

GILEAD SCIENCES INC  
Form 10-Q  
May 07, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the quarterly period ended March 31, 2014

or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 0-19731

GILEAD SCIENCES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 94-3047598  
(State or Other Jurisdiction of (IRS Employer  
Incorporation or Organization) Identification No.)

333 Lakeside Drive, Foster City, California 94404  
(Address of principal executive offices) (Zip Code)

650-574-3000  
Registrant's Telephone Number, Including Area Code

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of April 25, 2014:  
1,535,682,107

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We own or have rights to various trademarks, copyrights and trade names used in our business, including the following: GILEAD®, GILEAD SCIENCES®, SOVALDI®, STRIBILD®, COMPLERA®, EVIPLERA®, TRUVADA®, VIREAD®, EMTRIVA®, TYBOST®, HEPSERA®, VITEKTA®, LETAIRIS®, RANEXA®,

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CAYSTON<sup>®</sup>, AMBISOME<sup>®</sup>, VISTIDE<sup>®</sup>, VOLIBRIS<sup>®</sup>, and RAPISCAN<sup>®</sup>. ATRIPLA<sup>®</sup> is a registered trademark belonging to Bristol-Myers Squibb & Gilead Sciences, LLC. LEXISCAN<sup>®</sup> is a registered trademark belonging to Astellas U.S. LLC. MACUGEN<sup>®</sup> is a registered trademark belonging to Eyetech, Inc. SUSTIVA<sup>®</sup> is a registered trademark of Bristol-Myers Squibb Pharma Company. TAMIFLU<sup>®</sup> is a registered trademark belonging to Hoffmann-La Roche Inc. This report also includes other trademarks, service marks and trade names of other companies.

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## PART I. FINANCIAL INFORMATION

## ITEM I. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## GILEAD SCIENCES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

|   | March 31,<br>2014<br>(unaudited) | December 31,<br>2013 |
|---|----------------------------------|----------------------|
| Assets  |                                  |                      |
| Current assets:   |                                  |                      |
| Cash and cash equivalents   | \$6,404,153                      | \$2,112,806          |
| Short-term marketable securities  | 64,877                           | 18,756               |
| Accounts receivable, net  | 3,236,195                        | 2,100,286            |
| Inventories   | 2,140,228                        | 2,055,788            |
| Deferred tax assets   | 348,942                          | 330,530              |
| Prepaid taxes   | 367,993                          | 398,010              |
| Prepaid expenses  | 207,230                          | 165,652              |
| Other current assets  | 201,011                          | 91,925               |
| Total current assets  | 12,970,629                       | 7,273,753            |
| Property, plant and equipment, net  | 1,303,029                        | 1,166,181            |
| Long-term portion of prepaid royalties  | 191,345                          | 198,766              |
| Long-term deferred tax assets   | 138,966                          | 154,765              |
| Long-term marketable securities   | 389,871                          | 439,028              |
| Intangible assets, net  | 11,707,830                       | 11,900,106           |
| Goodwill  | 1,171,561                        | 1,169,023            |
| Other long-term assets  | 204,461                          | 195,163              |
| Total assets  | \$28,077,692                     | \$22,496,785         |
| Liabilities and Stockholders' Equity  |                                  |                      |
| Current liabilities:  |                                  |                      |
| Accounts payable  | \$1,234,507                      | \$1,255,914          |
| Accrued government rebates  | 1,139,093                        | 983,490              |
| Accrued compensation and employee benefits  | 181,799                          | 243,540              |
| Income taxes payable  | 152,953                          | 10,855               |
| Other accrued liabilities   | 1,222,821                        | 1,023,938            |
| Deferred revenues   | 111,792                          | 110,640              |
| Current portion of long-term debt and other obligations, net  | 1,871,811                        | 2,697,044            |
| Total current liabilities   | 5,914,776                        | 6,325,421            |
| Long-term debt, net   | 7,932,032                        | 3,938,708            |
| Long-term income taxes payable  | 226,018                          | 162,412              |
| Long-term deferred tax liabilities  | 81,960                           | 83,286               |
| Other long-term obligations   | 174,945                          | 178,626              |
| Commitments and contingencies   |                                  |                      |
| Equity component of currently redeemable convertible notes  | 45,767                           | 63,831               |
| Stockholders' equity:   |                                  |                      |
| Preferred stock, par value \$0.001 per share; 5,000 shares authorized; none outstanding   | —                                | —                    |
| Common stock, par value \$0.001 per share; shares authorized of 5,600,000; shares issued and outstanding of 1,537,642 and 1,534,414 | 1,538                            | 1,534                |

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|  |              |              |
|--|--------------|--------------|
| Additional paid-in capital                 | 5,746,574    | 5,386,735    |
| Accumulated other comprehensive loss       | (95,769      | ) (124,446 ) |
| Retained earnings                          | 7,734,979    | 6,105,244    |
| Total Gilead stockholders' equity          | 13,387,322   | 11,369,067   |
| Noncontrolling interest                    | 314,872      | 375,434      |
| Total stockholders' equity                 | 13,702,194   | 11,744,501   |
| Total liabilities and stockholders' equity | \$28,077,692 | \$22,496,785 |
| See accompanying notes.                    |              |              |

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GILEAD SCIENCES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (unaudited)  
 (in thousands, except per share amounts)

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2014                            | 2013        |
| Revenues:   |                                 |             |
| Product sales   | \$4,870,974                     | \$2,393,568 |
| Royalty, contract and other revenues                                    | 127,982                         | 138,067     |
| Total revenues  | 4,998,956                       | 2,531,635   |
| Costs and expenses:   |                                 |             |
| Cost of goods sold  | 813,205                         | 634,448     |
| Research and development  | 594,978                         | 497,632     |
| Selling, general and administrative                                     | 548,123                         | 374,296     |
| Total costs and expenses  | 1,956,306                       | 1,506,376   |
| Income from operations  | 3,042,650                       | 1,025,259   |
| Interest expense  | (76,269 )                       | (81,787 )   |
| Other income (expense), net   | (17,912 )                       | (3,324 )    |
| Income before provision for income taxes                                | 2,948,469                       | 940,148     |
| Provision for income taxes  | 725,882                         | 222,438     |
| Net income  | 2,222,587                       | 717,710     |
| Net loss attributable to noncontrolling interest                        | 4,823                           | 4,476       |
| Net income attributable to Gilead                                       | \$2,227,410                     | \$722,186   |
| Net income per share attributable to Gilead common stockholders—basic   | \$1.45                          | \$0.47      |
| Shares used in per share calculation—basic                              | 1,536,525                       | 1,521,372   |
| Net income per share attributable to Gilead common stockholders—diluted | \$1.33                          | \$0.43      |
| Shares used in per share calculation—diluted                            | 1,679,871                       | 1,665,060   |

See accompanying notes.

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GILEAD SCIENCES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited)  
 (in thousands)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 2013      |
| Net income  | \$2,222,587                     | \$717,710 |
| Other comprehensive income:   |                                 |           |
| Change in foreign currency translation gain (loss), net of tax                      | 5,783                           | (8,956 )  |
| Available-for-sale securities:  |                                 |           |
| Change in net unrealized gains (losses), net of tax impact of \$82 and \$(1,016)    | 147                             | 1,785     |
| Reclassifications to net income, net of tax impact of \$(114) and \$(9)             | (199 )                          | (17 )     |
| Net change  | (52 )                           | 1,768     |
| Cash flow hedges:   |                                 |           |
| Change in net unrealized gains (losses), net of tax impact of \$1,732 and \$(1,849) | 1,265                           | 74,060    |
| Reclassifications to net income, net of tax impact of \$(990) and \$(11)            | 21,681                          | (451 )    |
| Net change  | 22,946                          | 73,609    |
| Other comprehensive income  | 28,677                          | 66,421    |
| Comprehensive income  | 2,251,264                       | 784,131   |
| Comprehensive loss attributable to noncontrolling interest                          | 4,823                           | 4,476     |
| Comprehensive income attributable to Gilead   | \$2,256,087                     | \$788,607 |

See accompanying notes.

