re-enter and take possession of the Premises or any part thereof and repossess the same as Landlord's former estate and expel Tenant and those claiming through or under Tenant, and remove the effects of both or either, using such force for such purposes as may be reasonably necessary, without being liable for prosecution thereof, without being deemed guilty of any manner of trespass and without prejudice to any remedies for arrears of rent or preceding breach of covenants or conditions; PROVIDED, HOWEVER, any such action shall be in compliance with the provisions of Article 40 of Title 13, Colorado Revised Statutes. Should Landlord elect to re-enter the Premises as provided in this Paragraph 19(b)(2) or should Landlord take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Landlord may, from time to time, without terminating this Lease, relet the Premises or any part thereof, in Landlord's or Tenant's name, but for the account of Tenant, for such term or terms (which may be greater or less than the period which would otherwise have constituted the balance of the term of this Lease) and on such conditions and upon such other terms (which may include concessions of free rent and alteration and repair of the Premises) as Landlord, in its discretion, may determine, and Landlord may collect and receive the rents therefor. Landlord shall use commercially reasonable efforts to relet the Premises or any part thereof. No such re-entry or taking possession of the Premises by Landlord shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such intention be given to Tenant. No notice from Landlord hereunder or under a forcible entry and detainer statute or similar law shall constitute an election by Landlord to terminate this Lease unless such notice specifically so states. Landlord reserves the right following any such re-entry and/or reletting, to exercise its right to terminate this Lease by giving Tenant such written notice, in which event, this Lease will terminate as specified in said notice.

(c) In the event that Landlord does not elect to terminate this Lease as permitted in Paragraph 19(b)(1) hereof, but on the contrary, elects to take possession as provided in Paragraph 19(b)(2), Tenant shall pay to Landlord (i) the rent and other sums as herein provided, which would be payable hereunder if such repossession had not occurred, plus (ii) the amount of the Allowance Recovery, less (iii) the net proceeds, if any, of any reletting of the Premises after deducting all Landlord's expenses in connection with such reletting, including but without limitation, all repossession costs, brokerage commissions, legal expenses, reasonable attorneys' fees, expenses of employees, alteration and repair costs and expenses of preparation for such reletting. If, in connection with any reletting, the new lease term extends beyond the existing term, or the premises covered thereby include other premises not part of the Premises, a fair apportionment of the rent received from such reletting and the expenses incurred in connection therewith as provided aforesaid will be made in determining the net proceeds from such reletting. Tenant shall pay such rent and other sums to Landlord monthly on the days on which the rent would have been payable hereunder if possession had not been retaken.

(d) In the event this Lease is terminated pursuant to Paragraph 19(b)(1) hereof, Landlord shall be entitled to recover forthwith against Tenant as damages for loss of the bargain and not as a penalty, an aggregate sum which, at the time of such termination of this Lease, represents the excess, if any, of the aggregate of the rent and all other sums payable by Tenant hereunder that would have accrued for the balance of the term over the aggregate rental value of the Premises (such rental value to be computed on the basis of a tenant paying not only a rent to Landlord for the use and occupation of the Premises, but also such other charges as are required to be paid by Tenant under the terms of this Lease) for the balance of such term, both discounted to present worth at the rate of eight percent (8%) per annum, plus the amount of the Allowance Recovery. Alternatively, at Landlord's option, Tenant shall pay to Landlord upon demand the amount of the Allowance Recovery, and Tenant shall remain liable to Landlord for damages in an amount equal to the rent and other sums arising under the Lease for the balance of the term had the Lease not been terminated, less the net proceeds, if any, from any subsequent reletting, after deducting all expenses associated therewith and as enumerated above. Landlord shall be entitled to receipt of such amounts from Tenant monthly on the days on which such sums would have otherwise been payable.

(e) Suit or suits for the recovery of the amounts and damages set forth above may be brought by Landlord, from time to time, at Landlord's election and nothing herein shall be deemed to require Landlord to await the date whereon this Lease or the term hereof would have expired had there been no such default by Tenant or no such termination, as the case may be.

(f) After an event of default by Tenant, Landlord may sue for or otherwise collect all rents, issues and profits payable under all subleases on the Premises including those past due and unpaid.

(g) After an event of default by Tenant, Landlord may, without terminating this Lease, enter upon the Premises, with force if necessary without being liable for prosecution of any claim for damages, without being deemed guilty of any manner of trespass and without prejudice to any other remedies, and do whatever Tenant is obligated to do under the terms of this Lease. Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in effecting compliance with the Tenant's obligations under this Lease; further, Tenant agrees that Landlord shall not be liable for any damages resulting to Tenant from effecting compliance with Tenant's obligations under this subparagraph caused by the negligence of Landlord.

(h) No failure by Landlord to insist upon the strict performance of any agreement, term, covenant or condition hereof or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial rent during the continuance of any such breach, shall constitute a waiver of any such breach of such agreement, term, covenant or condition. No agreement, term, covenant or condition hereof to be performed or complied with by Tenant, and no breach thereof, shall be waived, altered or modified except by written instrument executed by Landlord. No waiver of any breach shall affect or alter this Lease, but each and every agreement, term, covenant and condition hereof shall continue in full force and effect with respect

to any other then existing or subsequent breach thereof. Notwithstanding any unilateral termination of this Lease, this Lease shall continue in force and effect as to any provisions hereof which require observance or performance of Landlord or Tenant subsequent to termination.

(i) Nothing contained in this Paragraph shall limit or prejudice the right of Landlord to prove and obtain as liquidated damages in any bankruptcy, insolvency, receivership, reorganization or dissolution proceeding, an amount equal to the maximum allowed by any statute or rule of law governing such proceeding and in effect at the time when such damages are to be proved, whether or not such amount be greater, equal to or less than the amounts recoverable, either as damages or rent, referred to in any of the preceding provisions of this Paragraph.

(j) Any rents or other amounts owing to Landlord hereunder which are not paid within ten (10) days of the date they are due, shall thereafter bear interest from the due date at the rate of eighteen percent (18%) per annum ("Interest Rate") until paid. Similarly, any amounts paid by Landlord to cure any default of Tenant or to perform any obligation of Tenant, shall, if not repaid by the Tenant within five (5) days of demand by Landlord, thereafter bear interest from the date paid by Landlord at the Interest Rate until paid. In addition to the foregoing, Tenant shall pay to Landlord whenever any Base Rent, Additional Rent or any other sums due hereunder remain unpaid more than ten (10) days after the due date thereof, a late charge equal to five percent (5%) of the amount due.

(k) Each right and remedy provided for in this Lease shall be cumulative and shall be in addition to every other right or remedy provided for in this Lease now or hereafter existing at law or in equity or of statute or otherwise, including, but not limited to, suits for injunctive or declaratory relief and specific performance. The exercise or commencement of the exercise by either party of any one or more of the rights or remedies provided for in this Lease now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or subsequent exercise by said party of any or all other rights or remedies provided for in this Lease, or now or hereafter existing at law or in equity or by statute or otherwise. All costs incurred by either party in connection with collecting any amounts and damages owing by the other party pursuant to the provisions of this Lease or to enforce any provision of this Lease, including, by way of example, but not limitation, reasonable attorneys' fees from the date any such matter is turned over to an attorney, shall also be recoverable by the prevailing party. Landlord and Tenant agree that any action or proceeding arising out of this Lease shall be heard by a court sitting without a jury and thus hereby waive all rights to a trial by jury.

20. COMPLETION OF PREMISES:

(a) Landlord and Tenant have yet to agree on which of the parties is to be responsible for construction of the tenant improvements to the Premises as more fully set forth in the work letter ("Work Letter") attached hereto and incorporated herein as EXHIBIT D.

(1) Should Tenant be the Contracting Party, as defined in Exhibit D, the "Commencement Date" as used herein, and the obligation of Tenant to

commence the payment of rent and additional rent hereunder, shall be March 1, 2000, subject only to the deferral of such date by the number of days, if any, which Landlord fails or refuses to approve plans, specifications, contractors, bonds, insurance coverages, or the like, beyond the number of day alloted for such approvals in Exhibit D.

