SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

GLIATECH INC CIK:**885741**| IRS No.: **341587242** | State of Incorp.:**DE** | Fiscal Year End: **1231** Type: **10-K/A** | Act: **34** | File No.: **000-20096** | Film No.: **99573720** SIC: **2836** Biological products, (no disgnostic substances)	Mailing Address *23420* *COMMERCE PARK ROAD* *CLEVELAND OH 44122*	Business Address *23420 COMMERCE PARK RD* *CLEVELAND OH 44122* *2168313200*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
AMENDMENT NO. 1
TO
FORM 10-K/A
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

Commission file number 0-20096

GLIATECH INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	34-1587242
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
23420 COMMERCE PARK ROAD, CLEVELAND, OHIO	44122
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, including area code: (216) 831-3200

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value per share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 Annual Report or any amendment to this Form 10-K. |_|

Aggregate market value of Common Stock held by non-affiliates as of March 2, 1999 at a closing price of $26.00 per share as reported by the Nasdaq National Market was approximately $212,146,064. Shares of Common Stock held by each officer and director, their respective spouses, and by each person who owns or may be deemed to own 10% or more of the outstanding Common Stock have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock outstanding as of March 2, 1999 was 9,467,773.

DOCUMENTS INCORPORATED BY REFERENCE

Part of the following document is incorporated by reference to Part III of this Annual Report on Form 10-K: the Proxy Statement for the Registrant's 1999 Annual Meeting of Stockholders (the "Proxy Statement").

Although the Consolidated Statement of Cash Flows for the years ended December 31, 1997 and 1996 of this Item 8 contains certain amendments, the complete text of Item 8 is included in this Form 10-K/A pursuant to Rule 12b-15 of the Securities and Exchange Act of 1934. Accordingly, Item 8 is hereby amended and restated in its entirety as follows:

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Financial Statements

Report of Independent Auditors.

Consolidated Balance Sheets at December 31, 1998 and 1997.

Consolidated Statements of Operations for the years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1997 and 1996.

Notes to Consolidated Financial Statements.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Stockholders
Gliatech Inc.

We have audited the accompanying consolidated balance sheets of Gliatech Inc. and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gliatech Inc. and Subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
February 11, 1999

GLIATECH INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31 1998	1997
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,731,814	$ 5,601,398
Short-term investments	21,667,064	5,940,476
Accounts receivable, less allowances of $602,568 in 1998 and $41,888 in 1997	2,995,548	544,051
Government grants receivable	401,160	207,080
Inventories	776,057	164,078
Prepaid expenses and other	1,016,098	278,714

Total current assets	31,587,741	12,735,797
Property and equipment, net	1,556,815	1,277,519
Other assets, net	817,630	792,072
TOTAL ASSETS	$ 33,962,186	$ 14,805,388
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 875,462	$ 570,310
Accrued expenses	2,083,273	689,710
Accrued research contracts	1,418,653	426,336
Accrued compensation	790,041	179,018
Accrued clinical trial costs	1,127,991	690,885
Deferred research contract revenue	514,194	809,359
Total current liabilities	6,809,614	3,365,618
Stockholders' equity:		
Preferred Stock, $.01 par value: Authorized shares--5,000,000 at December 31, 1998 and 1997; None issued and outstanding at December 31, 1998 or 1997		
Common Stock, $.01 par value: Authorized shares--30,000,000 at December 31, 1998 and 1997; Issued and outstanding shares--9,410,825 at December 31, 1998 and 7,401,273 at December 31, 1997	94,109	74,013
Additional paid-in capital	72,830,961	53,379,810
Retained deficit	(45,772,498)	(42,014,053)
Total stockholders' equity	27,152,572	11,439,770
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 33,962,186	$ 14,805,388

</TABLE>

See notes to consolidated financial statements.

GLIATECH INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
REVENUES			
Product sales	$ 13,925,206	$ 1,536,440	$ 900,932
Research contracts and licensing fees	2,559,131	2,954,000	2,854,860
Government grants	846,202	410,333	122,183
Total revenues	17,330,539	4,900,773	3,877,975
OPERATING COSTS AND EXPENSES			
Cost of product sales	2,468,296	614,424	341,534
Research and development	9,757,717	6,952,247	6,119,533
Selling, general and administrative	9,359,260	4,400,535	4,070,173
Depreciation and amortization	419,293	292,746	166,411
Total operating costs and expenses	22,004,566	12,259,952	10,697,651
	(4,674,027)	(7,359,179)	(6,819,676)
Settlement of claim		(2,025,000)	
Interest income, net	915,582	823,891	1,120,121
Net loss	$ (3,758,445)	$ (8,560,288)	$ (5,699,555)

Basic and diluted net loss per common share	$ (0.44)	$ (1.16)	$ (0.78)
Shares used for purposes of computing basic and diluted net loss per common share	8,511,014	7,354,124	7,313,230

</TABLE>

See notes to consolidated financial statements.