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GILEAD SCIENCES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited)  
 (in thousands)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 2013      |
| <b>Operating Activities:</b>  |                                 |           |
| Net income  | \$2,222,587                     | \$717,710 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Depreciation expense  | 24,510                          | 23,973    |
| Amortization expense  | 216,530                         | 50,353    |
| Stock-based compensation expense  | 82,181                          | 61,767    |
| Excess tax benefits from stock-based compensation                                 | (156,695)                       | (40,746)  |
| Tax benefits from employee stock plans  | 157,654                         | 38,905    |
| Deferred income taxes   | (3,321)                         | 39,301    |
| Change in fair value of contingent consideration                                  | 2,678                           | 6,024     |
| Other   | 3,120                           | 8,262     |
| Changes in operating assets and liabilities:                                      |                                 |           |
| Accounts receivable, net  | (1,117,620)                     | (231,781) |
| Inventories   | (84,611)                        | (57,109)  |
| Prepaid expenses and other assets   | (169,380)                       | (187,304) |
| Accounts payable  | (20,117)                        | 30,792    |
| Income taxes payable  | 240,973                         | 12,056    |
| Accrued liabilities   | 166,263                         | 167,018   |
| Deferred revenues   | 3,266                           | 32,880    |
| Net cash provided by operating activities   | 1,568,018                       | 672,101   |
| <b>Investing Activities:</b>  |                                 |           |
| Purchases of marketable securities  | (94,340)                        | (62,604)  |
| Proceeds from sales of marketable securities                                      | 83,224                          | 65,985    |
| Proceeds from maturities of marketable securities                                 | 13,666                          | 6,862     |
| Acquisitions, net of cash acquired  | —                               | (378,645) |
| Capital expenditures  | (163,490)                       | (38,854)  |
| Net cash used in investing activities   | (160,940)                       | (407,256) |
| <b>Financing Activities:</b>  |                                 |           |
| Proceeds from debt financing, net of issuance costs                               | 3,967,914                       | —         |
| Proceeds from convertible note hedges   | 601,591                         | 100,771   |
| Purchases of convertible note hedges  | (26,249)                        | —         |
| Proceeds from issuances of common stock   | 108,727                         | 86,049    |
| Repurchases of common stock   | (450,087)                       | (82,239)  |
| Repayments of debt and other long-term obligations                                | (1,418,716)                     | (347,916) |
| Excess tax benefits from stock-based compensation                                 | 156,695                         | 40,746    |
| Contributions from (distributions to) noncontrolling interest                     | (55,739)                        | 3,588     |
| Net cash provided by (used in) financing activities                               | 2,884,136                       | (199,001) |
| Effect of exchange rate changes on cash   | 133                             | (5,566)   |
| Net change in cash and cash equivalents   | 4,291,347                       | 60,278    |
| Cash and cash equivalents at beginning of period                                  | 2,112,806                       | 1,803,694 |

|  |             |             |
|--|-------------|-------------|
| Cash and cash equivalents at end of period | \$6,404,153 | \$1,863,972 |
|--|-------------|-------------|

See accompanying notes.

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GILEAD SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments) that the management of Gilead Sciences, Inc. (Gilead, we or us) believes are necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.

The accompanying Condensed Consolidated Financial Statements include the accounts of Gilead, our wholly-owned subsidiaries and our joint ventures with Bristol-Myers Squibb Company (BMS), for which we are the primary beneficiary. We record a noncontrolling interest in our Condensed Consolidated Financial Statements to reflect BMS's interest in the joint ventures. All intercompany transactions have been eliminated. The Condensed Consolidated Financial Statements include the results of companies acquired by us from the date of each acquisition for the applicable reporting periods. Certain prior period amounts within our Condensed Consolidated Financial Statements and related notes have been reclassified to conform to the current presentation.

The accompanying Condensed Consolidated Financial Statements and related Notes to Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2013, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Significant Accounting Policies, Estimates and Judgments

The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an ongoing basis, management evaluates its significant accounting policies or estimates. We base our estimates on historical experience and on various market specific and other relevant assumptions that we believe 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.

Concentrations of Risk

We are subject to credit risk from our portfolio of cash equivalents and marketable securities. Under our investment policy, we limit amounts invested in such securities by credit rating, maturity, industry group, investment type and issuer, except for securities issued by the U.S. government. We are 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 a competitive after-tax rate of return.

We are also subject to credit risk from our accounts receivable related to our product sales. The majority of our trade accounts receivable arises from product sales in the United States and Europe.

As of March 31, 2014, our accounts receivable in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled approximately \$602.8 million, of which \$156.8 million were greater than 120 days past due and \$50.6 million were greater than 365 days past due. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. We believe that our allowance for doubtful accounts was adequate at March 31, 2014.

Recent Accounting Pronouncements

There have been no new accounting pronouncements during the three months ended March 31, 2014 that we believe would have a material impact on our financial position or results of operations.

## 2. FAIR VALUE MEASUREMENTS

We determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy, which establishes three levels of inputs that may be used to measure fair value, as follows:

Level 1 inputs which include quoted prices in active markets for identical assets or liabilities;

Level 2 inputs which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

For our marketable securities, we review trading activity and pricing as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data; and

Level 3 inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Our level 3 liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation.

Our financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, foreign currency exchange contracts, accounts payable and short-term and long-term debt. Cash and cash equivalents, marketable securities and foreign currency exchange contracts that hedge accounts receivable and forecasted sales are reported at their respective fair values on our Condensed Consolidated Balance Sheets. Short-term and long-term debt are reported at their amortized cost on our Condensed Consolidated Balance Sheets. The remaining financial instruments are reported on our Condensed Consolidated Balances Sheets at amounts that approximate current fair values.

The fair values of our convertible senior notes and senior unsecured notes were determined using Level 2 inputs based on their quoted market values. The following table summarizes the carrying values and fair values of our convertible senior notes and senior unsecured notes (in thousands):

| Type of Borrowing               | Description         | March 31, 2014 |            | December 31, 2013 |            |
|---------------------------------|---------------------|----------------|------------|-------------------|------------|
|                                 |                     | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| Convertible Senior              | May 2014 Notes      | \$208,471      | \$637,224  | \$234,217         | \$783,651  |
| Convertible Senior              | May 2016 Notes      | 913,478        | 2,947,013  | 1,113,043         | 3,871,516  |
| Senior Unsecured                | April 2021 Notes    | 993,996        | 1,096,750  | 993,781           | 1,075,480  |
| Senior Unsecured                | December 2014 Notes | 749,789        | 759,983    | 749,710           | 762,637    |
| Senior Unsecured                | December 2016 Notes | 699,384        | 737,961    | 699,326           | 740,705    |
| Senior Unsecured                | December 2021 Notes | 1,247,788      | 1,358,275  | 1,247,716         | 1,336,738  |
| Senior Unsecured                | December 2041 Notes | 997,904        | 1,148,870  | 997,885           | 1,118,660  |
| Senior Unsecured <sup>(1)</sup> | April 2019 Notes    | 499,146        | 496,485    | —                 | —          |
| Senior Unsecured <sup>(1)</sup> | April 2024 Notes    | 1,747,201      | 1,763,825  | —                 | —          |
| Senior Unsecured <sup>(1)</sup> | April 2044 Notes    | 1,746,613      | 1,811,250  | —                 | —          |

<sup>(1)</sup> See Note 8, Debt and Credit Facility for discussion of March 2014 financing.

The following table summarizes, for assets or liabilities recorded at fair value, the respective fair value and the classification by level of input within the fair value hierarchy previously defined (in thousands):

|  | March 31, 2014 |           |           |             | December 31, 2013 |           |           |             |
|--|----------------|-----------|-----------|-------------|-------------------|-----------|-----------|-------------|
|  | Level 1        | Level 2   | Level 3   | Total       | Level 1           | Level 2   | Level 3   | Total       |
| <b>Assets:</b>                                   |                |           |           |             |                   |           |           |             |
| <b>Debt securities:</b>                          |                |           |           |             |                   |           |           |             |
| Money market funds                               | \$5,056,350    | \$—       | \$—       | \$5,056,350 | \$1,490,964       | \$—       | \$—       | \$1,490,964 |
| Corporate debt securities                        | —              | 221,734   | —         | 221,734     | —                 | 220,025   | —         | 220,025     |
| U.S. treasury securities                         | 105,291        | —         | —         | 105,291     | 85,403            | —         | —         | 85,403      |
| U.S. government agencies securities              | —              | 72,830    | —         | 72,830      | —                 | 93,350    | —         | 93,350      |
| Residential mortgage and asset-backed securities | —              | 45,647    | —         | 45,647      | —                 | 46,941    | —         | 46,941      |
| Municipal debt securities                        | —              | 9,246     | —         | 9,246       | —                 | 12,065    | —         | 12,065      |
| Total debt securities                            | 5,161,641      | 349,457   | —         | 5,511,098   | 1,576,367         | 372,381   | —         | 1,948,748   |
| Deferred compensation plan                       | 47,913         | —         | —         | 47,913      | 44,461            | —         | —         | 44,461      |
| Derivatives                                      | —              | 11,032    | —         | 11,032      | —                 | 13,879    | —         | 13,879      |
|  | \$5,209,554    | \$360,489 | \$—       | \$5,570,043 | \$1,620,828       | \$386,260 | \$—       | \$2,007,088 |
| <b>Liabilities:</b>                              |                |           |           |             |                   |           |           |             |
| Contingent consideration                         | \$—            | \$—       | \$266,438 | \$266,438   | \$—               | \$—       | \$263,760 | \$263,760   |
| Derivatives                                      | —              | 72,366    | —         | 72,366      | —                 | 99,057    | —         | 99,057      |
| Deferred compensation plan                       | 47,913         | —         | —         | 47,913      | 44,461            | —         | —         | 44,461      |
|  | \$47,913       | \$72,366  | \$266,438 | \$386,717   | \$44,461          | \$99,057  | \$263,760 | \$407,278   |

**Level 2 Inputs**

We estimate the fair values of our government agency securities, corporate debt, residential mortgage and asset-backed securities by taking into consideration valuations obtained from third-party pricing services. The pricing services utilize industry standard valuation models, including both income- and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of and broker/dealer quotes on the same or similar securities; issuer credit spreads; benchmark securities; prepayment/default projections based on historical data and other observable inputs.