(2) Should Landlord be the Contracting Party, as defined in Exhibit D, the "Commencement Date" as used herein, and the obligation of Tenant to commence the payment of rent and additional rent hereunder, shall be March 1, 2000, subject only to the deferral of such date as a result of delays in construction of the tenant improvements that were within Landlord's control. Matters within Landlord's control shall include delays caused by the contractor constructing such improvements, but shall not include delays resulting from protracted negotiations of the terms of this Lease or delays caused by Tenant's review of plans and specifications or in negotiating costs, or delays by the City of Boulder in issuing permits. If there are delays within Landlord's control, the Commencement Date shall be deferred beyond March 1, 2000, by the number of days of delay caused by Landlord.

(b) Other than as set forth in the Work Letter, Landlord shall have no obligation for the completion of the Premises, and Tenant shall accept the Premises in its "as is" condition on the Commencement Date.

(c) Subsequent to the Commencement Date, Landlord shall not have any obligation for the repair or replacement of any portions of the interior of the Premises, including, but not limited to, carpeting, draperies, window coverings, wall coverings or painting, which are damaged or wear out during the term hereof, regardless of the cause therefor, except as may otherwise be specifically set forth in this Lease.

(d) If Landlord is the Contracting Party, and if Tenant wishes to complete improvements to the interior of the Premises prior to the Commencement Date, Tenant may do so, at Tenant's sole risk and with no obligation to pay rent provided that (i) Tenant has delivered to Landlord written evidence that Tenant's insurance obligations under Paragraph 14 hereof are then met, (ii) such entry and work do not unreasonably interfere in any way with the performance of Landlord's work or other workers in and about the Building, and (iii) such entry and work comply in all respects with the provisions of this Lease. At any time during such period of early entry, if Landlord notifies Tenant that Tenant's entry or work is interfering with or delaying the performance of work to be performed by Landlord or other workers in and about the Building, or causing any disruption whatsoever, Tenant shall forthwith discontinue any further work and shall vacate the Premises, and shall cause its workmen or contractors to remove therefrom, any equipment, materials or installations which are the subject of Landlord's notice.

21. REMOVAL OF TENANT'S PROPERTY: All movable furniture and personal effects of Tenant not removed from the Premises upon the vacation or abandonment thereof coupled with non-payment of Base Rent or upon the termination of this Lease for any cause whatsoever shall conclusively be deemed to have been abandoned and may be appropriated, sold, stored, destroyed or otherwise disposed of by Landlord without notice to Tenant and without obligation to account therefor, and Tenant shall reimburse Landlord for all expenses incurred in connection with the disposition of such property.

22. HOLDING OVER: Should Tenant, with Landlord's written consent, hold over after the termination of this Lease and continue to pay rent, Tenant shall become a tenant from month to month only upon each and all of the terms herein provided as may be applicable to such month to month tenancy and any such holding over shall not constitute an extension of this Lease. During such holding over, Tenant shall pay monthly rent equal to the last monthly rental rate and the other monetary charges as provided herein. Such tenancy shall continue until terminated by Landlord, as provided by law, or until Tenant shall have given to Landlord at least thirty (30) days written notice prior to the last day of the calendar month intended as the date of termination of such month to month tenancy.

23. PARKING AND COMMON AREAS: Tenant shall have the non-exclusive use of parking areas within the Building Complex. Landlord shall have the right, without obligation, and from time to time, to change the number, size, location, shape and arrangement of parking areas and other common areas, restrict parking of tenants or their guests to designated areas, designate loading or handicap loading areas, and to change the level or grade of parking; PROVIDED, HOWEVER, that Landlord shall at all times during the term of this Lease maintain a parking ratio of 1 parking space per 400 square feet of rentable floor space, considering all parking spaces available and all rentable square footage in the Building Complex and in the complex at 2905, 2945, and 2995 Center Green Court South. Except as otherwise specifically provided herein, all access roads, courtyards, and other areas, facilities or improvements furnished by Landlord are for the general and nonexclusive use in common of all tenants of the Building, and those persons invited upon the land upon which the Building is situated and shall be subject to the exclusive control and management of Landlord, and Landlord shall have the right, without obligation to establish, modify and enforce such rules and regulations which the Landlord may deem reasonable and/or necessary. Unless as otherwise provided, Tenant's use of the parking area, as herein set forth, shall be in common with other tenants of the Building and any other parties permitted by Landlord to use the parking area. The parking rights herein granted shall not be deemed a lease but shall be construed as a license granted by Landlord to Tenant for the term of this Lease.

24. SURRENDER AND NOTICE: Upon the expiration or earlier termination of this Lease, Tenant shall promptly quit and surrender to Landlord the Premises broom clean, in good order and condition, ordinary wear and tear and loss by fire or other casualty excepted, and Tenant shall remove all of its movable furniture and other effects and such alterations, additions and improvements as Landlord shall require Tenant to remove pursuant to Paragraph 10 hereof. In the event Tenant fails to so vacate the Premises on a timely basis as required, Tenant shall be responsible to Landlord for all costs and damages, including, but not limited to, any amounts required to be paid to third parties who were to have occupied the Premises, incurred by Landlord as a result of such failure, plus interest thereon at the Interest Rate on all amounts not paid by Tenant within five (5) days of demand, until paid in full.

25. ACCEPTANCE OF PREMISES BY TENANT: Taking possession of the Premises by Tenant shall be conclusive evidence as against Tenant that the Premises were in the condition agreed upon between Landlord and Tenant, and acknowledgment of satisfactory completion of the fix-up work which Landlord has agreed in writing to

perform, except as otherwise set forth herein.

26. SUBORDINATION AND ATTORNMENT:

(a) This Lease, and all rights of Tenant hereunder, are and shall be subject and subordinate in all respects to all deeds of trust, mortgages and building loan agreements, including leasehold mortgages and building loan agreements, which may now or hereafter affect the Building or the Building Complex, whether or not such deeds of trust or mortgages shall also cover other lands or buildings, to each and every advance made or hereafter to be made under such deeds of trust or mortgages, and to all renewals, modifications, replacements and extensions of such deeds of trust and mortgages. The provisions of this Paragraph shall be self-operative and no further instrument of subordination shall be required. However, in confirmation of such subordination, Tenant shall promptly execute and deliver to Landlord (or such other party so designated by Landlord) at Tenant's own cost and expense, within fifteen (15) days after request from Landlord an instrument, in recordable form if required, that Landlord or the holder of any such deed of trust or mortgage or any of their respective successors in interest or assigns may request evidencing such subordination. Failure by Tenant to comply with the requirements of this Paragraph shall be a default hereunder. Notwithstanding the foregoing, in the event that Tenant fails to execute such documents as may be required to confirm the subordination set forth in this Paragraph, then, so long as such failure or delay is not due to Tenant's refusal to execute docuuments that contain unreasonable terms or conditions beyond what is required by this Paragraph, or the requesting party's refusal to accept reasonable changes to such documents that will not diminish the subordination granted by this Paragraph, Tenant hereby grants to Landlord a power of attorney coupled with an interest to act as Tenant's attorney in fact for the purposes of executing such documents. Such power of attorney shall not grant Landlord the right to execute documets that grant rights or impose obligations beyond the subordination covered in this Paragraph. The deeds of trust or mortgages to which this Lease is, at the time referred to, subject and subordinate are hereinafter sometimes called "superior deeds of trust" or "superior mortgages". The beneficiary of a superior deed of trust or superior mortgage or their successors in interest or assigns are hereinafter sometimes collectively referred to as a "superior party". The subordination provided by this Section 26 shall be subject to the provision that, and any subordination entered into by Tenant after the date of this Lease must contain a non-disturbance agreement in the form then being used by such superior party for such purposes, providing that, in any case, Tenant, notwithstanding such subordination or a default by Landlord, shall be entitled to remain in possession of the Premises in accordance with the terms of this Lease for so long as Tenant shall not be in default of any term, condition or covenant of this Lease. Further, Tenant shall attorn to such superior party.

