GILEAD SCIENCES INC

FORM 10-K405
(Annual Report (Regulation S-K, item 405))

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

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

COMMISSION FILE NO. 0-19731

GILEAD SCIENCES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 415-574-3000

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___.

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant based upon the closing price of the Common Stock on the Nasdaq Stock Market on February 28, 1997 was $648,610,804.*

The number of shares outstanding of the Registrant's Common Stock was 28,996,918 as of February 28, 1997.

DOCUMENTS INCORPORATED BY REFERENCE

Registrant's annual report to security holders furnished to the Securities and Exchange Commission (the "Commission") pursuant to Rule 14a-3 (b) in connection with Registrant's 1997 Annual Meeting of Stockholders to be held on May 13, 1997 (the "1997 Annual Meeting") is attached hereto as Exhibit 13.1 and portions are incorporated herein by reference into Part II of this Report.

Portions of Registrant's Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the 1997 Annual Meeting are incorporated herein by reference into Part III of this Report.

Certain Exhibits filed with the Registrant's Registration Statements on Form S-1 (Registration Nos. 33-44534 and 33-55680), as amended, the Registrant's Registration Statement on Form S-3 (No. 333-868), as amended, the Registrant's Registration Statements on Form S-8 (Registration Nos. 33-46058 and 33-62060), the Registrant's Annual Reports on Form 10-K for the fiscal years ended March 31, 1994 and December 31, 1996, and the Registrant's Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 1993, September 30, 1994, December 31, 1994, June 30, 1996 and September 30, 1996, are incorporated herein by reference into Part IV of this Report.

* Based on a closing price of $30.50 per share. Excludes 7,730,990 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 28, 1997. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant or that such person is controlled by or under common control with the Registrant.

PART I

ITEM 1. BUSINESS

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

GENERAL

Gilead Sciences, Inc. ("Gilead" or the "Company") is a biopharmaceutical company dedicated to the discovery, development and commercialization of treatments for human diseases. The Company's business and scientific endeavors are focused on making new therapies available to patients, physicians and the healthcare system. Gilead's expertise has resulted in proprietary therapeutics for important viral diseases, including a currently available therapy for cytomegalovirus retinitis, and products in development to treat diseases caused by human immunodeficiency virus, hepatitis B virus, herpes simplex virus, human papillomavirus and influenza virus. Gilead's research programs seek treatments for these and other viral infections, vascular diseases and cancer.

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

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

The Company was incorporated in Delaware in 1987. The Company's principal executive offices are located at 333 Lakeside Drive, Foster City, California 94404 and its telephone number is (415) 574-3000, or (800) GILEAD5 (800-445-3235).

FOR A MORE DETAILED DISCUSSION OF THE RISK FACTORS RELATING TO THE COMPANY SUMMARIZED ABOVE, SEE "RISK FACTORS" AT THE END OF THIS ITEM 1 (PAGES 23 THROUGH 28 OF THIS REPORT). STOCKHOLDERS AND PROSPECTIVE INVESTORS IN THE COMPANY SHOULD CAREFULLY CONSIDER THESE RISK FACTORS.

OVERVIEW OF NUCLEOTIDES

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

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

Protein production begins in the nucleus of a cell with transcription, a process in which a segment of DNA, called a gene, is copied (transcribed) into a "messenger" molecule. This molecule, which is also composed of nucleotides, is called messenger RNA ("mRNA"). The mRNA moves from the nucleus into the cell's cytoplasm, where it is translated into a protein.

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

The Company believes that the precise interaction of nucleotides in binding to DNA, RNA and proteins provides the chemical basis for the development of therapeutic products with high specificity and potency and long duration of action.

VISTIDE

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

Cytomegalovirus is a common viral opportunistic infection in patients with AIDS. CMV is a systemic infection that may infect several sites in the body, including the retina, gastrointestinal tract, lungs, liver and central nervous system. Retinitis is the most frequent manifestation of CMV infection. The incidence of CMV retinitis in AIDS patients may be declining as a result of more effective therapeutics for AIDS, as well as the use of oral ganciclovir for CMV prophylaxis. There were an estimated 225,000 patients with AIDS in the United States in 1996.

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

Renal toxicity is the primary dose-limiting side effect of VISTIDE administration. Prior to each administration, patients must be monitored for urinary protein and serum creatinine (laboratory markers of renal toxicity). In addition, patients receive intravenous saline hydration and oral probenecid on each

treatment day, to mitigate the potential for toxicity. VISTIDE is contraindicated in patients receiving other agents with nephrotoxic potential, and patients are required to undergo a "wash out" period of seven days after completing therapy with such agents and before receiving VISTIDE. In certain animal studies, cidofovir, the active ingredient in VISTIDE, was carcinogenic.

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

In December 1995, Gilead filed a marketing authorisation application ("MAA") with the European Medicines Evaluation Agency ("EMEA"), seeking marketing approval for VISTIDE throughout the European Union under the EMEA's centralized procedure. In August 1996, Gilead licensed commercial rights to Pharmacia & Upjohn S.A. ("Pharmacia & Upjohn") to market and sell VISTIDE in all territories outside of the United States. The Committee for Proprietary Medicinal Products ("CPMP") recommended that VISTIDE be cleared for marketing in Europe in December 1996, and final marketing approval from the EMEA is pending. If marketing approval is obtained, Pharmacia & Upjohn will be responsible for obtaining pricing and reimbursement approvals required in certain European countries, and will then launch VISTIDE on a country-by-country basis during 1997 and 1998. Pharmacia & Upjohn will pay Gilead a royalty on net sales. Pharmacia & Upjohn is also pursuing regulatory approval of VISTIDE in several other countries outside of the United States and Europe. See "Collaborative Relationships--Pharmacia & Upjohn."

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

GILEAD'S PRODUCT DEVELOPMENT PROGRAMS

Gilead's product development efforts are conducted by a scientific team with the multidisciplinary skills that the Company believes are critical for the discovery and development of nucleotide-based therapeutics. Gilead has focused its research and development efforts on potential therapeutic products derived from three nucleotide-based programs: antiviral therapeutics, cardiovascular therapeutics and genetic code blockers. Each of these programs is directed toward the development of nucleotide analogues or other compounds that, through different mechanisms of action, inhibit the production or activity of disease-causing proteins.

- ANTIVIRAL THERAPEUTICS. Gilead has an extensive library of proprietary nucleotide compounds, including cidofovir, the active ingredient in VISTIDE. The Company is developing small molecule nucleotide analogues in preclinical studies and clinical trials for the potential treatment of a variety of viral infections. The Company has multiple small molecule product candidates in clinical trials for viral diseases, including human immunodeficiency virus ("HIV"), hepatitis B virus ("HBV"), herpes simplex virus ("HSV"), human papillomavirus ("HPV") and influenza virus. Gilead's most advanced product candidates are FORVADE-TM- (cidofovir gel) and GS 840 (adefovir dipivoxil).

FORVADE is the subject of a new drug application ("NDA") filed in January 1997 for the treatment of refractory HSV infection in patients with AIDS. GS 840 is in Phase II/III trials for the treatment of HIV and AIDS and Phase II trials for the treatment of HBV infection.

- CARDIOVASCULAR THERAPEUTICS. Gilead's cardiovascular program includes a thrombin inhibitor, GS 522, and two new classes of product candidates, Protein C Activator and Adenosine Receptor Regulators, which have the potential to address a variety of cardiovascular conditions.

- GENETIC CODE BLOCKERS. The Company is conducting research in collaboration with Glaxo Wellcome on oligonucleotide analogues that are designed to act inside the cell to block or regulate the production of disease-causing proteins.

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

PRODUCT CANDIDATE	TARGET INDICATIONS	DEVELOPMENT STATUS(1)	WORLDWIDE RIGHTS
ANTIVIRAL THERAPEUTICS			
VISTIDE-Registered Trademark- (cidofovir injection)	CMV Retinitis	Launched in U.S. (6/96)	Gilead
		Launch Pending in E.U.	Pharmacia & Upjohn
FORVADE-TM- (cidofovir gel)	HSV-Acyclovir-Resistant Herpes	NDA; Expanded Access	Gilead
	HSV-Recurrent Genital Herpes	Phase I/II	Gilead
	HPV-Genital Warts	Phase I/II	Gilead
GS 840 Oral (adefovir dipivoxil)	HIV-AIDS	Phase II/III	Gilead
	Hepatitis B Virus	Phase II	Gilead
PMPA IV	HIV-AIDS	Phase I/II	Gilead
PMPA Oral Prodrug	HIV-AIDS	Clinical Candidate	Gilead
Cidofovir Topical Ophthalmic	Viral Keratoconjunctivitis	Phase II	AHP/Storz
Cidofovir Intraocular	CMV Retinitis	Phase I/II	Gilead
GS 930 IV/Oral	Herpesviruses	Phase I	Gilead
GS 4104 Oral	Influenza	Phase I	Hoffmann-La Roche
GS 3333 Analogues Oral	HIV-AIDS (protease inhibitor)	Preclinical	Gilead
CARDIOVASCULAR THERAPEUTICS			
GS 522 and Derivatives	Anticoagulation for Bypass, Thrombolytic Adjunct	Preclinical	Gilead
Protein C Activator	Angioplasty, Thrombolysis	Preclinical	Gilead
Adenosine Receptor Regulators	Stroke	Preclinical	Gilead/NIH
GENETIC CODE BLOCKERS			
Antisense and Triple Helix Compounds	Cell Cycle Genes / Cancer, Viral Infections, Cardiovascular Disease	Research	Gilead & Glaxo Wellcome

(1) "NDA" indicates that a new drug application has been filed with the FDA for clearance to market a product for the target indication.

"Phase II/III" clinical trials indicates that the compound is being tested in human clinical trials for safety and efficacy in an expanded patient population at geographically dispersed clinical study sites.

"Phase I/II" clinical trials indicates that the compound is being tested in humans for safety and preliminary indications of biological activity in a limited patient population.

"Phase I" clinical trials indicates that the compound is being tested in humans for preliminary safety and pharmacologic profile in a limited patient population.

"Clinical Candidate" indicates that Gilead is completing pre-IND animal model studies of a lead compound and is compiling the data necessary for the submission of an IND with the FDA.

"Preclinical" indicates that Gilead is conducting efficacy, pharmacology and/or toxicology testing of a lead compound in animal models or biochemical or cell culture assays.

"Research" includes the development of assay systems, discovery of prototype compounds and evaluation and refinement of prototype compounds in in vitro testing.

See "Government Regulation" for a more complete description of the phases of clinical testing and the regulatory approval process.

ANTIVIRAL THERAPEUTICS

Gilead is developing small molecule nucleotide analogues that are intended to treat viral infections by selectively interfering with proteins essential for viral replication. Numerous disease processes, particularly viral infections, require precise interactions between cellular or viral proteins and nucleotides or oligonucleotides. For example, many viruses depend upon certain proteins known as enzymes to synthesize their own DNA. This dependence of the virus upon specific interactions between proteins and nucleic acids provides opportunities for the development of therapeutic products that disrupt these crucial interactions. Preclinical and clinical studies have demonstrated that small molecule nucleotide analogues can selectively interrupt these interactions.

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

CIDOFOVIR

Cidofovir is a mononucleotide analogue that has demonstrated activity in preclinical studies and clinical trials against several viruses in the herpesvirus family. Cidofovir is the active ingredient in the Company's commercial product VISTIDE (cidofovir injection). See "VISTIDE." Gilead is currently conducting clinical trials of cidofovir in different formulations for the potential treatment of infections caused by HSV, HPV and CMV. Gilead is also evaluating cidofovir, in intravenous and topical formulations, as a potential treatment for diseases caused by several other viruses in people with AIDS. In addition, a collaborative partner of Gilead, American Home Products, is conducting Phase II clinical trials of topical ophthalmic cidofovir, an eyedrop formulation, for the potential treatment of certain viruses that can cause external infections of the eye.

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

HERPES SIMPLEX VIRUS. The Company is developing FORVADE-TM- (cidofovir gel) for the potential treatment of lesions caused by HSV. This product candidate has the same active ingredient as VISTIDE,

but in a gel formulation for direct topical application. In 1996, the Company completed a Phase I/II clinical trial of FORVADE in 30 patients with AIDS, evaluating the treatment of HSV lesions that are clinically unresponsive to treatment with acyclovir, the standard therapy for this disease. In this trial, FORVADE demonstrated a statistically significant treatment effect in healing these lesions. Based on these data, the Company filed an NDA with the FDA seeking marketing clearance of FORVADE for this indication. The FDA accepted the NDA for review in January 1997. The Company's NDA for FORVADE was filed on the basis of a single trial, with substantially less patient data than is generally required by the FDA for approval. There can be no assurance as to the timing or ultimate approval of the Company's NDA for FORVADE.