Substantially all of our foreign currency derivative contracts have maturities primarily over an 18-month time horizon and all are with counterparties that have a minimum credit rating of A- or equivalent by Standard & Poor's, Moody's Investors Service, Inc. or Fitch, Inc. We estimate the fair values of these contracts by taking into consideration valuations obtained from a third-party valuation service that utilizes an income-based industry standard valuation model for which all significant inputs are observable, either directly or indirectly. These inputs include foreign currency rates, London Interbank Offered Rates (LIBOR) and swap rates. These inputs, where applicable, are at commonly quoted intervals.

### Level 3 Inputs

As of March 31, 2014 and December 31, 2013, the only assets or liabilities that were measured using Level 3 inputs were contingent consideration liabilities. Our policy is to recognize transfers into or out of Level 3 classification as of the actual date of the event or change in circumstances that caused the transfer.

### Contingent Consideration Liabilities

In connection with certain acquisitions, we may be required to pay future consideration that is contingent upon the achievement of specified development, regulatory approval or sales-based milestone events. We estimate the fair value of the contingent consideration liabilities on the acquisition date and each reporting period thereafter using a probability-weighted income approach, which reflects the probability and timing of future payments. This fair value measurement is based on significant Level 3 inputs such as the anticipated timelines and probability of achieving development, regulatory approval or sales-based milestone events and projected revenues. The resulting probability-weighted cash flows are discounted using credit-risk adjusted interest rates.

Each reporting period thereafter, we revalue these obligations by performing a review of the assumptions listed above and record increases or decreases in the fair value of these contingent consideration obligations in research and development (R&D) expenses within our Condensed Consolidated Statements of Income until such time that the related product candidate receives marketing approval. In the absence of any significant changes in key assumptions, the quarterly determination of fair values of these contingent consideration obligations would primarily reflect the passage of time.

Significant judgment is employed in determining Level 3 inputs and fair value measurements as of the acquisition date and for each subsequent period. Updates to assumptions could have a significant impact on our results of operations in any given period and actual results may differ from estimates. For example, significant increases in the probability of achieving a milestone or projected revenues would result in a significantly higher fair value measurement while significant decreases in the estimated probability of achieving a milestone or projected revenues would result in a significantly lower fair value measurement. Significant increases in the discount rate or in the anticipated timelines would result in a significantly lower fair value measurement while significant decreases in the discount rate or anticipated timelines would result in a significantly higher fair value measurement.

The potential contingent consideration payments required upon achievement of development or regulatory approval-based milestones related to our CGI Pharmaceuticals, Inc. and Calistoga Pharmaceuticals, Inc. acquisitions range from no payment if none of the milestones are achieved to an estimated maximum of \$254.0 million (undiscounted), of which we had accrued \$221.6 million as of March 31, 2014 and \$220.5 million as of December 31, 2013. The remainder of the contingent consideration liabilities accrual as of March 31, 2014 and December 31, 2013 relates to potential future payments resulting from the acquisition of Arresto Biosciences, Inc. for royalty obligations on future sales once specified sales-based milestones are achieved.

The following table provides a rollforward of our contingent consideration liabilities, which are recorded as part of other accrued liabilities and other long-term obligations in our Condensed Consolidated Balance Sheets (in thousands):

|                                 |           |
|---------------------------------|-----------|
| Balance at December 31, 2013    | \$263,760 |
| Additions from new acquisitions | —         |
| Net changes in valuation        | 2,678     |
| Balance at March 31, 2014       | \$266,438 |

## 3. AVAILABLE-FOR-SALE SECURITIES

Estimated fair values of available-for-sale securities are generally based on prices obtained from commercial pricing services. The following table is a summary of available-for-sale debt securities recorded in cash and cash equivalents or marketable securities in our Condensed Consolidated Balance Sheets (in thousands):

|  | March 31, 2014 |                        |                         |                      | December 31, 2013 |                        |                         |                      |
|--|----------------|------------------------|-------------------------|----------------------|-------------------|------------------------|-------------------------|----------------------|
|  | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Debt securities:                                 |                |                        |                         |                      |                   |                        |                         |                      |
| Money market funds                               | \$5,056,350    | \$—                    | \$—                     | \$5,056,350          | \$1,490,964       | \$—                    | \$—                     | \$1,490,964          |
| Corporate debt securities                        | 220,999        | 801                    | (66 )                   | 221,734              | 219,242           | 885                    | (102 )                  | 220,025              |
| U.S. Treasury securities                         | 105,330        | 75                     | (114 )                  | 105,291              | 85,337            | 94                     | (28 )                   | 85,403               |
| U.S. government agencies securities              | 72,654         | 176                    | —                       | 72,830               | 93,211            | 156                    | (17 )                   | 93,350               |
| Residential mortgage and asset-backed securities | 45,624         | 59                     | (36 )                   | 45,647               | 46,969            | 37                     | (65 )                   | 46,941               |
| Municipal debt securities                        | 9,175          | 71                     | —                       | 9,246                | 12,009            | 56                     | —                       | 12,065               |
| Total  | \$5,510,132    | \$1,182                | \$(216 )                | \$5,511,098          | \$1,947,732       | \$1,228                | \$(212 )                | \$1,948,748          |

The following table summarizes the classification of the available-for-sale debt securities on our Condensed Consolidated Balance Sheets (in thousands):

|                                  | March 31, 2014 | December 31, 2013 |
|----------------------------------|----------------|-------------------|
| Cash and cash equivalents        | \$5,056,350    | \$1,490,964       |
| Short-term marketable securities | 64,877         | 18,756            |
| Long-term marketable securities  | 389,871        | 439,028           |
| Total                            | \$5,511,098    | \$1,948,748       |

Cash and cash equivalents in the table above exclude cash of \$1.35 billion as of March 31, 2014 and \$621.8 million as of December 31, 2013.

The following table summarizes our portfolio of available-for-sale debt securities by contractual maturity (in thousands):

|   | March 31, 2014 |             |
|---|----------------|-------------|
|   | Amortized Cost | Fair Value  |
| Less than one year                              | \$5,121,014    | \$5,121,227 |
| Greater than one year but less than five years  | 383,960        | 384,741     |
| Greater than five years but less than ten years | —              | —           |
| Greater than ten years                          | 5,158          | 5,130       |
| Total   | \$5,510,132    | \$5,511,098 |

The following table summarizes the gross realized gains and losses related to sales of marketable securities (in thousands):

Three Months Ended  
March 31,

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|                                | 2014  | 2013     |
|--------------------------------|-------|----------|
| Gross realized gains on sales  | \$338 | \$182    |
| Gross realized losses on sales | \$(25 | ) \$(156 |

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The cost of securities sold was determined based on the specific identification method.

The following table summarizes our available-for-sale debt securities that were in a continuous unrealized loss position, but were not deemed to be other-than-temporarily impaired (in thousands):

|  | Less Than 12 Months     |                      | 12 Months or Greater    |                      | Total                   |                      |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|  | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value |
| March 31, 2014                                   |                         |                      |                         |                      |                         |                      |
| Debt securities:                                 |                         |                      |                         |                      |                         |                      |
| U.S. treasury securities                         | \$(114)                 | ) \$44,014           | \$—                     | \$—                  | \$(114)                 | ) \$44,014           |
| Corporate debt securities                        | (66)                    | ) 37,719             | —                       | —                    | (66)                    | ) 37,719             |
| Residential mortgage and asset-backed securities | (17)                    | ) 15,248             | (19)                    | ) 3,655              | (36)                    | ) 18,903             |
| U.S. government agencies securities              | —                       | —                    | —                       | —                    | —                       | —                    |
| Total  | \$(197)                 | ) \$96,981           | \$(19)                  | ) \$3,655            | \$(216)                 | ) \$100,636          |
| December 31, 2013                                |                         |                      |                         |                      |                         |                      |
| Debt securities:                                 |                         |                      |                         |                      |                         |                      |
| U.S. treasury securities                         | \$(28)                  | ) \$24,562           | \$—                     | \$—                  | \$(28)                  | ) \$24,562           |
| Corporate debt securities                        | (102)                   | ) 37,076             | —                       | 1,505                | (102)                   | ) 38,581             |
| Residential mortgage and asset-backed securities | (38)                    | ) 19,563             | (27)                    | ) 6,731              | (65)                    | ) 26,294             |
| U.S. government agencies securities              | (17)                    | ) 10,858             | —                       | —                    | (17)                    | ) 10,858             |
| Total  | \$(185)                 | ) \$92,059           | \$(27)                  | ) \$8,236            | \$(212)                 | ) \$100,295          |

We held a total of 40 securities as of March 31, 2014 and December 31, 2013 that were in an unrealized loss position. Based on our review of these securities, we believe we had no other-than-temporary impairments on these securities as of March 31, 2014 and December 31, 2013, because we do not intend to sell these securities and we believe it is not more likely than not that we will be required to sell these securities before the recovery of their amortized cost basis.