(b) Tenant shall take no steps to terminate this Lease, without giving written notice to such superior party, and a reasonable opportunity to cure (without such superior party being obligated to cure), any default on the part of Landlord under this Lease, provided Tenant shall be obliged to notify only such superior parties of which Tenant has actual knowledge by virtue of a prior written communication from Landlord or such superior party.

(c) If, in connection with the procurement, continuation or renewal of any financing for which the Building or the Building Complex represents collateral in whole or in part, a lender shall request reasonable modifications of this Lease as a condition of such financing, Tenant will not unreasonably withhold its consent thereto provided that such modifications do not increase the obligations of Tenant under this Lease or adversely affect any rights of Tenant or decrease the obligations of Landlord under this Lease.

27. PAYMENTS AFTER TERMINATION: No payments of money by Tenant to Landlord after the termination of this Lease, in any manner, or after giving of any notice (other than a demand for payment of money) by Landlord to Tenant, shall reinstate, continue or extend the term of this Lease or affect any notice given to Tenant prior to the payment of such money, it being agreed that after the service of notice of the commencement of a suit or other final judgment granting Landlord possession of the Premises, Landlord may receive and collect any sums of rent due, or any other sums of money due under the terms of this Lease or otherwise exercise its rights and remedies hereunder. The payment of such sums of money, whether as rent or otherwise, shall not waive said notice or in any manner affect any pending suit or judgment theretofore obtained.

28. AUTHORITIES FOR ACTION AND NOTICE:

(a) Except as otherwise provided herein, Landlord may, for any matter pertaining to this Lease, act by and through its building manager or any other person designated in writing from time to time.

(b) All notices or demands required or permitted to be given to Landlord hereunder shall be in writing, and shall be deemed duly served when received, if hand delivered, or five (5) days after deposited in the United States mail, with proper postage prepaid, certified or registered, return receipt requested, addressed to Landlord in care of Hast & Company, 525 Canyon Boulevard, Boulder, Colorado 80302, with a copy to Joel C. Davis, Dietze and Davis, P.C., 2060 Broadway, Suite 400, Boulder, Colorado 80302. All notices or demands required to be given to Tenant hereunder shall be in writing, and shall be deemed duly served when received, if hand delivered, or five (5) days after deposited in the United States mail, with proper postage prepaid, certified or registered, return receipt requested, addressed to Tenant as follows:

Gilead Sciences, Inc. 333 Lakeside Drive Foster City, CA 94404 ATTN: General Counsel

Either party shall have the right to designate in writing, served as above provided, a different address to which notice is to be provided. The foregoing shall in no event prohibit notice from being given as provided in Rule 4 of the Colorado Rules of Civil Procedure, as the same may be amended from time to time.

29. LIABILITY OF LANDLORD: Landlord's liability under this Lease shall be limited to

Landlord's estate and interest in the Building (or to the proceeds thereof) and no other property or other assets of Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, the relationship of Landlord and Tenant hereunder or Tenant's use and occupancy of the Premises. Nothing contained in this Paragraph shall be construed to permit Tenant to offset against rents due a successor landlord, a judgment (or other judicial process) requiring the payment of money by reason of any default of a prior landlord, except as otherwise specifically set forth herein.

30. BROKERAGE: Landlord and Tenant represent and warrant to each other that they have dealt only with CRESA Partners and Key, Whiteside & Hart and Hast and Company ("Brokers") in the negotiation of this Lease. Landlord shall make payment of the brokerage fee due to the Brokers pursuant to and in accordance with Landlord's separate agreement with Keys, Whiteside & Hart and Hast and Company. In the event that any of Landlord's or Tenant's representations and warranties made in this Paragraph 30 is untrue at any time in any respect, each party hereby agrees to indemnify and hold the the other harmless of and from any and all loss, costs, damages or expenses (including, without limitation, all reasonable attorneys' fees and disbursements) by reason of any claim of or liability to any other broker or person claiming through the representing party arising out of or in connection with the negotiation, execution and delivery of this Lease. Additionally, Tenant acknowledges and agrees that Landlord shall have no obligation for payment of any brokerage fee or similar compensation to any person with whom Tenant has dealt or may in the future deal with respect to leasing of any additional or expansion space in the Building or renewals or extensions of this Lease, except as may be provided by Landlord's separate written agreement. In the event any claim shall be made against either party by any other broker who shall claim to have negotiated this Lease on behalf of the other party or to have introduced the other party to the Building or to the other party, the party who allegedly engaged such broker shall be liable for payment of all reasonable attorneys' fees, costs and expenses incurred by the other party in defending against the same, and in the event such broker shall be successful in any such action, the party who allegedly engaged such broker shall, in addition, make payment to such broker.

31. TAXES:

(a) Tenant shall be liable for and shall pay at least ten
(10) days before delinquency and Tenant hereby agrees to indemnify and hold Landlord harmless from and against any liability in connection with, all taxes levied against any personal property, fixtures, machinery, equipment, apparatus, systems and appurtenances placed by or on behalf of Tenant in or about or utilized by Tenant in, upon or in connection with the Premises ("Equipment Taxes"). If any Equipment Taxes are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such personal property, fixtures, machinery equipment, apparatus, systems or appurtenances of Tenant, and if Landlord, after written notice to Tenant, pays the Equipment Taxes or taxes based upon such an increased assessment (which Landlord shall have the right to do regardless of the validity of such levy, but under proper protest if requested by Tenant prior to such payment and if payment under protest is permissible), Tenant shall pay to Landlord upon demand, as Additional Rent hereunder, the taxes so levied against

Landlord or the proportion of such taxes resulting from such increase in the assessment; provided, however, that in any such event, Tenant shall have the right, on behalf of Landlord and with Landlord's full cooperation, but at no cost to Landlord, to bring suit in any court of competent jurisdiction to recover the amount of any such tax so paid under protest, and any amount so recovered shall belong to Tenant (provided Tenant has previously paid such amount to Landlord). Notwithstanding the foregoing to the contrary, Tenant shall cooperate with Landlord to the extent reasonably necessary to cause the fixtures, furnishings, equipment and other personal property to be assessed and billed separately from the real property of which the Premises form a part, and Landlord shall use reasonable efforts to treat all other Tenants on the same basis.

(b) Tenant shall pay to Landlord, as Additional Rent, any excise, sales, privilege or other tax, assessment or other charge (other than income or franchise taxes) imposed, assessed or levied by any governmental or quasi-governmental authority or agency upon Landlord on account of this Lease, the rent or other payments made by Tenant hereunder, any other benefit received by Landlord hereunder, Landlord's business as a lessor hereunder, or other in respect of or as a result of the agreement or relationship of Landlord and Tenant hereunder.

32. RIGHTS RESERVED TO LANDLORD:

(a) Landlord shall have the following rights without liability to Tenant for damage or injury to property, person or business (all claims for damage being hereby waived and released), and without effecting an eviction or disturbance of Tenant's use or possession of the Premises or giving rise to any claim for setoffs or abatement of rent:

(1) To enter the Premises as more fully provided in this Lease.

(2) To install and maintain signs on the exterior of the Building in accordance with the terms of this Lease.

(3) To decorate, remodel, repair, alter or otherwise prepare the Premises for reoccupancy during the last six (6) months of the term hereof if, during or prior to such time, Tenant has vacated the Premises, or at any time after Tenant abandons the Premises.

(4) To have access to all mail chutes according to the rules of the United States Postal Service.

(5) To do or permit to be done any work in or about the exterior of the Building or any adjacent or nearby building, land, street or alley.

(6) To grant to anyone the exclusive right to conduct any business or render any service in the Building, provided such exclusive right shall not operate to interfere with Tenant's quiet enjoyment of the Premises as granted in this

Lease.

33. FORCE MAJEURE CLAUSE: Wherever there is provided in this Lease a time limitation for performance by Landlord or Tenant of any obligation including, but not limited to, obligations related to construction, repair, maintenance or service, but excluding the payment by Tenant of any regularly scheduled installment of rent or additional rent payable hereunder, the time provided for shall be extended for as long as and to the extent that delay in compliance with such limitation is due to an act of God, governmental control or other factors beyond the reasonable control of the party to so perform.