GLIATECH INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

<S>	COMMON STOCK NUMBER OF SHARES <C>	PAR VALUE <C>	ADDITIONAL PAID-IN CAPITAL <C>	DEFERRED COMPENSATION <C>	RETAINED DEFICIT <C>	TOTAL STOCKHOLDERS' EQUITY <C>
BALANCE AT JANUARY 1, 1996	7,297,865	$72,978	$50,886,788	($23,111)	($27,754,210)	$23,182,445
Exercise of Stock Options	12,175	122	91,191			91,313
Issuance of Stock Bonus	6,088	61	51,688			51,749
Costs of Issuance of Common Stock			(21,954)			(21,954)
Exercise of Stock Warrants	3,961	40	(40)			
Deferred Compensation				23,111		23,111
Net Loss					(5,699,555)	(5,699,555)
BALANCE AT DECEMBER 31, 1996	7,320,089	73,201	51,007,673	0	(33,453,765)	17,627,109
Exercise of Stock Options	76,000	760	306,365			307,125
Issuance of Stock Bonus	5,184	52	40,772			40,824
Settlement of Claim			2,025,000			2,025,000
Net Loss					(8,560,288)	(8,560,288)
BALANCE AT DECEMBER 31, 1997	7,401,273	74,013	53,379,810	0	(42,014,053)	11,439,770
Exercise of Stock Options	84,552	846	610,052			610,898
Issuance of Common Stock for						
Settlement of Claim	200,000	2,000	(2,000)			
Issuance of Common Stock	1,725,000	17,250	18,843,099			18,860,349
Net Loss					(3,758,445)	(3,758,445)
BALANCE AT DECEMBER 31, 1998	9,410,825	$94,109	$72,830,961	$ 0	($45,772,498)	$27,152,572

</TABLE>

See notes to consolidated financial statements.

GLIATECH INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Operating activities:			
Net loss	$ (3,758,445)	$ (8,560,288)	$ (5,699,555)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	419,293	292,746	166,411
Patent cost write-off	30,002	48,668	277,889
Provision for losses on accounts receivable	560,680		
Compensation from issuance of stock and stock options			23,111
Settlement of claim		2,025,000	
Changes in operating assets and liabilities:			
Accounts receivable	(3,012,177)	(212,894)	(192,729)
Inventories	(611,979)	223,040	30,541
Government grants receivable and other assets	(931,464)	(201,228)	61,834
Accounts payable and accrued expenses	1,698,715	316,773	327,822
Other liabilities	1,745,281	(87,462)	1,137,567
Net cash used in operating activities	(3,860,095)	(6,155,645)	(3,867,109)
Investing activities:			
(Purchase) Sale of short-term investments, net	(15,726,588)	2,934,746	(6,632,281)
Payment for patent rights and trademarks	(103,770)	(186,812)	(114,629)
Purchase of property and equipment	(650,378)	(418,563)	(715,153)
Net cash (used in) provided by investing activities	(16,480,736)	2,329,371	(7,462,063)
Financing activities:			
Payment of demand note from bank			(400,000)
Proceeds from (cost of) issuance of Common Stock, net	18,860,349		(21,954)
Proceeds from exercise of stock options	610,898	307,125	91,313
Net cash provided by (used in) financing activities	19,471,247	307,125	(330,641)
Decrease in cash and cash equivalents	(869,584)	(3,519,149)	(11,659,813)
Cash and cash equivalents at beginning of year	5,601,398	9,120,547	20,780,360
Cash and cash equivalents at end of year	$ 4,731,814	$ 5,601,398	$ 9,120,547

</TABLE>

See notes to consolidated financial statements.

GLIATECH INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

A. BACKGROUND AND ACCOUNTING POLICIES

BACKGROUND

Gliatech Inc. is engaged in research, development and commercialization of the ADCON family of products, which are proprietary, resorbable, carbohydrate polymer medical devices designed to inhibit surgical scarring and adhesions. The Company is also pursuing the development of small molecule drug candidates for the treatment of several nervous system disorders, including Attention Deficit Hyperactive Disorder ("ADHD"), sleep disorders, anxiety and Alzheimer's disease ("AD").