#### 4. DERIVATIVE FINANCIAL INSTRUMENTS

We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, the most significant of which is the Euro. In order to manage this risk, we may hedge a portion of our foreign currency exposures related to outstanding monetary assets and liabilities as well as forecasted product sales using foreign currency exchange forward or option contracts. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. The credit risk associated with these contracts is driven by changes in interest and currency exchange rates and, as a result, varies over time. By working only with major banks and closely monitoring current market conditions, we seek to limit the risk that counterparties to these contracts may be unable to perform. We also seek to limit our risk of loss by entering into contracts that permit 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 gains on outstanding contracts (i.e. those contracts that have a positive fair value) at the date of default. We do not enter into derivative contracts for trading purposes.

We hedge our exposure to foreign currency exchange rate fluctuations for certain monetary assets and liabilities of our foreign subsidiaries that are denominated in a non-functional currency. The derivative instruments we use to hedge this exposure are not designated as hedges, and as a result, changes in their fair value are recorded in other income (expense), net on our Condensed Consolidated Statements of Income.

We hedge our exposure to foreign currency exchange rate fluctuations for forecasted product sales that are denominated in a non-functional currency. The derivative instruments we use to hedge this exposure are designated as

cash flow hedges and have maturity dates of 18 months or less. Upon executing a hedging contract and quarterly thereafter, we assess prospective hedge effectiveness using a regression analysis which calculates the change in cash flow as a result of the hedge instrument. On a monthly basis, we assess retrospective hedge effectiveness using a dollar offset approach. We exclude time value from our effectiveness testing and recognize changes in the time value of the hedge in other income (expense), net. The effective

component of our hedge is recorded as an unrealized gain or loss on the hedging instrument in accumulated other comprehensive income (OCI) within stockholders' equity. When the hedged forecasted transaction occurs, the hedge is de-designated and the unrealized gains or losses are reclassified into product sales. The majority of gains and losses related to the hedged forecasted transactions reported in accumulated OCI at March 31, 2014 will be reclassified to product sales within 12 months.

The cash flow effects of our derivatives contracts for the three months ended March 31, 2014 and 2013 are included within net cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows.

We had notional amounts on foreign currency exchange contracts outstanding of \$4.04 billion at March 31, 2014 and \$4.28 billion at December 31, 2013.

While all of our derivative contracts allow us the right to offset assets or liabilities, we have presented amounts on a gross basis. Under the International Swap Dealers Association, Inc. master agreements with the respective counterparties of the foreign currency exchange contracts, subject to applicable requirements, we are allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. The following table summarizes the location and fair values of derivative instruments on our Condensed Consolidated Balance Sheets (in thousands):

|  |                        | March 31, 2014    |            |                             |            |
|--|------------------------|-------------------|------------|-----------------------------|------------|
|  |                        | Asset Derivatives |            | Liability Derivatives       |            |
|  |                        | Classification    | Fair Value | Classification              | Fair Value |
| Derivatives designated as hedges:          |                        |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets   |                   | \$ 10,451  | Other accrued liabilities   | \$ 65,965  |
| Foreign currency exchange contracts        | Other long-term assets |                   | 580        | Other long-term obligations | 6,321      |
| Total derivatives designated as hedges     |                        |                   | 11,031     |                             | 72,286     |
| Derivatives not designated as hedges:      |                        |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets   |                   | 1          | Other accrued liabilities   | 80         |
| Total derivatives not designated as hedges |                        |                   | 1          |                             | 80         |
| Total derivatives                          |                        |                   | \$ 11,032  |                             | \$ 72,366  |
|  |                        | December 31, 2013 |            |                             |            |
|  |                        | Asset Derivatives |            | Liability Derivatives       |            |
|  |                        | Classification    | Fair Value | Classification              | Fair Value |
| Derivatives designated as hedges:          |                        |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets   |                   | \$ 12,647  | Other accrued liabilities   | \$ 85,541  |
| Foreign currency exchange contracts        | Other long-term assets |                   | 1,229      | Other long-term obligations | 13,299     |
| Total derivatives designated as hedges     |                        |                   | 13,876     |                             | 98,840     |
| Derivatives not designated as hedges:      |                        |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets   |                   | 3          | Other accrued liabilities   | 217        |
| Total derivatives not designated as hedges |                        |                   | 3          |                             | 217        |

|                   |          |          |
|-------------------|----------|----------|
| Total derivatives | \$13,879 | \$99,057 |
|-------------------|----------|----------|

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The following table summarizes the effect of our foreign currency exchange contracts on our Condensed Consolidated Statements of Income (in thousands):

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2014                            | 2013      |
| Derivatives designated as hedges:  |                                 |           |
| Gains recognized in OCI (effective portion)  | \$2,997                         | \$70,860  |
| Gains (losses) reclassified from accumulated OCI into product sales (effective portion)  | \$(20,691)                      | \$462     |
| Gains (losses) recognized in other income (expense), net (ineffective portion and amounts excluded from effectiveness testing) | \$84                            | \$(2,132) |
| Derivatives not designated as hedges:  |                                 |           |
| Gains recognized in other income (expense), net  | \$1,103                         | \$32,620  |

From time to time, we may discontinue cash flow hedges and as a result, record related amounts in other income (expense), net on our Condensed Consolidated Statements of Income. There were no material amounts recorded in other income (expense), net for the three months ended March 31, 2014 and 2013 as a result of the discontinuance of cash flow hedges.

As of March 31, 2014 and December 31, 2013, we held one type of financial instrument, derivative contracts related to foreign currency exchange contracts. The following table summarizes the potential effect of offsetting derivatives by type of financial instrument on our Condensed Consolidated Balance Sheets (in thousands):

March 31, 2014

Offsetting of Derivative Assets/Liabilities

| Description            | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Condensed Consolidated Balance Sheet | Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheet | Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet |                                  | Net Amount (Legal Offset) |
|------------------------|--|--|---|--|----------------------------------|---------------------------|
|                        |  |  |   | Derivative Financial Instruments                                     | Cash Collateral Received/Pledged |                           |
| Derivative assets      | \$ 11,032                                      | \$—  | \$11,032  | \$(11,032)   | \$ —                             | \$—                       |
| Derivative liabilities | (72,366)                                       | —  | (72,366)  | 11,032   | —                                | (61,334)                  |

December 31, 2013

Offsetting of Derivative Assets/Liabilities

| Description            | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Condensed Consolidated Balance Sheet | Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet |                                  | Net Amount (Legal Offset) |
|------------------------|--|--|---|--|----------------------------------|---------------------------|
|                        |  |  |   | Derivative Financial Instruments                           | Cash Collateral Received/Pledged |                           |
| Derivative assets      | \$ 13,879                                      | \$—  | \$13,879  | \$(13,879)   | \$ —                             | \$—                       |
| Derivative liabilities | (99,057)                                       | —  | (99,057)  | 13,879   | —                                | (85,178)                  |

## 5. INVENTORIES

Inventories are summarized as follows (in thousands):

March 31, 2014

|                 |             | December 31,<br>2013 |
|-----------------|-------------|----------------------|
| Raw materials   | \$999,667   | \$1,049,403          |
| Work in process | 592,897     | 412,945              |
| Finished goods  | 547,664     | 593,440              |
| Total           | \$2,140,228 | \$2,055,788          |

The joint ventures formed by Gilead and BMS (See Note 7, Collaborative Arrangements), which are included in our Condensed Consolidated Financial Statements, held efavirenz active pharmaceutical ingredient in inventory. This efavirenz inventory was purchased from BMS at BMS's estimated net selling price of efavirenz and totaled \$1.32 billion as of March 31, 2014 and \$1.28 billion as of December 31, 2013.