34. SIGNAGE:

(a) No sign, advertisement or notice shall be inscribed, painted or affixed on any part of the inside or outside of the Building unless of such color, size and style and in such place upon or in the Building as shall (i) comply with all applicable covenants, conditions, and restrictions applicable to the Building and the rules and regulations of any local authority with jurisdiction over the Building, and (ii) be approved in writing by Landlord, which approval shall not be unreasonably withheld. Landlord shall have the right to remove all nonpermitted signs without notice to Tenant and at the expense of Tenant.

35. ATTORNEYS' FEES: In the event of any dispute hereunder, or any default in the performance of any term or condition of this Lease, the prevailing party shall be entitled to recover all costs and expenses associated therewith including reasonable attorneys' fees.

36. BANKRUPTCY OR INSOLVENCY: If the Tenant becomes a debtor under Chapter 7 of the United States Bankruptcy Code, or in the event that a petition for reorganization or adjustment of debts is filed concerning the Tenant under Chapter 11 or Chapter 13 of the Bankruptcy Code, or a proceeding filed under Chapter 7 is transferred to Chapter 11 or 13, the Trustee or the Tenant, as Debtor-in-Possession, shall be deemed to have rejected this Lease. No election by the Trustee or Debtor-in-Possession to assume this Lease shall be effective unless each of the following conditions, which Landlord and Tenant hereby acknowledge to be commercially reasonable in the context of a bankruptcy proceeding, has been satisfied, and the Landlord has so acknowledged in writing:

(a) The Trustee or Debtor-in-Possession has cured, or has provided the Landlord "adequate assurance" (as hereinafter defined) that from the date of such assumption, the Trustee or Debtor-in-Possession will promptly cure all monetary and non-monetary defaults under this Lease.

(b) The Trustee or Debtor-in-Possession has compensated, or has provided to the Landlord adequate assurance that within ten (10) days of the date of assumption, the Landlord will be compensated, for any pecuniary loss incurred by the Landlord arising from default of the Tenant, the Trustee or the Debtor-in-Possession as recited in the Landlord's written statement of pecuniary loss sent to the Trustee or Debtor-in-Possession.

(c) The Trustee or Debtor-in-Possession has provided the Landlord with adequate assurance of future performance of each of the Tenant's, the Trustee's, or Debtor-in-Possession's obligations under this Lease; provided, however, that:

(1) The Trustee or Debtor-in-Possession shall also deposit with the Landlord, as security for the timely payment of rent and other sums due hereunder, an amount equal to three months Base Rent, Additional Rent and other monetary charges accruing under this Lease; and

(2) The obligations imposed upon the Trustee or Debtor-in-Possession shall continue with respect to the Tenant or any assignee of this Lease after the completion of the bankruptcy proceedings.

(d) For purposes of this Paragraph, Landlord and Tenant acknowledge that, in the context of the bankruptcy proceeding of the Tenant, "adequate assurance" shall mean:

(1) The Trustee or Debtor-in-Possession will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure the Landlord that the Trustee or Debtor-in-Possession will have sufficient funds to fulfill all of the obligations of Tenant under this Lease, or

(2) The Bankruptcy Court shall have entered an order segregating sufficient cash payable to the Landlord, and the Trustee or Debtor-in-Possession shall have granted to the Landlord a valid and perfected first lien and security interest or mortgage in property of the Tenant, the Trustee or Debtor-in-Possession, acceptable as to value and kind to the Landlord, in order to secure to the Landlord the obligation of the Tenant, Trustee or Debtor-in-Possession to cure the monetary or non-monetary defaults under the Lease within the time period set forth above.

(e) The following conditions shall apply to any assignment of this Lease in Bankruptcy Proceedings:

(1) If the Trustee or Debtor-in-Possession has assumed this Lease and elects to assign the Lease to any other person, such interest or estate of Tenant in this Lease may be so assigned only if the Landlord has acknowledged in writing that the intended assignee can provide to the Landlord "adequate assurance of future performance" (as hereinafter defined) of all of the terms, covenants and conditions of this Lease to be performed by the Tenant.

(2) For the purposes of this provision, Landlord and Tenant acknowledge that, in the context of a bankruptcy proceeding, "adequate assurance of future performance" shall mean that each of the following conditions has been satisfied or exceeded, and the Landlord has so acknowledged in writing:

A. The proposed assignee has submitted a current

financial statement audited by a Certified Public Accountant which shows the net worth and working capital and amounts determined by Landlord to be sufficient to assure the future performance by such assignee of all of Tenant's obligations under this Lease, or, if such financial statements are deemed by the Landlord to be insufficient, that;

B. The proposed assignee shall have obtained guarantees in form and substance satisfactory to the Landlord from one or more persons who satisfy the Landlord's standards of creditworthiness; and

C. The Landlord has obtained all consents or waivers from any third party required under any lease, mortgage, financing arrangements or other agreement by which the Landlord is bound, in order to permit the Landlord to consent to such assignment.

37. MISCELLANEOUS:

(a) The rules and regulations attached hereto as EXHIBIT E, as well as such rules and regulations as may hereafter be adopted by Landlord for the safety, care and cleanliness of the Premises, the Building and the Building Complex and the preservation of good order thereon, are hereby expressly made a part hereof, and Tenant agrees to obey all such rules and regulations. The violation of any of such rules and regulations by Tenant shall be deemed a breach of this Lease by Tenant affording Landlord all the remedies set forth herein. Landlord shall not be responsible to Tenant for the nonperformance by any other tenant or occupant of the Building of any of said rules and regulations.

(b) The term "Landlord" as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners of the Building at the time in question, and in the event of any transfer or transfers of the title thereto, Landlord herein named (and in the case of any subsequent transfers or conveyances, the then grantor) shall be automatically released from and after the date of such transfer or conveyance of all liability in respect to the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed and relating to events occurring thereafter; provided that the transferee has expressly agreed in writing to assume all obligations of Landlord under this Lease; provided that any funds in the hands of Landlord or the then grantor at the time of such transfer in which Tenant has an interest shall be turned over to the grantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provisions of this Lease shall be paid to Tenant.

(c) This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant shall not be entitled to any setoff of the rent or other amounts owing hereunder against Landlord, and Landlord shall not be entitled to exercise any of its remedies hereunder, if Landlord or Tenant as the case may be, fails to perform its obligations set forth herein, except as herein specifically set forth; provided, however, the foregoing shall in no way impair the right of either party to commence a separate action against the other party for any violation by a breaching party of the provisions hereof so long as notice is first given to the breaching party and any holder of a mortgage or deed of trust covering the Building

Complex or any portion thereof whose address Tenant has been notified in writing and so long as an opportunity has been granted to the breaching party and such holder to correct such violation as provided in subparagraph (g) hereof.

(d) If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws effective during the term of this Lease, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there shall be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable, provided such addition does not increase or decrease the obligations of or derogate from the rights or powers of either Landlord or Tenant.

(e) The captions of each paragraph are added as a matter of convenience only and shall be considered of no effect in the construction of any provision or provisions of this Lease.

(f) Except as herein specifically set forth, all terms, conditions and covenants to be observed and performed by the parties hereto shall be applicable to and binding upon their respective heirs, administrators, executors, successors and assigns. The terms, conditions and covenants hereof shall also be considered to be covenants running with the land.

(g) Except as otherwise specifically provided herein, in the event either party shall fail to perform any of the agreements, terms, covenants or conditions hereof on its part to be performed (such party being referred to as the "Non-Performing Party"), and such nonperformance shall continue for a period of thirty (30) days after written notice thereof from the other party (the "Notifying Party") to the Non-Performing Party, or if such performance cannot be reasonably had within such thirty (30) day period, and the Non-Performing Party shall not in good faith have commenced such performance within such thirty (30) day period and proceed therewith to completion, it shall be considered a default of the Non-Performing Party under this Lease. Notifying Party shall give written notice to the Non-Performing Party in the matter herein set forth and shall afford the Non-Performing Party a reasonable opportunity to cure any such default. In addition, Tenant shall send notice of such default by certified or registered mail, with proper postage prepaid, to the holder of any mortgages or deeds of trust covering the Building Complex or any portion thereof of whose address Tenant has been notified in writing and shall afford such holder a reasonable opportunity to cure any alleged default on Landlord's behalf. The provisions of this subparagraph (g) shall not apply to any failure of Tenant to make, when due, any regularly scheduled installment payment of Rent or Additional Rent due under this Lease.