Herpes lesions that are unresponsive to current therapies can be debilitating and represent a small but important medical need. While the NDA is under review, Gilead is making FORVADE available to eligible patients through an expanded access program in the United States. The Company is also evaluating alternatives for pursuing regulatory approval and/or making FORVADE available on an expanded access basis in certain European countries.

The Company is also evaluating FORVADE as a potential treatment for HSV lesions in immunocompetent patients. Genital herpes simplex virus infection is a common sexually transmitted disease. Once a person is infected, the virus may remain in the body indefinitely, evading attempts by the immune system to destroy it. In 1996, Gilead completed a Phase I/II placebo-controlled clinical trial of FORVADE in a group of 96 patients with normal immune systems at multiple clinical centers in Canada. Data from this study indicated that a single application of FORVADE significantly decreased the time to viral culture negativity in the lesion at all strengths relative to placebo, and treatment was associated with a trend toward more rapid healing of lesions. The application of FORVADE was generally well tolerated with no evidence of systemic side effects.

Further development of FORVADE for the treatment of HSV lesions in immunocompetent patients would require Phase II/III trials involving a significant number of patients, as well as additional animal testing, including long-term carcinogenicity studies. There are significant competitive products in this market, including acyclovir, which will become a generic product in the United States in 1997, as well as two more recently approved products, famciclovir and valacyclovir. The Company is evaluating the commercial feasibility of developing FORVADE for this indication, either independently or with a collaborative partner.

HUMAN PAPILLOMAVIRUS. The Company is also developing FORVADE for the potential treatment of HPV, a cause of genital warts in humans. FORVADE has demonstrated activity against HPV in preclinical and clinical studies. Based on this activity, Gilead is evaluating FORVADE in the treatment of HPV-associated genital warts in both HIV-infected and immunocompetent patients. In a recently completed Phase I/II multicenter trial that enrolled 69 patients with AIDS, 64% of the patients treated experienced complete or partial clearance of the warts. Reversible, mild to moderate reactions at the application site were observed in some patients, with no systemic side-effects. A Phase I/II study designed to enroll 60 immunocompetent patients with HPV-associated genital warts is ongoing at multiple centers in Europe.

HPV is also associated with increased rates of cervical and anogenital cancers. Some HPV types are found in 85% to 90% of cervical cancers, and laboratory experiments have demonstrated that if specific HPV genes in the infected cells are inhibited, the cancer does not progress. Clinical researchers in Europe are independently conducting a study of FORVADE for the potential treatment of HPV-associated cervical intraepithelial neoplasia, a precancerous condition. Gilead is also evaluating other potential anti-cancer applications of FORVADE in preclinical research.

CYTOMEGALOVIRUS. Gilead is evaluating an intraocular formulation of cidofovir for local administration by direct injection into the eye, a method that may prove useful as an adjunct to systemic therapy with VISTIDE or other systemic agents. Gilead is conducting a Phase I/II clinical trial of intraocular cidofovir at multiple centers in the United States. This randomized clinical trial is designed to determine the safety, tolerance and efficacy of various dose levels. Pharmacia & Upjohn has the rights to any commercial applications of intraocular cidofovir outside of the United States. See "Collaborative Relationships-- Pharmacia & Upjohn."

OTHER VIRUSES. Gilead has entered into a license agreement with American Home Products ("AHP"), whose ophthalmologic subsidiary, Storz Instrument Company, is developing an eyedrop formulation of cidofovir for the potential treatment of certain viruses that cause external eye infections, including adenovirus, which is the leading cause of viral conjunctivitis, or "pink eye." The license to AHP is limited to topical ophthalmic use for external viral eye disease, and excludes any treatment requiring injection and any treatment for other eye diseases such as CMV retinitis. AHP commenced clinical testing of topical ophthalmic cidofovir in December 1995 and is currently conducting Phase II trials. See "Collaborative Relationships--American Home Products."

Preclinical studies have demonstrated that cidofovir is active against a variety of viruses that cause disease in people with AIDS, including molluscum contagiosum, which causes disfiguring skin lesions, Kaposi's sarcoma ("KS"), an AIDS-related malignancy, and progressive multifocal leukoencephalopathy ("PML"), a rapidly progressive, often fatal brain disease. Gilead anticipates commencing human studies for the potential treatment of certain of these indications in 1997, with a topical or intravenous formulation of cidofovir.

GS 930, a derivative of cidofovir, has been evaluated in preclinical testing and exhibited comparable activity to cidofovir and was tolerated at higher doses. GS 930 has the potential to be a broad-spectrum antiviral, with activity against a number of herpesviruses. Gilead completed Phase I clinical trials in 1996, and determined that GS 930 was not adequately bioavailable to support further development as an oral therapeutic. Gilead is evaluating derivatives and prodrugs of GS 930 for potential development.

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

GS 840

GS 840 (adefovir dipivoxil) is a mononucleotide analogue developed as an oral prodrug of GS 393 (also known as PMEA), the Company's first HIV clinical candidate. A prodrug is a modified version of a parent compound designed to enhance delivery characteristics. GS 840 has demonstrated preclinical and clinical activity against HIV and HBV. GS 840 has been generally well tolerated in clinical trials. Observed adverse events have included mild gastrointestinal intolerance and laboratory abnormalities, including hepatic enzyme elevations and reversible increases in creatinine in some patients. The Company is developing GS 840 in Phase II/III clinical trials as a potential oral treatment for HIV, and in Phase II clinical trials as a potential oral treatment for HBV.

HUMAN IMMUNODEFICIENCY VIRUS. HIV is the causative agent of AIDS. HIV infects an estimated 23 million people worldwide. There were an estimated 225,000 people with AIDS in the United States in 1996.

A number of products with different mechanisms of action have been approved for the treatment of HIV. The first generation of approved HIV drugs are reverse transcriptase inhibitors, generally nucleoside compounds. Several protease inhibitors have recently been approved for marketing, and others are in

clinical development. Combination therapy with reverse transcriptase inhibitors and protease inhibitors is proving to be effective for many people with AIDS, in some cases lowering the patient's viral load (level of virus in the blood) to undetectable levels for prolonged periods of time. The Company believes, however, that there is still substantial room for improvement in AIDS drug therapy. Many patients are developing resistance to combination therapy, and require new combinations for therapy to be effective. In addition, patients would benefit from AIDS drugs that are better tolerated, more convenient to dose and less prone to develop significant resistance.

In Phase I/II trials conducted by Gilead, GS 840 was associated with statistically significant anti-HIV activity as measured by the surrogate markers of HIV viral load and CD4 cell counts. In June 1996, Gilead initiated a placebo-controlled Phase II/III trial of GS 840 at multiple centers in the United States, designed to enroll up to 400 patients. Patients in this trial will receive either GS 840 (one tablet per day) or placebo, in addition to continuing their current antiretroviral therapy (including combination therapy) for six months, followed by a six-month open label period of therapy with GS
840. Enrollment in this trial is expected to be completed by mid-1997. If the results from the trial adequately demonstrate GS 840's safety and efficacy, the Company expects to file an NDA for approval of GS 840 in 1998. This NDA filing would require additional safety and efficacy data from other trials of GS 840 underway or scheduled to commence in 1997. There can be no assurance that the Company will file an NDA for GS 840 on this schedule or at all, or that GS 840 will be approved for marketing if the NDA is filed.

GS 840 is also being evaluated in a Phase III trial initiated in January 1997 by the Community Programs for Clinical Research on AIDS ("CPCRA"), a clinical trial group sponsored by the National Institutes of Health ("NIH"). The CPCRA trial is designed to enroll up to 2,000 patients, and will evaluate the safety and efficacy of GS 840 in prolonging survival among patients with advanced AIDS and in preventing the development of CMV end-organ disease in patients co-infected with HIV and CMV. The Company anticipates that a trial similar in size and scope to the CPCRA trial will be initiated in Europe and Australia in 1997. The Company is also intending to initiate several smaller trials, designed to provide guidance to physicians and patients on appropriate use of GS 840 in combination with other drugs in AIDS therapy. The Company is also intending to evaluate lower doses of GS 840 in several trials in an effort to expand the therapeutic index of the drug. Recent improvements in AIDS drug therapy may make any of these trials more difficult to enroll.

HEPATITIS B VIRUS. Gilead is also developing GS 840 for the potential treatment of HBV. Approximately 300 million people worldwide are chronically infected with HBV, primarily in Asian countries. HBV can lead to cirrhosis and cancer of the liver. A vaccine is available that can prevent the transmission of HBV in some patients; however, it has no activity in those already infected with the virus. Alpha interferon is approved for the treatment of HBV, is administered by injection and is not always successful in controlling the disease.

In 1996, Gilead completed a Phase I/II placebo-controlled trial of GS 840 for the treatment of hepatitis B infection at multiple centers in the United Kingdom, enrolling 20 patients. Data from this trial indicate that GS 840 was well tolerated and resulted in a statistically significant decline in HBV DNA levels in treated patients compared to placebo. Gilead intends to initiate multinational Phase II trials of GS 840 for the treatment of HBV infection in 1997, designed to enroll up to 120 patients, in order to evaluate the drug at three dose levels and in two different patient populations.

The Company has an exclusive, worldwide license to patent rights and related technology for GS 840 and GS 393, which is the parent compound of GS 840, from IOCB/REGA, and would be obligated to pay a royalty to IOCB/REGA on any net sales of GS 840. See "Collaborative Relationships--IOCB/REGA."

PMPA

The Company is also evaluating PMPA, a nucleotide analogue with structural similarities to GS 840, as a potential therapeutic for HIV and AIDS. PMPA has shown significant activity against simian

immunodeficiency virus ("SIV") in a variety of preclinical treatment and prevention models. SIV causes an AIDS-like syndrome in primates. In these experiments, primates treated with injections of PMPA either before or after exposure to SIV were completely protected from infection. In a small primate study, a topical gel form of PMPA also provided protection against SIV transmission when applied intravaginally.

Gilead initiated a placebo-controlled Phase I/II human clinical trial of intravenous PMPA in October 1996, designed to enroll up to 40 patients. An oral prodrug of PMPA has been identified by Gilead researchers, and Gilead anticipates beginning human studies of the oral prodrug in mid-1997. There can be no assurance that human studies of the PMPA oral prodrug will begin on this schedule, or will begin at all. A topical version of PMPA, with possible application in the prevention of sexual transmission of HIV, is in preclinical evaluation.

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

GS 4104

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

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

In March 1997, Roche commenced Phase I human clinical trials of GS 4104 in the United Kingdom. Gilead anticipates commencing clinical trials of GS 4104 in the United States in mid-1997. Glaxo Wellcome, in collaboration with Biota Holdings Limited, is also pursuing development of a neuraminidase inhibitor to treat influenza. This compound is in advanced clinical trials and represents significant potential competition for GS 4104. See "Competition."

OTHER ANTIVIRALS

The Company has an extensive library of proprietary nucleotide compounds and, using structure-based drug design techniques, has synthesized other small molecule lead compounds having antiviral activity. Gilead has in preclinical assessment a number of these compounds that have the potential to address several viral targets, including protease inhibitors for the potential treatment of HIV and hepatitis C infection.

CARDIOVASCULAR THERAPEUTICS

Cardiovascular diseases, including stroke, are the number one cause of morbidity and mortality in the United States. Gilead's cardiovascular therapeutics program is focused on the development of novel therapeutics based on a detailed understanding of the mediators of cardiovascular disease. Gilead's technological approaches to cardiovascular therapeutics include combinatorial chemistry, recombinant protein mutagenesis, structural chemistry and medicinal chemistry.

GS 522 AND DERIVATIVES

The Company discovered GS 522 through a combinatorial approach designed to identify highly specific inhibitors of thrombin. Thrombin is a naturally occurring protein in the bloodstream that plays a central role in coagulation and thrombosis. Because thrombin generates the fibrin mesh of blood clots and activates platelet aggregation, the Company believes that it is an attractive target for anticoagulant and antithrombotic therapy. Coagulation and thrombosis are complex processes that can lead to occlusion of blood vessels and serious related diseases and disorders. The Company believes that the process of coagulation and thrombosis can be controlled in certain settings through the administration of a nucleotide-based drug, which could selectively bind to thrombin in the bloodstream and inhibit its activity.

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

Derivatives of GS 522 are being developed which may also have benefit in the treatment of arterial restenosis, including use in combination with angioplasty procedures or thrombolytic therapy, and in the treatment of arterial and venous thrombosis.

PROTEIN C ACTIVATOR

Thrombin has both procoagulant and anticoagulant activities through the activation of naturally-occurring Protein C. Activation of plasma Protein C is an important natural anti-thrombotic and anti-inflammatory pathway. Activated Protein C inhibits certain clotting factors which are key regulatory factors in the clotting cascade. Activated Protein C also inhibits plasminogen activator, which enhances endogenous thrombolysis by increasing tissue plasminogen activator activity.