Historically, since commencing operations in 1988, the Company had been a development stage company. However, the Company introduced its first product, ADCON-L, in the United States during 1998, resulting in significant product sales. As a result, the Company no longer considers itself a development stage company. The Company recognizes revenue from product sales upon shipment.

The consolidated financial statements reflect the financial position and results of operations of Gliatech Inc. and its wholly-owned subsidiaries (the "Company"). Intercompany balances and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount of the Company's cash equivalents approximates fair value due to the short maturity of those investments. Cash equivalents are primarily commercial paper.

SHORT-TERM INVESTMENTS

The Company's short-term investments, all of which are classified as available-for-sale, consist primarily of corporate bonds. Such investments are stated at cost, which approximates fair value due to the short-term maturities of these securities.

INVENTORIES

Inventories are stated at the lower of cost or market and are valued using the first-in, first-out method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Laboratory and office equipment and leasehold improvements are depreciated on the straight-line basis over the shorter of the lease period or the estimated useful lives (3 to 10 years).

PATENT RIGHTS AND TRADEMARKS

Patent rights are amortized on the straight-line basis over the shorter of the estimated useful life of the patented technology or the useful life of the patent, beginning at the time the patent is granted. Costs associated with patents that are abandoned are expensed at the date of abandonment. Trademark costs are amortized on the straight-line basis over the estimated useful life of the trademark, beginning at the time the trademark is granted.

GOVERNMENT GRANTS

Revenues from government grants are recognized ratably over the period of the grant.

RESEARCH CONTRACTS AND LICENSING FEE REVENUE

Revenue from the research collaboration agreements are recorded when earned as defined under the terms of the agreements. Periodic research funding payments received which are related to future performance are deferred and recognized as income when earned. Licensing fees and other milestone payments are recognized as income when earned.

INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with APBO No. 25, "Accounting for Stock Issued to Employees."

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

During 1998, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about operating segments and related disclosures about products and services, geographic area and major customers. The adoption of this statement did not effect the Company's reported financial position, results of operations or cash flows.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

B. INVENTORIES

Inventories consist of:
<TABLE>
<CAPTION>

	DECEMBER 31 1998	1997
Raw materials	$349,550	$ 36,755
Work in process	272,390	71,572
Finished goods	154,117	55,751
	$776,057	$164,078

</TABLE>

C. PROPERTY AND EQUIPMENT

Property and equipment consist of:
<TABLE>
<CAPTION>

	DECEMBER 31 1998	1997
Laboratory equipment	$ 1,472,202	$ 1,213,267
Office equipment	815,181	485,674
Leasehold improvements	1,113,321	1,051,385
	3,400,704	2,750,326
Accumulated depreciation and amortization	(1,843,889)	(1,472,807)
Property and equipment, net	$ 1,556,815	$ 1,277,519

</TABLE>

D. OTHER ASSETS

Other assets consist of:

	DECEMBER 31	
	1998	1997
Patent rights, net of accumulated amortization of $110,955 at December 31, 1998 and $82,744 at December 31, 1997	$764,182	$718,973
Trademark costs, net	39,951	59,503
Other	13,497	13,596
	$817,630	$792,072

E. FINANCING ARRANGEMENTS

The Company has an unsecured line of credit that provides for borrowings up to $1,500,000 at an interest rate of 1% above the bank's insured money market savings account rate. No borrowings were outstanding at December 31, 1998, 1997 and 1996. Rent expense relating to the operating lease of office space was approximately $356,000, $318,000 and $297,000 in 1998, 1997 and 1996, respectively. Future annual minimum lease commitments at December 31, 1998 are as follows:

1999	$ 482,125
2000	521,501
2001	521,501
2002	105,003
2003	105,003
Thereafter	612,516
Total	$2,347,649

F. INCOME TAXES

At December 31, 1998, the Company has available net operating loss carryforwards of approximately $29.0 million. In addition, the Company has approximately $2.8 million in research and development tax credit carryforwards. Such losses and credit carryforwards may be used to reduce future tax liabilities and expire at various dates between 2003 and 2013. The Company has offset the tax benefit of the net operating loss and tax credit carryforwards and other deferred tax assets with a valuation allowance as realization of the benefits is not assured.