(h) If there is more than one entity or person which or who are the Tenants or Landlords under this Lease, the obligations imposed upon Tenants or Landlords under this Lease shall be joint and several.

(i) No act or thing done by Landlord or Landlord's agent during the term hereof, including but not limited to any agreement to accept surrender of the

Premises or to amend or modify this Lease, shall be deemed to be binding upon Landlord unless such act or things shall be by an officer of Landlord or a party designated in writing by Landlord as so authorized to act. The delivery of keys to Landlord, or Landlord's agent, employees or officers shall not operate as a termination of this Lease or a surrender of the Premises. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly rent herein stipulated shall be deemed to be other than on account of the earliest stipulated rent, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy available to Landlord.

(j) Landlord shall have the right to construct other buildings or improvements in any plaza or any other area designated by Landlord for use by tenants or to change the location, character or make alterations of or additions to any of said plazas or other areas provided the same does not breach Tenant's right of quiet enjoyment of the Premises. Landlord, during the entire term of this Lease, shall have the right to change the number and name of the Building or Building Complex at any time without liability to Tenant.

(k) Tenant acknowledges and agrees that it has not relied upon any statements, representations, agreements or warranties, except such as are expressed in this Lease.

(l) Notwithstanding anything to the contrary contained herein, Landlord's liability under this Lease shall be limited to its interests in this Building.

(m) Time is of the essence hereof.

(n) Tenant and Landlord and the parties executing this Lease on behalf of each of them represent to each other that they are authorized to do so by requisite action of the board of directors or partners, as the case may be, and agree upon request to deliver to each other a resolution or similar document to that effect.

(o) This Lease shall be governed by and construed in accordance with the laws of the State of Colorado.

(p) This Lease, together with the exhibits attached hereto, contains the entire agreement of the parties and may not be amended or modified in any manner except by an instrument in writing signed by both parties.

(q) Tenant shall not use the name of the Building, the Building Complex or the development in which the Building is situated as part of its legal or trade name, nor for any purpose other than as an address for the business to be conducted by Tenant in the Premises.

(r) The submission or delivery of this document for examination and review does not constitute an option, an offer to lease space in the Building, or an agreement to lease. This document shall have no binding effect on the parties unless

and until executed by both Landlord and Tenant.

(s) Whenever a consent, permission, approval or acknowledgment is required under this Lease or any Exhibit hereto, such consent, approval, permission or acknowlegment shall not be unreasonably withheld or delayed.

38. HAZARDOUS MATERIALS:

(a) Tenant shall (i) not cause or permit any Hazardous Material to be brought upon, kept, or used in or about the Premises by Tenant, its agents, employees, contractors, licensees or invitees, without prior written consent of Landlord (which Landlord shall not unreasonably withhold or delay as long as Tenant demonstrates to Landlord's reasonable satisfaction that such Hazardous Material is necessary or useful to Tenant's business and will be used, kept and stored in a manner that complies with all laws regulating any such Hazardous Materials so brought upon or used or kept in or about the Premises). If Tenant breaches the obligations stated in the preceding sentence, or if the presence of Hazardous Material on the Premises caused or permitted by Tenant results in contamination of the Premises or Building Complex, or any part thereof, or if contamination of the Premises or Building Complex by Hazardous Material otherwise occurs for which Tenant is legally liable to Landlord for damage resulting therefrom, then Tenant shall indemnify, defend and hold Landlord, its agents, employees, legal representatives, successors and assigns, harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities, or losses (including, without limitation, diminution in value of the Premises and building Complex, damages for the loss or restriction on use of any rentable or usable space or of any amenity of the Premises or Building Complex, damages arising from any adverse impact on marketing of space in the Building, and sums paid in settlement of claims, reasonable attorneys' fees, consultant fees and expert fees) which arise during or after the Lease term as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, such costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state, or local governmental agency or political subdivision because of Hazardous Material caused or permitted by Tenant to be present in or about the Building Complex or the soil or ground water on or under the Building Complex. Without limiting the foregoing, if the presence of any Hazardous Material on or about the Building Complex caused or permitted by Tenant results in any contamination of any portion thereof, Tenant shall promptly take all actions at its sole expense as are necessary to return the Building Complex to the condition existing prior to the introduction of any such Hazardous Material, subject to obtaining Landlord's prior written consent to the actions to be taken by Tenant. Landlord may properly require its consent to the selection of the contractors and other experts involved in the inspection, testing and removal or abatement activities, the scope of activities to be performed, the manner and method for performance of such activities, and such other matters as may be required or requested by Landlord for the safety of and continued use of the Building Complex and all occupants thereof. The obligations and liabilities of Tenant herein shall survive expiration or termination of this Lease.

(b) "Hazardous Material," as used in this Lease, shall be construed in its broadest sense and shall include asbestos, other asbestotic material (which is currently or may be designated in the future as a Hazardous Material), any petroleum base products, pesticides, paints and solvents, polychlorinated biphenyl, lead, cyanide, DDT, acids, ammonium compounds and other chemical products (excluding commercially used cleaning materials in ordinary quantities) and any substance or material if defined or designated as hazardous or toxic substance, or other similar term, by any federal, state or local law, statute, regulation, or ordinance affecting the Building Complex or Premises presently in effect or that may be promulgated in the future, as such statutes, regulations and ordinances may be amended from time to time.

(c) In the event Tenant causes or permits Hazardous Material to be brought upon, kept, or used in or about the Premise, with or without Landlord's consent, and Landlord has reason to believe that such Hazardous Materials are contaminating or may contaminate the Building Complex or soils or water, or pose a threat to the health of other occupants of the Building Complex, Landlord shall be entitled to have an environmental audit performed , the reasonable costs and expense of which shall be paid by Tenant. Except in the case of an obvious and immediate threat and danger, Landlord's "reason to believe," as used above, shall be established by a study conducted, at Landlord's expense, by a reputable environmental consultant into the materials present, Tenant's handling of the same, safety measures in place, and compliance with all local state and federal laws, rules and regulations regulating such materials and the use, transportation and disposal of the same.

39. OPTION TO EXTEND:

Tenant shall have the right, if not in default at the time of exercise of the option, to extend the original term of this Lease for two renewal terms of five (5) years each (each hereinafter called a "Renewal Term"). Each Renewal Term shall begin upon the expiration of the original Lease Term, or upon expiration of the first Renewal Term, as the case may be. All of the terms, provisions, and covenants of this Lease shall apply to each Renewal Term; PROVIDED, HOWEVER, the Base Rent payable during each Renewal Term shall be at ninety-five percent (95%) of the fair market rental value determined as hereinafter set forth, at the commencement of each Renewal Term. Tenant shall exercise such option by delivering to Landlord written notice of its election to renew no later than six (6) months prior to the expiration of the original Lease Term or the first Renewal Term. For the purposes of this Lease, the term "Lease Term" shall mean the original Lease Term plus any applicable Renewal Term.