## 6. INTANGIBLE ASSETS AND GOODWILL

## Intangible Assets

The following table summarizes the carrying amount of our intangible assets (in thousands):

|                                    | March 31, 2014 | December 31, 2013 |
|------------------------------------|----------------|-------------------|
| Finite-lived intangible assets     | \$11,126,240   | \$11,325,751      |
| Indefinite-lived intangible assets | 581,590        | 574,355           |
| Total intangible assets            | \$11,707,830   | \$11,900,106      |

## Finite-Lived Intangible Assets

The following table summarizes our finite-lived intangible assets (in thousands):

|                               | March 31, 2014        |                          | December 31, 2013     |                          |
|-------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                               | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Intangible asset - sofosbuvir | \$10,720,000          | \$233,043                | \$10,720,000          | \$58,261                 |
| Intangible asset - Ranexa     | 688,400               | 208,466                  | 688,400               | 190,849                  |
| Other                         | 305,795               | 146,446                  | 305,795               | 139,334                  |
| Total                         | \$11,714,195          | \$587,955                | \$11,714,195          | \$388,444                |

Upon U.S. Food and Drug Administration (FDA) approval and commercial launch of Sovaldi in December 2013, we reclassified the IPR&D related to sofosbuvir to finite-lived intangible assets. Amortization expense related to finite-lived intangible assets included primarily in cost of goods sold in our Condensed Consolidated Statements of Income totaled \$199.5 million for the three months ended March 31, 2014 and \$21.5 million for the three months ended March 31, 2013. The weighted-average amortization period for all finite-lived intangible assets is approximately 15 years. As of March 31, 2014, the estimated future amortization expense associated with our intangible assets for the remaining nine months of 2014 and each of the five succeeding fiscal years is as follows (in thousands):

| Fiscal Year                  | Amount      |
|------------------------------|-------------|
| 2014 (remaining nine months) | \$598,533   |
| 2015                         | 803,496     |
| 2016                         | 811,428     |
| 2017                         | 815,871     |
| 2018                         | 827,980     |
| 2019                         | 792,823     |
| Total                        | \$4,650,131 |

## Indefinite-Lived Intangible Assets

The following table summarizes our indefinite-lived intangible assets (in thousands):

|   | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
| Indefinite-lived intangible asset - momelotinib (formerly CYT387) | \$308,155      | \$362,700         |
| Indefinite-lived intangible assets - other                        | 266,200        | 266,200           |
|   | 574,355        | 628,900           |
| Foreign currency translation adjustment                           | 7,235          | (54,545)          |
| Total   | \$581,590      | \$574,355         |

## Goodwill

The following table summarizes the changes in the carrying amount of goodwill (in thousands):

|   |              |
|---|--------------|
| Balance at December 31, 2013            | \$ 1,169,023 |
| Foreign currency translation adjustment | 2,538        |
| Balance at March 31, 2014               | \$ 1,171,561 |

## 7. COLLABORATIVE ARRANGEMENTS

From time to time, as a result of entering into strategic collaborations, we may hold investments in non-public companies. We review our interests in investee companies for consolidation and/or disclosure based on applicable guidance. For variable interest entities (VIEs), we may be required to consolidate an entity if the contractual terms of the arrangement essentially provide us with control over the entity, even if we do not have a majority voting interest. We assess whether we are the primary beneficiary of a VIE based on our power to direct the activities of the VIE that most significantly impact the VIE's economic performance and our obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. As of March 31, 2014, we determined that certain of our investee companies are VIEs; however, other than with respect to our joint ventures with BMS, we are not the primary beneficiary and therefore do not consolidate these investees.

## Bristol-Myers Squibb Company

## North America

In 2004, we entered into a collaboration arrangement with BMS to develop and commercialize a single tablet regimen containing our Truvada and BMS's Sustiva (efavirenz) in the United States. This combination was approved for use in the United States in 2006 and is sold under the brand name Atripla. We and BMS structured this collaboration as a joint venture that operates as a limited liability company named Bristol-Myers Squibb & Gilead Sciences, LLC, which we consolidate. We and BMS granted royalty free sublicenses to the joint venture for the use of our respective company owned technologies and, in return, were granted a license by the joint venture to use any intellectual property that results from the collaboration. In 2006, we and BMS amended the joint venture's collaboration agreement to allow the joint venture to sell Atripla in Canada. The economic interests of the joint venture held by us and BMS (including share of revenues and out-of-pocket expenses) are based on the portion of the net selling price of Atripla attributable to efavirenz and Truvada. Since the net selling price for Truvada may change over time relative to the net selling price of efavirenz, both our and BMS's respective economic interests in the joint venture may vary annually.

We and BMS shared marketing and sales efforts. Starting in the second quarter of 2011, except for a limited number of activities that will be jointly managed, the parties no longer coordinate detailing and promotional activities in the United States, and the parties have begun to reduce their joint promotional efforts since we launched Complera in August 2011 and Stribild in August 2012. The parties will continue to collaborate on activities such as manufacturing, regulatory, compliance and pharmacovigilance. The daily operations of the joint venture are governed by four primary joint committees formed by both BMS and Gilead. We are responsible for accounting, financial reporting, tax reporting, manufacturing and product distribution for the joint venture. Both parties provide their respective bulk active pharmaceutical ingredients to the joint venture at their approximate market values. The agreement will continue until terminated by the mutual agreement of the parties. In addition, either party may terminate the other party's participation in the collaboration within 30 days after the launch of at least one generic version of such other party's single agent products (or the double agent products). The terminating party then has the right to continue to sell Atripla and become the continuing party, but will be obligated to pay the terminated party certain royalties for a three-year period following the effective date of the termination.

As of March 31, 2014 and December 31, 2013, the joint venture held efavirenz active pharmaceutical ingredient which it purchased from BMS at BMS's estimated net selling price of efavirenz in the U.S. market. These amounts are included in inventories on our Condensed Consolidated Balance Sheets. As of March 31, 2014, total assets held by the joint venture were \$2.24 billion and consisted primarily of cash and cash equivalents of \$200.4 million, accounts receivable of \$252.8 million and inventories of \$1.76 billion; total liabilities were \$1.41 billion and consisted primarily of accounts payable of \$1.04 billion and other accrued expenses of \$370.9 million. As of December 31, 2013, total assets held by the joint venture were \$2.24 billion and consisted primarily of cash and cash equivalents of

\$245.7 million, accounts receivable of \$275.3 million and inventories of \$1.72 billion; total liabilities were \$1.26 billion and consisted primarily of accounts payable of \$915.4 million and other accrued expenses of \$341.2 million. These asset and liability amounts do not reflect the impact of intercompany eliminations that are included in our Condensed Consolidated Balance Sheets. Although we consolidate the joint venture, the legal structure of the joint venture limits the recourse that its creditors will have over our general credit or assets. Similarly, the assets held in the joint venture can be used only to settle obligations of the joint venture.

## Europe

In 2007, Gilead Sciences Limited, our wholly-owned subsidiary in Ireland, and BMS entered into a collaboration agreement with BMS which sets forth the terms and conditions under which we and BMS will commercialize and distribute Atripla in the European Union, Iceland, Liechtenstein, Norway and Switzerland (collectively, the European Territory). The parties formed a limited liability company which we consolidate, to manufacture Atripla for distribution in the European Territory using efavirenz that it purchases from BMS at BMS's estimated net selling price of efavirenz in the European Territory. We are responsible for manufacturing, product distribution, inventory management and warehousing. Through our local subsidiaries, we have primary responsibility for order fulfillment, collection of receivables, customer relations and handling of sales returns in all the territories where we and BMS promote Atripla. In general, the parties share revenues and out-of-pocket expenses in proportion to the net selling prices of the components of Atripla, Truvada and efavirenz.

Starting in 2012, except for a limited number of activities that will be jointly managed, the parties no longer coordinate detailing and promotional activities in the region. We are responsible for accounting, financial reporting and tax reporting for the collaboration. As of March 31, 2014 and December 31, 2013, efavirenz purchased from BMS at BMS's estimated net selling price of efavirenz in the European Territory is included in inventories on our Condensed Consolidated Balance Sheets.

The parties also formed a limited liability company to hold the marketing authorization for Atripla in Europe. We have primary responsibility for regulatory activities. In the major market countries, both parties have agreed to independently continue to use commercially reasonable efforts to promote Atripla.

The agreement will terminate upon the expiration of the last-to-expire patent which affords market exclusivity to Atripla or one of its components in the European Territory. In addition, starting December 31, 2013, either party may terminate the agreement for any reason and such termination will be effective two calendar quarters after notice of termination. The non-terminating party has the right to continue to sell Atripla and become the continuing party, but will be obligated to pay the terminating party certain royalties for a three-year period following the effective date of the termination. In the event the continuing party decides not to sell Atripla, the effective date of the termination will be the date Atripla is withdrawn in each country or the date on which a third party assumes distribution of Atripla, whichever is earlier.

## 8. DEBT AND CREDIT FACILITY

## Financing Arrangements

The following table summarizes the carrying amount of our borrowings under various financing arrangements (in thousands):

| Type of Borrowing  | Description         | Issue Date    | Due Date      | Interest Rate | March 31, 2014 | December 31, 2013 |
|--------------------|---------------------|---------------|---------------|---------------|----------------|-------------------|
| Convertible Senior | May 2014 Notes      | July 2010     | May 2014      | 1.00%         | \$208,471      | \$234,217         |
| Convertible Senior | May 2016 Notes      | July 2010     | May 2016      | 1.625%        | 913,478        | 1,113,043         |
| Senior Unsecured   | April 2021 Notes    | March 2011    | April 2021    | 4.50%         | 993,996        | 993,781           |
| Senior Unsecured   | December 2014 Notes | December 2011 | December 2014 | 2.40%         | 749,789        | 749,710           |
| Senior Unsecured   | December 2016 Notes | December 2011 | December 2016 | 3.05%         | 699,384        | 699,326           |
| Senior Unsecured   | December 2021 Notes | December 2011 | December 2021 | 4.40%         | 1,247,788      | 1,247,716         |
| Senior Unsecured   | December 2041 Notes | December 2011 | December 2041 | 5.65%         | 997,904        | 997,885           |
| Senior Unsecured   | April 2019 Notes    | March 2014    | April 2019    | 2.05%         | 499,146        | —                 |
| Senior Unsecured   | April 2024 Notes    | March 2014    | April 2024    | 3.70%         | 1,747,201      | —                 |
| Senior Unsecured   | April 2044 Notes    | March 2014    | April 2044    | 4.80%         | 1,746,613      | —                 |
| Credit Facility    | Five-Year Revolver  | January 2012  | January 2017  | Variable      | —              | 600,000           |
| Total debt, net    |                     |               |               |               | \$9,803,770    | \$6,635,678       |

|                           |             |              |
|---------------------------|-------------|--------------|
| Less current portion      | 1,871,738   | 2,696,970    |
| Total long-term debt, net | \$7,932,032 | \$ 3,938,708 |

#### Convertible Senior Notes

During the three months ended March 31, 2014, a portion of our convertible senior notes due in May 2014 (May 2014 Notes) and May 2016 (May 2016 Notes) (together, the Notes) was converted. We repaid \$243.4 million of principal balance, primarily comprised of May 2016 Notes. We also paid \$575.3 million in cash related to the conversion spread of the Notes, which represents the conversion value in excess of the principal amount, and received \$575.3 million in cash from the convertible note hedges related to the Notes.