The Company's net deferred tax assets and liabilities consist of the following:

	1998	1997
Deferred tax liabilities	$ (290,000)	$ (273,000)
Deferred tax assets:		
Amortization of capitalized research and development expenses for tax	3,740,000	4,420,000
Research and development tax credit carryforwards	2,783,000	2,119,000
Net operating tax loss carryforwards	12,369,000	9,931,000
Other	957,000	1,118,000
Total deferred tax assets	19,849,000	17,588,000
Valuation allowance	(19,559,000)	(17,315,000)
Net deferred taxes	$ 0	$ 0

Pursuant to the Tax Reform Act of 1986, the utilization of net operating loss and research and development tax credit carryforwards for tax purposes may be subject to an annual limitation if a cumulative change in ownership of more than 50% occurs over a three-year period.

G. RIGHTS PLAN

On July 1, 1997, the Company declared a dividend distribution of one right (a "Right") for each outstanding share of Common Stock. The terms of the Rights are set forth in the Rights Agreement, dated July 1, 1997, between the Company and a rights agent. The Rights generally will become exercisable and allow a holder to acquire Common Stock at a discounted price if a person or group acquires 15% or more of the outstanding shares of Common Stock of the Company. The Company is also subject to provisions of state law which will prohibit the Company from engaging in any "business combination" with a person who, together with affiliates and

associates, owns 15% or more of the Company's Common Stock (an "Interested Stockholder") for a period of three years following the date that such person became an Interested Stockholder, unless the business combination is approved in a prescribed manner or certain other requirements are satisfied.

H. STOCK OPTION PLANS

The Company has a 1989 Stock Option Plan for employees and 1992 and 1995 Stock Option Plans for members of the Company's Board of Directors. These plans provide for the granting of 1,270,000 options to employees and 190,000 options to Directors. These options generally vest over a three or four year period and become exercisable in part one year after date of grant and expire at the end of ten years. At December 31, 1998, there were 131,142 options available for future grant.

A summary of the status of the Company's three stock option plans as of December 31, 1998, 1997 and 1996 and changes during the years then ended is presented below:

	1998		1997		1996	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	1,110,175	$ 7.56	978,375	$ 6.85	765,700	$ 7.34
Granted	131,000	17.66	225,300	9.46	247,800	8.53
Exercised	(84,552)	7.23	(76,000)	4.04	(12,175)	7.50
Canceled	(31,807)	11.15	(17,500)	8.14	(22,950)	7.75
Outstanding at end of year	1,124,816	$ 8.67	1,110,175	$ 7.56	978,375	$ 6.85
Options exercisable at year-end	723,370		491,692		362,650	
Weighted-average fair value of options granted during the year	$ 11.16		$ 6.12		$ 5.15	

The following table summarizes information about options outstanding at December 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 12/31/98	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YRS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/98	WEIGHTED-AVERAGE EXERCISE PRICE
$0-5	131,800	2.20	$ .99	131,800	$ .99
5-10	720,816	7.10	8.08	510,153	8.05
10-25	272,200	8.98	13.94	81,417	12.65
	1,124,816			723,370	

At December 31, 1998, 1,255,958 shares of common stock are reserved for issuance under the stock option plans and 20,000 shares are reserved for issuance under common stock warrants outstanding for $7.50 per share.

The Company applies APBO No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for the fixed stock option plans. Had compensation cost for the Company's three stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, "Accounting for Stock-Based

Compensation," the Company's net loss and net loss per share would have increased to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

		1998	1997	1996
<S>	<C>	<C>	<C>	<C>
Net loss	As reported	$(3,758,445)	$(8,560,288)	$(5,699,555)
	Pro forma	$(5,011,723)	$(9,166,993)	$(6,351,247)
Basic and diluted net loss per common share	As reported	$ (.44)	$ (1.16)	$ (.78)
	Pro forma	$ (.59)	$ (1.25)	$ (.87)

</TABLE>

For pro forma calculations, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Expected volatility	77%	75%	67%
Risk-free interest rates	4.31-5.60%	5.71-6.48%	5.32-6.49%
Expected life	4 or 5 years	4 or 5 years	4 or 5 years

</TABLE>

I. BUSINESS SEGMENT

The Company operates in one business segment. It is engaged in the development and commercialization of the Company's principal products, the ADCON family, which are medical devices designed to inhibit excess postsurgical scarring and adhesion following surgery. The Company sells ADCON products to independent distributors in approximately 30 European countries and directly to hospitals in the United States. The Company does not have foreign facilities and therefore does not measure operating profit or loss from foreign sales.

Domestic and foreign product sales are as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Domestic product sales	$11,648,214		
Foreign product sales	2,276,992	$ 1,536,440	$ 900,932
	===========	===========	===========
Total product sales	13,925,206	1,536,440	900,932

</TABLE>

All of the Company's long-lived assets are located in the United States.