In order to exploit the potent antithrombotic activity of Protein C, the Company developed a modified version of thrombin which does not stimulate thrombosis, but retains the ability to activate Protein C and thereby inhibit thrombosis. Gilead has named this novel recombinant protein Protein C Activator ("PCA").

Gilead has performed animal studies which demonstrate that PCA causes potent, dose-dependent anticoagulation without increased bleeding time. These findings suggest that administration of PCA may result in effective inhibition of thrombosis, while not increasing the risk of intracerebral hemorrhage or stroke. However, animal models do not necessarily predict effectiveness in humans.

ADENOSINE RECEPTOR REGULATORS

Gilead is working with the National Institute of Diabetes, Digestive and Kidney Diseases at the NIH to study adenosine receptor agonists and antagonists in the treatment and prevention of stroke. Adenosine receptor studies have recently identified three classes of receptors which may play a central role in the regulation of cardiovascular disease. The NIH has synthesized a series of novel small molecule adenosine agonist and antagonist compounds. NIH researchers have identified several compounds with A3 receptor agonist and antagonist activity which exhibit protective effects in an animal model of stroke, and which have anti-inflammatory and antiallergic properties. In collaboration with the NIH, Gilead is currently evaluating several compounds with A3 receptor antagonist or agonist activity in animal models of stroke, and also intends to evaluate the anti-inflammatory and antiallergic properties of these compounds.

GENETIC CODE BLOCKERS

The Company is conducting research on oligonucleotide analogues that are designed to act inside the cell to block or regulate the production of disease-causing proteins. The Company is developing two types

of code blocker compounds: antisense compounds that interfere with the function of RNA and triple helix compounds that inhibit gene expression by binding to the DNA double helix. The Company's therapeutic targets in its code blocker program include cancer (particularly the cell cycle genes implicated in cancer), viral infections and cardiovascular diseases. The Company believes that its code blocker technology will also have utility as a drug discovery tool. The Company's ability to selectively inhibit the activity of specific genes within cells provides a rapid method of determining the function of a gene that has a known sequence.

The Company's collaborative relationship with Glaxo Wellcome covers the research and development of code blocker compounds for all potential diagnostic and therapeutic applications, and has been the exclusive funding source for the code blocker program since 1990. In March 1996, Glaxo Wellcome and Gilead extended the existing collaboration for a period of five years. See "Collaborative Relationships-- Glaxo Wellcome."

The successful development of therapeutics using code blocker technology will require significant technical improvements, notably in the ability of oligonucleotides to enter cells efficiently to enable them to reach their molecular targets: DNA in the nucleus, and RNA in the nucleus or the cytoplasm. The inability of a code blocker to enter the cell in sufficient quantity could limit the effectiveness of the compound, require higher doses (potentially resulting in unacceptable toxicity), and significantly increase the cost of treatment. Although the size and chemical properties of code blocker oligonucleotides limit their ability to enter the cell, the Company believes that chemical modification or proprietary permeation enhancers developed by the Company may overcome this problem. The Company is focusing a significant part of its code blocker research program on synthesizing novel oligonucleotide analogues that are able to penetrate cells efficiently.

Other technical challenges that the Company's research is addressing include enhancing the intracellular stability of oligonucleotide analogues, minimizing interference with normal cellular function, inhibiting the target gene with sufficient potency, and achieving adequate pharmacokinetics. There can be no assurance that the Company will be successful in overcoming any of these technical challenges or in developing effective or commercially viable code blocker technology or products.

COLLABORATIVE RELATIONSHIPS

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

PHARMACIA & UPJOHN

In August 1996, Gilead and Pharmacia & Upjohn entered into an agreement providing Pharmacia & Upjohn with exclusive rights to market and sell VISTIDE and cidofovir intraocular in all countries outside of the United States. Under the terms of the agreement, Pharmacia & Upjohn paid Gilead an initial license fee of $10.0 million. If the EMEA grants final approval of VISTIDE for marketing in the European Union, Gilead is entitled to an additional cash milestone payment of $10.0 million. In addition, at Gilead's option, within 60 days of such approval, Pharmacia & Upjohn will purchase $40.0 million of newly issued shares of Series B Preferred Stock at a per share purchase price equal to 145% of the average closing price of Gilead's Common Stock over the 30 trading days prior to public announcement of the EMEA approval. If issued, the Series B Preferred Stock will not be publicly registered, will vote together with Gilead's Common Stock and will be convertible at any time into an equal number of shares of Common Stock at Pharmacia & Upjohn's option. Pharmacia & Upjohn will be restricted in its ability to sell the Series B Preferred Stock (or underlying Common Stock), or purchase any additional stock of the Company, for a

period of five years from the original purchase. Gilead is entitled to royalty payments on a quarterly basis on the net sales of VISTIDE by Pharmacia & Upjohn. Pharmacia & Upjohn has the right to terminate the agreement at any time beginning in August 1998, upon six months notice. See "VISTIDE."

HOFFMANN-LA ROCHE

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

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

GLAXOWELLCOME

In July 1990, Gilead entered into a research and development agreement with Glaxo Wellcome. Concurrent with the signing of the agreement Glaxo Wellcome made an $8.0 million equity investment in Gilead, and currently holds approximately 3.1% of the Company's outstanding Common Stock. The collaboration with Glaxo Wellcome has been modified and extended on several occasions since 1990, most recently in March 1996. At that time, Gilead and Glaxo entered into a new collaborative research agreement, extending for five years the existing collaboration between the parties. Under the terms of the 1996 agreement, Glaxo will fund Gilead's ongoing research in the code blocker field for five years. Each party has a worldwide license to the other party's patent rights to research, develop, manufacture and sell products based on code blocker technology for all applications. Glaxo will have the primary right to develop any products identified during the collaboration. Gilead is entitled to payments for achievement of development milestones, as well as royalties on any product sales. Glaxo has a right to terminate the collaborative research and funding at any time after two years (beginning in 1998), in which case Gilead could develop code blocker technology independently or with a third party.

AMERICAN HOME PRODUCTS

In August 1994, the Company entered into a license and supply agreement with American Cyanamid Company, now a part of American Home Products, pursuant to which the Storz Instrument Company subsidiary of AHP will develop and have the right to market an eyedrop formulation of cidofovir for the potential treatment of topical ophthalmic viruses. The field of the exclusive, worldwide license to AHP is limited to topical ophthalmic use for external viral eye disease, and specifically excludes any treatment requiring injection, and any treatment for other eye diseases such as CMV retinitis. In December 1995, AHP commenced human clinical trials of topical ophthalmic cidofovir and is currently conducting a Phase II trial. Gilead is entitled to receive a fee each year until AHP files an NDA under the agreement. In addition, AHP is obligated to make a series of payments based on the achievement of development milestones in different countries during the term of the agreement. Gilead is responsible for supplying bulk cidofovir to AHP, and AHP is obligated to make royalty payments to Gilead based on net sales of any products developed under the agreement. AHP may terminate this agreement at any time on three months notice.

IOCB/REGA

In 1991 and 1992, the Company entered into agreements with IOCB/REGA regarding a class of nucleotide compounds, including cidofovir, GS 393 (the parent compound of GS 840) and PMPA. Under these agreements and later amendments, Gilead received from IOCB/REGA an exclusive license to manufacture, use and sell the compounds covered by issued United States patents and patent applications plus foreign counterparts throughout the world, subject to an obligation to pay royalties on product sales to IOCB/REGA. IOCB/REGA may terminate the licenses under these agreements with respect to any particular product, in specified countries, if the Company does not make any sales of such product in such countries within 12 months after regulatory approval. Under one of these agreements, the Company has an option to receive an exclusive license to any new developments by IOCB/REGA during the term of this agreement. Such agreement may be terminated by either party on six months notice.

ACADEMIC AND CONSULTING RELATIONSHIPS

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

MANUFACTURING

The Company generally relies on third parties for the manufacture of bulk drug substance and final drug product for clinical and commercial purposes, including for VISTIDE, FORVADE and GS 840. Pursuant to such manufacturing relationships, the Company depends on such third parties to perform their obligations effectively and on a timely basis. There can be no assurance that such parties will perform and any failures by third parties may delay clinical trials or the submission of products for regulatory approval, impair the Company's ability to deliver commercial products on a timely basis, or otherwise impair the Company's competitive position, which could have a material adverse effect on the Company.

The Company has qualified a sole source supplier with the FDA for the bulk drug substance used in VISTIDE and another sole source supplier for the final drug product. Gilead has established a second source of bulk drug substance supply for VISTIDE (and for FORVADE), but has not yet qualified this source with the FDA. The use of this second source or other alternative suppliers will require FDA approval, which will be time consuming. Consequently, in the event that supplies from either of these sole source suppliers were interrupted for any reason, the Company's ability to ship VISTIDE or FORVADE could be impaired, which would have a material adverse effect on the Company.

Gilead has developed in-house capabilities to synthesize and purify nucleotides and oligonucleotides, and believes that it has a base of proprietary technologies, including patent applications and trade secrets, for the manufacture of these compounds. Gilead has established a pilot-scale, bulk chemical facility, which operates in compliance with the FDA's current Good Manufacturing Practices ("cGMP"), to meet its current preclinical and limited early-stage clinical requirements. The Company believes that it has or will be able to develop, acquire or contract for sufficient supply capacity to meet its additional clinical and commercial manufacturing requirements, although there can be no assurance that it will be able to do so. Gilead currently has no commercial-scale cGMP manufacturing facilities for either the production of bulk drug substance or final drug product, and no current plans to establish such capacity.

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

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

For certain of its potential products, including GS 4104 for the potential treatment and prevention of influenza, the Company will need to develop further its production technologies for use on a larger scale in order to conduct clinical trials and produce such products for commercial sale at an acceptable cost. There can be no assurance that the Company or its partners will be able to implement any of these developments successfully.

MARKETING AND SALES

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

The Company anticipates that its existing sales force will promote FORVADE in the United States, if that product receives marketing clearance from the FDA. Gilead does not anticipate that a substantial increase in its sales force or marketing resources will be required to market and sell FORVADE. If any of the Company's other products in development for specialty markets receive marketing clearance in the United States, or if the Company obtains marketing rights to such a product from a third party, Gilead's current intention would be to market and sell such a product directly, supplementing its existing marketing and sales staff as appropriate. Gilead has not established a marketing and sales capacity in Europe or any other country outside of the United States. Pharmacia & Upjohn has exclusive commercial rights to VISTIDE and intraocular cidofovir outside the United States, and Roche has exclusive commercial rights to GS 4104 on a worldwide basis. Gilead intends to evaluate the establishment of a direct European marketing and sales capacity in connection with the potential launch of GS 840 in Europe for the treatment of HIV and AIDS, if that product receives marketing approval. The Company does not currently intend to directly market and sell any product outside of the United States and Europe.

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

PATENTS AND PROPRIETARY RIGHTS

Gilead has a proprietary portfolio of patent rights and exclusive licenses to patents and patent applications in the field of nucleotide-based therapeutics. The Company has filed patent applications directed to the compositions of matter, methods of preparation and uses of novel compounds on the

commercial market, under research or in development. Patent applications have been filed which encompass compounds that are relevant to many of the targets the Company is currently researching, as well as other targets that may be of interest to Gilead in the future. Gilead intends to file additional patent applications, when appropriate, relative to improvements in its technology and to specific products that it develops.

Several patents relating to cidofovir (the active ingredient in VISTIDE and FORVADE) and GS 393 (the parent compound of GS 840), including composition of matter claims, have been issued in the United States, Western Europe and several other jurisdictions. The Company has exclusive licenses from third parties covering these patents and other patent applications. See "Collaborative Relationships--IOCB/ REGA." The Company does not have patent filings covering GS 840 in China or in other certain other Asian countries, although it does have an application pending in Japan. Asia is a major market for hepatitis B therapies, one of the potential indications for GS 840. In addition, patents on certain of the Company's compounds may issue many years before marketing approval is obtained, limiting the ultimate commercial value of the product.

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

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

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

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

Gilead's practice is to require its corporate partners, collaborators, employees, consultants and vendors to execute a confidentiality agreement upon the commencement of a relationship with the Company. The agreements provide that all confidential information developed or made known to an individual during the course of the relationship shall be kept confidential and not disclosed to third parties except in specified circumstances. In the case of employees, the agreements provide that all inventions

conceived by the individual while employed by the Company shall be the exclusive property of the Company. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets in the event of unauthorized use or disclosure of such information.

COMPETITION

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

Ganciclovir, marketed in intravenous and oral formulations by Roche Laboratories and as an ocular implant by Chiron Corporation, and foscarnet, marketed by Astra U.S., are commercially available for the treatment of CMV retinitis. These products are directly competitive with VISTIDE. Several other potential CMV retinitis therapeutics are being developed by other companies. A number of therapeutics are currently marketed or are in advanced stages of clinical development for the treatment of AIDS and herpes simplex virus. Glaxo Wellcome, in collaboration with Biota Holdings Limited, is pursuing development of a neuraminidase inhibitor to treat influenza. This compound is in advanced clinical trials and represents significant potential competition for GS 4104. The Company believes that its products and product candidates have competitive advantages over these products, particularly with regard to dosing convenience and duration of action. However, there can be no assurance that VISTIDE or any of the Company's products in development will compete successfully with other available products.