As of March 31, 2014, the May 2014 Notes were classified as current given their maturity date and the May 2016 Notes were classified as current given that the conversion criteria had been met. As a result, the related unamortized discount of \$45.8 million was classified as equity component of currently redeemable convertible notes on our Condensed Consolidated Balance Sheet.

#### April 2019, 2024 and 2044 Senior Unsecured Notes

In March 2014, we issued senior unsecured notes in a registered offering for a total aggregate principal amount of \$4.00 billion. We issued senior unsecured notes due in April 2019 (April 2019 Notes) for \$500.0 million that pay interest at fixed annual rate of 2.05%, senior unsecured notes due in April 2024 (April 2024 Notes) for \$1.75 billion that pay interest at a fixed annual rate of 3.70% and senior unsecured notes due in April 2044 (April 2044 Notes) for \$1.75 billion that pay interest at a fixed annual rate of 4.80%. Debt issuance costs incurred in connection with the issuance of this debt totaled approximately \$27.5 million and are being amortized to interest expense over the contractual term of each of the respective notes.

These notes may be redeemed at our option at any time or from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed and (ii) the sum, as determined by an independent investment banker, of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis at the Treasury Rate plus 10 basis points in the case of the April 2019 Notes, 15 basis points in case of the April 2024 Notes and 20 basis points in the case of the April 2044 Notes plus, in each case, accrued and unpaid interest on the notes to be redeemed to the date of redemption.

At any time on or after the date that is three months prior to the maturity date of the April 2024 Notes, we may redeem the notes, in whole or in part, at 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to the date of redemption. At any time on or after the date that is six months prior to the maturity date of the April 2044 Notes, we may redeem the notes, in whole or in part, at 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to the date of redemption.

In the event of the occurrence of both a change in control and a downgrade in the rating of a series of notes below an investment grade rating by Standard & Poor's Ratings Services and Moody's Investors Service, Inc., the holders of such series of notes may require us to purchase all or a portion of their notes of such series at a price equal to 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest.

#### Credit Facility

During the first quarter of 2014, we repaid the remaining balance of \$600.0 million that was outstanding under the revolving credit facility credit agreement.

We are required to comply with certain covenants under the credit agreement and note indentures and as of March 31, 2014, we believe we were in compliance with all such covenants.

### 9.COMMITMENTS AND CONTINGENCIES

#### Legal Proceedings

##### Litigation Related to Sofosbuvir

In January 2012, we acquired Pharmasset, Inc. (Pharmasset). Through the acquisition, we acquired sofosbuvir, a nucleotide analog that acts to inhibit the replication of the hepatitis C virus (HCV). In December 2013, we received FDA approval of sofosbuvir, now known commercially as Sovaldi. We have received a number of contractual and intellectual property claims regarding sofosbuvir. We have carefully considered these claims both prior to and following the acquisition and believe they are without merit.



#### Contract Arbitration with Jeremy Clark

In March 2012, Jeremy Clark, a former employee of Pharmasset and inventor of U.S. Patent No. 7,429,572, filed a demand for arbitration in his lawsuit against Pharmasset and Dr. Raymond Schinazi. Mr. Clark initially filed the lawsuit against Pharmasset and Dr. Schinazi in the U.S. District Court for the Northern District of Alabama in February 2008 seeking to void the assignment provision in his employment agreement and assert ownership of U.S. Patent No. 7,429,572, which claims metabolites of sofosbuvir and RG7128. In December 2008, the court ordered a stay of the litigation pending the outcome of an arbitration proceeding required by Mr. Clark's employment agreement. Instead of proceeding with arbitration, Mr. Clark filed two additional lawsuits in September 2009 and June 2010, both of which the court subsequently dismissed. In September 2010, Mr. Clark filed a motion seeking reconsideration of the court's December 2008 order which the court denied. In December 2011, Mr. Clark filed a motion to appoint a special prosecutor. In February 2012, the court issued an order requiring Mr. Clark to enter arbitration or risk dismissal of his case. Mr. Clark filed a demand for arbitration in March 2012. The arbitration panel held a hearing in April 2013. In June 2013, the arbitration panel issued its decision in favor of Pharmasset (now Gilead) and Dr. Schinazi. In August 2013, Gilead and Dr. Schinazi filed a motion in the U.S. District Court for the Northern District of Alabama seeking to have the court confirm the arbitration decision and Mr. Clark filed a motion seeking to vacate the arbitration decision. On April 9, 2014, the court granted our motion, confirmed the arbitration award and denied Mr. Clark's motion.

#### Arbitration with F. Hoffman-La Roche Ltd and Hoffman-La Roche Inc. (collectively, Roche)

Gilead (as successor to Pharmasset) is a party to an October 29, 2004 collaboration agreement with Roche. The agreement granted Roche rights to develop PSI-6130, a cytidine analog, and its prodrugs, for the treatment of HCV infection. The collaborative research efforts under the agreement ended on December 31, 2006. Roche later asked Pharmasset to consider whether Roche may have contributed to the inventorship of sofosbuvir and whether Pharmasset has complied with the confidentiality provisions of the collaboration agreement. Pharmasset advised us that it carefully considered the issues raised by Roche and that it believed any such issues are without merit. We have also considered these issues and reached the same conclusion. In March 2013, Roche initiated an arbitration against us and Pharmasset, predecessor to Gilead Pharmasset LLC, regarding the collaboration agreement. In the arbitration demand, Roche asserts that it has an exclusive license to sofosbuvir pursuant to the collaboration agreement because sofosbuvir, a prodrug of a uridine monophosphate analog, is allegedly a prodrug of PSI-6130, a cytidine analog. Roche further claims that, because it has exclusive rights to sofosbuvir, it also has an exclusive license to a patent covering sofosbuvir, and that we will infringe that patent by selling and offering for sale products containing sofosbuvir. Gilead and Gilead Pharmasset LLC filed their response to Roche's arbitration demand in April 2013. We expect a decision in the arbitration by the end of 2014.

#### Interference Proceedings and Litigation with Idenix Pharmaceuticals, Inc. (Idenix)

In February 2012, we received notice that the U.S. Patent and Trademark Office (USPTO) had declared Interference No. 105,871 (First Idenix Interference) between our U.S. Patent No. 7,429,572 and Idenix's pending U.S. Patent Application No. 12/131,868. An interference is an administrative proceeding before the USPTO designed to determine who was the first to invent the subject matter claimed by both parties. Our patent covers metabolites of sofosbuvir and RG7128, a prodrug of a cytidine nucleoside analog that Pharmasset licensed to Roche. Idenix is attempting to patent a class of compounds, including these metabolites. The purpose of the First Idenix Interference was to determine who was first to invent these compounds and therefore who is entitled to the patent claiming these compounds. In March 2013, the USPTO Patent Trials and Appeal Board (the Board) determined that Idenix is not entitled to the benefit of any of its early application filing dates because none of those patent applications, including the application that led to Idenix's U.S. Patent No. 7,608,600 (the '600 patent), taught how to make the compounds in dispute. The Board also determined that because we are entitled to the filing date of our earliest application, we were first to file the patent application on the compounds in dispute, and we were therefore the "senior party" in the First Idenix Interference. On January 29, 2014, the Board determined that Pharmasset and not Idenix was the first to invent the compounds in dispute and accordingly Gilead prevailed. In its decision, the Board held that Idenix failed to prove that it was first to conceive of any of the compounds in dispute. Specifically, Idenix failed to prove that the Idenix inventors had identified the structure, a method of making and a use for any of the disputed compounds. The Board went on to

conclude that Idenix failed to work diligently toward making and testing the compounds in dispute during the relevant time period. Idenix has appealed the Board's decisions to the U.S. District Court for the District of Delaware. If either or both of the Board's decisions are reversed on appeal and the court determines that Idenix is entitled to their patent claims, and it is determined that we have infringed those claims, we may be required to obtain a license from and pay royalties to Idenix to commercialize sofosbuvir and RG7128 in the United States. A decision by the District Court can be appealed by either party to the U.S. Court of Appeals for the Federal Circuit (CAFC).