Within fourteen (14) days after the Landlord's receipt of the Tenant's Notice of its election to renew, Landlord and Tenant shall meet and shall seek to establish the fair market rental value of the Premises as of the last day of the original Lease term or the first Renewal Term, as the case may be. The term fair market rental value of the Premises shall mean the rental rate that a ready, willing, and able tenant would agree to pay to lease the Premises then under this Lease, from a nonaffiliated landlord after arm's length negotiations, assuming that neither this Lease nor any other lease of the Premises were in effect. If the parties are unable to agree upon a fair market rental

value within such fourteen (14) day period, Tenant shall, within seven (7) days of the expiration of such fourteen (14) day period, appoint an appraiser, who shall be an M.A.I. real estate professional with at least two
(2) years experience in commercial real estate appraisal in Boulder County to determine such fair market value, and shall give prompt written notice to the Landlord identifying such appraiser. Said appraiser shall, within fifteen
(15) days following his or her appointment, render his or her report to Tenant. If Tenant accepts the fair market rental value reflected by such report, Tenant shall immediately provide a copy thereof to Landlord. If Tenant does not accept the value of such appraisal, it shall have an additional ten (10) days to obtain a second appraisal and shall immediately provide a copy thereof to Landlord. If Landlord does not accept and agree to the fair market rental value of the Premises as reflected in Tenant's appraisal, it shall notify Tenant of that fact within five (5) days following receipt of the Tenants appraisal report, and Landlord shall, within seven (7) days following rejection of the Tenant's appraisal report, appoint an appraiser with the qualifications set forth above, who shall independently render his or her opinion of the fair market rental value of the Premises within fifteen (15) days after appointment. Failure of either party to appoint an appraiser and to cause such appraiser to agree in writing to be bound by the provisions of this Section within the respective seven (7) day period shall be deemed to be an irrevocable election to accept the determination of the fair market value made by the appraiser of the other party. Should Tenant reject the fair market rental value determined by Landlord's appraiser, and if the parties are unable to reach agreement upon the fair market rental value based upon the values reflected by the two appraisals in hand, within seven (7) days after receipt of the Landlord's appraisal, the Tenant's appraiser and the Landlord's appraiser shall appoint a third, similarly-qualified appraiser, and cause such appraiser to agree in writing to be bound by the provisions of this Section, and give Landlord and Tenant written notice of his or her identify. In the event the Appraisers are unable to agree on the third appraiser within said fourteen (14) day period, the parties hereto shall request that the President of the Boulder County Bar Association (or such other individual as to whom the parties may agree) appoint the third appraiser within seven (7) days. The third appraiser shall, within fourteen (14) days of his appointment, express to both Landlord and Tenant his or her determination of the fair market rental value of the Demised Premises, and such determination shall be determinative of the Demised Premises' fair market rental value at such time, shall be final, and shall govern for the purposes of this Section. If the appraisal procedure is used, each party shall bear the cost of the appraiser appointed by it, and the parties shall share equally the cost of the third appraiser. If only one appraiser shall be appointed, each party shall share equally the cost of such appraiser. The three percent (3%) fixed annual increase in Base Rent provided for during the initial Lease Term shall apply during each Renewal Term.

40. RIGHT OF OPPORTUNITY ON ADDITIONAL SPACE:

Every instance of any equal or superior right of first opportunity given by Landlord to any other tenant in the Building is listed on EXHIBIT F to this Lease. Landlord will not grant any additional rights of opportunity that are equal or superior to Tenant's rights, beyond those listed on Exhibit F. Should Landlord become aware that additional space in the Building will become available for lease, at any time during the term of this Lease, Landlord agrees to provide to Tenant written notice of the availability of such space, which notice shall identify the space, the date the same will be available

for occupancy, and the rental rate which Landlord will offer such space for rental to the public. Tenant shall have thirty (30) days following the effective date of Landlord's notice within which to notify Landlord that Tenant elects to rent such space, at the rental rate specified in Landlord's notice, for a term concurrent with the Term of this Lease. Should Tenant fail to give notice electing to rent such additional space within said thirty
(30)-day period, then Landlord may offer such space for lease to the public and may lease the same at any time thereafter at a rental rate equal to or greater than 90% of the rental rate stated in the original notice from Landlord to Tenant. If Landlord desires to lease such space at a rental rate less than 90% of that stated in the notice to Tenant, Landlord shall once again offer the same to Tenant for a period of ten (10) days, at the lower rental rate.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease the day and year first above written.

LANDLORD:

THW PARTNERS LIMITED PARTNERSHIP,
a Colorado limited partnership

By: THW, Inc., a Florida corporation
General Partner

By:

Name:
Title:

TENANT:

GILEAD SCIENCES, INC.,
a Delaware corporation

By:

Name:
Title:

EXHIBIT "B"

LEGAL DESCRIPTION

Lot 2,
Center Green South, Replat A
Boulder County, Colorado

EXHIBIT "C"

ESTOPPEL AND COMMENCEMENT DATE CERTIFICATE

THIS ESTOPPEL AND COMMENCEMENT DATE CERTIFICATE ("Certificate") is executed this ____ day of _____, _____, by THW Partners Limited Partnership, A Colorado limited partnership ("Landlord") and Gilead Sciences, Inc. ("Tenant") with respect to and forming a part of that certain office/light manufacturing building lease ("Lease") dated _____, 1999, for the premises commonly known as the second floor, 2900 Center Green Court South, Boulder, Colorado ("Premises").

WITNESSETH:

WHEREAS, the parties desire to reaffirm and/or amend and certify to certain provisions of the Lease; and

WHEREAS, the parties desire that the matters set forth herein be conclusive and binding on the parties.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. The Lease Commencement Date is deemed and agreed to be _____, 19__, and the Lease Termination Date is _____, 19__, unless sooner terminated, as provided therein.

2. Tenant's first installment of Base Rent in the amount of _____ Dollars ($_____) for the period of _____ (is due on) (was paid on) _____, 19__.

3. By execution hereof, Tenant acknowledges and agrees that all improvements or other work required of Landlord has been satisfactorily performed and Tenant hereby accepts the Premises in full compliance with the terms and conditions of the Lease.

4. Except as may be amended herein, all terms and conditions of the Lease shall continue in full force and effect and are hereby republished and reaffirmed in their entirety.

5. This Certificate shall be binding upon and may be relied upon by the parties hereto and their respective legal representatives, successors, and assigns.

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

LANDLORD:

THW PARTNERS LIMITED PARTNERSHIP,
a Colorado limited partnership

By: THW, Inc., a Florida corporation
General Partner

By:

Name:
Title:

TENANT:

GILEAD SCIENCES, INC.,
a Delaware corporation

By:

Name:
Title:

EXHIBIT "D"

WORK LETTER AGREEMENT

This Agreement supplements that certain lease (hereinafter referred to as the "Lease") dated and executed concurrently herewith by and between THW PARTNERS LIMITED PARTNERSHIP, a Colorado limited partnership (hereinafter referred to as "Landlord") and GILEAD SCIENCES, INC. (hereinafter referred to as "Tenant") with the terms defined in the Lease to have the same definition where used herein.

WHEREAS, Landlord has leased to Tenant the second floor (the "Premises") in that certain building located at 2900 Center Green Court South, Boulder, Colorado ("Building");

WHEREAS, Landlord and Tenant desire to set forth their understandings and agreement as to processes and procedures for constructing tenant improvements within the Premises (collectively, the "Work").

NOW, THEREFORE, in consideration of the mutual benefits to be derived by Landlord and Tenant, and the covenants and conditions contained herein and for such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Within ten (10) days following the date this Lease has been executed by both parties, Landlord and Tenant shall reach agreement as to which party, that is Landlord or Tenant, will contract to have tenant finish work performed within the Premises. The party who will contract for such work is hereinafter referred to as the "Contracting Party."

2. The Contracting Party shall cause all necessary drawings, plans, and specifications for the Work to be drawn by arranging therefor with an architect or space planner selected by the Contracting Party. If Landlord is not the Contracting Party, the selection of an architect or space planner shall first be approved by Landlord in Landlord's reasonable discretion. The final drawings, plans, and specifications shall be subject to Landlord's written approval (not unreasonably withheld or delayed), and shall be submitted on or before February 29, 2000, in order to allow the Contracting Party to substantially complete the Work on or before the Lease Commencement Date. A copy of the Landlord-approved final drawings, plans, and specifications shall be attached hereto as EXHIBIT D-1. The Contracting Party agrees to complete the construction of improvements within the Premises pursuant to the drawings, plans, and specifications approved by Landlord and a construction contract or construction contracts to be negotiated and entered into by the Contracting Party, which contractor or contractors must first be approved by Landlord in its sole discretion (collectively, "Construction Contract"). A copy of the Construction Contract shall be attached hereto as EXHIBIT D-2. Tenant agrees to accept, when completed, the tenant improvements constructed in accordance with such drawings, plans, and specifications. Other than the Work described in the Construction Contract, if Landlord is to be the Contracting Party, or other than the obligations of Landlord to pay the Tenant Build-Out Allowance as set forth in Paragraph 2, below, if Tenant is the Contracting Party,

Landlord shall have no obligation for the completion of the Premises, and Tenant shall accept the Premises in their "as is" condition as of the Date of the Lease.