Nucleotide-based drugs would compete for market share, in many of their applications, with existing therapies. The indications being pursued by the Company's cardiovascular therapeutics program are addressed to varying degrees by existing products, and are the subject of extensive, well-funded programs sponsored by a number of large pharmaceutical companies. In addition, a number of companies are pursuing the development of technologies competitive with the Company's code blocker program. 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 product and clinical development.

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

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

The Company's competition will be determined in part by the potential indications for which the Company's compounds are developed and ultimately approved by regulatory authorities. For certain of the Company's potential products, an important competitive factor may be the timing of market introduction

of its products or competitive products. Accordingly, the relative speed with which Gilead can develop products, complete the clinical trials and approval processes, and supply commercial quantities of the products to the market are expected to be important competitive factors. The Company expects that competition among products approved for sale will be based, among other things, on product efficacy, safety, dosing convenience, availability, price and patent position.

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

GOVERNMENT REGULATION

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

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

The FDA has implemented accelerated approval procedures for pharmaceutical agents that treat serious or life-threatening diseases and conditions, especially where no satisfactory alternative therapy exists. Drug sponsors are generally required to conduct post-marketing clinical trials of drugs that have been approved under the FDA's accelerated approval procedures, in order to further characterize the drug's safety and efficacy profile. The Company believes that GS 840 and certain of its other products in development may qualify for accelerated approval. The Company cannot predict the ultimate impact, however, of the FDA's accelerated approval procedures on the timing or likelihood of approval of any of its potential products or those of any competitor.

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

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

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

The results of the preclinical studies and clinical trials are submitted to the FDA in the form of an NDA for approval of the marketing and commercial shipment of the drug. The testing and approval process is likely to require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. The FDA may deny an NDA if applicable regulatory criteria are not satisfied, require additional testing or information, require significant improvements to manufacturing facilities or require extensive post-marketing testing and surveillance to monitor the safety or efficacy of the Company's products if they do not view the NDA as containing adequate evidence of the safety and efficacy of the drug. Notwithstanding the submission of such data, the FDA may ultimately decide that the application does not satisfy its regulatory criteria for approval. Moreover, if regulatory approval of a drug is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Finally, product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing.

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

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

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

PRICING AND REIMBURSEMENT

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

HUMAN RESOURCES

As of December 31, 1996, Gilead employed 248 people full-time, of whom 69 hold Ph.D. and/or M.D. degrees and 30 hold other advanced degrees. Approximately 149 employees are engaged in research and development activities and 99 are employed in finance, sales and marketing, corporate development, legal and general administrative positions. Gilead believes that it maintains good relations with its employees.

SCIENTIFIC ADVISORY BOARD

The Company's Scientific Advisory Board is composed of individuals with expertise in fields related to the Company's programs. This Board holds formal meetings with scientists from the Company at least

once a year. In some cases, individual members of this Board consult and meet informally with the Company on a more frequent basis. Each of the members of this Board has a consulting agreement with the Company.

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

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

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

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

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

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

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

BUSINESS ADVISORY BOARD

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

JOSEPH A. CALIFANO, JR. has been a member of Gilead's Business Advisory Board since September 1988. He is the Chairman and President of the Center on Addiction and Substance Abuse. Formerly, he was the managing partner of the law firm of Dewey, Ballantine, Bushby, Palmer & Wood. Mr. Califano served as Secretary of Health, Education and Welfare from 1977 to 1979.

THOMAS D. KILEY has been a member of Gilead's Business Advisory Board since January 1990. He is an attorney and independent consultant specializing in intellectual property and corporate strategy in the biotechnology industry. Mr. Kiley formerly served as Vice President and General Counsel and as Vice President for Corporate Development at Genentech, Inc.

JOHN E. ROBSON has been a member of Gilead's Business Advisory Board since November 1993. He is a Senior Advisor with Robertson, Stephens & Company, LLC. Formerly, he was Deputy Secretary of the United States Treasury, and President and Chief Executive Officer of G. D. Searle & Co. Mr. Robson has also served as Chairman of the Civil Aeronautics Board, Undersecretary of the United States Department of Transportation and Dean of the Emory University School of Business Administration.

GAIL R. WILENSKY has been a member of Gilead's Business Advisory Board since February 1996. She is the John M. Olin Senior Fellow at Project HOPE, and Chair of the Physician Payment Review Commission, responsible for advising the U.S. Congress on Medicare and Medicaid matters. Dr. Wilensky was previously Deputy Assistant to the President for Policy Development, and Administrator of the Health Care Financing Administration of the U.S. Department of Health and Human Services.

RISK FACTORS

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

RAPIDLY CHANGING ENVIRONMENT FOR AIDS THERAPEUTICS

Several of the Company's products and products in development address AIDS or AIDS-related conditions, including VISTIDE for CMV retinitis, FORVADE for refractory HSV infection, GS 840 for HIV and AIDS and PMPA for HIV and AIDS. The medical, regulatory and commercial environment for AIDS therapies is changing at a rapid pace, often in unpredictable ways. For example, medical opinion on appropriate treatment regimens for people with AIDS is evolving and is often in conflict. This evolution can have a dramatic impact on the regulatory requirements for the approval of AIDS therapies as well as the commercial prospects of individual therapies. In addition, improvements in AIDS therapy reduce the potential commercial market for therapies to treat AIDS-related conditions such as CMV retinitis, and make clinical trials for new AIDS therapies more difficult to enroll. As a participant in the development and marketing of AIDS therapies, Gilead is subject to dramatic changes in the regulatory and commercial environment in which it operates, which could have a material adverse impact on the Company. See "VISTIDE" and "Gilead's Product Development Programs."

NO ASSURANCE OF REGULATORY APPROVAL; GOVERNMENT REGULATION

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

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

UNCERTAINTIES RELATED TO CLINICAL TRIALS

Before obtaining regulatory approvals for the commercial sale of any of its products under development, the Company must demonstrate through preclinical studies and clinical trials that the product is safe and efficacious for use in each target indication. The results from preclinical studies and early clinical trials may not be predictive of results that will be obtained in large-scale testing, and there can be no assurance that the Company's clinical trials will demonstrate the safety and efficacy of any products or will result in marketable products. A number of companies in the biotechnology industry have suffered significant setbacks in advanced clinical trials, despite promising results in earlier trials.

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

DEPENDENCE ON COLLABORATIVE RELATIONSHIPS

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

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

Gilead has incurred net losses since its inception. At December 31, 1996, the Company's accumulated deficit was approximately $134.5 million. Such losses have resulted principally from expenses incurred in the Company's research and development programs and, to a lesser extent, from sales, general and administrative expenses. The Company's revenues to date have been generated primarily from collaborative arrangements rather than product revenues. The Company's current product revenues are derived solely from sales of VISTIDE and from the co-promotion of Roche's Roferon-A for hepatitis C. Both of these products were recently launched and have limited sales potential relative to many pharmaceutical products. Gilead expects to incur substantial losses for at least the next several years, due primarily to the expansion of its research and development programs, including preclinical studies, clinical trials and manufacturing, as well as increasing commercialization expenses. The Company expects that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial. There can be no assurance that the Company will successfully develop, receive regulatory approval for, commercialize, manufacture, market and sell any additional products, or achieve or sustain or profitability.

TECHNOLOGICAL UNCERTAINTY

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

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

NO ASSURANCE OF MARKET ACCEPTANCE

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

INTENSE COMPETITION

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

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

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

UNCERTAINTY OF PHARMACEUTICAL PRICING AND REIMBURSEMENT

The business and financial condition of pharmaceutical and biotechnology companies will continue to be affected by the efforts of government and third-party payors to contain or reduce the cost of health care through various means. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In particular, individual pricing negotiations are often required in each country of the European Community, even if approval to market the drug under the EMEA's centralized procedure is obtained. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar

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

UNCERTAINTY REGARDING PATENTS AND PROPRIETARY RIGHTS

The Company's success will depend in part on its ability to obtain and enforce patent protection for its products both in the United States and other countries. No assurance can be given that patents will issue from any pending applications or that, if patents do issue, the claims allowed will be sufficiently broad to protect the Company's technology. In addition, no assurance can be given that any patents issued to or licensed by the Company will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company. The Company does not have patent filings covering GS 840 in China or in certain other Asian countries, although it does have an application pending in Japan. Asia is a major market for hepatitis B therapies, one of the potential indications for GS 840. In addition, patents on certain of the Company's compounds may issue many years before marketing approval is obtained, limiting the commercial value of the product.

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

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

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

otherwise become known or be independently discovered by competitors. See "Patents and Proprietary Rights."

RELIANCE ON THIRD PARTY MANUFACTURERS

The Company generally relies on third parties for the manufacture of bulk drug substance and final drug product for clinical and commercial purposes, including for VISTIDE, FORVADE and GS 840. Pursuant to such manufacturing relationships, the Company depends on such third parties to perform their obligations effectively and on a timely basis. There can be no assurance that such parties will perform and any failures by third parties may delay clinical trials or the submission of products for regulatory approval, impair the Company's ability to deliver commercial products on a timely basis, or otherwise impair the Company's competitive position, which could have a material adverse effect on the Company.

The Company has qualified a sole source supplier with the FDA for the bulk drug substance used in VISTIDE and another sole source supplier for the final drug product. Gilead has established a second source of bulk drug substance supply for VISTIDE (and for FORVADE), but has not yet qualified this source with the FDA. The use of this second source or other alternative suppliers will require further FDA approval, which will be time consuming. Consequently, in the event that supplies from either of these sole source suppliers were interrupted for any reason, the Company's ability to ship VISTIDE or FORVADE could be impaired, which would have a material adverse effect on the Company.

For certain of its potential products, including GS 4104 for the potential treatment and prevention of influenza, the Company will need to develop further its production technologies for use on a larger scale in order to conduct clinical trials and produce such products for commercial sale at an acceptable cost. There can be no assurance that the Company or its partners will be able to implement any of these developments successfully. See "Manufacturing."

PRODUCT LIABILITY EXPOSURE AND INSURANCE

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

HAZARDOUS MATERIALS

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

VOLATILITY OF STOCK PRICE

The market prices for securities of biopharmaceutical companies, including Gilead, have historically been highly volatile, and the market has from time to time experienced significant price and volume

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

ANTITAKEOVER PROVISIONS

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

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

Not Applicable.

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

Not Applicable.

PART II

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

The information required by this Item is incorporated by reference to page 39 of the Registrant's annual report to security holders furnished to the Commission pursuant to Rule 14a-3(b) in connection with the 1997 Annual Meeting attached hereto as Exhibit 13.1 (the "Annual Report").

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 23 of the Annual Report attached hereto as Exhibit 13.1.

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

The information required by this Item is incorporated by reference to pages 24 through 25 of the Annual Report attached hereto as Exhibit 13.1.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and the related report of independent auditors are incorporated herein by reference to pages 26 through 38 of the Annual Report attached here as to Exhibit 13.1:

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Report of Ernst & Young LLP, Independent Auditors

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

IDENTIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS

The information required by this Item concerning the Company's directors and executive officers is incorporated by reference to pages 2 through 4 of Registrant's Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the 1997 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 6 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 7 through 10 of the Proxy Statement under the heading "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to pages 5 through 6 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 14 through 15 of the Proxy Statement under the heading "Certain Transactions" and by reference to pages 7 through 10 of the Proxy Statement under the heading "Executive Compensation."

PART IV

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

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

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

Report of Ernst & Young LLP, Independent Auditors

Consolidated Balance Sheets at December 31, 1996 and 1995

Consolidated Statements of Operations for the year ended December 31, 1996, the nine months ended December 31, 1995 and 1994 and for the year ended March 31, 1995

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

Consolidated Statements of Cash Flows for the year ended December 31, 1996, the nine months ended December 31, 1995 and 1994 and for the year ended March 31, 1995

Notes to Consolidated Financial Statements

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

(2) Exhibits

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(1)	3.1	Amended and Restated Certificate of Incorporation of the Registrant.
(2)	3.2	Amended and Restated By-laws of the Registrant.
(9)	3.3	Certificate of Amendment of Restated Certificate of Incorporation.
	4.1	Reference is made to Exhibits 3.1, 3.2, and 3.3.
(8)	4.2	Rights Agreement, dated as of November 21, 1994, between Registrant and First Interstate Bank, with exhibits.
(8)	4.3	Form of letter sent to Gilead Sciences, Inc. stockholders, dated December 14, 1994.
(9)+	10.1	Form of Indemnity Agreement entered into between the Registrant and its directors and executive officers.
(3)	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.
(4)	10.7	Registrant's 1991 Employee Stock Purchase Plan.
(9)	10.8	Registrant's 1991 Stock Option Plan, as amended October 17, 1995.
(2)	10.11	Series C Preferred Stock Purchase Agreement, dated as of July 26, 1990, by and between Registrant and Glaxo Inc.
(2)	10.13	Registration Rights Agreement, dated as of June 28, 1991, by and among Registrant and the investors identified on Schedule 1 attached thereto.
(2)+	10.15	Form of Non-Qualified Stock Option issued to certain executive officers and directors in 1991.

