GILEAD SCIENCES INC
Form 10-K/A
May 08, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2002

or

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

For the transition period from to
Commission File No. 0-19731

GILEAD SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3047598**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 Lakeside Drive, Foster City, California	**94404**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **650-574-3000**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK $.001 PAR VALUE
(Title of Class)

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

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. ý

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12B-2 of the Act). Yes ý No o

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 June 28, 2002 was $4,416,100,000.*

The number of shares outstanding of the Registrant's Common Stock on February 28, 2003 was 198,503,361.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of Registrant's Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the 2003 Annual Meeting are incorporated by reference into Part III of this Report.

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* Based on a closing price of $32.88 per share. Excludes 61,476,550 shares of the registrant's common stock held by executive officers, directors and stockholders whose ownership exceeds 5% of the Common Stock outstanding at June 30, 2002. 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.

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

Overview

Gilead was incorporated in Delaware on June 22, 1987. We are a biopharmaceutical company focused on the discovery, development and commercialization of antivirals, antibacterials and antifungals to treat life-threatening infectious diseases. We are a multinational company, with revenues from six approved products and marketing operations in ten countries. Currently, we market Viread (tenofovir disoproxil fumarate) for the treatment of HIV infection; Hepsera (adefovir dipivoxil) for the treatment of chronic hepatitis B infection; AmBisome ((amphotericin B) liposome for injection), an antifungal agent; DaunoXome (daunorubicin citrate liposome injection), a drug approved for the treatment of Kaposi's Sarcoma; and Vistide (cidofovir injection) for the treatment of CMV retinitis. Roche markets Tamiflu (oseltamivir phosphate) for the treatment of influenza, under a collaborative agreement with us. We are seeking to add to our existing portfolio of products through our clinical development programs, internal discovery programs and an active product acquisition and in-licensing strategy, such as our acquisition of Triangle completed in January 2003. Our internal discovery activities include identification of new molecular targets, target screening and medicinal chemistry. In addition, we are currently developing products to treat HIV and HBV infections. We also have expertise in liposomal drug delivery technology that we use to develop drugs that are safer, easier for patients to tolerate and more effective.

In December 2001, we completed the sale of our oncology assets to OSI Pharmaceuticals, Inc. in a transaction valued at up to $200.0 million in cash and OSI stock. This transaction will allow us to focus on and continue to strengthen our core expertise in infectious diseases. See Note 4 to the consolidated financial statements for further information.

In the year ended December 31, 2001, Gilead adopted Statement of Financial Accounting Standards Nos. 133 and 138, collectively referred to as SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which resulted in a cumulative effect of change in accounting principle. In the year ended December 31, 2000, Gilead adopted the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, also resulting in a cumulative effect of change in accounting principle.

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

Forward-Looking Statements and Risk Factors

The following discussion contains forward-looking statements that involve risks and uncertainties. Gilead's actual results could differ materially from those discussed in any forward-looking statements. Factors that could cause or contribute to such differences include, but are not

limited to, those discussed in this section, as well as under the caption "Business", including "Risk Factors That Affect Gilead" in Part I. All forward-looking statements included in this document are based on information currently available to Gilead, do not include the effect of the acquisition of Triangle in our 2003 guidance, unless specifically noted, since we are still evaluating the detailed financial impact of Triangle's operations on our consolidated financial statements, and we assume no obligation to update any such forward-looking statements. The following discussion should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report.

Viread Sales. We rely on sales of Viread for a significant portion of our operating income. A number of drugs to treat HIV infection and AIDS are currently sold or are in advanced stages of clinical development, including 20 products currently sold in the U.S. Among the companies that are significant competitors in the HIV/AIDS market are GSK, BMS, Roche, Pfizer, Merck, Boehringer-Ingelheim and Abbott Laboratories. Given the broad range of competitors and depth of their

resources, Viread's market penetration may be limited, particularly for use in treatment-naïve patients, given that the data supporting Viread's U.S. approval is in a treatment-experienced patient population.

AmBisome Sales. We also rely on sales of AmBisome for a significant portion of our operating income. There are lower priced products that compete with AmBisome; two products that compete with AmBisome that were recently approved in the U.S. and European Union; and products being developed that could compete with AmBisome in the future. If any of these antifungal products achieve further market acceptance, or if the antifungal products in development become commercially available, revenues from sales of AmBisome would likely decrease, resulting in a reduction of operating income.

Acquisition Integration. In January 2003, we completed the acquisition of Triangle. Any acquisition carries inherent risks. We may not be able to successfully integrate Triangle into our operations and obtain any anticipated synergies or cost savings. We may also be unsuccessful in obtaining marketing approval for emtricitabine or in developing a co-formulated product. Failure to successfully integrate the Triangle operations into our business or obtain marketing approval of emtricitabine could adversely affect our financial position and results of operations.

Market Acceptance of Products. The ability of our products to achieve and sustain market acceptance will depend on a number of factors, including the receipt and scope of regulatory approvals; the availability of public and private insurance and reimbursement for our products; the safety, efficacy, tolerability and cost of our products; ease of administration and dosing, and how our products compare to competitive products. If our products do not achieve and sustain market acceptance, our results of operations will suffer.

Regulatory Process. The U.S. Food and Drug Administration and foreign agencies could reject or limit the commercialization of our products for a number of reasons including: if they disagree with the results or designs of our clinical trials; if they believe our products have unacceptable efficacy, toxicity or tolerability; or if they believe our products cannot be manufactured on a commercial basis in compliance with the applicable safety and quality standards. If these agencies reject or limit the commercialization of our products, our financial results would be adversely affected. The clinical trials required for regulatory approval of our products are extremely expensive, and it is difficult for us to accurately predict or control the amount or timing of these expenses from quarter to quarter. In addition, regulatory agencies could require us to conduct additional unanticipated clinical trials on our products, the cost of which could be substantial.

Governmental Legislation and Reimbursement Programs. Regulatory, legal and legislative issues may adversely affect pricing and sales of our products. In the U.S., there is federal legislation that lowers the price for our products that are purchased or reimbursed by federal agencies, and some states have enacted legislation that can lower the prices for our products. In addition, there are a growing number of U.S. federal and state legislative proposals that if enacted would lower the price for our products. Many countries outside the U.S. have government sponsored health care programs that set lower drug prices and patient reimbursement levels. Our sales in countries with relatively higher prices may be reduced if products can be imported into those countries from lower price markets. This is of particular concern in the European Union where we are required to permit cross border sales and could be a concern in the U.S. if legislation easing import restrictions is enacted and applied.

International Credit Risk. We are subject to credit risk from our accounts receivable related to European product sales. Our European product sales to government owned or supported customers in Greece, Spain, Portugal and Italy are subject to significant payment delays due to government funding and reimbursement practices. If significant changes were to occur in the reimbursement practices of European governments or if government funding becomes unavailable, our financial position and results of operations would be adversely affected.

Compulsory Licensing and Generic Competition. In a number of developing countries, government officials and other groups have suggested that pharmaceutical companies should make drugs for HIV infection available at a low cost. In some cases, governmental authorities have indicated that where pharmaceutical companies do not do so, their patents might not be enforceable to prevent generic competition. Some major pharmaceutical companies have greatly reduced prices for HIV drugs in certain developing countries. If certain countries do not permit enforcement of our patents, sales of Viread in those countries could be reduced by generic competition. Alternatively, governments in those countries could require that we grant compulsory licenses to allow competitors to manufacture and sell their own versions of Viread in those countries, thereby reducing our Viread sales, or we could respond to governmental concerns by reducing prices for Viread. In all of these situations, our results of operations could be adversely affected.

Collaborations. We depend on collaborations for the development and commercialization of certain products and for revenue, including the collaboration with Fujisawa for sales of AmBisome in the U.S. and Canada, the collaboration with GSK for clinical and regulatory development and commercialization of Hepsera in Asia, Latin America and certain other territories, and the collaboration with Roche for sales of Tamiflu worldwide. We may also seek additional collaborations. These collaborations could fail for a number of reasons, including if our partners do not devote sufficient resources to the development, commercialization or marketing of our products, or if disputes arise with our partners. If these existing collaborations fail, our financial results would be adversely affected.

Foreign Currency Fluctuations. A significant percentage of our product sales are denominated in foreign currencies. Increases in the value of the U.S. dollar against these foreign currencies in the past have reduced, and in the future may reduce, our U.S. dollar return on these sales and negatively impact our financial condition. Prior to January 2002, we did not hedge our exposure to the impact of fluctuating foreign exchange rates on forecasted sales. Effective January 2002, we have begun to use forward contracts to hedge a percentage of our forecasted international sales, primarily those denominated in the Euro currency. We do hedge a portion of our accounts receivable balances denominated in foreign currencies, which minimizes but does not eliminate our exposure to currency fluctuations between the date a sale is recorded and the date that cash is collected. Additionally, to mitigate the impact of currency rate fluctuations on our cash outflows for certain foreign currency-denominated raw materials purchases, we enter into foreign exchange forward contracts to hedge our foreign currency-denominated accounts payable.

Uncertain Financial Results. We expect that our financial results will continue to fluctuate from quarter to quarter and that such fluctuations may be substantial. The fluctuations can be caused by many factors that are beyond our control, including the risk factors listed above. As of December 31, 2002, our accumulated deficit was $381.6 million.

Critical Accounting Policies and Estimates

Gilead's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, inventories, accrued clinical and preclinical expenses, and contingencies. We base our estimates on historical experience and on various other market specific assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of

assets and liabilities that are not readily apparent from other sources. Actual results, however, may differ significantly from these estimates.

Gilead believes the following critical accounting policies reflect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

We record estimated reductions to revenue for expected returns of expired products, Medicaid reimbursements and customer incentives, such as cash discounts for prompt payment. Estimates for Medicaid reimbursements and cash discounts are based on contractual terms and expectations regarding the utilization rates for these programs. Estimates for product returns, including new products, are based on an on-going analysis of industry and historical return patterns. This includes monitoring the feedback that we receive from our sales force regarding customer use and satisfaction, the purchase of third party data to assist the Company in monitoring channel inventory levels and subsequent prescriptions as well as, for new products, a review of our other long shelf life products we have sold through the same or similar channels. Further, we monitor the activities and clinical trials of our key competitors and assess the potential impact on our future sales and return expectations where necessary. Expected returns for our marketed drugs are generally low because the shelf life for these

products ranges from 24 months for Viread up to 36 months for AmBisome in the U.S. If conditions become more competitive for any of the markets served by our drugs or if other circumstances change, we may take actions to increase our product return estimates or we may offer additional customer incentives. This would result in an incremental reduction of future revenue at the time the return estimate is changed or incentives are offered.

We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance is based on our analysis of several factors including, but not limited to, historical payment patterns of our customers and individual customer circumstances, an analysis of days sales outstanding by customer and geographic region, and a review of the local economic environment and its potential impact on the government funding and reimbursement practices. If the financial condition of our customers or the economic environment in which they operate were to deteriorate, resulting in an inability to make payments, additional allowances may be required.

We write down our inventory based on quality control reviews of our individual raw material batches. We generally do not maintain inventory reserves based on estimated obsolescence or risk of competition primarily because the shelf life of the products is long. However, if our current assumptions about future demand and competition were to change and if actual market conditions are less favorable than those projected by management, additional inventory reserves may be required.

We record accruals for estimated clinical and preclinical study costs. These costs are a significant component of research and development expenses. During 2002, 2001, and 2000, we incurred $23.9 million, $33.6 million and $28.7 million, respectively, of clinical research organization costs. We accrue costs for clinical studies performed by contract research organizations based on estimates that the work performed under the contracts occurs ratably over the period to the expected milestone, event or total contract completion date. The expected completion dates are estimated based upon the terms of the contracts and past experience with similar contracts. Generally, this results in 25% to 30% of the total costs which are milestone or event driven as specified in the contract. These costs usually occur within a few months after the contract has been established and are expensed on a straight-line basis over the first two to three months of the contract. The remaining activity and related costs occurring, such as reimbursable costs, and payments generally occur ratably throughout the life of the individual contract or study and these costs are expensed on a straight-line basis over the term of the contract or study. All

contracts are negotiated as fixed price and can vary in length between six months for a single dose Phase 1 study and up to two years for a more complex Phase 3 study. The average length of contract for 2001 and 2002 has been at the upper end of this range in order to provide long term safety and efficacy data to support the commercial launches of Viread and Hepsera. The estimate may or may not match the actual services performed by the organizations as determined by patient enrollment levels and related activities. We monitor patient enrollment levels and related activity through communications with the clinical research organizations. We compare our estimated clinical and preclinical study costs with the actual costs on a quarterly basis through correspondence with the organizations and adjust our estimates accordingly. Through December 31, 2002, we have not understated or overstated activity levels for any particular study such that a material adjustment was required. However, if management does not receive accurate information from our vendors or has underestimated activity levels associated with various studies at a given point in time, we would have to record additional research and development expenses in future periods that could be significant.

Results of Operations

Revenues

We had total revenue of $466.8 million in 2002, $233.8 million in 2001 and $195.6 million in 2000. Included in total revenue are net product sales, royalty income and contract revenue, including revenue from research & development (R&D) and manufacturing collaborations.