We believe the claims in the Idenix application involved in the First Idenix Interference, and similar U.S. and foreign patents claiming the same compounds and metabolites, are invalid. As a result, we filed an Impeachment Action in the Federal Court of Canada to invalidate Idenix Canadian Patent No. 2,490,191 (the '191 patent), which is the Canadian patent that corresponds to the '600 patent and the Idenix patent application that is the subject of the First Idenix Interference. Idenix has

now asserted that the commercialization of Sovaldi in Canada will infringe its '191 patent and that our Canadian Patent No. 2,527,657, corresponding to our U.S. Patent No. 7,429,572 in the First Idenix Interference, is invalid.

We filed a similar legal action in Norway in the Oslo District Court seeking to invalidate Idenix's corresponding Norwegian patent. In September 2013, Idenix filed an invalidation action in the Norwegian proceedings against our Norwegian Patent No. 333700 patent, which corresponds to our U.S. Patent No. 7,429,572. The trial was held in November 2013. On March 21, 2014, the Norwegian court found all claims in the Idenix Norwegian patent to be invalid and upheld the validity of all claims in the challenged Gilead patent. Additionally, the Norwegian court ordered Idenix to pay us over \$2.0 million in attorney fees as the losing party to the litigation. Idenix has indicated that it will appeal the Norwegian court's decision. Idenix's obligation to pay our attorneys' fees will be stayed during the pendency of the appeal.

In August 2013, Idenix also filed a request for invalidation with the Chinese Patent Office of our Chinese Patent CN ZL200480019148.4, which corresponds to our U.S. Patent No. 7,429,572.

We filed a legal action in the Federal Court of Australia seeking to invalidate Idenix's Australian patent corresponding to the '600 patent. In April 2013, Idenix asserted that the commercialization of sofosbuvir will infringe the Australian patent corresponding to the '600 patent. We may bring similar action in other countries in the future.

On March 12, 2014, the European Patent Office (EPO) granted Idenix European Patent No. 1 523 489 (the '489 patent), which corresponds to the '600 patent. The same day that the '489 patent granted, we filed an opposition with the EPO seeking to revoke the '489 patent. Also on March 12, 2014, Idenix initiated infringement proceedings against us in the United Kingdom, Germany and France alleging that the commercialization of Sovaldi in those countries would infringe the respective national counterparts of the '489 patent. In the United Kingdom, the court has ordered an October 2014 trial date to determine the issues of infringement and validity of the Idenix United Kingdom patent. In Germany, the court in Düsseldorf has ordered a hearing date of December 2, 2014 to determine the issue of infringement of the Idenix German patent. We do not have a trial date for the French lawsuit.

Idenix has not been awarded patents corresponding to the '600 patent in Japan or China. In the event such patents issue, we expect to challenge them in proceedings similar to those we invoked in Canada, Norway and Australia. If the courts hearing these proceedings determine that Idenix is entitled to their patent claims and it is determined that we have infringed those claims, we may be required to obtain a license from and pay royalties to Idenix to commercialize sofosbuvir and RG7128 in that country.

In December 2013, after receiving Gilead's request to do so, the USPTO declared Interference No. 105,981 (Second Idenix Interference) between our pending U.S. Patent Application No. 11/854,218 and the '600 patent. The '600 patent includes claims directed to methods of treating HCV with nucleoside compounds similar to those which were involved in the First Idenix Interference. The Second Idenix Interference will determine who was first to invent the claimed methods of treating HCV. In the declaration of the Second Idenix Interference, the USPTO has initially designated Gilead as the junior party based upon the patent application filing dates appearing on the face of the '600 patent. On February 5, 2014, the USPTO issued an Order to Show Cause against Idenix in the Second Idenix Interference. The Order requires Idenix to explain why judgment should not be entered against it in the Second Idenix Interference in favor of Gilead based upon the outcome of the First Idenix Interference. On April 11, 2014, the USPTO declined to enter judgment against Idenix in the Second Idenix Interference based upon the Order to Show Cause, but we will have the opportunity to prove that Gilead should be the senior party for the same reasons we were declared the senior party in the First Idenix Interference. We believe the Board's determination in the First Idenix Interference that Idenix is not entitled to the benefit of any of its earlier application filing dates, including the filing date of the '600 patent, will be equally applicable to the Second Idenix Interference. If we are correct, the Board may conclude that Gilead is the senior party in the Second Idenix Interference, consistent with the determination in the First Idenix Interference. In light of the Board's conclusion in the First Idenix Interference that the application that led to the '600 patent does not teach how to make the claimed compounds, it is possible that the Board will make the same determination in the Second Idenix Interference and eliminate the need for the Board to address who was the first to invent the claimed methods of treating HCV. However, if the Board does consider who was the first to invent the claimed methods of treating HCV and ultimately concludes that Gilead was first, the claims in the '600 patent may be revoked. If the Board determines that Idenix was first to invent and is entitled to these patent claims, and it is

determined in other proceedings that we have infringed those claims, we may be required to obtain a license from and pay royalties to Idenix to commercialize sofosbuvir and RG7128. Any determination by the Board can be appealed by either party to U.S. federal court.

In December 2013, Idenix, Universita Degli Studi di Cagliari (UDSG), Centre National de la Recherche Scientifique and L'Université Montpellier II sued us in U.S. District Court for the District of Delaware alleging that the commercialization of sofosbuvir will infringe the '600 patent and that an interference exists between the '600 patent and our U.S. Patent No. 8,415,322. We believe that the claims in the '600 patent are invalid and that we have the sole right to commercialize sofosbuvir.

However, if the court disagrees with our view and further determines that the '600 patent is infringed, we may be required to obtain a license from and pay royalties to Idenix to commercialize sofosbuvir. A decision by the District Court can be appealed by either party to the CAFC.

Also in December 2013, Idenix and UDSG sued us in the U.S. District Court for the District of Massachusetts alleging that the commercialization of sofosbuvir will infringe U.S. Patent Nos. 6,914,054 and 7,608,597. We believe that Idenix's patents are invalid and would not be infringed by our commercialization of sofosbuvir and that we have the sole right to commercialize sofosbuvir. However, if the court disagrees with our view and determines that these patents are infringed, we may be required to obtain a license from and pay royalties to Idenix to commercialize sofosbuvir. A decision by the District Court can be appealed by either party to the CAFC.

We have an expansive patent portfolio covering NS5A inhibitors for the treatment of HCV. Following the recent disclosure of the structure of Idenix's NS5A inhibitor, samatasvir (also known as IDX-719), we are evaluating the compound in light of the claims of our granted U.S. Patent No. 8,669,234.

#### Litigation with Merck & Co., Inc. (Merck)

In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbuvir and take a license to U.S. Patent Nos. 7,105,499 and 8,481,712, which it co-owns with Isis Pharmaceuticals, Inc. We believe that Merck's patents are invalid and would not be infringed by our commercialization of sofosbuvir and that we have the sole right to commercialize sofosbuvir. Accordingly, in August 2013, we filed a lawsuit in the U.S. District Court for the Northern District of California seeking declaratory judgment that the Merck patents are invalid and not infringed. Merck's U.S. Patent Nos. 7,105,499 and 8,481,712 cover compounds which do not include, but may relate to, sofosbuvir. During patent prosecution, Merck amended its patent application in an attempt to cover compounds related to sofosbuvir and ultimately extract royalty payments for sofosbuvir's commercialization, or to exclude it from the market. If the court determines that Merck's patents are valid and that we have infringed those claims, we may be required to obtain a license from and pay royalties to Merck to commercialize sofosbuvir. Either party can appeal a decision by the District Court to the CAFC.

#### Litigation with AbbVie, Inc. (AbbVie)

AbbVie has obtained U.S. Patent Nos. 8,466,159, 8,492,386, 8,680,106 and 8,685,984, which purport to claim the use of a combination of LDV/SOF for the treatment of HCV. We own published and pending patent applications directed to the use of combinations for the treatment of HCV, and, specifically, to combinations of ledipasvir and sofosbuvir. Certain of those applications were filed before AbbVie's patents. For this reason and others, we believe AbbVie's patents are invalid.

Accordingly, in December 2013, we filed a lawsuit in the U.S. District Court for the District of Delaware seeking declaratory judgment that the AbbVie patents are invalid and unenforceable, as well as other relief. We believe that Abbott Laboratories, Inc. and AbbVie conspired to eliminate competition in the HCV market by falsely representing to the USPTO that they, and not Gilead, invented methods of treating HCV using a combination of LDV/SOF. In February 2014, AbbVie responded to our lawsuit by filing a lawsuit also in the U.S. District Court for the District of Delaware alleging that our LDV/SOF product will infringe their patents. We do not expect AbbVie's patents to block or delay the commercialization of our combination products. If the court determines that AbbVie's patents are valid and that we have infringed those claims, we may be required to obtain a license from and pay royalties to AbbVie to commercialize sofosbuvir combination products. Either party can appeal a decision by the District Court to the CAFC. We cannot predict the ultimate outcome of contractual and intellectual property claims related to sofosbuvir, and we may spend significant resources enforcing and defending these patents. If these parties successfully obtain valid and enforceable patents, and successfully prove infringement of those patents by sofosbuvir, we could be prevented from selling sofosbuvir unless we were able to obtain a license under such patents. Such a license may not be available on commercially reasonable terms or at all. Further, if any party is successful in establishing exclusive rights to sofosbuvir, our expected revenues and earnings from the sale of sofosbuvir would be adversely affected. A range of losses cannot be estimated at this time.