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(2)	10.16	Relocation Loan Agreement, dated as of November 1, 1990 among Registrant, John C. Martin and Rosemary Martin.
(2)	10.17	Vintage Park Research and Development Net Lease by and between Registrant and Vintage Park Associates dated March 27, 1992 for premises located at 344B, 346 and 353 Lakeside Drive, Foster City, California with related addendum, exhibits and amendments.
(2)	10.21	Letter Agreement, dated as of September 23, 1991 between Registrant and IOCB/ REGA, with exhibits with certain confidential information deleted.
(5)	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.
(6)	10.26	Amendment Agreement, dated October 25, 1993 between Registrant and IOCB/ REGA, and related license agreements and exhibits with certain confidential information deleted.
(6)	10.28	Loan Agreement among Registrant and The Daiwa Bank, Limited dated May 17, 1994 with certain confidential information deleted.
(7)	10.29	License and Supply agreement between Registrant and American Cyanamid Company dated August 1, 1994 with certain confidential information deleted.
(8)	10.30	Loan Agreement, dated as of October 1, 1994 among Registrant and Mark L. Perry and Melanie P. Pena.
(9)	10.33	Registrant's 1995 Non-Employee Directors' Stock Option Plan and related form of stock option grant.
(10)	10.34	Collaborative Research Agreement, dated as of March 25, 1996, by and between Registrant and Glaxo Wellcome Inc. with certain confidential information deleted.
(11)	10.35	Agreement among Registrant and Michael F. Bigham.
(11)	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.
(11)	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.
(11)	10.38	Amendment No. 2 to Vintage Park Research and Development Lease by and between Registrant and WCB Seventeen Limited Partnership dated June 24, 1996 for premises located at 344B, 346 and 353 Lakeside Drive, Foster City, California.
(11)	10.39	Amendment No. 2 to Vintage Park Research and Development Lease by and between Registrant and WCB Sixteen Limited Partnership dated June 24, 1996 for premises located at 342A and 368 Lakeside Drive, Foster City, California.
(12)	10.40	License and Supply Agreement between Registrant and Pharmacia & Upjohn S.A. dated August 7, 1996 with certain confidential information deleted.
(12)	10.41	Series B Preferred Stock Purchase Agreement between Registrant and Pharmacia & Upjohn S.A. dated August 7, 1996.
(12)	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.

EXHIBIT FOOTNOTE	EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
(12)	10.43	Copromotion Agreement between Registrant and Roche Laboratories, Inc. dated September 27, 1996 with certain confidential information deleted.
	10.44	Agreement among Registrant and Michael L. Riordan, M.D.
	13.1	Registrant's Annual Report to Stockholders for the year ended December 31, 1996.
	23.1	Consent of Ernst & Young LLP, Independent Auditors. Reference is made to page 36.
	24.1	Power of Attorney. Reference is made to page 34.
	27.1	Financial Data Schedule.

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

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

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

(4) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 33-62060) and incorporated herein by reference.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

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

(10) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the nine month period ended December 31, 1996.

(11) 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.

(12) 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.

+ Indicates management contracts or compensatory plans or arrangements filed pursuant to Item 601(b)(10) of Regulation S-K.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed by the Registrant during the fourth quarter of the fiscal year ended December 31, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GILEAD SCIENCES, INC.

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

Date: March 20, 1997

POWER OF ATTORNEY

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

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

SIGNATURE	TITLE	DATE
/s/ JOHN C. MARTIN (John C. Martin)	President and Chief Executive Officer, Director (Principal Executive Officer)	March 20, 1997
/s/ MARK L. PERRY (Mark L. Perry)	Vice President, Chief Financial Officer and General Counsel (Principal Financial and Accounting Officer)	March 20, 1997
/s/ DONALD H. RUMSFELD (Donald H. Rumsfeld)	Chairman of the Board of Directors	March 20, 1997
/s/ ETIENNE F. DAVIGNON (Etienne F. Davignon)	Director	March 20, 1997

SIGNATURE	TITLE	DATE
/s/ JAMES M. DENNY, SR. (James M. Denny, Sr.)	Director	March 20, 1997
/s/ GORDON E. MOORE (Gordon E. Moore)	Director	March 20, 1997
/s/ MICHAEL L. RIORDAN (Michael L. Riordan)	Director	March 20, 1997
/s/ GEORGE P. SHULTZ (George P. Shultz)	Director	March 20, 1997

[GILEAD SCIENCES LETTERHEAD]

October 1, 1996

Michael L. Riordan, M.D.
360 Forest Avenue, No. 604
Palo Alto, California 94301

Dear Dr. Riordan:

This letter agreement sets forth the terms upon which you will continue as an employee of Gilead Sciences, Inc. (the "Company") during the period from October 1, 1996 through December 31, 1998.

I. OCTOBER 1, 1996 THROUGH DECEMBER 31, 1996. You will become a part-time employee on October 1, 1996 and continue in such capacity through December 31, 1996, as provided below:

A. TERMS OF EMPLOYMENT.

1. TITLE AND DUTIES: Your title and duties will remain the same. You will reduce your time commitment to approximately fifty percent (50%) of full-time employment.

2. SALARY: You will receive fifty percent (50%) of your current base salary.

3. BONUS: You will be eligible for a bonus for the calendar year ending December, 1996 in the full amount for the second and third quarters of the year and one-half (1/2) for the fourth quarter (I.E., five-eighths (5/8) of the full annual bonus), as determined by the Board of Directors at its July 1997 meeting in accordance with current policies.

4. HEALTH AND LIFE INSURANCE; FACILITIES: You will receive all life and disability insurance, hospitalization and major medical, dental and other employee benefit plans offered by the Company to its full-time employees, at levels maintained for you prior to October 1, 1996. You will be provided with part-time secretarial and office support.

5. DEATH OR DISABILITY: In the event of your death or disability, your options will vest as provided therein.

6. OPTIONS: Your existing options will continue to vest during this period.

II. 1997-1998. During the period commencing on January 1, 1997 through December 31, 1998, your employment will continue as follows:

A. TERMS OF EMPLOYMENT.

1. DUTIES: You will continue as a part-time employee, serving at the Chief Executive Officer's request and direction at times and for periods mutually agreed to by you and the Chief Executive Officer.

2. SALARY: You will be paid $5,000 per month.

3. BONUS: You will not be eligible for a bonus for calendar years 1997 or 1998.

4. HEALTH AND LIFE INSURANCE; FACILITIES: You will receive life and disability insurance, hospitalization and major medical, dental and other employee benefit plans offered by the Company to its full-time employees, at levels maintained for you prior to October 1, 1996. You will be provided with part-time secretarial and office support.

5. NONCOMPETITION AGREEMENT: You agree not to compete with the Company during a two year period commencing on January 1, 1997 and ending on December 31, 1998, as provided below:

A. SCOPE OF NON-COMPETITION COVENANT: You shall not, directly or indirectly, without the prior written consent of the Company, own, manage, operate, join, control, finance or

participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant, licensor, licensee or otherwise with, any business or enterprise in the world which is engaged in the biotechnology or pharmaceutical business.

B. EXCEPTION: You shall be permitted to (i) invest in any business solely as a passive investor, up to five percent (5%) of the publicly traded equity securities of such business, or (ii) be employed by a business or enterprise that is engaged primarily in a business other than the biotechnology or pharmaceutical business if you do not apply your expertise at such business or enterprise to that part of such business or enterprise that is or could be competitive with the biotechnology or pharmaceutical business.

6. OPTIONS: Your existing options will continue to vest during this period. At the end of the two year period, the Board would consider whether the exercise period for vested but unexercised options should be extended in light of the contributions made by Dr. Riordan to the Company.

7. TERMINATION: In the event of your violation of the noncompetition provisions contained in Section (II)(A)(5) above, the vesting of your options will cease and the Company could terminate your employment or compensation or seek injunctive relief.

III. BOARD SERVICE. From October 1, 1996 through December 31, 1998, you will continue serving on the Board of Directors, subject to termination at the discretion of the Board of Directors. Your sole compensation for serving on the Board of Directors during the two year period will be the salary and benefits described in Sections (I)(A)(1-5) and (II)(A)(1-4) above. If elected thereafter, you will be entitled to standard, independent director compensation.

A. The benefits described in Sections I and II will continue even if you are not serving on the Board of Directors, so long as you do not violate the non-competition provisions contained in Section (II)(A)(5) above and remain available to assist the Chief Executive Officer as provided in Section (II)(A)(1).

IV. GOVERNING LAW. This Letter Agreement shall be construed in accordance with, and governed in all respects by, the laws of the State of California (without giving effect to principles of conflicts of law).

Please evidence your acceptance of the terms of this Letter Agreement by executing this Letter Agreement below and returning the executed Letter Agreement to the undersigned.

Very truly yours,

GILEAD SCIENCES, INC.

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

I hereby accept, and agree to
be bound by, the terms of this
Letter Agreement:

/s/ MICHAEL L. RIORDAN
Michael L. Riordan, M.D.

FINANCIALS

GILEAD SCIENCES

[LOGO]

SELECTED CONSOLIDATED

FINANCIAL DATA

CONSOLIDATED STATEMENT OF OPERATIONS DATA

(in thousands, except per share data)

	YEAR ENDED DECEMBER 31, 1996	Nine Months Ended December 31, 1995(1)	Years Ended March 31, 1995	1994	1993
Revenues:					
Product sales, net	$ 8,477	$ --	$ --	$ --	$ --
Contract revenues	24,943	2,699	4,922	4,085	4,177
Total revenues	33,420	2,699	4,922	4,085	4,177
Operating costs and expenses:					
Cost of sales	910	--	--	--	--
Research and development	41,881	25,670	30,360	26,046	17,987
Selling, general and administrative	26,692	9,036	9,669	7,639	4,377
Total operating costs and expenses	69,483	34,706	40,029	33,685	22,364
Loss from operations	(36,063)	(32,007)	(35,107)	(29,600)	(18,187)
Interest income, net	14,331	4,592	3,833	3,888	4,105
Net loss	$ (21,732)	$ (27,415)	$ (31,274)	$ (25,712)	$ (14,082)
Net loss per share	$ (0.78)	$ (1.29)	$ (1.65)	$ (1.37)	$ (0.88)
Common shares used in the calculation of net loss per share	27,786	21,274	18,971	18,779	16,065

CONSOLIDATED BALANCE SHEET DATA
(in thousands)

	DECEMBER 31, 1996	December 31, 1995(1)	March 31, 1995	1994	1993
Cash, cash equivalents and short-term investments	$ 295,963	$ 155,659	$ 89,146	$ 114,968	$ 139,353
Working capital	284,154	145,539	80,190	108,071	133,901
Total assets	310,673	166,659	102,395	126,602	146,809
Non-current portion of equipment financing obligations and long-term debt	2,914	3,482	5,454	2,479	1,156
Accumulated deficit	(134,486)	(112,754)	(85,339)	(54,065)	(28,353)
Total stockholders' equity (2)	291,660	151,499	86,056	115,280	139,402

(1) In October 1995, the Company changed its fiscal year end from March 31 to December 31, effective with the nine months ended December 31, 1995.
(2) No dividends have been declared or paid on the common stock.

OVERVIEW

Since its inception in June 1987, Gilead has devoted the substantial portion of its resources to its research and development programs, with significant expenses relating to commercialization beginning in 1996. With the exception of the third quarter of 1996, when the Company entered into two collaborations with significant initial license fees, the Company has incurred losses since its inception. Gilead expects to incur losses for the next several years, due primarily to its research and development programs, including preclinical studies, clinical trials and manufacturing, as well as marketing and sales efforts in support of VISTIDE-Registered Trademark- (cidofovir injection) and other potential products. On June 26, 1996, the U.S. Food and Drug Administration (FDA) granted marketing clearance of VISTIDE for the treatment of cytomegalovirus retinitis (CMV) in patients with AIDS. The Company is independently marketing VISTIDE in the United States with an antiviral specialty sales force and has entered into a collaboration agreement with Pharmacia & Upjohn S.A. ("P&U") to market VISTIDE in all countries outside the United States. The Company expects that its financial results will fluctuate from quarter to quarter and that such fluctuations may be substantial. There can be no assurance that the Company will successfully develop, commercialize, manufacture and market additional products or sustain profitability. As of December 31, 1996, the Company's accumulated deficit was approximately $134.5 million.