Net product sales revenue was $423.9 million for 2002, compared with $191.0 million for 2001 and $149.7 million for 2000. Product sales increased 122% in 2002 compared to 2001 primarily due to significant increases in sales of Viread, which was approved for sale in the U.S. in October 2001 and the European Union in February 2002. A significant percentage of Gilead's product sales continue to be denominated in foreign currencies. Prior to 2002, we did not hedge our exposure to the impact of fluctuating foreign exchange rates on forecasted sales. Effective January 2002, we began to use forward contracts to hedge a percentage of our forecasted international sales which will reduce, but not eliminate, fluctuations in sales due to changes in foreign currency exchange rates, primarily those denominated in the Euro currency. Losses on

these revenue hedges reduced product revenues by $1.0 million in 2002.

Sales of Viread in 2002 were $225.8 million in 2002, or 53% of total product sales, compared to $15.6 million, or 8% of total product sales in 2001. Of the Viread sales in 2002, $167.0 million were U.S. sales and $58.8 million were international sales. With the continued market expansion of Viread, we expect Viread sales in 2003 to approximately double and be in the range of $425 million to $475 million.

Sales of AmBisome were $185.7 million in 2002, an increase of 13% over AmBisome sales of $164.5 million in 2001. Sales of AmBisome were $141.1 million in 2000. Prior to 2002, our revenues have been primarily derived from sales of AmBisome, which represented 44% of total product sales in 2002, 86% of total product sales in 2001 and 94% of total product sales in 2000. Excluding the impact of foreign currencies relative to the U.S. dollar, AmBisome sales grew 9% for the year ended December 31, 2002 over the comparable period in 2001. The increase in sales in 2002 compared to 2001 was primarily due to further European market acceptance with volume sales increases in Europe of 11%, which more than offset declining sales volume in the U.S. of 15%. The increase in sales in 2001 compared to 2000 is primarily due to volume increases in the U.S. and Europe. The volume increase in the U.S. was approximately 50% and in Europe it was approximately 15%. In addition, excluding the impact of the decline in foreign currencies relative to the U.S. dollar in 2001, sales of AmBisome in 2001 would have increased 20%. With the expected increase in competition, we expect AmBisome sales for 2003 to be lower than 2002 and in the range of $160 million to $170 million.

We recorded royalty revenue of $20.4 million in 2002, compared with $23.0 million in 2001 and $24.6 million in 2000. During this three-year period, the most significant source of royalty revenue was from sales of AmBisome in the U.S. by Fujisawa under a co-promotion arrangement with us. Royalty revenue from Fujisawa was $15.7 million in 2002, compared with $17.1 million in 2001 and $13.5 million in 2000.

We also recorded royalty revenue of $3.4 million in 2002, $4.5 million in 2001 and $9.6 million in 2000 related to sales of Tamiflu. Tamiflu is an orally administered compound developed to treat and prevent viral influenza in humans. Gilead co-developed Tamiflu with Roche, which owns the worldwide commercial rights to Tamiflu, and is required to pay us a royalty on net sales of the product. We began recognizing royalties from Tamiflu in the first quarter of 2000. In June 2002, Roche received European regulatory approval of Tamiflu for the treatment of influenza in adults and children and prevention in adolescents and adults. As it is difficult to estimate third party product sales, we record royalty revenue one quarter in arrears.

Total contract revenue was $22.5 million in 2002, compared with $19.8 million in 2001 and $21.3 million in 2000. In 2002 and 2001 a primary source of contract revenue was from our licensing of the SELEX process patent estate to Archemix, which, due to collectibility concerns, we recognized on a cash basis. This provided $8.1 million of contract revenue in 2002 and $8.6 million in 2001. In 2002, Roche made milestone payments of $8.0 million for the European prophylaxis and treatment approvals of Tamiflu, and in 2001 made a $2.0 million milestone payment relating to the development of Tamiflu under an R&D collaboration agreement. In 2000, contract revenue from Roche consisted of $9.6 million in milestone payments related to Roche completing regulatory filings and approvals for Tamiflu in the U.S. and Japan. As of December 31, 2002, Gilead is entitled to additional milestone payments of up to $1.6 million upon Roche achieving certain developmental and regulatory milestones.

In April 2002, Gilead and GSK entered into a licensing agreement providing GSK the rights to commercialize Hepsera, Gilead's antiviral for the treatment of chronic hepatitis B, in Asia, Latin America and certain other territories. Under the agreement, Gilead retained rights to Hepsera in the U.S., Canada, Eastern and Western Europe, Australia and New Zealand. GSK received exclusive rights to develop Hepsera solely for the treatment of hepatitis B in all of its territories, the most significant of which include China, Korea, Japan and Taiwan. In addition, GSK paid Gilead an up-front licensing fee of $10.0 million as the first payment against these additional obligations and, may pay up to $30.0 million upon achievement by GSK of certain regulatory, development and commercial milestones. Of this $30.0 million, $2.0 million was received for the U.S. approval of Hepsera in September 2002. GSK also will pay Gilead a royalty on net sales, if any, of Hepsera in the GSK territories. GSK will have full responsibility for development and commercialization of Hepsera in GSK's territories. The $10.0 million up-front fee and the $2.0 million U.S. approval fee have been recorded as deferred revenue in 2002 with a total of $0.5 million being recognized as contract revenue in 2002. The balance of deferred revenue at December 31, 2002 will be amortized into contract revenue over the period of Gilead's remaining obligations under the agreement, approximately 14 years.

In December 2001, we completed the sale of our oncology assets to OSI. To date, we have received $130.0 million in cash and $38.8 million in OSI stock. Under this agreement, we are entitled to additional payments from OSI of up to $30.0 million in either cash or a combination of cash and OSI stock if and when OSI reaches certain development milestones for NX 211, the most advanced of the oncology product candidates sold to OSI. Under a related manufacturing agreement, we will produce NX 211 and GS 7904L, the two liposomal products included in the sale at our manufacturing facility in San Dimas, California. In 2002, we recognized $3.3 million of contract revenue under this manufacturing agreement.

In October 2001, we entered into an agreement with Archemix Corporation relating to our SELEX technology. Under this agreement, we gave Archemix the exclusive rights to the SELEX

process, including therapeutic and other commercial applications to the extent not already licensed under pre-existing agreements. Archemix paid to us $8.5 million in 2002 and $9.0 million in 2001. As required by our license agreement with ULEHI, we paid 5% of the $8.5 million and $9.0 million payments to ULEHI. We also received a warrant to purchase 350,000 shares of Archemix common stock, the value of which is not material. As required by our license agreement with ULEHI, we transferred 5% of this warrant to ULEHI.

In March 2000, we entered into an agreement with EyeTech Pharmaceuticals, Inc. relating to Gilead's proprietary aptamer EYE001, currently known as Macugen. Currently in early clinical trials, Macugen is an inhibitor of vascular endothelial growth factor, or VEGF, which is known to play a role in the development of certain ophthalmic diseases. Under the terms of the agreement, EyeTech received worldwide rights to all therapeutic uses of Macugen, and, if the product is successfully commercialized, EyeTech will pay us royalties on worldwide sales of the product. EyeTech also will be responsible for all research and development costs. We provided clinical supplies of the product to EyeTech through March 2001. We received a $7.0 million up-front licensing fee from EyeTech in April 2000, which has been recognized as revenue ratably over the one-year supply agreement period. Accordingly, $5.2 million of the license fee was recorded as contract revenue in 2000, and $1.8 million was recognized as revenue in 2001. We are also entitled to additional cash payments from EyeTech of up to $25.0 million if and when EyeTech reaches certain Macugen development milestones. Additionally, we received a warrant to purchase 791,667 shares of EyeTech series B convertible preferred stock, exercisable at a price of $6.00 per share, the price at which the stock was issued to other investors.

Cost of Goods Sold

Cost of goods sold was $69.7 million in 2002, compared with $43.8 million in 2001 and $33.5 million in 2000. Substantially all of the increase from 2001 to 2002 can be attributed to increases in the volume of Viread sold in 2002, as this product was launched in the U.S. late in the third quarter of 2001. The increase in costs of good sold between 2000 and 2001 can be attributed to the increase in sales of AmBisome. While per unit costs for AmBisome did not change significantly, retail unit volumes of AmBisome grew by more than 15% in 2001 when compared to 2000.

Gross Margins

Product gross margins were 83.6% in 2002, compared with 77.1% in 2001 and 77.6% in 2000. The improvement from 2001 to 2002 is primarily driven by product mix as Viread, a higher margin product, contributed significantly to net product sales in 2002, whereas only modest sales of Viread were recorded in 2001.

Foreign exchange also impacts gross margins as we price our products in the currency of the country into which the products are sold while a significant majority of our manufacturing costs are in U.S. Dollars. For example, an increase in the value of these foreign currencies relative to the U.S. Dollar will positively impact gross margins since our manufacturing costs will remain approximately the same while our revenues after being translated into U.S. Dollars, will increase. In 2002, gross margins were positively impacted by the weakening U.S. dollar while in 2001 and 2000, gross margins were negatively impacted by these factors, as discussed in the product sales section under the caption "Revenues" above. Except for the potential impact of unpredictable and uncontrollable changes in exchange rates relative to the U.S. Dollar and the mix of product sales between Viread, Hepsera and AmBisome, we expect gross margins in 2003 to remain relatively stable compared to 2002.

Operating Expenses

In 2002, R&D expenses were 35% of total costs and expenses. In total, R&D expenses were $134.8 million in 2002, compared with $185.6 million in 2001 and $132.3 million in 2000. The major components of R&D expenses consist of personnel costs, including salaries and benefits, clinical studies performed by contract research organizations, materials and supplies, and overhead allocations consisting of various support and facilities related costs. Our R&D activities are also separated into three main categories: research, clinical development and pharmaceutical development. Research costs typically consist of preclinical and toxicology work. Clinical development costs include Phase 1,2, and 3 clinical trials as well as expanded access programs. Pharmaceutical development costs consist of product formulation and chemical analysis.

The following table breaks down these major components of research and development spending (in thousands):

	2002	2001	2000
Research	$ 27,856	$ 30,535	$ 24,925
Clinical development	82,261	107,229	72,881
Pharmaceutical development	24,641	25,392	24,431
Oncology (divested)		22,397	10,102
Total	$ 134,758	$ 185,553	$ 132,339

The $50.8 million decrease in R&D spending in 2002 compared to 2001 was primarily due to the reduction in expenses associated with the clinical program for Viread, which was approved in October 2001, and the elimination of expenses associated with our oncology program as a result of the sale of our oncology program to OSI in December 2001. Additionally, in 2001 we recognized as expense $10.6 million of a $13.0 million up-front license fee paid to Cubist Pharmaceuticals related to the European licensing agreement for daptomycin, also known as Cidecin, signed in January 2001. Upon termination of this agreement in September 2002, $2.0 million was recorded to R&D, which represented the remaining unamortized asset related to the preclinical oral formulation of daptomycin. Excluding the impact of the Triangle acquisition, we expect R&D expenses in 2003 to be approximately $160 million to $180 million, or approximately 20% to 35% higher than 2002 expenses.

The $53.3 million increase in R&D spending in 2001 versus 2000 was attributable in part to the recognition of $10.6 million of the $13.0 million up-front payment and $5.5 million of clinical milestone payments to Cubist under the European licensing agreement for Cidecin. In addition, our expenses associated with the clinical programs for Viread and Hepsera increased by approximately $18.2 million and $13.3 million, respectively, during the year.

Recent industry reports indicate that a biopharmaceutical company generally takes 10 to 15 years (an average of 12 years) to research, develop and bring to market as a new prescription medicine in the U.S. These averages are generally consistent with the projects that we develop internally, although our recent product development timelines have been on a more accelerated basis. Drug development in the U.S. is a process that includes several steps defined by the FDA. The process begins with the filing of an IND, which, if successful, allows opportunity for clinical study of the potential new medicine. Clinical development typically involves three phases of study: Phase 1, 2, and 3, and generally accounts for an average of seven years of a drug's total development time. The most significant costs associated with clinical development are the Phase 3 trials as they tend to be the longest and largest studies conducted during the drug development process. We currently have products in development that are in Phase 3 studies. The successful development of our products is highly uncertain. An estimation of completion dates and R&D expenses can vary significantly for each product and are difficult to predict. Even after successful development and FDA approval of a product, we undertake additional studies to

try and expand the product's label and market potential. For a more complete discussion of the risks and uncertainties associated with completing the development of products, see the "Risk Factors That Affect Gilead" section of Item I above.

Selling, general and administrative (SG&A) expenses were $181.3 million in 2002, compared with $125.1 million in 2001 and $82.0 million in 2000. The increase in expenses in 2002 compared to 2001 is primarily due to our global sales and marketing efforts, including the expansion of Gilead's U.S. and European sales forces to support the commercial launches of Viread and Hepsera.

The increase in SG&A expenses in 2001 versus 2000 was primarily due to Gilead's increased global marketing efforts and the expansion of our sales force to support the commercial launch of Viread.

In 2003, we expect SG&A expenses, excluding the impact of the Triangle acquisition, to be approximately $250 million to $270 million, or 40% to 50% higher than 2002 levels, primarily due to the increase in marketing activities associated with the continued promotion of Viread, Hepsera and AmBisome.