2. Landlord shall pay in a timely fashion (as prescribed in the Construction Contract), either in reimbursement to Tenant if Tenant is the Contracting Party or directly to the contractor and/or its subcontractors and suppliers if Landlord is the Contracting Party, all authorized and approved construction draws submitted by the contractor, until Landlord has disbursed the sum of One Hundred Twelve Thousand Two Hundred Seventy Seven and no/100 Dollars ($112,277.00) with respect to Work completed in the Premises (the "Tenant Build-Out Allowance"). No distribution of the Tenant Build-Out Allowance shall be made unless each draw thereon is accompanied by lien waivers evidencing payment to all contractors, subcontractors and suppliers by and through the preceding disbursement. All amounts in excess of the Tenant Build-Out Allowance required to pay for the Work shall be paid in a timely fashion (as prescribed in the Construction Contract) by Tenant as authorized and approved construction draws are submitted by the contractor. Tenant shall reimburse Landlord a proportionate amount of the Tenant Build-Out Allowance in the event Tenant defaults in the performance of any of its obligations under the Lease as provided in Paragraph 19 of the Lease, such proportionate amount to be determined by multiplying the Tenant Build-Out Allowance times a fraction, the numerator of which is the number of months remaining during the initial Term of the Lease, and the denominator of which is sixty (60) months.

3. If Landlord is the Contracting Party, Tenant shall have the right to negotiate with the contractor in an effort to achieve any and all reasonable costs savings by changes to the drawings, plans, and specifications and/or the Construction Contract. Once the Construction Contract has been finalized and executed by the Contracting Party, no change orders, as referred to in the Construction Contract, shall be made, authorized or valid unless and until the same are signed by both Landlord and Tenant.

4. If Tenant is the Contracting Party, no delay in arriving at substantial completion of the tenant improvements and no deferral of the Commencement Date shall occur as a result of delays in finalizing plans, specifications, Construction Contract or completing construction, unless such delay is a "Landlord Delay" as hereafter defined. A "Landlord Delay" shall mean the number of days in excess of five (5) business days taken by Landlord to approve of or consent to an architect or space planner, final drawings, plans and specification, the contractor or a change order, after the date a request for approval or consent of the same is submitted to Landlord. In the event of a Landlord Delay, the Commencement Date shall be postponed by the number of days involved in any such Landlord Delay.

5. Landlord will allow Tenant to enter into the Premises for the purpose of installing furniture, fixtures and equipment and other leasehold improvements, including, but not limited to wall and floor coverings, millwork and draperies, prior to the Lease Commencement Date, all subject, however, to the terms and conditions of the Construction Contract; PROVIDED, HOWEVER, that any such entry shall be at Tenant's sole risk and provided further that such entry and work do not unreasonably interfere in any way with the performance of Landlord's work or other workers in and about the Building. At any time during such period of early entry, if Landlord notifies Tenant that Tenant's

entry or work is interfering with or delaying the performance of work to be performed by Landlord or other workers in and about the Building, or causing any disruption whatsoever, Tenant shall forthwith discontinue any further work and shall vacate the Premises, and shall cause its workmen or contractors to remove therefrom, any equipment, materials or installations which are the subject of Landlord's notice.

6. The parties agree that the foregoing procedures are adopted for the convenience of the parties, and that nothing herein is intended to change, modify, amend or abrogate any of the terms, provisions, covenants and conditions expressed in the Lease between the parties as heretofore amended.

IN WITNESS WHEREOF, the parties have executed this Work Letter Agreement this __ day of November, 1999.

LANDLORD:

THW PARTNERS LIMITED PARTNERSHIP,
a Colorado limited partnership

By: THW, Inc., a Florida corporation
General Partner

By:

Name:
Title:

TENANT:

GILEAD SCIENCES, INC.,
a Delaware corporation

By:

Name:
Title:

EXHIBIT "E"

RULES AND REGULATIONS

Landlord and Tenant agree that the following Rules and Regulations shall be and hereby are made a part of this Lease, and Tenant agrees that Tenant's employees and agents, or any others permitted by Tenant to occupy or enter the Premises or the Building Complex, will at all times abide by said Rules and Regulations:

1. The sidewalks and entries of the Building shall not be obstructed by Tenant, or Tenant's agents or employees, or used for any purpose other than ingress to and egress from the Premises.

2. Furniture, equipment or supplies will be moved in or out of the Building only during such hours and in such manner as may be prescribed by Landlord. Tenant shall cause its movers to use only the loading facilities designated by Landlord. In the event Tenant's movers damage any part of the Building, Tenant shall forthwith pay to Landlord the amount required to repair said damage.

3. No safe or articles, the weight of which may in the opinion of Landlord constitute a hazard or damage to the Building or Building's equipment, shall be moved into the Premises.

4. Safes and other equipment, the weight of which is not excessive, shall be moved into, from and about the Building only during such hours and in such manner as shall be prescribed by Landlord; and Landlord shall have the right to designate the location of such articles in the Premises.

5. No sign, advertisement or notice shall be inscribed, painted or affixed on any part of the inside or outside of the Building unless of such color, size and style and in such place upon or in the Building, as shall be first designated and approved in writing by Landlord, provided, however, there shall be no obligation or duty on Landlord to allow any sign, advertisement or notice to be inscribed, painted or affixed on any part of the inside or outside of the Building except as otherwise provided in the Lease. No furniture shall be placed in front of the Building or in any lobby or corridor, without the prior written discretionary consent of Landlord. Landlord shall have the right to remove all non-permitted signs and furniture, without notice to Tenant, and at the expense of Tenant.

6. Tenant shall not do or permit anything to be done in the Premises, or bring or keep anything therein which would in any way increase the rate of fire insurance on the Building or on property kept therein, constitute a nuisance or waste, or obstruct or interfere with the rights of other tenants, or in any way injure or annoy them, or conflict with any of the rules or ordinances of the Fire Department or of the Department of Health of the City and County where the Building is located.

7. No animals (other than guide animals for the handicapped) shall be allowed in the Building. No person shall disturb the occupants of this or adjoining buildings or premises by the use of any radio, sound equipment or musical instrument

or by the making of loud or improper noises.

8. No vehicles shall be permitted in the Building nor shall any vehicles be permitted to obstruct the sidewalks or entrances of the Building.

9. Tenant shall not allow anything to be placed on the outside of the Building, nor allow anything to be thrown by Tenant, Tenant's agents or employees, out of the windows or doors of the Building. Tenant, except in case of fire or other emergency, shall not open any outside window.

10. No additional lock or locks shall be placed by Tenant on any door in the Building unless written consent of Landlord shall first have been obtained. A reasonable number of keys to the toilet rooms if locked by Landlord will be furnished by Landlord, and neither Tenant, Tenant's agents or employees shall have any duplicate keys made. At the termination of this tenancy, Tenant shall promptly return to Landlord all keys to offices, toilet rooms or vaults.

11. No window shades, blinds, screens, draperies or other window coverings will be attached or detached by Tenant without Landlord's prior written consent. Tenant agrees to abide by Landlord's rules with respect to maintaining uniform curtains, draperies and/or Awnings at all windows and hallways.

12. No awnings shall be placed over any window.

13. If Tenant desires telegraphic, telephonic or other electric connections, Landlord or Landlord's agents will direct the electricians as to where and how the wires may be introduced and without such directions, no boring or cutting for wires will be permitted. Any such installation and connection shall be made at Tenant's expense.

14. Tenant shall not install or operate any steam or gas engine or boiler, or carry on any mechanical operation in the Premises without Landlord's prior consent. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Building Complex.