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

As a company in an industry undergoing rapid change, the Company faces significant challenges and risks, including the risks inherent in its research and development programs, uncertainties in obtaining and enforcing patents, the lengthy and expensive regulatory approval process, intense competition from pharmaceutical and biotechnology companies, increasing pressure on pharmaceutical pricing from payors, patients and government agencies and uncertainties associated with the eventual market acceptance of VISTIDE or any of the Company's products in development. These risks are discussed in greater detail in the Company's Annual Report on Form 10-K for the year ended December 31, 1996. Stockholders and potential investors in the Company should carefully consider these risks in evaluating the Company and should be aware that the realization of any of these risks could have a dramatic and negative impact on the Company's stock price.

This report contains forward-looking statements relating to clinical and regulatory developments, marketing and sales matters, future expense levels and financial results. These statements involve inherent risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, the risks discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, particularly those relating to the development and marketing of pharmaceutical products.

RESULTS OF OPERATIONS

REVENUES The Company had total revenues of $33.4 million, $2.7 million, and $4.9 million for the year ended December 31, 1996, the nine months ended December 31, 1995, and the year ended March 31, 1995, respectively. Revenues increased during 1996, primarily due to contract revenues resulting from the Company's collaborative agreements with P&U and F. Hoffmann-La Roche Ltd. ("Roche"). Gilead recognized revenues of $21.6 million related to these agreements for the year ended December 31, 1996. The Company's 1996 total revenues also included net product sales from the sale of VISTIDE of $8.5 million for the year ended December 31, 1996, with no net product sales in the previous periods. Revenues in all three periods included income from the Company's research and development agreement with Glaxo, which was extended for an additional five years in 1996. Revenues for the year ended March 31, 1995, also included amounts earned under the

Company's collaborative research and development agreement with the Advanced Research Projects Agency ("ARPA"), which ended in October 1994.

COSTS AND EXPENSES The Company's cost of sales was $0.9 million for the year ended December 31, 1996. The Company had no cost of sales for the nine months ended December 31, 1995 and the year ended March 31, 1995. Cost of sales resulted from the Company's sale of VISTIDE, which was launched in June 1996.

The Company's research and development expenses were $41.9 million for the year ended December 31, 1996, $25.7 million for the nine months ended December 31, 1995, and $30.4 million for the year ended March 31, 1995. These expenses increased 63% from the nine months ended December 31, 1995 to the twelve months ended December 31, 1996 due to a shorter time period in 1995 and higher staffing, preclinical and clinical expenses in 1996. The 15% decrease from the year ended March 31, 1995 to the nine months ended December 31, 1995 is due to the shorter time period, offset in part by higher research and development expenses. The Company expects its research and development expenses in 1997 to increase over 1996, reflecting anticipated increased expenses related to clinical trials for several product candidates as well as related increases in staffing and manufacturing.

Selling, general and administrative expenses were $26.7 million for the year ended December 31, 1996, $9.0 million for the nine months ended December 31, 1995, and $9.7 million for the year ended March 31, 1995. This increase of 195% from the nine months ended December 31, 1995 to the twelve months ended December 31, 1996 is attributable to the shorter time period in 1995 and to the establishment of marketing and sales capabilities in connection with the launch of VISTIDE in 1996, as well as administrative activities in support of the Company's expanded research and development efforts. The decrease of 7% in selling, general, and administrative expenses from the year ended March 31, 1995 to the nine months ended December 31, 1995 is due to the shorter time period, offset in part by initial marketing and sales expenses, support of expanded research and development activities and the expansion of other general and administrative activities. The Company expects its selling, general and administrative expenses to increase during 1997 in connection with ongoing marketing and sales activities as well as continued support of expanded research and development efforts and facilities.

NET INTEREST INCOME The Company had net interest income of $14.3 million for the year ended December 31, 1996, $4.6 million for the nine months ended December 31, 1995, and $3.8 million for the year ended March 31, 1995. Net interest income has significantly increased due to the Company's higher average cash and cash equivalents and short-term investment balances, which resulted from the Company's two public offerings of common stock completed in February 1996 and August 1995.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and short-term investments were $296.0 million at December 31, 1996, compared to $155.7 million at December 31, 1995. This increase is primarily the result of the Company's public offering of common stock in February 1996, which generated $155.5 million in net proceeds, and an aggregate of $20.3 million in license fees paid by Roche in October 1996 and by P&U in August 1996, offset by the Company's net use of cash. In October 1996, the Company entered into a $3.0 million term loan to finance its facilities expansion, which began in the fourth quarter of 1996. In 1997, the Company expects to incur construction and equipment costs of approximately $2.5 million related to the final build-out of a 37,000 square foot facility leased in August 1996, as well as improvements to other leased facilities. In 1997, the Company expects to incur research and development and selling, general and administrative expenses in excess of amounts incurred in 1996.

Net cash used in operations was $16.5 million for the year ended December 31, 1996, $23.0 million for the nine months ended December 31, 1995, and $27.4 million for the year ended March 31, 1995. The Company believes that its existing capital resources, supplemented by net product revenues and contract revenues, will be adequate to satisfy its capital needs for the foreseeable future. The Company's future capital requirements will depend on many factors, including the progress of the Company's research and development, the scope and results of preclinical studies and clinical trials, the cost, timing and outcomes of regulatory reviews, the rate of technological advances, determinations as to the commercial potential of the Company's products under development, the commercial performance of VISTIDE and any of the Company's products in development that receive marketing approval, administrative and legal expenses, the status of competitive products, the establishment of manufacturing capacity or third-party manufacturing arrangements, the expansion of sales and marketing capabilities and the establishment of collaborative relationships with other companies.

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

CONSOLIDATED

BALANCE SHEETS

(in thousands, except share and per share amounts)	DECEMBER 31, 1996	December 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 131,984	$ 27,420
Short-term investments	163,979	128,239
Other current assets	4,290	1,558
Total current assets	300,253	157,217
Property and equipment, net	9,172	8,369
Other assets	1,248	1,073
	$ 310,673	$ 166,659
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,501	$ 2,412
Accrued clinical and preclinical expenses	5,007	3,923
Other accrued liabilities	4,433	2,229
Deferred revenues	527	208
Current portion of equipment financing obligations and long-term debt	3,631	2,906
Total current liabilities	16,099	11,678
Non-current portion of equipment financing obligations and long-term debt	2,914	3,482
Commitments		
Stockholders' equity:		
Preferred stock, par value $.001 per share, issuable in series; 5,000,000 shares authorized; no shares issued and outstanding at December 31, 1996 and 1995	--	--
Common stock, par value $.001 per share; 60,000,000 shares authorized; 28,758,165 shares and 23,769,878 shares issued and outstanding at December 31, 1996 and 1995, respectively	29	24
Additional paid-in capital	426,577	265,460
Unrealized gains on investments, net	89	167
Accumulated deficit	(134,486)	(112,754)
Deferred compensation	(549)	(1,398)
Total stockholders' equity	291,660	151,499
	$ 310,673	$ 166,659

See accompanying notes

CONSOLIDATED

STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)	YEAR ENDED DECEMBER 31, 1996	Nine Months Ended December 31, 1995	1994	Year Ended March 31, 1995
			(unaudited)	
Revenues:				
Product sales, net	$ 8,477	$ --	$ --	$ --
Contract revenues	24,943	2,699	3,992	4,922
Total revenues	33,420	2,699	3,992	4,922
Costs and expenses:				
Cost of sales	910	--	--	--
Research and development	41,881	25,670	22,306	30,360
Selling, general and administrative	26,692	9,036	6,904	9,669
Total costs and expenses	69,483	34,706	29,210	40,029
Loss from operations	(36,063)	(32,007)	(25,218)	(35,107)
Interest income	15,042	5,199	3,501	4,762
Interest expense	(711)	(607)	(684)	(929)
Net loss	$(21,732)	$(27,415)	$(22,401)	$(31,274)
Net loss per share	$ (0.78)	$ (1.29)	$ (1.18)	$ (1.65)
Common shares used in the calculation of net loss per share	27,786	21,274	18,926	18,971

See accompanying notes

CONSOLIDATED
STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share and per share amounts)	Common Stock	Additional Paid-in Capital	Unrealized Gains (Losses) on Investments, Net	Accumulated Deficit	Deferred Compensation	Total Stockholders' Equity
BALANCE AT MARCH 31, 1994	$ 19	$171,767	$ --	$ (54,065)	$(2,441)	$115,280
Issuance of 134,814 shares of common stock upon the exercise of stock options	--	208	--	--	--	208
Issuance of 133,002 shares of common stock pursuant to the employee stock purchase plan	--	923	--	--	--	923
Deferred compensation related to grant of certain stock options	--	49	--	--	(49)	--
Amortization of deferred compensation	--	--	--	--	886	886
Unrealized gains (losses) on available-for-sale short-term investments, net	--	--	33	--	--	33
Net loss	--	--	--	(31,274)	--	(31,274)
BALANCE AT MARCH 31, 1995	19	172,947	33	(85,339)	(1,604)	86,056
Issuance of 380,595 shares of common stock upon the exercise of stock options	1	1,963	--	--	--	1,964
Issuance of 207,165 shares of common stock pursuant to the employee stock purchase plan	--	1,430	--	--	--	1,430
Issuance of 4,053,750 shares of common stock at $23.25 per share (net of issuance costs of $5,575,173)	4	88,670	--	--	--	88,674
Deferred compensation related to grant of certain stock options	--	450	--	--	(450)	--
Amortization of deferred compensation	--	--	--	--	656	656
Unrealized gains (losses) on available-for-sale short-term investments, net	--	--	134	--	--	134
Net loss	--	--	--	(27,415)	--	(27,415)
BALANCE AT DECEMBER 31, 1995	24	265,460	167	(112,754)	(1,398)	151,499
Issuance of 500,853 shares of common stock upon the exercise of stock options	1	3,077	--	--	--	3,078
Issuance of 181,590 shares of common stock pursuant to the employee stock purchase plan	--	1,856	--	--	--	1,856
Issuance of 4,305,844 shares of common stock at $37.75 per share (net of issuance costs of $7,063,476)	4	155,478	--	--	--	155,482
Compensation related to accelerated vesting on stock options	--	706	--	--	--	706
Amortization of deferred compensation	--	--	--	--	849	849
Unrealized gains (losses) on available-for-sale short-term investments, net	--	--	(78)	--	--	(78)
Net loss	--	--	--	(21,732)	--	(21,732)
BALANCE AT DECEMBER 31, 1996	$ 29	$426,577	$ 89	$(134,486)	$ (549)	$291,660

See accompanying notes

CONSOLIDATED

STATEMENTS OF CASH FLOWS

Increase (decrease) in cash and cash equivalents (in thousands)	YEAR ENDED DECEMBER 31, 1996	Nine Months Ended December 31, 1995	Nine Months Ended December 31, 1994	Year Ended March 31, 1995
			(unaudited)	
Cash flows from operating activities:				
Net loss	$ (21,732)	$ (27,415)	$ (22,401)	$ (31,274)
Adjustments used to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	4,479	3,247	2,803	3,908
Changes in assets and liabilities:				
Other current assets	(2,732)	371	396	17
Other assets	(175)	(148)	(235)	(92)
Accounts payable	89	1,365	(314)	(21)
Accrued clinical and preclinical expenses	1,084	757	(885)	(637)
Other accrued liabilities	2,204	(366)	(45)	741
Deferred revenues	319	(859)	800	--
Total adjustments	5,268	4,367	2,520	3,916
Net cash used in operating activities	(16,464)	(23,048)	(19,881)	(27,358)
Cash flows from investing activities:				
Purchases of short-term investments	(437,627)	(173,971)	(88,781)	(111,575)
Sale of short-term investments	248,552	10,455	--	6,338
Maturities of short-term investments	153,257	94,147	108,673	148,484
Capital expenditures	(3,727)	(565)	(3,716)	(3,885)
Net cash provided by (used in) investing activities	(39,545)	(69,934)	16,176	39,362
Cash flows from financing activities:				
Payments of financing obligations and long-term debt	(2,843)	(2,076)	(1,665)	(2,366)
Proceeds from equipment loans	--	--	624	623
Proceeds from issuance of long-term debt	3,000	--	6,000	6,000
Proceeds from issuance of common stock	160,416	92,068	1,024	1,131
Net cash provided by financing activities	160,573	89,992	5,983	5,388
Net increase (decrease) in cash and cash equivalents	104,564	(2,990)	2,278	17,392
Cash and cash equivalents at beginning of period	27,420	30,410	13,018	13,018
Cash and cash equivalents at end of period	$ 131,984	$ 27,420	$ 15,296	$ 30,410
Supplemental schedule of noncash investing and financing activities:				
Acquisition of equipment pursuant to equipment loan and capital lease obligation	$ --	$ --	$ 677	$ 677
Deferred compensation related to grant of certain stock options	$ --	$ 450	$ 49	$ 49
Compensation related to acceleration of vesting on stock options	$ 706	$ --	$ --	$ --
Supplemental disclosure of cash flow information:				
Interest paid	$ 731	$ 619	$ 613	$ 866

See accompanying notes

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

CHANGE IN YEAR END In October 1995, the Company changed its fiscal year end from March 31 to December 31 effective with the nine months ended December 31, 1995. Financial statements for the nine months ended December 31, 1994 are unaudited and included for comparison purposes.