Gain on Sale of Oncology Assets

In December 2001, we completed the sale of our oncology assets, pipeline of clinical stage oncology products and related intellectual property, as well as our Boulder, Colorado operations, including clinical research and drug development personnel, infrastructure and facilities, to OSI. The pipeline of clinical candidates includes NX 211 (liposomal lurtotecan), GS 7836 (a nucleoside analogue) and GS 7904L (a

liposomal thymidylate synthase inhibitor). On the closing date, we received $130.0 million in cash and OSI common stock valued at approximately $38.8 million. We recorded a non-operating gain of $157.8 million in the fourth quarter of 2001 as a result of this transaction. In addition, we recorded income taxes of $3.3 million in connection with this transaction.

Loss on Sale of Marketable Securities

In July 2002, the Company sold all of its remaining shares of OSI common stock for approximately $22.0 million. These shares were partial consideration for the sale of our oncology assets to OSI in December 2001, at which time they were recorded at a fair market value of approximately $38.0 million. In connection with the sale of these remaining shares, we recognized a non-operating loss of approximately $16.0 million in the year ended December 31, 2002.

Gain on Sale of Unconsolidated Affiliate

In August 2001, we also sold our 49 percent interest in Proligo L.L.C. (Proligo) to Degussa Corporation for $14.3 million in cash. Proligo was a joint venture between Gilead and SKW Americas, Inc. focused on the manufacturing of oligonucleotides. SKW Americas, a subsidiary of Degussa Corporation, held the remaining 51 percent of Proligo. The proceeds, net of Gilead's investment in Proligo, are reflected as an $8.8 million gain on the sale of unconsolidated affiliate in 2001.

Interest Income and Interest Expense

We recorded interest income of $22.3 million in 2002, compared with $25.6 million in 2001 and $17.6 million in 2000. The decrease in 2002 compared to 2001 is attributable to the significant decline in interest rates, partially offset by a higher average cash balance due to positive cash flow from operations and to the proceeds from the sale of the oncology assets to OSI. The increase in 2001 over 2000 was due to higher average balances of invested funds. Interest income in 2003 will depend principally upon prevailing interest rates, over which we have no control and the level of our cash, cash equivalent and marketable securities balances.

We incurred interest expense of $13.9 million in 2002, compared with $14.0 million in 2001 and $4.4 million in 2000. The significant increase in 2001 over 2000 is due to the full year of interest on our $250.0 million 5% convertible subordinated notes. Interest expense for 2000 consisted primarily of interest on the $79.5 million 6.25% convertible notes, which were converted to common stock in August 2000. We expect interest expense in 2003 to increase as compared with 2002 expense levels primarily due to the issuance of the $345.0 million 2% convertible senior notes in December 2002.

Income Taxes

Our provision for income taxes was $1.3 million, $4.1 million and $1.2 million in 2002, 2001 and 2000, respectively. This income tax expense was primarily associated with income earned by our foreign subsidiaries as we have significant net operating losses which reduce our U.S. tax liability. The significant increase in income tax expense in 2001 resulted principally from the gain on the sale of our oncology assets to OSI, for which we recorded approximately $3.3 million of federal and state alternative minimum taxes. The provision for 2002 was reduced by a change in U.S. income tax law. This law allows net operating loss carryforward deductions to offset 100% of alternative minimum taxable income, resulting in a reduction of U.S. income tax recorded in the previous years of $1.3 million.

We record a valuation allowance to reduce our deferred tax assets to the amount that is likely to be realized. We consider future taxable income, ongoing tax planning strategies and our historical financial performance in assessing the need for a valuation allowance. If it were determined that we would be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period in which such determination was made. Likewise, if we determine that we would not be able to realize all or part of our deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period in which such determination was made. We evaluate the realizibility of our deferred tax assets on a quarterly basis.

Equity in Loss of Unconsolidated Affiliate

In 2001, we recorded $2.1 million as our equity in the loss of our unconsolidated affiliate, Proligo, prior to the date of the sale of our 49 percent interest. In 2000, we recorded $2.9 million as our equity in the loss of Proligo. This represented our 49 percent share of Proligo's loss for the thirteen-month period ended December 31, 2000. During the fourth quarter of 2000, Proligo changed its fiscal year-end to December 31 from November 30.

Cumulative Effect of Change in Accounting Principle

In the year ended December 31, 2001, Gilead adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which resulted in a cumulative effect of change in accounting principle of $1.1 million. In the year ended December 31, 2000, Gilead adopted the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, resulting in a cumulative effect of change in accounting principle of ($13.7) million. See Notes 2 and 3 to the consolidated financial statements for further discussion.

Liquidity and Capital Resources

During the fourth quarter of 2002, a misclassification was discovered in the December 31, 2001 balance sheet and cash flow statement for the year then ended. At December 31, 2001, $38.8 million of OSI stock received in consideration for the divestiture of our oncology assets was misclassified on the balance sheet as cash and cash equivalents instead of as marketable securities. The misclassification had no impact on our statement of operations for any period, including revenues and net income. The

December 31, 2001 consolidated balance sheet and 2001 consolidated statement of cash flows in this report have been changed to reflect the correct classification.

Cash, cash equivalents and marketable securities totaled $942.4 million at December 31, 2002, up from $582.9 million at December 31, 2001. The increase of $359.5 million was primarily due to the $336.6 million in net proceeds received from the issuance of convertible senior notes in December 2002. Other major sources and uses of cash included net cash provided by operations of $74.4 million and proceeds from issuances of stock under employee stock plans of $51.4 million, partially offset by capital expenditures of $17.6 million and a $50.0 million convertible note received from Triangle. The $50.0 million loan to Triangle was returned to us in connection with the now completed acquisition. In January 2003, approximately $463.1 million has been paid to complete the acquisition of Triangle.

Working capital at December 31, 2002 was $1,078.9 million compared to $627.6 million at December 31, 2001. Significant changes in working capital during 2002 included a $43.9 million increase in accounts receivable and a $12.3 million increase in inventory. The accounts receivable increase was primarily due to increased sales of Viread in the U.S. and Europe. The $12.3 million increase in inventory was primarily due to an increase in the production of Viread inventory to meet increasing sales demand. Significant changes in current liabilities during 2002 included an $11.5 million increase in accrued liabilities, a $5.2 million increase in accounts payable and a $13.1 million increase in deferred revenue. The $5.2 million increase in accounts payable is primarily due to increases in our raw material purchases in support of Viread sales growth. The $13.1 million increase in deferred revenue primarily relates to the $12.0 million received under the collaboration with GSK that we entered into in April 2002.

The significant components of the $11.5 million increase in accrued liabilities consist of a $19.2 million increase in other accrued liabilities and a $6.8 million increase in accrued compensation and employee benefits, partially offset by a $8.9 million decrease in accrued clinical and preclinical expenses. The $19.2 million increase in other accrued liabilities is primarily due to increased Medicaid rebate obligations associated with higher sales of Viread and additional accrued sales and marketing expenses due to the expansion of Gilead's global sales and marketing efforts. The $6.8 million increase in accrued compensation and employee benefits is primarily due to increased bonus accruals and the expansion of our sales force. The $8.9 million decrease in accrued clinical and preclinical expenses is primarily due to decreasing activity associated with the clinical trial programs for Viread and Hepsera.

The $13.4 million effect of exchange rate changes on cash is primarily due to the weakening U.S. dollar relative to the Euro and the translation of our foreign subsidiaries' accounts receivable balances, which are primarily denominated in the Euro currency.

We made capital expenditures of $17.6 million in 2002, $26.3 million in 2001 and $15.6 million in 2000. These expenditures were primarily for facilities improvements to accommodate our growth, as well as for laboratory and manufacturing equipment. Capital expenditures related to research and development were between 20% to 25% of the $17.6 million spent in 2002 and 50% to 60% of the $26.3 million spent in 2001. We expect our capital spending for 2003 to be significantly higher than 2002 levels due to increased infrastructure needs and higher R&D spending.

In December 2002, we issued $345.0 million of 2% convertible senior notes due December 15, 2007 in a private offering. The notes are currently convertible into a total of up to 7,340,425 shares of Gilead common stock at $47.00 per share. The $47.00 conversion price was higher than Gilead's common stock price at the notes' issuance date. The notes are redeemable in whole or in part, at our option, at any time on or after June 19, 2004, at specified redemption prices plus accrued interest. Debt issuance costs of $8.4 million incurred in connection with the issuance of the notes were recorded as other noncurrent assets, and are being amortized to interest expense on a straight-line basis over the contractual term of the notes.

In December 2000, we issued $250.0 million of 5% convertible subordinated notes due December 15, 2007 in a private offering. The notes are currently convertible into a total of up to 10,178,116 shares of Gilead common stock at $24.5625 per share. The $24.5625 conversion price was higher than Gilead's common stock price at the notes' issuance date. The notes are redeemable in whole or in part, at our option, at any time on or after December 20, 2003, at specified redemption prices plus accrued interest. Debt issuance costs of $8.2 million incurred in connection with the issuance of the notes were recorded as other noncurrent assets, and are being amortized to interest expense on a straight-line basis over the contractual term of the notes.

In August 2000, we redeemed our 6.25% convertible subordinated debentures at a cash price of $1,030 per $1,000 principal amount of debentures outstanding, plus accrued interest, which was the redemption price provided for in the original debenture indenture. Upon redemption, the entire $79.5 million in principal amount of the debentures outstanding at that time was converted into 7,135,156 newly issued shares of Gilead common stock by August 15, 2000. Deferred debt issuance costs of $1.6 million related to the debentures were charged to additional paid in capital in connection with the conversion of the debentures into common stock.

We believe that our existing capital resources, supplemented by cash generated from our operations, will be adequate to satisfy our capital needs for the foreseeable future. Our future capital requirements will depend on many factors, including:

the commercial performance of Viread, Hepsera and AmBisome,

the commercial performance of any of our other products in development that receive marketing approval, including emtricitabine from our acquisition of Triangle completed in January 2003,

the success of our partners' research, development and commercialization efforts for the products they have partnered with us,

the progress of our research and development efforts,

the scope and results of preclinical studies and clinical trials,

the cost, timing and outcome of regulatory reviews,

the rate of technological advances,

determinations as to the commercial potential of our products under development,

administrative expenses,

the status of competitive products,

the establishment of manufacturing capacity or third-party manufacturing arrangements,

the expansion of sales and marketing capabilities,

our possible geographic expansion, and

the establishment of additional collaborative relationships with other companies.

We may in the future require additional funding, which could be in the form of proceeds from equity or debt financings or additional collaborative agreements with corporate partners. If such funding is required, we cannot assure you that it will be available on favorable terms, if at all.

Subsidiaries and Other

We have established a variety of subsidiaries in various countries for the purpose of conducting business in those locations. All of these subsidiaries are consolidated in our financial statements. We do not have any "special purpose" entities that are unconsolidated in our financial statements, including

those defined as "variable interest entities" by the Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities*. We are also not involved in any non-exchange traded commodity contracts accounted for at fair value. We have no commercial commitments with related parties, except for employee loans. We have contractual obligations in the form of capital and operating leases, notes payable and clinical research organization contracts.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 is not expected to have a material impact on our financial position and results of operations.

In November 2002, The EITF reached a consensus on Issue 00-21, addressing how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a standalone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions. The final consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003 with early adoption permitted. We are reviewing the provisions of this consensus to determine the effect, if any, it may have on the Company's financial position and results of operations.

In November 2002, the FASB issued Interpretation No. 45 (or FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. Our adoption of the disclosure provisions of FIN 45 did not have a material impact on our results of operations and financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure.* SFAS 148 is an amendment to SFAS No. 123, *Accounting for Stock-Based Compensation* issued in October 1995. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS 148 are effective for fiscal years ending after December 15, 2002. We have elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25 (or APB 25), *Accounting for Stock Issued to Employees*, to account for employee stock options. Although we have elected to follow the intrinsic value method prescribed by APB 25, we will continue to evaluate our approach to accounting for stock options in light of ongoing industry and regulatory developments.

PART IV

ITEM 15. 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 list to Financial Statements:

(2)

Schedule II is included on page 102 of this report. All other schedules are omitted because they are not required or the required information is included in the financial statements or notes thereto.