15. Any painting or decorating as may be agreed to be done by and at the expense of Landlord shall be done during regular weekday working hours. Should Tenant desire such work on Saturdays, Sundays, holidays or outside of regular working hours, Tenant shall pay for the extra cost thereof, if any (i.e. the difference in the cost of such work if done on an evening, weeked or holiday, versus the cost of the work if done during regular weekday working hours.

16. Except as permitted by Landlord, and except for normal office decorating, Tenant shall not mark upon, paint signs upon, cut, drill into, drive nails or screws into, or in any way deface the walls, ceilings, partitions or floors of the Premises or of the Building, and any defacement, damage or injury caused by Tenant, Tenant's agents or employees, shall be paid for by Tenant.

17. Landlord shall, after reasonable notice to Tenant and during normal

working hours of Tenant, have the right, by Landlord's representatives or agents, to enter the Premises and show the same to persons wishing to lease them, and may, at any time within sixty (60) days preceding the termination of Tenant's Lease term, place upon the doors and windows of the Premises a "For Rent" sign, which notice shall not be removed by Tenant.

18. Tenant shall not obstruct or interfere with the rights of other tenants of the Building Complex, or of persons having business in the Building Complex, or in any way injure or annoy such tenants or persons.

19. Tenant shall not commit any act or permit anything in or about the Building Complex which shall or might subject Landlord to any liability or responsibility for injury to any person or property by reason of any business or operation being carried on in or about the Building Complex or for any other reason.

20. Tenant shall not use the Building for lodging, sleeping, or for any immoral or illegal purpose or for any purpose that will damage the Building, or the reputation thereof, or for any purposes other than those specified in the Lease.

21. Canvassing, soliciting, and peddling in the Building Complex are prohibited, and Tenant shall cooperate to prevent such activities.

22. Tenant shall not conduct mechanical or manufacturing operations other than those expressly permitted in Section 6 of the Lease without Landlord's prior consent, nor place or use any inflammable combustible explosive, or hazardous fluid, chemical, device, substance or material in or about the Building. Tenant shall comply with all statutes, ordinances, rules, orders, regulations and requirements imposed by governmental or quasi-governmental authorities in connection with fire and panic safety and fire prevention and shall not commit any act or permit any object to be brought or kept in the Building, which shall result in a changed use of the general public, and Landlord shall, in all cases, retain the right to control or prevent access thereto by all persons whose presence in the judgment of the Landlord, shall be prejudicial to the safety, character, reputation or interests of the Building Complex and its tenants. Tenant shall not go upon the roof of the Building without the express prior written consent of Landlord.

23. Tenant shall not deposit any trash, refuse, cigarettes, or other substances of any kind within or out of the Building except in the refuse containers provided therefore.

24. Tenant shall use the Common Areas only as a means of ingress and egress, and Tenant shall permit no loitering by any persons upon Common Areas or elsewhere within the Building Complex.

25. Landlord its agents or representatives reserve the right to exclude or expel from the Building Complex any person, who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs or who shall in any manner act in violation of the rules and regulations of the Building Complex.

26. Tenant shall not use the washrooms, restrooms and plumbing fixtures of

the Building, and appurtenances thereto, for any other purpose then the purposes for which they were constructed, and Tenant shall not deposit any sweepings, rubbish, rags or other improper substances therein. Tenant shall not waste water by interfering or tampering with the faucets or otherwise. If Tenant or Tenant's servants, employees, contractors, jobbers, agents, licensees, invitees, guests or visitors cause any damage to such washrooms, restrooms, plumbing fixtures or appurtenances, such damage shall be repaired at Tenant's expense and Landlord shall not be responsible therefor.

27. During the term of the Lease, Tenant shall comply with all statutes, ordinances, rules, orders, regulations and requirements of the federal, state, county and city governments and all departments thereof applicable to the presence, storage, user maintenance and removal of toxic, hazardous or contaminated substances (collectively, "hazardous material") in, on or about the Premises, which presence, storage, use, maintenance or removal is caused or permitted by Tenant. In no event shall the aforesaid be construed to mean that Landlord has given or will give its consent to Tenant's storing, using, maintaining or removing hazardous materials in, on or about the Premises.

28. Tenant shall not permit its employees or agents to smoke in any lobby, hallway or restroom within the Building Complex or in any other areas of the Building Complex posted as a non-smoking area.

29. Tenant agrees that Landlord may reasonably amend, modify, delete or add new and additional reasonable rules and regulations to the use and care of the Premises and the Building Complex, provided such changes shall not interfere with Tenant's quiet enjoyment of the Premises for its intended purposes. Tenant agrees to comply with all such rules and regulations upon notice to Tenant from Landlord thereof. In the event of any breach of any rules and regulations herein set forth or any reasonable amendments, modifications or additions thereto Landlord shall have all remedies in this Lease provided for in the event of default by Tenant.

EXHIBIT F

List of equal or superior rights of opportunity on vacant space within the Building.

None

EXHIBIT 21.1

SUBSIDIARIES OF GILEAD SCIENCES, INC.

Name of Subsidiary	Country/State in Which Incorporated
Gilead Sciences Limited	United Kingdom
NeXstar Pharmaceuticals, Inc.	United States (Delaware)
NeXstar Pharmaceuticals International, Inc.	United States (Delaware)
NeXstar Pharmaceuticals GmbH	Germany
NeXstar Farmaceutica, S.A.	Spain
NeXstar Pharmaceuticals Italia, Srl	Italy
NeXstar Pharmaceuticals Limited	United Kingdom
NeXstar Pharmaceuticals International Limited	United Kingdom
NeXstar Farmaceutica Porugal, LDA	Portugal
NeXstar Pharmaceuticals B.V.	The Netherlands
NeXstar Pharmaceutique Sarl	France
NeXstar Pharmaceuticals PTY Limited	Australia
NeXstar Pharmaceuticals Limited	Ireland

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, the Registration Statement (Form S-8 No. 33-81670) pertaining to the Gilead Sciences, Inc. Employee Stock Purchase Plan, the Registration Statement (Form S-8 No. 333-84719) pertaining to the 1991 Stock Option Plan, 1995 Non-Employee Directors' Stock Option Plan and Employee Stock Purchase Plan, the Registration Statement (Form S-8 No. 333-84713) pertaining to the NeXstar Pharmaceuticals, Inc. 1993 Incentive Stock Plan, NeXstar Pharmaceuticals, Inc. 1995 Director Option Plan and Vestar, Inc. 1998 Stock Option Plan, and the Registration Statement (Form S-3 No. 333-87167) and related Prospectus for the registration of 3,033,928 shares of the common stock of Gilead Sciences, Inc. of our report dated February 18, 2000, with respect to the consolidated financial statements of Gilead Sciences, Inc., included in the Annual Report (Form 10-K) of Gilead Sciences, Inc. for the year ended December 31, 1999.

/s/ ERNST & YOUNG LLP

Palo Alto, California

March 28, 2000

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference, in Gilead Sciences Inc.'s Annual Report on Form 10-K, of our report dated January 7, 2000 relating to the financial statements of Proligo, LLC for the year ended November 30, 1999.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Denver, CO

March 24, 2000

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND ON PAGES 56 AND 57 OF THE COMPANY'S 10K FOR THE YEAR ENDED DECEMBER 31, 1999.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	47,011
SECURITIES	247,383
RECEIVABLES	45,599 [1]
ALLOWANCES	0
INVENTORY	20,959
CURRENT ASSETS	371,981
PP&E	51,398 [2]
DEPRECIATION	0
TOTAL ASSETS	436,808
CURRENT LIABILITIES	47,877
BONDS	84,786
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	44
OTHER SE	297,248
TOTAL LIABILITY AND EQUITY	436,808
SALES	139,890
TOTAL REVENUES	168,979
CGS	29,546
TOTAL COSTS	239,838
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	6,518
INCOME PRETAX	(60,942)
INCOME TAX	888
INCOME CONTINUING	(66,486)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(66,486)
EPS BASIC	(1.55)
EPS DILUTED	(1.55)

[1] RECEIVABLES IS NET OF AN ALLOWANCE FOR DOUBTFUL ACCOUNTS

[2] PP&E IS NET OF ACCUMULATED DEPRECIATION

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