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

CONCENTRATIONS OF CREDIT RISK Cash and cash equivalents and short-term investments are financial instruments that potentially subject the Company to concentrations of credit risk. The Company primarily invests in notes and bills issued by the U.S. government, bonds and notes of domestic corporations, certificates of deposit, commercial paper and asset-backed securities. By policy, the Company limits the amount of credit exposure to any one financial institution and to any one type of investment, other than securities issued by the U.S. government.

USE OF ESTIMATES The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

STOCK-BASED COMPENSATION In accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which the Company adopted in 1996, the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issue to Employees" ("APB 25") and related interpretations in accounting for its employee stock option plans. Under APB 25, if the exercise price of the Company's employee stock options equals or exceeds the fair value of the underlying stock on the date of grant as determined by the Company's Board of Directors, no compensation expense is recognized. See Note 9 for pro forma disclosure of stock-based compensation pursuant to SFAS 123.

SECURITIES AVAILABLE FOR SALE Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company's debt securities, which consist primarily of U.S. treasury securities, corporate commercial paper, bonds and notes of domestic corporations and asset-backed securities, are classified as available-for-sale and are carried at estimated fair value in cash equivalents and short-term investments. At December 31, 1996, available-for-sale investments included

$132,621,000 of cash equivalents ($27,356,000 at December 31, 1995) and all short-term investments. Unrealized gains and losses are reported in a separate component of stockholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses on available-for-sale securities are included in interest income and expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

FOREIGN CURRENCY INSTRUMENTS The Company enters into foreign exchange forward contracts with financial institutions primarily to protect against currency exchange risks associated with certain firmly committed purchase transactions. The Company's foreign exchange risk management policy allows it to hedge a majority of its existing material foreign exchange transaction exposures. However, the Company may not hedge certain foreign exchange transaction exposures that are immaterial in terms of their minimal U.S. dollar value. For further discussion about the Company's foreign currency instruments see Note 7.

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

	December 31, 1996	December 31, 1995
Equipment subject to financing obligations	$ 5,320	$ 6,026
Laboratory equipment	1,904	766
Office equipment and furniture and fixtures	4,081	2,386
Leasehold improvements	10,887	9,514
	22,192	18,692
Less accumulated depreciation and amortization	(13,020)	(10,323)
	$ 9,172	$ 8,369

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

See Note 5 for discussion of certain laboratory and office equipment acquired pursuant to equipment financing obligations.

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

	December 31, 1996	December 31, 1995
Accrued compensation	$ 1,662	$ 1,102
Accrued Medicaid rebates	1,100	--
Other	1,671	1,127
	$ 4,433	$ 2,229

NET LOSS PER SHARE Net loss per share is computed using the weighted average number of common shares outstanding during the period. Common stock equivalents relating to stock options are excluded from the computation, as their effect is antidilutive.

2. INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DECEMBER 31, 1996				
U.S. Treasury Securities and obligations of U.S. government agencies	$158,734	$ 94	$(86)	$158,742
Corporate				

securities	27,115	24	(3)	27,136
Other debt securities	110,662	64	(4)	110,722
Total	$296,511	$182	$(93)	$296,600
DECEMBER 31, 1995				
U.S. Treasury Securities and obligations of U.S. government agencies	$141,621	$162	--	$141,783
Corporate securities	13,807	5	--	13,812
Total	$155,428	$167		$155,595

During the year ended December 31, 1996, the Company sold available-for- sale investments with a fair value at the date of sale of $248,552,000 ($10,445,000 in the nine-month period ended December 31, 1995.) The gross realized gain on the sale of available-for-sale securities totaled approximately $451,000 at December 31, 1996, and

none at December 31, 1995, and the gross realized loss on the sale of available- for-sale securities totaled approximately $65,000 at December 31, 1996. At December 31, 1996, the contractual maturities of the debt securities do not exceed three years.

3. COLLABORATIVE RESEARCH AGREEMENTS

PHARMACIA & UPJOHN In August 1996, Gilead and Pharmacia & Upjohn S.A. ("P&U") entered into a collaboration to market VISTIDE-Registered Trademark- (cidofovir injection) in all countries outside the United States. Under the terms of the agreement, P&U paid Gilead an initial license fee of $10.0 million. If European marketing authorization is received for VISTIDE, Gilead will receive an additional cash milestone payment of $10.0 million, and, at Gilead's option, P&U will purchase $40.0 million of newly issued Gilead Series B Preferred Stock priced at 145% of the average closing price of Gilead's common stock over a thirty-day trading period. In addition, P&U will pay Gilead royalties on its VISTIDE sales.

Under the terms of the License and Supply Agreement with P&U dated August 1996 and related agreements relating to expanded access programs for VISTIDE outside of the United States, the Company will supply either the bulk drug substance used to manufacture VISTIDE or the finished product VISTIDE ("Product") to P&U. Gilead is entitled to receive a royalty based upon the sale of Product by P&U, a portion of which is received upon the shipment of Product (either bulk drug substance or finished product) from Gilead to P&U, with the remainder received upon the ultimate sale of Product by P&U. Any royalties received by Gilead prior to the P&U sale of Product to a third party are recorded as deferred revenue until such third party sale occurs. As of December 31, 1996, the Company recorded approximately $277,000 of deferred royalty income related to shipment of Product to P&U for expanded access programs.

HOFFMANN-LA ROCHE In September 1996, Gilead and F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche, Inc. (collectively, "Roche") entered into a collaboration agreement to develop and commercialize therapies to treat and prevent viral influenza. Under the agreement, Roche received exclusive worldwide rights to Gilead's proprietary influenza neuraminidase inhibitors. In October 1996, Roche made an initial license fee payment to Gilead of $10.3 million (recorded in the third quarter of 1996) and Gilead is entitled to additional cash payments of up to $40.0 million upon achievement of developmental and regulatory milestones. In addition, Roche will fund all research and development costs and pay Gilead royalties on the net sales of any products developed under the collaboration. For the year ended December 31, 1996, the Company recorded $1,147,000 of research and development revenue related to this agreement. Costs of research and development revenues earned under this arrangement approximate such revenues (exclusive of any milestone revenues) and are included in research and development expenses in the accompanying financial statements.

In September 1996, Gilead and Roche entered into an agreement to co-promote Roche's Roferon-A (Interferon alfa-2a, recombinant) for the treatment of chronic hepatitis C infection in the U.S. Roche paid Gilead a $150,000 one-time fee in 1996. Roche will pay Gilead a royalty based on the net product sales beginning in 1997.

GLAXO WELLCOME In July 1990, the Company entered into a collaborative research agreement with Glaxo Wellcome, Inc. ("Glaxo"). Concurrent with the signing of the agreement, Glaxo made an $8 million equity investment in the Company and currently holds 3.1% of the Company's outstanding common stock. The agreement provided for the Company to conduct research over a period of five years with a goal of identifying code blocker compounds with potential application in the diagnosis, prevention and treatment of cancer. The collaboration was extended to all potential therapeutic applications in July 1992.

In March 1996, the Company and Glaxo entered into a new collaborative research agreement extending for five years the existing collaboration between the parties. Under the terms of the new agreement, Glaxo will fund the Company's ongoing research in the code blocker field for five years. Each party has a worldwide right to the other party's patent rights to research, develop, manufacture, and sell products based on code blocker technology for all applications. Glaxo will have the primary right to develop any products identified during the collaboration. Gilead is entitled to payments for achievement of regulatory milestones, as well as royalties on any product sales. Glaxo has the right to terminate the collaborative research and funding at any time after two years, in which case Gilead could develop code blocker technology independently or with a third party. Under the terms of the agreement the Company received $3.0 million in March 1996 to fund research during the first year of the new agreement.

Costs of research and development revenues earned under this arrangement approximate such revenues (exclusive of any milestone revenues) and are included in

research and development expenses in the accompanying financial statements.

ARPA In December 1991, the Company entered into a collaborative research agreement with the Advanced Research Projects Agency ("ARPA"). The research under this program was focused on the development of code blocker therapeutic compounds for the treatment of dengue fever and malaria. The Company performed "best efforts" research and development on a cost-sharing basis. ARPA funding ended October 1994 at the conclusion of the initial three-year term of the program. No revenues were recognized for the year ended December 31, 1996 or for the nine months ended December 31, 1995 ($748,000 was recognized in the fiscal year ended March 31, 1995).

AMERICAN HOME PRODUCTS In August 1994, the Company entered into a license and supply agreement with the Storz subsidiary of American Home Products to develop and market an eye-drop formulation of cidofovir for the potential treatment of topical ophthalmic viruses. The Company received a $250,000 annual fee in the year ended December 31, 1996, which was recognized as revenue (the Company recognized as revenue a $250,000 annual fee in the nine months ended December 31, 1995, and a $500,000 license fee in the fiscal year ended March 31, 1995). In addition, under the agreement the Company is entitled to receive annual fees, milestone payments and future royalties on product sales.

OTHER Also included in total revenues for the year ended December 31, 1996 is $104,000 earned under a U.S. Department of Health and Human Services Small Business Innovation Research Awards ($327,000 and $474,000 for the nine months ended December 31, 1995, and the year ended March 31, 1995, respectively). Costs of research and development under these arrangements approximate revenues. The research programs funded by these grants are focused on certain novel inhibitors of thrombin and certain genetic code blocker compounds.

4. ACCOUNTS RECEIVABLE

Gilead sells VISTIDE through major drug wholesalers in the U.S. In August 1996, a major wholesaler FoxMeyer Corporation, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The total receivable outstanding as of December 31, 1996, from FoxMeyer of $629,000 has been reserved. At December 31, 1996, trade receivables are included in the balance sheet in "Other current assets."

5. EQUIPMENT FINANCING OBLIGATIONS AND LONG-TERM DEBT

Included in property and equipment at December 31, 1996 are assets with a cost of $5,320,000 ($6,026,000 at December 31, 1995) acquired pursuant to capital lease obligations and equipment loans. Accumulated amortization of assets acquired pursuant to these obligations was approximately $4,360,000 and $3,843,000 at December 31, 1996 and 1995, respectively. Assets acquired under these arrangements secure the related obligations.

At December 31, 1996, the Company's aggregate commitment under such arrangements, together with the net present value of the obligations, is as follows (in thousands):

Years ending December 31:	
1997	$ 1,244
1998	371
	1,615
Less amounts representing interest	133
Less current portion	1,131
	$ 351

In May 1994, the Company entered into an unsecured $6 million term loan to finance its office and research and development facilities expansion and the acquisition of related laboratory equipment. The four-year loan requires quarterly principal payments of $375,000, plus applicable interest at a fixed rate of 8%, commencing July 1994. In addition, the Company is required to comply with certain financial and operating covenants. At December 31, 1996, the total debt outstanding is $2,250,000. The current portion outstanding is $1,750,000.

In October 1996, the Company entered into an unsecured $3 million term loan to finance its office and research and development facilities expansion. The four-year loan requires quarterly principal payments of $187,500, plus applicable interest, commencing October 1, 1996. The interest is fixed at 6.9% for the first year of the loan and will be reset periodically thereafter based on applicable LIBOR rates. In addition, the Company is required to comply with certain financial and operating covenants. At December 31, 1996, the total debt outstanding is $2,812,500. The current portion outstanding is $750,000.

At December 31, 1996, the long-term debt amount approximates fair value.

6. COMMITMENTS

The Company leases its facilities pursuant to operating leases. Rent expense under these leases totaled approximately $2,117,000 for the year ended December 31, 1996, $1,485,000 for the nine month period ended December 31, 1995, and $1,980,000 for the year ended March 31, 1995.

At December 31, 1996, the aggregate noncancelable future minimum payments under the operating leases are as follows (in thousands):

Years ending December 31:	
1997	$ 2,195
1998	2,284
1999	2,392
2000	2,484
2001	2,573
Thereafter	11,994
	$ 23,922

In connection with its facilities lease agreements, the Company obtained a letter of credit agreement from a bank which secures the aggregate future payments under one of its facilities leases. At December 31, 1996, a total of $2,500,000 was secured under this letter of credit arrangement.