(3)

Exhibits

The following exhibits are filed herewith or incorporated by reference:

Exhibit Footnote	Exhibit Number	Description of Document
(21)	2.1	Asset Purchase Agreement between Registrant and OSI Pharmaceuticals, Inc. dated as of November 26, 2001.
(25)	2.2	Agreement and Plan of Merger, among Registrant, Simbolo Acquisition Sub, Inc., a wholly-owned subsidiary of Registrant, and Triangle Pharmaceuticals, Inc., dated as of December 3, 2002.
(20)	3.1	Amended and Restated Certificate of Incorporation of the Registrant, as amended.
(1)	3.2	Bylaws of the Registrant, as amended and restated March 30, 1999.
	4.1	Reference is made to Exhibit 3.1 and Exhibit 3.2.
(4)	4.2	Amended and Restated Rights Agreement dated as of October 21, 1999 between the Registrant and ChaseMellon Shareholder Services, LLC.
(10)	4.3	Agreement and Plan of Merger dated February 28, 1999 by and among Registrant, Gazelle Acquisition Sub, Inc. and NeXstar Pharmaceuticals, Inc.
(19)	4.4	Indenture dated as of December 18, 2000 between the Registrant and Chase Manhattan Bank and Trust Company, National Association, including therein the forms of the notes.
(35)	4.5	Indenture dated as of December 18, 2002 between the Registrant and J.P. Morgan Trust Company, National Association, including herein the forms of the notes.
(35)	4.6	Registration Rights Agreement dated as of December 18, 2002 between the Registrant and Goldman, Sachs & Co.
(5)	10.1	Form of Indemnity Agreement entered into between the Registrant and its directors and executive officers.
(5)	10.2	Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees.
(5)	10.3	Registrant's 1987 Incentive Stock Option Plan and related agreements.
(5)	10.4	Registrant's 1987 Supplemental Stock Option Plan and related agreements.
(1)	10.5	Registrant's Employee Stock Purchase Plan, as amended March 30, 1999.

Exhibit Footnote	Exhibit Number	Description of Document
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(26)	10.6	Registrant's 1991 Stock Option Plan, as amended and restated April 5, 2000, as amended January 18, 2001 and as amended January 30, 2002.
(5)	10.7	Form of Non-Qualified Stock Option issued to certain executive officers and directors in 1991.
(6)	10.8	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.
(5)	10.9	Letter Agreement, dated as of September 23, 1991 between Registrant and IOCB/REGA, with exhibits with certain confidential information omitted.
(6)	10.10	Vintage Park Research and Development Net Lease by and between Registrant and Vintage Park Associates dated September 16, 1993 for premises located at 335 Lakeside Drive, Foster City, California with related exhibits.
(7)	10.11	Amendment Agreement, dated October 25, 1993 between Registrant and IOCB/REGA, and related license agreements and exhibits with certain confidential information omitted.
(20)	10.12	Amendment Agreement, dated December 27, 2000 between Registrant and IOCB/REGA.
(2)	10.13	Loan Agreement, dated as of October 1, 1994 among Registrant and Mark L. Perry and Melanie P. Peña.
(26)	10.14	Registrant's 1995 Non-Employee Directors' Stock Option Plan, as amended January 26, 1999, and as amended January 30, 2002.
(8)	10.15	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.
(8)	10.16	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.
(8)	10.17	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.
(9)	10.18	License and Supply Agreement between Registrant and Pharmacia & Upjohn S.A. dated August 7, 1996 with certain confidential information omitted.
(9)	10.19	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 omitted.
(18)	10.20	Amendment No. 3 to Vintage Park Research and Development Lease by and between Registrant and Spieker Properties, L.P. dated August 14, 1998 for premises located at 355 Lakeside Drive, Foster City, California.
(3)	10.21	NeXstar Pharmaceuticals, Inc.'s 1993 Incentive Stock Plan, adopted February 8, 1993, as amended.
(13)	10.22	NeXstar Pharmaceuticals, Inc.'s 1995 Director Option Plan, adopted July 25, 1995.
(14)	10.23	Vestar, Inc. 1988 Stock Option Plan.
(14)	10.24	Lease, dated March 26, 1987, between Vestar, Inc. and Majestic Realty Co. and Patrician Associates, Inc. and Amendment No. 1 thereto and Amendment No. 2 thereto, dated as of June 8, 1992.
(12)	10.25	Third Amendment, dated January 11, 1996, between Majestic Realty Co. and Patrician Associates, Inc. and the Registrant, to Lease, dated March 26, 1987, between Vestar, Inc. and Majestic Realty Co. and Patrician Associates, Inc.
		15
(15)	10.26	Assignment and Royalty Agreement, dated December 21, 1990, effective as of June 2, 1989, between Vestar, Inc. and City of Hope National Medical Center.
(12)	10.27	License Agreement, effective as of August 12, 1986, between Vestar, Inc. and The Regents of the University of California.
(14)	10.28	Agreement by and between Fujisawa USA, Inc. and Vestar, Inc., dated August 9, 1991, and Amendment No. 1 thereto, dated as of May 17, 1994.
(13)	10.29	Amendment No. 2 to agreement between Fujisawa USA, Inc. and Vestar, Inc., dated as of April 3, 1995, between Fujisawa USA, Inc. and Vestar, Inc. with certain confidential information omitted.
(12)	10.30	Amendment No. 3 to Agreement between Fujisawa USA, Inc. and the Registrant, dated March 4, 1996, to the Agreement by and between Fujisawa USA, Inc. and Vestar, Inc., dated August 9, 1991.

(14)	10.31	Lease, dated April 13, 1992, between Vestar, Inc. and Majestic Realty Co. and Patrician Associates, Inc.
(12)	10.32	First Amendment to Lease, dated April 10, 1993, between Majestic Realty Co. and Patrician Associates, Inc. and Vestar, Inc. amending Lease, dated April 13, 1992, between Majestic Realty Co. and Patrician Associates, Inc. and Vestar, Inc.
(11)	10.33	License and Distribution Agreement, dated September 26, 1997, by and between Sumitomo Pharmaceuticals Co., Ltd. and NeXstar Pharmaceuticals, Inc. with certain confidential information omitted.
(16)	10.34	Settlement Agreement, dated August 11, 1997, by and among NeXstar Pharmaceuticals, Inc., Fujisawa U.S.A., Inc. and The Liposome Company, Inc. with certain confidential information omitted.
(17)	10.35	Amendment, dated April 30, 1998, between Sumitomo Pharmaceuticals Co., Ltd. and NeXstar Pharmaceuticals, Inc. to the License and Distribution Agreement, dated September 26, 1996, between Sumitomo and NeXstar Pharmaceuticals, Inc.
(24)	10.36	The Corporate Plan for Retirement Select Plan Basic Plan Document.
(24)	10.37	The Corporate Plan for Retirement Select Plan Adoption Agreement.
(24)	10.38	Addendum to the Gilead Sciences, Inc. Deferred Compensation Plan.
(22)	10.39	Licensing Agreement, dated April 26, 2002, by and between Gilead World Markets, Limited and Glaxo Group Limited.
(23)	10.40	Employment Agreement, dated July 1, 2002, by and between Gilead Sciences, Inc. and Sharon Surrey-Barbari.
(27)	10.41	Triangle Pharmaceuticals, Inc. 1996 Stock Incentive Plan.
(27)	10.42	Option Agreement between Triangle Pharmaceuticals, Inc. and Daniel G. Welch, dated August 5, 2002.
(28)	10.43	License Agreement among Triangle Pharmaceuticals, Inc., Emory University and the University of Georgia Research Foundation, Inc. for compound amdoxovir (DAPD), dated March 31, 1996.
(28)	10.44	License Agreement between Triangle Pharmaceuticals, Inc. and Emory University for Coviracil (FTC), dated April 17, 1996.
(29)	10.45	License Agreement between Triangle Pharmaceuticals, Inc. and Bukwang Pharm. Ind. Co., Ltd., dated as of February 27, 1998.
(30)	10.46	Exclusive License Agreement among Triangle Pharmaceuticals, Inc., Glaxo Group Limited, The Wellcome Foundation Limited, Glaxo Wellcome Inc. and Emory University, dated May 6, 1999.
(30)	10.47	Settlement Agreement among Triangle Pharmaceuticals, Inc., Emory University, Dr. David W. Barry, Glaxo Wellcome plc, Glaxo Wellcome Inc., Glaxo Group Limited and The Wellcome Foundation Limited, dated May 6, 1999.

(30)	10.48	Amendment to License Agreement between Triangle Pharmaceuticals, Inc. and Bukwang Pharm. Ind. Co., Ltd., dated April 1, 1999.
(30)	10.49	First Amendment to License Agreement between Triangle Pharmaceuticals, Inc. and Emory University, dated May 6, 1999.
(31)	10.50	First Amendment to License Agreement among Triangle Pharmaceuticals, Inc., Emory University and the University of Georgia Research Foundation, Inc., dated July 10, 2000.
(31)	10.51	Second Amendment to License Agreement between Triangle Pharmaceuticals, Inc. and Emory University, dated July 10, 2000.
(31)	10.52	Amendment to License Agreement between Triangle Pharmaceuticals, Inc. and Bukwang Pharm. Ind. Co., Ltd., dated September 5, 2000.
(32)	10.53	Third Amendment to License Agreement between Triangle Pharmaceuticals, Inc. and Bukwang Pharm. Co. Ltd., dated August 26, 2002.
(32)	10.54	Supply and Manufacturing Agreement between Triangle Pharmaceuticals, Inc. and Abbott Laboratories, dated July 30, 2002.
(32)	10.55	Settlement and Exclusive License Agreement among Triangle Pharmaceuticals, Inc., Shire Biochem Inc., Shire Pharmaceuticals Group plc, Emory University and the University of Georgia Research Foundation, dated August 30, 2002.
(33)	10.56	Second Amendment to License Agreement among Triangle Pharmaceuticals, Inc., Emory University and the University of Georgia Research Foundation, Inc., dated August 30, 2002.
(28)	10.57	Sublease between Triangle Pharmaceuticals, Inc. and Eli Lilly and Company, dated January 18, 1996.
(28)	10.58	Sublease Amendment between Triangle Pharmaceuticals, Inc. and Eli Lilly and Company, dated March 1, 1996.
(28)	10.59	Second Amendment to Sublease between Triangle Pharmaceuticals, Inc. and Eli Lilly and Company, dated August 2, 1996.
(34)	10.60	Third Amendment to Sublease between Triangle Pharmaceuticals, Inc. and Eli Lilly and Company, dated as of February 11, 1998.
+(35)	10.62	Manufacturing Supply Agreement between Gilead World Markets, Ltd. and PPG-Sipsy S.A.S, entered into as of January 1, 2003.

(35)	21.1	Subsidiaries of the Registrant.
	23.1	Consent of Ernst & Young LLP, Independent Auditors.
	23.2	Consent of PricewaterhouseCoopers LLP, Independent Auditors.
(35)	24.1	Power of Attorney. Reference is made to Signature Page.
	99.1	Certification.

(1) Filed as an exhibit to Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1998, and incorporated herein by reference.

(2) 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.

(3) Filed as an exhibit to NeXstar Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, and incorporated herein by reference.

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

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

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

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

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

(9) 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.

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

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

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

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

(14)

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

(15)

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

(16)

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

(17)

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

(18)

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

(19)

Filed as an exhibit to Registrant's Registration Statement on Form S-3 (No. 333-54350), as amended, and incorporated herein by reference.

(20)

Filed as an exhibit to Registrant's Form 10-K for the fiscal year ended December 31, 2000, and incorporated herein by reference.

(21)

Filed as an exhibit to Registrant's Current Report on Form 8-K filed on January 4, 2002, and incorporated herein by reference.

(22)

Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, and incorporated herein by reference.

(23)

Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, and incorporated herein by reference.

(24)

Filed as an exhibit to Registrant's Form 10-K for the fiscal year ended December 31, 2001, and incorporated herein by reference.

(25)

Filed as an exhibit to Registrant's Current Report on Form 8-K filed on December 10, 2002, and incorporated herein by reference.

(26)

Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-102912) filed on January 31, 2003, and incorporated herein by reference.

(27)

Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-102911) filed on January 31, 2003, and incorporated herein by reference.

(28)

Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Registration Statement on Form S-1 (No. 333-11793), as amended, and incorporated herein by reference.

(29)

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

(30) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, and incorporated herein by reference.

(31) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, and incorporated herein by reference.

(32) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Current Report on Form 8-K filed on September 19, 2002, and incorporated herein by reference.

(33) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, and incorporated herein by reference.

(34) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Form 10-K for the fiscal year ended December 31, 1998, and incorporated herein by reference.

(35) Filed as an exhibit to the Registrant's Form 10-K for the fiscal year ended December 31, 2002, and incorporated herein by reference.

+ Certain confidential portions of this Exhibit were omitted by means of marking such portions with an asterisk (the "Mark"). This Exhibit has been filed separately with the Secretary of the SEC without the Mark pursuant to the Registrant's Application Requesting Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934

(b) Reports on Form 8-K

The Registrant filed a report on Form 8-K on December 10, 2002 regarding its tender offer to purchase all the outstanding common shares of Triangle Pharmaceuticals, Inc. at a price of $6.00 per share. The Registrant filed reports on Form 8-K on December 12, 2002 and December 13, 2002 regarding the sale of $300 million of convertible notes ($345 million if the over-allotment is exercised in full) through a Rule 144A offering to qualified institutional buyers.

GILEAD SCIENCES, INC.
CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2002, 2001 and 2000

CONTENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Gilead Sciences, Inc.

We have audited the accompanying consolidated balance sheets of Gilead Sciences, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed at Item 15(a) of this Annual Report on Form 10-K. These financial statements and schedule are the responsibility of the management of Gilead Sciences, Inc. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the financial statements of Proligo L.L.C., a limited liability company, the investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting. The Company's equity in the net loss of Proligo L.L.C. was $2,858,000 in 2000. The 2000 financial statements of Proligo L.L.C. were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for Proligo L.L.C., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gilead Sciences, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2 and 3 to the consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments and hedging activities, and, effective January 1, 2000, changed its method of accounting for non-refundable up-front fees received in connection with collaboration agreements.