J. RESEARCH COLLABORATION AGREEMENTS

In October 1994, the Company established a research and development collaboration with Janssen Pharmaceutica, N.V. ("Janssen"), a wholly-owned subsidiary of Johnson & Johnson, for the discovery and development of compounds suitable for the treatment of Alzheimer's disease. In October 1998, this collaboration was restructured to provide for further research by the Company until May 1999. Deferred revenue related to these agreements was $514,228 and $809,359 at December 31, 1998 and 1997, respectively. In addition, Janssen is required to make milestone payments to the Company upon the achievement of development and clinical benchmarks. Johnson & Johnson has worldwide distribution rights for all products developed as a result of this collaboration. The Company will receive a royalty on sales of such products. Janssen is also responsible for all development costs, including clinical trials and obtaining regulatory approval.

K. RESEARCH, CLINICAL TRIAL, CONSULTING AND LICENSE AGREEMENTS

Since beginning operations, the Company has entered into research agreements and clinical trial agreements with universities and third parties and consulting agreements with scientific advisors. The research agreements require the Company to fund certain research activities, and are generally renewable on an annual basis. In return, the Company has rights to obtain and use exclusive licenses for the results of the research. Under license agreements with various universities, ownership of all patents resulting from research agreements will remain with the universities or researchers. The Company is required to incur all costs associated with applying for and maintaining the patents. The Company generally will obtain exclusive worldwide licensing rights and is required to remit fixed percentages, as defined, of the net selling price of licensed products and royalties received from sublicensees to the universities and researchers. The clinical trial agreements require the Company to fund the performance of specific clinical procedures and the cost of administering the clinical trials.

As of December 31, 1998, minimum commitments under research, clinical trial and consulting agreements are $1,116,761 for 1999.

L. SETTLEMENT OF CLAIM

In 1995, a dispute regarding inventorship of the ADCON(R) products and the rights of Case Western Reserve University(CWRU) to receive royalties from sales of ADCON(R) products arose between the Company and CWRU. After extensive discussions between the Company and CWRU, a complaint was filed by the Company on September 8, 1997 in the United States District Court Northern District of Ohio, Eastern Division ("Court") against CWRU and one of its employees, requesting the Court to confirm that there was no error in the omission of the employee as a named inventor of the Company's patents. The complaint was filed in response to repeated statements to the Company and the general public made by the employee and CWRU alleging that the inventorship of the patent was in error because the employee was not named. The complaint did not seek monetary damages. As an agreement in principle had been reached between the Company and CWRU in 1997, the Company recorded a charge of $2,025,000 based on the fair value of the Company's common stock at that time. The Company recorded the offset to the charge as a component of stockholders' equity in 1997.

In March 1998 the suit was dismissed pursuant to the terms and conditions of a Settlement Agreement between the Company and CWRU and the Company issued 200,000 shares of common stock to CWRU and the employee.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to the Annual Report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

GLIATECH INC.

BY: /s/ RODNEY E. DAUSCH
Rodney E. Dausch
Vice President and Chief Financial Officer

DATE: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 to the Annual Report on Form 10-K/A has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
*	President and Chief Executive	March 26, 1999
------------------------------	Officer (Principal Executive	
Thomas O. Oesterling, Ph.D.	Officer) and Director	
/s/ RODNEY E. DAUSCH	Vice President and Chief	March 26, 1999
------------------------------	Financial Officer	
Rodney E. Dausch	(Principal Financial Officer and	
	Principal Accounting Officer)	
*	Chairman of the Board	March 26, 1999

Robert P. Pinkas

*	Director	March 26, 1999
------------------------------ William A. Clarke		
	Director	March 26, 1999
------------------------------ Theodore E. Haigler, Jr.		
*	Director	March 26, 1999
------------------------------ Ronald D. Henriksen		
*	Director	March 26, 1999
------------------------------ Irving S. Shapiro		
*	Director	March 26, 1999
------------------------------ John L. Ufheil		

</TABLE>

* The undersigned, by signing his name hereto, does sign and execute this Amendment No. 1 to the Annual Report on Form 10-K/A pursuant to the Powers of Attorney executed by the above-named officers and Directors of the Company and filed with the Securities and Exchange Commission on behalf of such officers and Directors.

By: /s/ RODNEY E. DAUSCH March 26, 1999
RODNEY E. DAUSCH, ATTORNEY-IN-FACT