7. FOREIGN CURRENCY INSTRUMENTS

The Company has forward contracts outstanding at December 31, 1996 with notional principal amounts totaling $1,417,000, fair value of $(28,000). No forward contracts were outstanding at December 31, 1995. The notional principal amounts for off-balance sheet instruments provides one measure of the transaction volume outstanding as of year end, and does not represent the amount of the Company's exposure to credit or market loss. The Company's exposure to credit loss and market risk will vary over time as a function of interest rates and currency exchange rates. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of December 31, 1996. The notional principal and fair value amounts of the Company's foreign exchange instruments discussed above do not reflect the gains or losses associated with the exposures and transactions that the foreign exchange instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments. Unrealized gains and losses on foreign exchange forward contracts that are designated and effective as hedges are deferred and recognized in expense in the same period as the hedged transactions. All foreign exchange forward contracts expire within one year.

8. STOCKHOLDERS' EQUITY

PREFERRED STOCK The Company has 5,000,000 shares of authorized preferred stock issuable in series, none of which are issued or outstanding. The Company's board of directors is authorized to determine the designation, powers, preferences and rights of any such series. The Company has reserved 400,000 shares of preferred stock for potential issuance under the Preferred Share Purchase Rights Plan.

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

EMPLOYEE STOCK PURCHASE PLAN The Company has adopted an Employee Stock Purchase Plan under which employees can purchase shares of the Company's common stock based on a percentage of their compensation. The purchase price per share must equal at least the lower of 85% of the market value on the date offered or on the date purchased. A total of 750,000 shares of common stock are reserved for issuance under the plan. As of December 31, 1996, 601,289 shares had been issued under the Plan (419,699 shares as of December 31, 1995).

STOCK OPTION PLANS In December 1987, the Company adopted the 1987 Incentive Stock Option Plan and the Supplemental Stock Option Plan for issuance of common stock to employees, consultants and scientific advisors. Options granted under the plans are at prices not less than the fair market value on the date of the grant. Options vest over five years pursuant to a formula determined by the Company's board of directors and expire after ten years. At December 31, 1996, options on 545,108 shares are outstanding under the plans at exercise prices ranging from $0.09 to $17.50 per share (781,718 options outstanding at December 31, 1995 with exercise prices ranging from

$0.09 to $17.50 per share). For the year ended December 31, 1996, options to purchase 220,947 shares were exercised at $0.09 to $17.50 per share (options to purchase 182,029 shares were exercised at prices ranging from $0.09 to $17.50 per share for the nine months ended December 31, 1995). At December 31, 1996, options on 522,308 shares were exercisable (options on 605,125 shares were exercisable at December 31, 1995). No shares were available for grant of future options.

In April 1991, the Company's board of directors approved the granting of nonqualified stock options that are not granted pursuant to the 1987 Supplemental Stock Option Plan but contain such other terms and conditions of the Company's Supplemental Stock Options. The options vest pursuant to a formula determined by the Company's board of directors and expire no more than ten years after the date of grant or earlier if employment terminates. At December 31, 1996, options on 197,064 shares are outstanding at exercise prices ranging from $1.20 to $1.50 per share (286,230 options outstanding at December 31, 1995 with exercise price ranging from $1.20 to $1.50 per share). For the year ended December 31, 1996, options to purchase 89,166 shares were exercised at $1.20 per share (options to purchase 49,966 shares were exercised at $1.20 per share for the nine month period ended December 31, 1995). At December 31, 1996, options on 103,741 shares were exercisable (options on 111,314 shares were exercisable at December 31, 1995). No shares were available for grant of future options.

In November 1991, the Company adopted the 1991 Stock Option Plan for issuance of common stock to employees and consultants. Options issued under the plan shall, at the discretion of the Company's board of directors, be either incentive stock options or nonstatutory stock options. The exercise price of incentive stock options must equal at least the fair market value of the common stock on the date of grant. Options vest over five years pursuant to a formula determined by the Company's board of directors and expire after ten years. At December 31, 1996, options to purchase 3,745,630 shares are outstanding under the plan at exercise prices ranging from $4.38 to $38.00 per share (3,076,020 options outstanding at December 31, 1995 with exercise prices ranging from $4.38 to $22.50 per share). For the year ended December 31, 1996, options to purchase 190,740 shares were exercised at prices ranging from $6.50 to $19.00 per share (options to purchase 145,330 shares were exercised for the nine month period ended December 31, 1995 at prices ranging from $6.13 to $16.50 per share). At December 31, 1996, options on 1,375,050 shares were exercisable (options on 954,342 shares were exercisable at December 31, 1995) and 1,599,550 were available for grant of future options.

In November 1995, the Company adopted the 1995 Non-Employee Directors' Stock Option Plan for issuance of common stock to non-employee directors. Options granted under the plan are at prices not less than the fair market value on the date of grant. Options vest over five years from the time of grant in quarterly 5% installments and expire after ten years. At December 31, 1996, options on 163,000 shares are outstanding at exercise prices ranging from $32.00 to $38.00 per share (none at December 31, 1995). For the year ended December 31, 1996, no options were exercised. At December 31, 1996, options on 24,300 shares were exercisable (no options were exercisable at December 31, 1995) and 187,000 shares were available for grant of future options.

The Company records deferred compensation for the difference between the grant price and the market value related to certain options granted. No deferred compensation was recorded during the year ended December 31, 1996 ($450,000 and $49,000 in the nine month period ended December 31, 1995 and the year ended March 31, 1995, respectively). Deferred compensation is being amortized to expense over the five-year vesting period of the options. Amortization expense for the year ending December 31, 1996 totaled approximately $849,000 ($656,000 and $886,000 the nine month period ended December 31, 1995 and the year ended March 31, 1995, respectively).

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

The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options and employee stock purchase plan shares because, as discussed below, the alternative fair value accounting provided for under SFAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options and employee stock purchase plan shares. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS 123 and has been determined as if the Company had accounted for its employee stock options granted subsequent to March 31, 1995, under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model for the multiple option approach with the following weighted-average assumptions for 1995 and 1996: risk-free interest rate of 6.0%; volatility factor of the expected market price of the Company's common stock of 69%; and a weighted-average expected life of the option of 1.54 years from the vesting date. No dividend payments are expected.

The pro forma information required by SFAS 123 includes compensation expense related to the Company's employee stock purchase plan purchases made subsequent to March 31, 1995. The compensation expense has also been calculated based on the fair-value method using a Black-Scholes option pricing model with the weighted-average assumptions discussed above.

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

For purposes of pro forma disclosures, the estimated fair value of the options and shares are amortized to pro forma/net loss over the options' vesting period and the shares' plan period. The Company's pro forma information follows (in thousands, except for earnings per share information):

	YEAR ENDED DECEMBER 31, 1996	Nine Months Ended December 31, 1995
Pro forma net loss	$(29,586)	$(29,162)
Pro forma loss per share	$ (1.06)	$ (1.37)

Because SFAS 123 is applicable only to options granted or shares issued subsequent to March 31, 1995, its pro forma effect will not be fully reflected until 1999.

A summary of the Company's stock option activity and related information for the periods ended December 31 follows:

	YEAR ENDED DECEMBER 31, 1996		Nine Months Ended December 31, 1995	
	OPTIONS (000's)	WEIGHTED-AVERAGE EXERCISE PRICE	Options (000's)	Weighted-average Exercise Price
Outstanding -- beginning of period	4,144	$10.55	4,069	$ 8.96
Granted (Price equals FMV)	1,240	$25.89	532	$18.04
Granted (Price less than FMV)	--	--	75	$19.00
Exercised	(501)	$ 6.15	(377)	$ 5.20
Forfeited	(232)	$13.70	(155)	$11.60
Outstanding -- end of period	4,651	$14.96	4,144	$10.55
Exercisable at end of period	2,025		1,671	
Weighted-average fair value per share of options granted during the period	15.17		11.26	

The shares granted at less than fair market value in the nine months ended December 31, 1995 have a weighted-average fair value per share of $19.00.

The options outstanding at December 31, 1996 have been segregated into three ranges for additional disclosure as follows (options amounts are recorded in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at Dec. 31, 1996	Weighted-average Remaining Contractual Life	Weighted-Average Exercise Price	Options Currently Exercisable at Dec. 31, 1996	Weighted-average Exercise Price
$0.09-$12.25	2,005	5.88	$ 7.48	1,315	$ 7.12
$12.50-$19.00	1,739	7.59	$16.13	647	$15.03
$19.38-$38.00	907	9.15	$29.24	63	$25.67

10. INCOME TAXES

As of December 31, 1996, the Company had a federal net operating loss carryforward of approximately $127,000,000. The net operating loss carryforwards will expire at various dates beginning in 2001 through 2011, if not utilized.

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

	December 31, 1996	December 31, 1995
Deferred tax assets:		
Net operating loss carryforwards	$ 43,000	$ 35,100
Research credits (expire 2001-2011)	5,400	5,700
Capitalized R&D for California	4,100	3,000
Other	2,800	3,300
Total deferred tax assets	55,300	47,100
Valuation allowance for deferred tax assets	(55,300)	(47,100)
Net deferred tax assets	$ --	$ --

The net valuation allowance increased by $8,200,000 during the year ended December 31, 1996 $10,500,000 for the nine months ended December 31, 1995 and $12,600,000 during the year ended March 31, 1995.

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

Approximately $2,000,000 of the valuation allowance at December 31, 1996 relates to the tax benefits of stock option deductions which will be credited to additional paid-in capital when realized.

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, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 1996, the nine-month period ended December 31, 1995, and the year ended March 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gilead Sciences, Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for the year ended December 31, 1996, the nine-month period ended December 31, 1995, and the year ended March 31, 1995, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

PALO ALTO, CALIFORNIA
JANUARY 24, 1997

CORPORATE

INFORMATION

TRANSFER AGENT AND REGISTRAR

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

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

STOCKHOLDER INQUIRIES

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

Investor Relations
Gilead Sciences, Inc.
333 Lakeside Drive
Foster City, California 94404
415-574-3000 or 1-800-GILEAD-5

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

STOCK LISTING

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

PRICE RANGE OF COMMON STOCK

As of February 28, 1997, there were approximately 585 stockholders of record of the Company's common stock and 28,996,918 shares of common stock outstanding. No dividends have been paid on the common stock since the Company's inception, and the Company does not anticipate paying any dividends in the foreseeable future.

1995	High	Low
First Quarter	$15 1/4	$ 9 1/4
Second Quarter	$19 3/4	$12 1/2
Third Quarter	$25 1/2	$16 3/4
Fourth Quarter	$34 1/4	$18

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

ANNUAL MEETING

The annual meeting of stockholders will be held at 10:00 a.m. on Tuesday, May 13, 1997, at Hotel Sofitel, 223 Twin Dolphin Drive, Redwood City, California.

VISTIDE-Registered Trademark- is a registered trademark and FORVADE-TM- is a trademark of Gilead Sciences, Inc. Roferon-Registered

Trademark- is a registered trademark of Hoffmann-La Roche.
- -C- 1997 Gilead Sciences, Inc.

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Gilead Sciences, Inc. of our report dated January 24, 1997, included in the 1996 Annual Report to Stockholders of Gilead Sciences, Inc. for the year ended December 31, 1996.

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-46058) pertaining to the Gilead Sciences, Inc. 1987 Incentive Stock Option Plan, 1987 Supplemental Stock Option Plan, 1991 Stock Option Plan, Employee Stock Purchase Plan, Officer, Director and Key Employee Nonqualified Stock Options, the Registration Statement (Form S-8 No. 33-62060) pertaining to Gilead Sciences, Inc. 1991 Stock Option Plan, and the Registration Statement (Form S-8 No. 33-81670) pertaining to Gilead Sciences, Inc. Employee Stock Purchase Plan, of our report dated January 24, 1997, with respect to the consolidated financial statements incorporated by reference in the Annual Report (Form 10-K) of Gilead Sciences, Inc. for the year ended December 31, 1996.

ERNST & YOUNG LLP

Palo Alto, California
March 20, 1997

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATION FOUND ON PAGES 26 AND 27 OF THE COMPANY ANNUAL REPORT TO STOCKHOLDERS AT 12/31/96 AND FOR THE YEAR ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	DEC 31 1996
CASH	131,984
SECURITIES	163,979
RECEIVABLES	4,290 [1]
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	300,253
PP&E	22,192
DEPRECIATION	13,020
TOTAL ASSETS	310,673
CURRENT LIABILITIES	16,099
BONDS	2,914
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29
OTHER SE	291,631
TOTAL LIABILITY AND EQUITY	310,673
SALES	8,477
TOTAL REVENUES	33,420
CGS	910
TOTAL COSTS	910
OTHER EXPENSES	41,881
LOSS PROVISION	0
INTEREST EXPENSE	711
INCOME PRETAX	(21,732)
INCOME TAX	0
INCOME CONTINUING	(21,732)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(21,732)
EPS PRIMARY	(0.78)
EPS DILUTED	0

[1] Includes all other current assets.

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