/s/ ERNST & YOUNG LLP

Palo Alto, California
January 24, 2003

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Members of Proligo LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of members' equity and of cash flows present fairly, in all material respects, the financial position of Proligo LLC and its subsidiaries at December 31, 2000 and November 30, 1999 and 1998, and the results of their operations and their cash flows for the thirteen-months ended December 31, 2000, the year ended November 30, 1999, and the period August 15, 1998 to November 30, 1998, respectively, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant

estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

Broomfield, Colorado
January 12, 2001

GILEAD SCIENCES, INC.
Consolidated Balance Sheets
(in thousands, except per share amounts)

	December 31,	
	2002	**2001**
Assets		
Current assets:		
Cash and cash equivalents	$ 616,931	$ 123,490
Marketable securities	325,443	459,361
Accounts receivable, net of allowance for doubtful accounts of $5,329 at December 31, 2002 and $2,579 at December 31, 2001	125,036	74,228
Note receivable from Triangle Pharmaceuticals, Inc.	50,000	
Inventories	51,628	39,280
Prepaid expenses and other	14,722	11,400
Total current assets	1,183,760	707,759
Property, plant and equipment, net	67,727	62,828
Other noncurrent assets	36,696	24,199
	$ 1,288,183	$ 794,786
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 24,406	$ 19,174
Accrued clinical and preclinical expenses	7,063	15,938
Accrued compensation and employee benefits	21,511	14,688
Other accrued liabilities	44,026	24,829
Deferred revenue	7,692	3,996
Long-term obligations due within one year	194	1,492
Total current liabilities	104,892	80,117
Long-term deferred revenue	16,677	7,252
Accrued litigation settlement expenses due after one year		4,591
Long-term obligations due after one year	273	389
Convertible senior debt	345,000	
Convertible subordinated debt	250,000	250,000
Commitments and contingencies (see accompanying notes)		
Stockholders' equity:		

	December 31,	
Preferred stock, par value $.001 per share, issuable in series; 5,000 shares authorized; none outstanding		
Common stock, par value $.001 per share; 500,000 shares authorized; 197,595 and 193,041 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively	198	193
Additional paid-in capital	950,308	898,533
Accumulated other comprehensive income	2,475	7,448
Accumulated deficit	(381,640)	(453,737)
Total stockholders' equity	571,341	452,437
	$ 1,288,183	$ 794,786

See accompanying notes

GILEAD SCIENCES, INC.
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year Ended December 31,		
	2002	2001	2000
Revenues:			
Product sales	$ 423,879	$ 190,970	$ 149,709
Royalty revenue	20,406	22,969	24,591
Contract revenue	22,505	19,830	21,255
Total revenues	466,790	233,769	195,555
Costs and expenses:			
Cost of goods sold	69,724	43,764	33,512
Research and development	134,758	185,553	132,339
Selling, general and administrative	181,301	125,141	82,022
Total costs and expenses	385,783	354,458	247,873
Income (loss) from operations	81,007	(120,689)	(52,318)
Gain on sale of oncology assets		157,771	
Gain on sale of unconsolidated affiliate		8,754	
Loss on sale of marketable securities	(16,048)		
Interest and other income, net	22,291	25,591	17,634
Interest expense	(13,853)	(13,980)	(4,365)
Income (loss) before provision for income taxes, equity in loss of unconsolidated affiliate and cumulative effect of change in accounting principle	73,397	57,447	(39,049)
Provision for income taxes	1,300	4,135	1,199
Equity in loss of unconsolidated affiliate		2,130	2,858
Income (loss) before cumulative effect of change in accounting principle	72,097	51,182	(43,106)

	Year Ended December 31,		
Cumulative effect of change in accounting principle		1,089	(13,670)
Net income (loss)	$ 72,097	$ 52,271	$ (56,776)
Amounts per common share basic:			
Income (loss) before cumulative effect of change in accounting principle	$ 0.37	$ 0.27	$ (0.24)
Cumulative effect of change in accounting principle		0.01	(0.07)
Net income (loss) per share basic	$ 0.37	$ 0.28	$ (0.31)
Shares used in per share calculation basic	195,543	190,245	182,099
Amounts per common share diluted:			
Income (loss) before cumulative effect of change in accounting principle	$ 0.35	$ 0.25	$ (0.24)
Cumulative effect of change in accounting principle		0.01	(0.07)
Net income (loss) per share diluted	$ 0.35	$ 0.26	$ (0.31)
Shares used in per share calculation diluted	206,477	202,321	182,099

See accompanying notes

GILEAD SCIENCES, INC.
Consolidated Statement of Stockholders' Equity
(in thousands)

	Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 1999	176,371	$ 176	$ 748,949	$ (2,527)	$ (74)	$ (449,232)	$ 297,292
Net loss						(56,776)	(56,776)
Unrealized gain on available-for-sale securities, net				2,071			2,071
Foreign currency translation adjustment				(445)			(445)
Comprehensive loss							(55,150)
Employee stock purchase plan	408		3,942				3,942
Option exercises, net	4,634	5	26,504				26,509
Warrant exercises, net	25						
Conversion of convertible subordinated debentures	7,137	8	77,939				77,947
Amortization of deferred compensation					71		71

	Common Stock						
Compensatory stock transactions			513				513
Balance at December 31, 2000	188,575	189	857,847	(901)	(3)	(506,008)	351,124
Net income						52,271	52,271
Unrealized gain on available-for-sale securities, net				7,735			7,735
Foreign currency translation adjustment				577			577
Unrealized gain on cash flow hedges, net				37			37
Comprehensive income							60,620
Employee stock purchase plan	368		5,357				5,357
Option exercises, net	4,098	4	30,950				30,954
Tax benefits of employee stock plans			1,500				1,500
Amortization of deferred compensation					3		3
Compensatory stock transactions			2,879				2,879
Balance at December 31, 2001	193,041	193	898,533	7,448		(453,737)	452,437
Net income						72,097	72,097
Unrealized loss on available-for-sale securities, net				(4,577)			(4,577)
Foreign currency translation adjustment				(580)			(580)
Unrealized gain on cash flow hedges, net				184			184
Comprehensive income							67,124
Employee stock purchase plan	342		6,701				6,701
Option exercises, net	4,212	5	44,680				44,685
Tax benefits of employee stock plans			350				350
Compensatory stock transactions			44				44
Balance at December 31, 2002	197,595	$ 198	$ 950,308	$ 2,475	$	$ (381,640)	$ 571,341

See accompanying notes

GILEAD SCIENCES, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**

	Year Ended December 31,		
Operating activities:			
Net income (loss)	$ 72,097	$ 52,271	$ (56,776)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	13,189	13,509	11,759
Amortization	1,239	1,182	249
Net effect of change in accounting principle		(1,089)	10,730
Gain on sale of oncology assets		(157,771)	
Gain on sale of unconsolidated affiliate		(8,754)	
Loss on sale of marketable securities	16,048		
Equity in loss of unconsolidated affiliate		2,130	2,858
Net movement in provision for doubtful accounts	3,262	(170)	30
Tax benefits from employee stock plans	350	1,500	
Net unrealized (gain) loss on foreign currency transactions	2,869	298	(1,615)
Other non-cash transactions	611	737	1,180
Changes in operating assets and liabilities:			
Accounts receivable	(43,890)	(25,482)	(3,942)
Inventories	(12,348)	(18,718)	397
Prepaid expenses and other assets	(8,915)	(2,734)	766
Long-term prepaid royalties			(11,367)
Accounts payable	5,232	8,454	2,232
Accrued liabilities	11,544	11,495	5,775
Deferred revenue	13,121	(3,837)	(478)
Net cash provided by (used in) operating activities	74,409	(126,979)	(38,202)
Investing activities:			
Purchases of marketable securities	(490,259)	(377,725)	(229,862)
Sales of marketable securities	422,168	143,684	29,490
Maturities of marketable securities	181,510	136,850	134,240
Capital expenditures	(17,597)	(26,331)	(15,621)
Issuance of note to Triangle Pharmaceuticals, Inc.	(50,000)		
Proceeds from sale of oncology assets		130,000	
Proceeds from sale of unconsolidated affiliate		14,300	
Investment in unconsolidated affiliate			(2,450)
Net cash provided by (used in) investing activities	45,822	20,778	(84,203)
Financing activities:			
Proceeds from issuances of common stock	51,386	36,311	30,451
Repayments of long-term obligations	(1,414)	(2,761)	(3,156)
Proceeds from issuance of convertible senior notes, net of issuance costs	336,637		
Proceeds from issuance of convertible subordinated notes, net of issuance costs			241,750
Net cash provided by financing activities	386,609	33,550	269,045
Effect of exchange rate changes on cash	(13,399)	(1,151)	3,641
Net increase (decrease) in cash and cash equivalents	493,441	(73,802)	150,281
Cash and cash equivalents at beginning of year	123,490	197,292	47,011
Cash and cash equivalents at end of year	$ 616,931	$ 123,490	$ 197,292

	Year Ended December 31,		
Supplemental disclosure of cash flow information:			
Interest paid	$ 12,657	$ 12,710	$ 5,417
Income taxes paid	851	1,778	493
Non-cash investing and financing activities			
OSI common stock received upon sale of oncology assets	$	$ 38,849	$
Common stock issued upon conversion of debentures			79,533
Reclassification of deferred debt issuance costs to additional paid-in capital upon conversion of subordinated debentures			1,586

See accompanying notes

GILEAD SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

Gilead (the Company) was incorporated in Delaware on June 22, 1987. We are a biopharmaceutical company focused on the discovery, development and commercialization of antivirals, antibacterials and antifungals to treat life-threatening infectious diseases. We are a multinational company, with revenues from six approved products and operations in ten countries. Currently, we market Viread for the treatment of HIV infection; Hepsera for the treatment of chronic hepatitis B infection; AmBisome, an antifungal agent; DaunoXome, a drug approved for the treatment of Kaposi's Sarcoma; and Vistide for the treatment of CMV retinitis. Roche markets Tamiflu for the treatment of influenza, under a collaborative agreement with us. We are seeking to add to our existing portfolio of products through our clinical development programs, internal discovery programs and an active product acquisition and in-licensing strategy, such as our acquisition of Triangle Pharmaceuticals, Inc. completed in January 2003. Our internal discovery activities include identification of new molecular targets, target screening and medicinal chemistry. In addition, we are currently developing products to treat HIV infection. We also have expertise in liposomal drug delivery technology that we use to develop drugs that are safer, easier for patients to tolerate and more effective.

The accompanying consolidated financial statements include the accounts of Gilead and its wholly and majority-owned subsidiaries. Significant intercompany transactions have been eliminated. Certain prior period amounts, including certain cash and cash equivalents and marketable securities, have been reclassified to be consistent with the current presentation.

Stock Split

On February 22, 2001 and on March 8, 2002, Gilead completed two-for-one stock splits, effected in the form of a stock dividend, to stockholders of record as of February 2, 2001 and February 14, 2002, respectively. Accordingly, all share and per share amounts for all periods presented reflect both of these splits.

Changes in Accounting Principles

Gilead adopted Statement of Financial Accounting Standards (SFAS) Nos. 133 and 138, collectively referred to as SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, in the first quarter of 2001. The change was accounted for as a change in accounting principle. See Note 3. Effective in the first quarter of 2000, Gilead adopted the SEC's Staff Accounting Bulletin No. 101 (SAB 101), *Revenue Recognition in Financial Statements*, and the change was also accounted for as a change in accounting principle. See Note 2.

Critical Accounting Policies and Estimates

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to revenue recognition, bad debts, inventories, accrued clinical and preclinical expenses, and contingencies. We base our estimates on historical experience and on various other market specific assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making

judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

Revenue Recognition

We recognize revenue from product sales when there is persuasive evidence an arrangement exists, delivery to the customer has occurred, the price is fixed or determinable and collectibility is reasonably assured. We do not provide our customers with a general right of product return. However, we will accept returns of products that have expired or are deemed to be damaged or defective when delivered. Upon recognition of revenue from product sales, provisions are made for expected returns of expired products, Medicaid reimbursements and customer incentives, such as cash discounts for prompt payment. Estimates for Medicaid reimbursements and cash discounts are based on contractual terms and expectations regarding the utilization rates for these programs. Estimates for product returns, including new products, are based on an on-going analysis of industry and historical return patterns, as well as the purchase of third party data to assist the Company in monitoring channel inventory levels and subsequent prescriptions.

Contract revenue for research and development is recorded as performance occurs and the earnings process is completed based on the performance requirements of the contract. Nonrefundable contract fees for which no further performance obligations exist, and there is no continuing involvement by Gilead, are recognized on the earlier of when the payments are received or when collection is assured.

Revenue from non-refundable up-front license fees and milestone payments where we continue involvement through development collaboration or an obligation to supply product, is recognized as performance occurs and performance obligations are completed. In accordance with the specific terms of Gilead's obligations under the contract, revenue is recognized as the manufacturing obligation is fulfilled or ratably over the development period or the period of the manufacturing obligation, as appropriate.

Revenue associated with substantive performance milestones is recognized based upon the achievement of the milestones on completion of all performance requirements, as defined in the respective agreements. Revenue under research and development cost reimbursement contracts is recognized as the related costs are incurred.

Advance payments received in excess of amounts earned are classified as deferred revenue.

Royalty revenue from sales of AmBisome is recognized in the month following that in which the corresponding sales occur. Royalty revenue from sales of Vistide and Tamiflu is recognized when received, which is the quarter following the quarter in which the corresponding sales occur.

Shipping and Handling Costs

Shipping and handling costs incurred for inventory purchases and product shipments are recorded in "Cost of goods sold" in the Consolidated Statements of Operations.

Research and Development Expenses

Major components of R&D expenses consist of personnel costs, including salaries and benefits, clinical studies performed by contract research organizations, materials and supplies, and overhead allocations consisting of various administrative and facilities related costs. Our research and development activities are also separated into three main categories: research, clinical development and pharmaceutical development. Research costs typically consist of preclinical and toxicology work. Clinical development costs include Phase 1, 2, and 3 clinical

trials as well as expanded access programs. Pharmaceutical development costs consist of product formulation and chemical analysis.

We record accruals for estimated clinical and preclinical study costs. These costs are a significant component of R&D expenses. We accrue costs for clinical studies performed by contract research organizations based on estimates that the work performed under the contracts occurs ratably over the period to the expected milestone, event or total contract completion date. The expected completion dates are estimated based upon the terms of the contracts and past experience with similar contracts. Generally, this results in 25% to 30% of the total costs which are milestone or event driven as specified in the contract and occur within a few months after the contract has been established, being expensed on a straight-line basis over the first two to three months of the contract. The remaining activity and related costs occurring, such as reimbursable costs, and payments generally occur ratably throughout the life of the individual contract or study and these costs are expensed on a straight-line basis over the term of the contract or study. The estimate may or may not match the actual services performed by the organizations as determined by patient enrollment levels and related activities. We monitor patient enrollment levels and related activity and adjust our estimates accordingly. Through December 31, 2002, we have not understated or overstated activity levels for any particular study such that a material adjustment was required.

Advertising Expenses

We expense the costs of advertising, including promotional expenses, as incurred. Advertising expenses were $39.3 million in 2002, $16.5 million in 2001, and $8.4 million in 2000.

Stock-Based Compensation

In accordance with the provisions of SFAS No. 123, *Accounting For Stock-Based Compensation*, the Company has elected to continue to follow Accounting Principles Board Opinion (APB) No. 25, *Accounting For Stock Issued To Employees*, and Interpretation No. 44 (FIN 44), *Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB Opinion No. 25,* in accounting for its employee stock option plans. Under APB 25, if the exercise price of Gilead's employee and director stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized. Although the Company has elected to follow the intrinsic value method prescribed by APB 25, it will continue to evaluate its approach to accounting for stock options in light of ongoing industry and regulatory developments. See Note 14 for pro forma disclosures of stock-based compensation pursuant to SFAS 123, as amended by SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure*.

The table below presents the combined net income (loss) and basic and diluted net income (loss) per common share if compensation cost for the Gilead and NeXstar stock option plans and the ESPP had been determined based on the estimated fair value of awards under those plans on the grant or purchase date (in thousands, except per share amounts):

	Year Ended December 31,		
	2002	2001	2000
Net income (loss) as reported	$ 72,097	$ 52,271	$ (56,776)
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	72,137	50,081	34,999
Pro forma net income (loss) (in thousands)	$ (40)	$ 2,190	$ (91,775)
Earnings (loss) per share:			
Basic as reported	$ 0.37	$ 0.28	$ (0.31)
Basic pro forma	$ 0.00	$ 0.01	$ (0.50)
Diluted as reported	$ 0.35	$ 0.26	$ (0.31)
Diluted pro forma	$ 0.00	$ 0.01	$ (0.50)

Fair values of awards granted under the stock option plans and ESPP were estimated at grant or purchase dates using a Black-Scholes option pricing model. We used the multiple option approach and the following assumptions:

	Year Ended December 31,

	2002	2001	2000
Expected life in years (from vesting date):			
Stock options	1.86	1.95	1.88
ESPP	1.31	1.29	1.45
Discount rate:			
Stock options	3.9%	4.6%	6.3%
ESPP	3.0%	4.7%	5.5%
Volatility	82%	83%	84%
Expected dividend yield	0%	0%	0%

The weighted average estimated fair value of ESPP shares purchased was $18.54 for 2002, $11.57 for 2001 and $6.06 for 2000.

Per Share Computations

For 2002 and 2001, basic net income per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per common share for 2002 includes the effects of approximately 10.9 million stock options but does not include the effect of the $250.0 million 5% convertible notes, which would convert to approximately 10.2 million shares, or the $345.0 million 2% convertible notes, which would convert to approximately 7.3 million

shares, as the effect of their assumed conversion is antidilutive. Diluted net income per common share for 2001 includes the effects of approximately 12.1 million stock options and warrants, but does not include the effect of the $250.0 million 5% convertible notes which would convert to approximately 10.2 million shares, as the effect of their assumed conversion is antidilutive. For 2000, both basic and diluted loss per common share are computed based on the weighted average number of common shares outstanding during the period. The potential common shares from convertible notes, stock options and warrants, as well as the convertible debentures that were previously outstanding, were excluded from the computation of diluted loss per share in 2000, as their effect would be antidilutive.

Cash and Cash Equivalents

We consider highly liquid investments with insignificant interest rate risk and a remaining maturity of three months or less at the purchase date to be cash equivalents. We may enter into overnight repurchase agreements under which we purchase securities with an obligation to resell them the following day. Securities purchased under agreements to resell are recorded at face value and reported as cash and cash equivalents. Under our investment policy, we may enter into repurchase agreements (repos) with major banks and authorized dealers provided that such repos are collateralized by U.S. government securities with a fair value of at least 102% of the fair value of securities sold to Gilead.

During the fourth quarter of 2002, a misclassification was discovered in the previously reported December 31, 2001 balance sheet and cash flow statement. At December 31, 2001, $38.8 million of OSI stock received in consideration for the divestiture of our oncology assets was misclassified on the balance sheet as cash and cash equivalents instead of as marketable securities. The December 31, 2001 consolidated balance sheet and 2001 consolidated statement of cash flows in this report have been changed to reflect the correct classification.

Marketable Securities

Management determines the appropriate classification of our marketable securities, which consists solely of debt securities, at the time of purchase and reevaluates such designation at each balance sheet date. All of our marketable securities are classified as available-for-sale and carried at estimated fair values and reported in either cash equivalents or marketable securities. At December 31, 2002, cash and cash equivalents include $559.8 million of securities designated as available-for-sale ($82.3 million at December 31, 2001). Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported as a separate component of stockholders' equity. Interest income includes interest, dividends, amortization of purchase premiums and discounts, and realized gains and losses on sales of securities. The cost of securities sold is based on the specific identification method. We regularly review all of our investments for other-than-temporary declines in fair value. When we determine that the decline in fair value of an investment below our accounting basis is other-than-temporary, we reduce the carrying value of the securities we hold and record a loss in the amount of any such decline. No such reductions have been required during the past three years.

Concentrations of Credit Risk

Gilead is subject to credit risk from its portfolio of cash equivalents and marketable securities. By policy, we limit amounts invested in such securities by duration, industry group, investment type and

issuer, except for securities issued by the U.S. government. Gilead is not exposed to any significant concentrations of credit risk from these financial instruments. The goals of our investment policy, in order of priority, are as follows: safety and preservation of principal and diversification of risk; liquidity of investments sufficient to meet cash flow requirements; and competitive after-tax rate of return.

Gilead is also subject to credit risk from its accounts receivable related to product sales. A significant amount of our trade accounts receivable arises from sales of AmBisome and Viread, primarily through sales by our European subsidiaries and export sales to our distributors in Europe. In certain countries where payments are typically slow, primarily Greece, Spain, Portugal and Italy, our accounts receivable balances are significant. In most cases, these slow payment practices reflect the pace at which governmental entities reimburse our customers. This, in turn, may increase the financial risk related to certain of our customers. Sales to customers in countries that tend to be relatively slow paying have in the past increased, and in the future may further increase, the average length of time that accounts receivable are outstanding. At December 31, 2002, our past due accounts receivable for Greece, Spain, Portugal and Italy totaled approximately $49.7 million, of which approximately $26.6 million was more than 120 days past due. At December 31, 2001, past due receivables for these countries were $28.7 million, of which approximately $9.9 million was more than 120 days past due. To date, we have not experienced significant losses with respect to the collection of our accounts receivable and believe that all our past due accounts receivable as reflected in the consolidated balance sheet, including those due from customers in these four countries, are collectible. We perform credit evaluations of our customer's financial condition and generally have not required collateral.

Many of the materials that we utilize in our operations are made at only one facility. For example, we depend on single suppliers for high quality amphotericin B, daunorubicin HCl, distearoylphosphatidylcholine and high quality cholesterol, each of which is used in the manufacture of one or more of our liposomal products. If supplies from our suppliers were interrupted for any reason, we may be unable to ship Viread, AmBisome, Hepsera, Vistide or DaunoXome, or to supply any of our products in development for clinical trials.

As of December 31, 2002, we had a $50.0 million note receivable from Triangle Pharmaceuticals, Inc. incurred in conjunction with the acquisition completed in January 2003. This note was not included in cash, cash equivalents, and marketable securities and has subsequently been eliminated in consolidation as a result of the closing of the acquisition on January 23, 2003.

Inventories

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

Property, Plant and Equipment

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

Description	Estimated Useful Life (in years)
Building and leasehold improvements	20
Laboratory and manufacturing equipment	4-10
Office and computer equipment	2-6

Office and computer equipment includes capitalized computer software. All of our capitalized software is purchased. We have no internally developed computer software. Leasehold improvements and capitalized leased equipment are amortized over the shorter of the lease term or the item's useful life. Capitalized interest on construction in progress is included in property, plant and equipment.

Other Noncurrent Assets

Other noncurrent assets at December 31, 2002 and 2001 includes $10.5 and $11.0 million, respectively, of prepaid royalties paid to the Institute of Organic Chemistry and Biochemistry of the Academy of Sciences of the Czech Republic and Rega Stichting (IOCB/REGA), as discussed under the "IOCB/REGA" caption of Note 9. Also included in other noncurrent assets at December 31, 2002 and 2001 are net deferred debt issuance costs of $14.0 million and $6.9 million, respectively, related to the $345.0 million 2% convertible senior notes issued in December 2002 and to the $250.0 million 5% subordinated convertible notes Gilead issued in December 2000.

Long-Lived Assets

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

a significant decrease in the fair value of an asset;

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

a significant adverse change in legal factors or in the business climate that affects the value of an asset;

an adverse action or assessment by the U.S. Food and Drug Administration or another regulator;

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

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

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

Foreign Currency Translation, Transactions and Contracts

Adjustments resulting from translating the financial statements of our foreign subsidiaries into U.S. dollars are excluded from the determination of net income and are accumulated in a separate component of stockholders' equity. Net foreign exchange transaction gains (losses) are reported as a selling, general and administrative expense in the consolidated statements of operations. Such realized gains (losses) were $0.6 million in 2002, ($1.4) million in 2001 and ($0.5) million in 2000.

We hedge certain of our foreign currency exposures related to outstanding trade accounts receivable, firmly committed purchase transactions, and forecasted product sales with foreign exchange forward contracts. In general, these contracts do not expose us to market risk because gains and losses on the contracts offset gains and losses on the transactions being hedged. Our exposure to credit risk from these contracts is a function of changes in interest and currency exchange rates and, therefore, varies over time. Gilead limits the risk that counterparties to these contracts may be unable to perform by transacting only with major U.S. banks. We also limit risk of loss by entering into contracts that provide for net settlement at maturity. Therefore, our overall risk of loss in the event of a counterparty default is limited to the amount of any unrecognized and unrealized gains on outstanding contracts (i.e., those contracts that have a positive fair value) at the date of default. We do not enter into speculative foreign currency transactions and do not write options. We presently do not hedge our net investment in any of our foreign subsidiaries. In accounting for hedges of accounts receivable, we record the changes in the fair value in selling, general and administrative expense, as these derivative instruments are not designated as hedges under FAS No. 133.

We selectively hedge anticipated currency exposures by purchasing forward contracts to hedge firmly committed purchases transactions and anticipated products sales, which are designated as cash flow hedges under SFAS 133. The unrealized gains and losses on the underlying forward contracts are recorded in other comprehensive income and recognized in earnings when the forecasted transaction occurs. At December 31, 2002 and December 31, 2001, we have net unrealized losses on our open foreign exchange forward contracts of $1.1 million and $0.9 million, respectively. Losses on revenue hedges reduced product revenues by $1.0 million in 2002.

We had notional amounts on forward exchange contracts outstanding of $53.5 million at December 31, 2002 and $72.3 million at December 31, 2001. The contracts have maturities of one year or less with one exception. One hedge contract intended to hedge raw materials purchases in the first quarter of 2004, with a notional amount of $4.3 million and an insignificant fair value at December 31, 2002, has a maturity of 13 months.

See Note 3 for a further discussion of derivative financial instruments and our adoption of SFAS 133.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, certain other non-current assets, forward foreign exchange contracts, accounts payable, long-term obligations and convertible notes. Cash and cash equivalents, marketable securities and forward foreign exchange contracts that hedge accounts receivable are reported at their respective fair values on the balance sheet. Forward foreign exchange contracts that hedge firmly committed purchases are recorded at fair value, net of the related deferred gain or loss, resulting in a reported net balance of zero. The fair value of the convertible senior notes at December 31, 2002 was $357.4 million. The carrying value at December 31, 2002 was $345.0 million. The fair value of the convertible subordinated notes at December 31, 2002 was $381.9 million and the fair value at December 31, 2001 was $382.8 million. The carrying value at the end of each period was $250.0 million. The fair values at December 31, 2002 and December 31, 2001 for each of the convertible notes were determined by obtaining quotes from a market maker for the notes. Management believes the remaining financial instruments are reported on the balance sheet at amounts that approximate current fair values.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 is not expected to have a material impact on our financial position and results of operations.

In November 2002, The EITF reached a consensus on Issue 00-21, addressing how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a standalone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions. The final consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003 with early adoption permitted. We are reviewing the provisions of this consensus to determine the effect, if any, it may have on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (or FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the

obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. Our adoption of the disclosure

provisions of FIN 45 did not have a material impact on our results of operations and financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure.* SFAS 148 is an amendment to SFAS No. 123, *Accounting for Stock-Based Compensation* issued in October 1995. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of FAS 148 are effective for fiscal years ending after December 15, 2002. We have elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25 (or APB 25), *Accounting for Stock Issued to Employees*, to account for employee stock options.

2. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), *Revenue Recognition in Financial Statements.* Among other things, SAB 101 describes the SEC Staff's position on the recognition of certain nonrefundable up-front fees received in connection with collaboration agreements. We previously recognized nonrefundable technology access fees received in connection with collaboration agreements as revenue when received or when collectibility was probable, and when the technology had been transferred. Effective January 1, 2000, Gilead changed its method of accounting for these fees to recognize them as the related manufacturing obligation is fulfilled or on a straight-line basis over the term of the related research and development collaboration, manufacturing or supply arrangement, as appropriate, as this method best matches the effort provided. Management believes the change in accounting principle is preferable based on guidance provided in SAB 101.

The cumulative effect of the change in accounting principle was recorded in the fourth quarter of 2000, retroactively effective as of January 1, 2000, as deferred revenue that will be recognized as contract revenue over the remaining term of the research and development, manufacturing or supply arrangements, as appropriate. For the year ended December 31, 2000, the net impact of the change in accounting principle was to increase the net loss by $10.7 million, or $0.06 per share. The loss consists of a $13.7 million cumulative effect of the change as of January 1, 2000, net of $2.9 million of related deferred revenue that was recognized as contract revenue during the year 2000. An additional $4.7 million of contract revenue was recognized through 2002, and the remainder of the $6.1 million related deferred revenue balance as of December 31, 2002, is expected to be recognized as revenue through 2012.

3. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2001, Gilead adopted SFAS 133. The standard requires that Gilead recognize all derivatives as either assets or liabilities measured at fair value. The Company enters into foreign currency forward contracts to hedge against changes in the fair value of monetary assets and liabilities denominated in a non-functional currency. If the derivative is designated as, and meets the definition of, a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings.

The Company also enters into foreign currency forward contracts, generally with maturities of 12 months or less, to hedge future cash flows related to purchase transactions and forecasted product sales in foreign denominated currencies. These derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. In accordance with SFAS 133, hedges related to anticipated foreign currency purchases of raw materials and forecasted product sales designated and documented at the inception of the respective hedge are designated as cash flow hedges and evaluated for effectiveness quarterly. As the terms of the forward contract and the underlying transaction are matched at inception, forward contract effectiveness is calculated by comparing the fair value of the contract to the change in the forward value of the underlying hedged item. Upon adoption of SFAS 133, we recorded a fair value of $0.6 million related to forward contracts previously not reflected in the balance sheet and recognized a cumulative transition adjustment to other comprehensive income of $0.6 million for the effective component of the hedge. Substantially all values reported in other comprehensive income at December 31, 2002 will be reclassified to earnings within 12 months. Any residual changes in fair value of the instruments or other ineffectiveness are recognized immediately in selling, general and administrative expense. Ineffectiveness during 2002 and 2001 was not significant.

Gilead holds warrants to purchase stock in two non-public companies. These warrants have net exercise features and under SFAS 133 are classified as derivative instruments. Upon adoption, Gilead recorded the fair value of one of these warrants at $1.1 million with an offsetting adjustment to cumulative change in accounting principle.

During 2002, a $0.4 million loss on hedging contracts has been recognized in the income statement and a $0.2 million increase in the fair value of derivatives has been recognized in other comprehensive income. At December 31, 2002, the fair value of derivatives included in other comprehensive income is not material.

4. SALE OF ONCOLOGY ASSETS

On December 21, 2001, Gilead completed the sale of its oncology assets, pipeline of clinical candidates in oncology and all related intellectual property, as well as our Boulder, Colorado operations, including clinical research and drug development operations, infrastructure and facilities, to OSI. The three clinical development candidates sold to OSI were: NX 211 (liposomal lurtotecan), GS 7836 (a nucleoside analogue) and GS 7904L (a liposomal thymidylate synthase inhibitor). As consideration, Gilead received $130.0 million in cash and 924,984 shares of OSI common stock valued at approximately $38.8 million as of December 21, 2001. The number of shares issued to Gilead was determined by dividing $40.0 million by the average closing sale price of OSI common stock for the 5 days preceding December 21, 2001. We are also entitled to additional payments from OSI of up to $30.0 million in either cash or a combination of cash and OSI common stock if and when OSI reaches

certain development milestones for NX 211, the most advanced of the oncology product candidates sold to OSI. Milestone payments, if any, received from OSI will be recognized as contract revenues upon receipt. Based upon the December 21, 2001 net book value of the oncology assets sold of $5.0 million, transaction costs of $3.2 million, and $2.8 million related to the acceleration of approximately 78,000 options to purchase Gilead common stock, we realized a pretax gain of $157.8 million in the fourth quarter of 2001. The carrying value of the transferred assets relates primarily to certain property and equipment. OSI assumed all of Gilead's oncology-related clinical and preclinical obligations, as well as various lease obligations. Under a related manufacturing agreement, we will produce for OSI liposomal formulations of NX 211 and GS 7904L, the two liposomal products sold to OSI, at our manufacturing facility in San Dimas, CA.

5. SALE OF MARKETABLE SECURITIES

In July 2002, Gilead sold all of its remaining shares of OSI common stock for approximately $22.0 million. These shares were partial consideration for the sale of our oncology assets to OSI in December 2001, at which time they were recorded at a fair market value of approximately $38.0 million. In connection with the sale of these remaining shares, we recognized a non-operating loss of approximately $16.0 million that is reflected in our results for the year ended December 31, 2002.

6. AVAILABLE-FOR-SALE SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2002				
U.S. treasury securities and obligations of U.S. government agencies	$ 419,784	$ 1,781	$ (9)	$ 421,556
Corporate debt securities	102,891	1,195	(17)	104,069
Asset-backed securities	68,708	852	(6)	69,554
Other debt securities	290,018			290,018
Total	$ 881,401	$ 3,828	$ (32)	$ 885,197
December 31, 2001				
U.S. treasury securities and obligations of U.S. government agencies	$ 64,898	$ 854	$ (41)	$ 65,711
Certificates of deposit	6,093	7		6,100
Corporate debt securities	265,532	3,533	(717)	268,348

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate equity securities	38,849	3,459		42,308
Asset-backed securities	58,309	1,154	(2)	59,461
Other debt securities	99,757			99,757
Total	$ 533,438	$ 9,007	$ (760)	$ 541,685

Other debt securities consist primarily of money market funds. We also maintain other marketable securities of nominal value recorded in other noncurrent assets. At December 31, 2002, these securities have a net unrealized loss of approximately $0.1 million.

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

	Year Ended December 31,		
	2002	2001	2000
Proceeds from sales	$ 422,168	$ 143,684	$ 29,490
Gross realized gains on sales	$ 3,492	$ 1,284	$ 62
Gross realized losses on sales	$ (16,705)	$ (59)	$ (146)

At December 31, 2002, $624.5 million of our portfolio of marketable securities (excluding $69.6 million of asset-backed securities) has a contractual maturity of less than one year and $191.1 million of the portfolio has a contractual maturity greater than one year but less than three years. None of the estimated maturities of our asset-backed securities exceed three years.

7. NOTE RECEIVABLE

In December 2002, as part of the arrangements contemplated by the proposed acquisition of Triangle by Gilead, a $50.0 million loan was extended to Triangle for working capital and other corporate purposes. Triangle issued to Gilead a 7.50% unsecured convertible promissory note. Upon completion of the Triangle acquisition in January 2003, this loan was eliminated in our consolidated results as a result of the closing of the acquisition on January 23, 2003. See Note 20.

8. BALANCE SHEET DETAIL (In thousands)

	December 31,	
	2002	2001
Inventories:		
Raw materials	$ 24,840	$ 18,086
Work in process	16,548	10,004
Finished goods	10,240	11,190
Total	$ 51,628	$ 39,280

Property, plant and equipment, net:

	December 31,	
Building and improvements (including leasehold improvements)	$ 61,010	$ 55,658
Laboratory and manufacturing equipment	37,108	32,867
Office and computer equipment	27,005	22,574
Capitalized leased equipment	14,915	13,791
Construction in progress	8,467	6,238
	148,505	131,128
Less accumulated depreciation and amortization	(80,778)	(68,300)
Total	$ 67,727	$ 62,828
Other accrued liabilities:		
Accrued Medicaid rebates	$ 10,805	$ 2,489
Accrued sales and marketing expenses	8,205	1,586
Other liabilities	25,016	20,754
Total	$ 44,026	$ 24,829

9. COLLABORATIVE ARRANGEMENTS AND CONTRACTS

GlaxoSmithKline

In April 2002, Gilead and GSK entered into a licensing agreement providing GSK the rights to commercialize Hepsera, Gilead's antiviral for the treatment of chronic hepatitis B, in Asia, Latin America and certain other territories. Under the agreement, Gilead retained rights to Hepsera in the United States, Canada, Eastern and Western Europe, Australia and New Zealand. GSK received exclusive rights to develop Hepsera solely for the treatment of hepatitis B in all of its territories, the most significant of which include China, Korea, Japan and Taiwan. In addition, GSK paid us an up-front licensing fee of $10.0 million, and we are entitled to receive additional cash payments of up to $30.0 million upon achievement by GSK of certain regulatory, development and commercial milestones. Of this $30.0 million, $2.0 million was received for the U.S. approval of Hepsera in September 2002. GSK also will pay Gilead a royalty on net sales, if any, of Hepsera in the GSK territories. GSK will have full responsibility for development and commercialization of Hepsera in GSK's territories. The $10.0 million up-front fee and $2.0 million U.S. approval fee have been recorded as deferred revenue in 2002 with a total of $0.5 million being recognized as contract revenue in 2002. The balance of

deferred revenue at December 31, 2002 will be amortized into contract revenue over the period of Gilead's remaining obligations under the agreement, approximately 14 years.

In December 2000, Gilead entered into an agreement with Glaxo Wellcome, now GSK giving Gilead the rights to GS 7904L, a novel anti-tumor compound. Gilead was developing GS 7904L in a liposome and was evaluating it in preclinical studies. Under the agreement, Gilead had exclusive worldwide rights to develop and commercialize GS 7904L for all indications other than malaria. Gilead paid GSK an up-front fee that was included in R&D expense in 2000. In December 2001, this compound was assigned to OSI as part of the sale of oncology assets.

In May 1998, Gilead entered into a three-part collaboration with GSK in which (a) GSK received a non-exclusive right to use Gilead's proprietary SELEX process for target validation; (b) Gilead received exclusive rights (subject to GSK's right to elect to participate in such activities) to develop and commercialize NX 211, a liposomal formulation of GSK's proprietary topoisomerase I inhibitor (lurtotecan); and (c) GSK acquired 1,457,028 shares of Gilead common stock for $10.0 million in a private offering. In December 2000, the collaboration and license agreement was modified. Under the revised terms of agreement, GSK waived its right to participate in the development and commercialization of NX 211 and its right to receive royalties, giving Gilead exclusive rights to the compound. In December 2001, this

compound was also assigned to OSI as part of the sale of oncology assets.

Cubist Pharmaceuticals

In September 2002, Gilead and Cubist Pharmaceuticals jointly announced the termination of their licensing agreement for the commercialization of Cidecin® (daptomycin for injection) and an oral formulation of daptomycin. The agreement, executed in January 2001, granted Gilead exclusive commercialization rights to the products in 16 European countries following regulatory approval. Under the terms of the termination agreement, Gilead does not owe any future payments to Cubist, and Cubist reacquired all European rights to both products. Upon termination, $2.0 million was recorded to research and development expense, which represented the remaining unamortized asset related to the preclinical oral formulation of daptomycin.

Archemix

In October 2001, we entered into an agreement with Archemix Corporation relating to our SELEX technology. Under this agreement, Archemix obtained the exclusive rights to the SELEX process, including therapeutic and other commercial applications to the extent not already licensed under pre-existing agreements. Archemix paid to us $9.0 million in 2001 and $8.5 million in 2002. As required by our license agreement with University License Equity Holdings, Inc. (ULEHI), we paid 5% of the $9.0 million and the $8.5 million payments to ULEHI and we recognized $8.6 million and $8.1 million as revenue in 2002 and 2001, respectively. We also received a warrant to purchase 350,000 shares of Archemix common stock, the value of which is not material. As required by our license agreement with ULEHI, we transferred 5% of this warrant to ULEHI. No additional payments are due by Archemix under this agreement.

EyeTech

In March 2000, Gilead entered into an agreement with EyeTech Pharmaceuticals, Inc. relating to our proprietary aptamer EYE001, now known as Macugen. Currently in early clinical trials, Macugen is an inhibitor of vascular endothelial growth factor, or VEGF, which is known to play a role in the development of certain ophthalmic diseases. Under the terms of the agreement, EyeTech received worldwide rights to all therapeutic uses of Macugen, and, if the product is successfully commercialized, EyeTech will pay us royalties on worldwide sales of the product. EyeTech also will be responsible for all research and development costs. We provided clinical supplies of the product to EyeTech through March 2001. We also received a $7.0 million up-front licensing fee from EyeTech in April 2000, which was recognized as revenue ratably over the one-year supply agreement period. Accordingly, $5.2 million of the license fee was recorded as contract revenue under the agreement in 2000, and the remainder of the license fee was recognized as revenue in 2001. We are also entitled to additional cash payments from EyeTech of up to $25.0 million if and when EyeTech reaches certain Macugen development milestones. Additionally, we received a warrant to purchase 791,667 shares of EyeTech series B convertible preferred stock, exercisable at a price of $6.00 per share, the price at which the stock was issued to other investors. See Note 3 for a description of the accounting treatment of the warrant.

Fujisawa

Our rights to market AmBisome are subject to a 1991 agreement between Gilead and Fujisawa Healthcare, Inc., as successor to Fujisawa USA, Inc. (Fujisawa). Under the terms of the Fujisawa agreement, as amended, Fujisawa and Gilead co-promote AmBisome in the U.S., Fujisawa has sole marketing rights to AmBisome in Canada and we have exclusive marketing rights to AmBisome in the rest of the world, provided we pay royalties to Fujisawa in connection with sales in most significant Asian markets, including Japan. In connection with U.S. sales, Fujisawa purchases AmBisome from Gilead at cost. For sales in Canada, Fujisawa purchases AmBisome at cost plus a specified percentage. Fujisawa collects all payments from the sale of AmBisome in the U.S. and Canada. We receive 20% of Fujisawa's gross profits from the sale of AmBisome in the U.S. Gross profits include a deduction for cost of goods sold, giving us a current effective royalty rate of approximately 17% of Fujisawa's net sales of AmBisome in the U.S. In connection with the agreement between us and Fujisawa, we recorded royalty revenue of $15.7 million in 2002, $17.1 million in 2001 and $13.5 million in 2000.

Sumitomo

In September 1996, Gilead and Sumitomo entered into an agreement pursuant to which Sumitomo agreed to develop and market AmBisome in Japan. Under the terms of the agreement, Sumitomo paid us an initial $7.0 million licensing fee (less withholding taxes of $0.7 million) in October 1996 and a $3.0 million milestone payment (less withholding taxes of $0.3 million) in March 1998. Sumitomo also is required to make additional payments to us if certain clinical and commercial milestones are met and to pay us royalties on all Japanese AmBisome sales. Under the agreement, Gilead is obligated to provide a certain quantity of AmBisome to Sumitomo at no charge. AmBisome is not yet approved for marketing in Japan.

Subsequent to the cumulative effect of the change in accounting principle that was recorded effective in the first quarter of 2000 resulting from the adoption of SAB 101, Gilead has recognized the initial license fee over the remaining free supply arrangement period. The net impact of the change in

accounting principle for the Sumitomo License was to increase the net loss in 2000 by $3.4 million. The cumulative effect of the change in accounting principle was a charge of $5.0 million. Contract revenue of $1.6 million related to the initial licensing fee from Sumitomo was recognized as contract revenue in 2000, $2.8 million was recognized as contract revenue in 2001 and the remaining $0.6 million was recognized as contract revenue in 2002.

Roche

In September 1996, Gilead entered into a collaboration agreement with Roche to develop and commercialize therapies to treat and prevent viral influenza (the Roche Agreement). Under the Roche Agreement, Roche received exclusive worldwide rights to Gilead's proprietary influenza neuraminidase inhibitors. Prior to 2000, Roche made license fee and developmental milestone payments totaling $29.1 million. During 2000, Gilead recognized $9.6 million of contract revenue from milestone payments from Roche related to Tamiflu milestones achieved during the year. The milestones included filing for regulatory approval in Japan for treatment of influenza, the Japanese approval of the application, the filing for U.S. regulatory approval for the prevention of influenza, and the receipt of such approval in the U.S. In 2001, we recognized a $2.0 million milestone payment for the filing of an application to market Tamiflu as a prophylaxis in the European Union. In 2002, we recognized $8.0 million in milestone payments for the European approval of Tamiflu for treatment and prophylaxis.

As of December 31, 2002, Gilead is entitled to additional cash payments from Roche of up to $1.6 million upon Roche achieving additional developmental and regulatory milestones. In addition, Roche is required to pay Gilead royalties on net product sales. Gilead began receiving royalties from Roche's sales of Tamiflu in the first quarter of 2000. We recorded a total of $3.4 million of Tamiflu royalties in 2002, $4.5 million of royalties in 2001 and $9.6 million of royalties in 2000. We recognize royalty revenue from Roche in the quarter following the quarter in which the related Tamiflu sales occur.

Under the Roche Agreement, Roche also reimburses us for its related R&D costs under the program by funding such costs quarterly and generally in advance, based on an annual budget. Reimbursements are included in contract revenue as we incur the related R&D costs. Amounts incurred by us in excess of amounts funded may also be reimbursed, subject to Roche's approval. In this event, revenue is not recognized until such approval has been obtained. Conversely, if amounts funded by Roche exceed our related R&D costs, we may be required to repay such excess funding to Roche. We recorded contract revenue for R&D reimbursements related to the Roche Agreement of approximately $1.1 million over the previous three years ending in 2002. R&D costs related to the Roche Agreement approximate the reimbursement revenue and are included in R&D expenses.

Pharmacia

In August 1996, Gilead and Pharmacia Corporation (Pharmacia) entered into a License and Supply Agreement (Pharmacia Agreement) to market Vistide in all countries outside the U.S. Under the terms of the Pharmacia Agreement, Pharmacia paid Gilead an initial license fee of $10.0 million.

Subsequent to the cumulative effect of the change in accounting principle recorded effective in the first quarter of 2000, Gilead is recognizing the initial license fee on a straight-line basis over the supply arrangement period, which is sixteen years from the agreement date. The net impact of the change in accounting principle for the Pharmacia Agreement was to increase the net loss in 2000 by $7.3 million. The cumulative effect of the change in accounting principle related to the initial license fee from Pharmacia was a $7.9 million charge to results of operations, and additional contract revenue of $0.6 million was recognized in 2000 subsequent to the accounting change. The remaining $7.3 million of related deferred revenue is expected to be recognized on a straight-line basis as contract revenue over the remaining supply period, through 2013.

Under the terms of the Pharmacia Agreement and related agreements covering expanded access programs for Vistide outside of the U.S., Gilead is responsible for maintaining the cidofovir patent portfolio and for supplying to Pharmacia bulk cidofovir used to manufacture the

finished Vistide product. Gilead is entitled to receive a royalty based upon Pharmacia's sales of Vistide. Gilead receives a portion of the royalty upon shipping either bulk drug substance or Vistide to Pharmacia, and the remainder upon Pharmacia's sale of Vistide to third parties. Any royalties that Gilead receives before the product is sold to third parties are recorded as deferred revenue until such third-party sales occur. At December 31, 2002, we have recorded on our balance sheet approximately $1.9 million of such deferred revenue ($3.1 million at December 31, 2001). We recognized royalty revenue from sales of Vistide outside of the United States by Pharmacia of $1.3 million in 2002, $1.4 million in 2001 and $1.5 million in 2000.

Somalogic

In November 1999, Gilead and Somalogic, Inc. (Somalogic) entered into an agreement whereby Gilead assigned to Somalogic under a sole and exclusive license, certain intellectual property related to the SELEX process for diagnostic purposes, including patents and patent applications. Under the terms of the agreement, Somalogic was required to pay Gilead a total of $2.5 million in two nonrefundable installments. The first $1.5 million was paid in November 1999 and was included in contract revenue for the year ended December 31, 1999. The remaining $1.0 million, which was reported as deferred revenue at December 31, 1999, was received and recorded as contract revenue in 2000. Gilead has no ongoing research or funding obligations under the agreement.

IOCB/REGA

In 1991 and 1992, Gilead entered into agreements with the Institute of Organic Chemistry and Biochemistry of the Academy of Sciences of the Czech Republic and Rega Stichting (IOCB/REGA) relating to certain nucleotide compounds discovered at these two institutions. Under the agreements, Gilead received the exclusive right to manufacture, use and sell these nucleotide compounds, and Gilead is obligated to pay IOCB/REGA a percentage of net revenues received from sales of products containing the compounds, subject to minimum royalty payments. The products covered by the agreement include Vistide, Hepsera and Viread, but exclude Tamiflu. Gilead currently makes quarterly payments to IOCB/REGA based on a percentage of Vistide, Hepsera and Viread sales.

In December 2000, the agreements with IOCB/REGA were amended to provide for a reduced royalty rate on future sales of Hepsera or Viread, in return for an up-front payment from Gilead of

$11.0 million upon signing the agreement. This payment was recorded as a long-term prepaid royalty and is classified in other noncurrent assets on the balance sheet at December 31, 2002 and 2001. It is being recognized as royalty expense over the expected commercial life of Viread and Hepsera. Amortization of the $11.0 million payment began as of the product launch dates of Viread and Hepsera and totaled $0.5 million through December 31, 2002.

Southern Research Institute

In December 2000, Gilead entered into an agreement with Southern Research Institute giving Gilead worldwide rights to develop and commercialize GS 7836, an anti-tumor compound that Gilead was evaluating in preclinical studies. Under the terms of the agreement, Gilead paid Southern Research Institute an up-front fee, which was included in research and development expense in 2000. In December 2001, this compound was assigned to OSI as part of the sale of oncology assets.

10. INVESTMENT IN AND SALE OF UNCONSOLIDATED AFFILIATE

In July 1998, we established Proligo L.L.C., a Delaware limited liability company (Proligo), as a wholly owned subsidiary and transferred all of the assets of the NeXstar Technology Products division to Proligo. Proligo supplies nucleic acid and peptide synthesis products to the pharmaceutical and biopharmaceutical industry for sale and use as laboratory research reagents and in therapeutic and diagnostic products.

In August 1998, we sold a 51% interest (Interest) in Proligo to SKW Americas, Inc. (SKW). As payment for the Interest, we received $15.0 million in cash and a 49% interest in PerSeptive Biosystems GmbH, a company in Hamburg, Germany (Hamburg Company), which specializes in the manufacture of nucleoside phosphoramidite monomers. The 49% interest in the Hamburg Company had a fair market value of approximately $5.5 million. We recorded a $22.1 million gain in connection with this sale in 1998.

In January 2000 and October 1999, Gilead made two additional cash investments in Proligo for a total of $5.0 million to maintain its 49% ownership interest in Proligo. Gilead had no commitments to provide additional funding to Proligo beyond January 2000.

We accounted for our investment in Proligo using the equity method of accounting. In 2000, we recognized $2.9 million equity in Proligo's net loss, representing our 49% share of Proligo's loss for the thirteen-month period ended December 31, 2000. During the fourth quarter of 2000, Proligo changed its fiscal year end to December 31 from November 30. During 2001, Gilead sold its 49% interest in Proligo to Degussa Corporation for $14.3 million in cash. The proceeds, net of Gilead's investment in Proligo, are reflected as an $8.8 million gain on the sale of unconsolidated affiliate. In 2001, prior to the date of the sale, Gilead recorded $2.1 million as equity in the loss of Proligo.

11. LONG-TERM OBLIGATIONS

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

	December 31,	
	2002	**2001**
Capital lease obligations: monthly installments; interest rates ranging from 5.16% to 21.02%	$ 361	$ 1,466
Fixed rate debt: monthly installments through 2003; secured by equipment; interest rates ranging from 2.0% to 11.50%	106	415
Total long-term obligations	467	1,881
Less current portion	(194)	(1,492)
Long-term obligations due after one year	$ 273	$ 389

Maturities of long-term obligations, including capital lease obligations, are as follows (in thousands):

Year ending December 31,	
2003	$ 250
2004	128
2005	127
2006	84
2007	12
	601
Less amount representing interest	