#### Litigation with Generic Manufacturers

As part of the approval process for some of our products, the FDA granted a New Chemical Entity (NCE) exclusivity period during which other manufacturers' applications for approval of generic versions of our product will not be

approved. Generic manufacturers may challenge the patents protecting products that have been granted NCE exclusivity one year prior to the end of the NCE exclusivity period. Generic manufacturers have sought and may continue to seek FDA approval for a similar or identical drug through an abbreviated new drug application (ANDA), the application form typically used by manufacturers seeking approval of a generic drug. We received notices that generic manufacturers have submitted ANDAs to manufacture a generic version of Atripla, Truvada, Viread, Emtriva, Ranexa and Tamiflu in the United States and Atripla, Truvada and Viread in Canada. In April 2013, we and Teva Pharmaceuticals (Teva) reached an agreement to settle the ongoing

patent litigation concerning the four patents that protect tenofovir disoproxil fumarate in our Atripla, Truvada and Viread products. Under the agreement, Teva will be allowed to launch a generic version of Viread on December 15, 2017.

In March 2011, we and F. Hoffmann-La Roche Ltd. (Roche) filed a lawsuit against Natco Pharma Ltd. (Natco) in U.S. District Court for the District of New Jersey for infringement of one of the patents associated with Tamiflu. In December 2012, the court issued a ruling in favor of Gilead and Roche, that our patent is not invalid for the reasons stated in Natco's notice letter. Natco has appealed this decision to the CAFC. In April 2014, the court issued a decision which will allow Natco's patent invalidity challenge to proceed on remand to the District Court of New Jersey for a full trial on the merits. We are currently evaluating our response to this decision.

In August 2013, we and Lupin Limited (Lupin) reached an agreement to settle the patent litigation concerning ten of the patents that protect Ranexa. Under the agreement, Lupin would be allowed to launch a generic version of Ranexa on February 27, 2019.

In February 2014, we and Teva reached an agreement in principle to settle the ongoing patent litigation concerning the emtricitabine patents that protect Atripla and Truvada. The terms of the settlement agreement are confidential. The settlement agreement will be filed with the Federal Trade Commission and Department of Justice as required by law. Also in August 2012, Teva filed an Impeachment Action in the Federal Court of Canada seeking invalidation of our two Canadian patents associated with Viread. In September 2013, a hearing on the consolidated requests for orders of prohibition in connection with all three of Teva's abbreviated new drug submission (ANDS) filings to the Canadian Minister of Health (for Teva's generic versions of Viread, Truvada, and Atripla) took place. In December 2013, the court issued our requested order prohibiting the Canadian Ministry of Health from issuing a Notice of Compliance for Teva's generic versions of our Viread, Truvada, and Atripla products until expiry of our patent in July 2017. Teva appealed this decision and this decision of the court does not ultimately resolve the validity challenges raised by Teva in the Impeachment Action. If Teva is successful in invalidating our patents, Teva may be able to launch generic versions of our Viread, Truvada and Atripla products prior to the expiry of our patents. A trial in the Impeachment Action is scheduled for January 2015.

We anticipate trials related to Lupin's ANDAs requesting permission to make a generic version of Truvada and Viread and Cipla's ANDA requesting permission to make generic versions of Emtriva and Viread to take place in the fourth quarter of 2014.

We cannot predict the ultimate outcome of these actions, and we may spend significant resources enforcing and defending these patents. If we are unsuccessful in these lawsuits, some or all of our original claims in the patents may be narrowed or invalidated and the patent protection for Atripla, Truvada, Viread, Emtriva, Ranexa and Tamiflu in the United States and Atripla, Truvada and Viread in Canada could be substantially shortened. Further, if all of the patents covering one or more products are invalidated, the FDA or Canadian Minister of Health could approve the requests to manufacture a generic version of such products in the United States or Canada, respectively, prior to the expiration date of those patents. The sale of generic versions of these products earlier than their patent expiration would have a significant negative effect on our revenues and results of operations.

#### Department of Justice Investigation

In June 2011, we received a subpoena from the U.S. Attorney's Office for the Northern District of California requesting documents related to the manufacture, and related quality and distribution practices, of Complera, Atripla, Truvada, Viread, Emtriva, Hepsera and Letairis. We cooperated with the government's inquiry. On April 16, 2014, the United States Department of Justice informed us that, following an investigation, it declined to intervene in a False Claims Act lawsuit filed by two former employees. We intend to move to dismiss the complaint.

#### Other Matters

We are a party to various legal actions that arose in the ordinary course of our business. We do not believe that these other legal actions will have a material adverse impact on our consolidated business, financial position or results of operations.

## 10. STOCKHOLDERS' EQUITY

### Stock Repurchase Program

During the three months ended March 31, 2014, we repurchased a total of \$450.1 million or 5.7 million shares of common stock under our January 2011 stock repurchase program.

## Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated OCI by component, net of tax (in thousands):

|   | Foreign<br>Currency<br>Items | Unrealized Gains<br>and Losses on<br>Available-for-Sale<br>Securities | Unrealized<br>Gains and<br>Losses on<br>Cash Flow<br>Hedges | Total        |
|---|------------------------------|---|---|--------------|
| Balance at December 31, 2013  | \$(45,860 )                  | \$ 11,907   | \$(90,493 )   | \$(124,446 ) |
| Other comprehensive income before reclassifications                     | 5,783                        | 147   | 1,265   | 7,195        |
| Amounts reclassified from accumulated other comprehensive income (loss) | —                            | (199 )  | 21,681  | 21,482       |
| Net current period other comprehensive income (loss)                    | 5,783                        | (52 )   | 22,946  | 28,677       |
| Balance at March 31, 2014   | \$(40,077 )                  | \$ 11,855   | \$(67,547 )   | \$(95,769 )  |

Amounts reclassified for gains (losses) on cash flow hedges were recorded as part of product sales on our Condensed Consolidated Statements of Income. Amounts reclassified for unrealized gains (losses) on available-for-sale securities were recorded as part of other income (expense), net on our Condensed Consolidated Statements of Income.

## 11. STOCK-BASED COMPENSATION

The following table summarizes the stock-based compensation expense included in our Condensed Consolidated Statements of Income (in thousands):

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 2013      |
| Cost of goods sold  | \$2,642                         | \$1,841   |
| Research and development expenses                                     | 34,350                          | 26,875    |
| Selling, general and administrative expenses                          | 45,233                          | 33,051    |
| Stock-based compensation expense included in total costs and expenses | 82,225                          | 61,767    |
| Income tax effect   | (19,089 )                       | (16,387 ) |
| Stock-based compensation expense, net of tax                          | \$63,136                        | \$45,380  |

## 12. NET INCOME PER SHARE ATTRIBUTABLE TO GILEAD COMMON STOCKHOLDERS

Basic net income per share attributable to Gilead common stockholders is calculated based on the weighted-average number of shares of our common stock outstanding during the period. Diluted net income per share attributable to Gilead common stockholders is calculated based on the weighted-average number of shares of our common stock outstanding and other dilutive securities outstanding during the period. The potential dilutive shares of our common stock resulting from the assumed exercise of outstanding stock options, performance shares and the assumed exercise of warrants relating to the convertible senior notes due in May 2013 (May 2013 Notes), May 2014 Notes and May 2016 Notes (collectively, the Convertible Notes) are determined under the treasury stock method.

Because the principal amount of the Convertible Notes will be settled in cash, only the conversion spread relating to the Convertible Notes is included in our calculation of diluted net income per share attributable to Gilead common stockholders. Our common stock resulting from the assumed settlement of the conversion spread of the Convertible Notes has a dilutive effect when the average market price of our common stock during the period exceeds the conversion price of \$22.54 for the May 2014 Notes and \$22.71 for the May 2016 Notes. Warrants relating to the Convertible Notes have a dilutive effect when the average market price of our common stock during the period exceeds the warrants' exercise price of \$28.38 for the May 2014 Notes and \$30.05 for the May 2016 Notes.

Our May 2013 Notes matured and as a result, we have only included their impact for the period they were outstanding on our net income per share calculations for the three months ended March 31, 2013. Our common stock resulting from the assumed settlement of the conversion spread of the May 2013 Notes had a dilutive effect when the average market price of our common stock during the period exceeded the conversion price of \$19.05. Warrants related to our May 2013 Notes settled in August 2013 and as a result, we have only included their impact for the period they were outstanding on our net income per share calculation for the three months ended March 31, 2013. The related warrants

had a dilutive effect when the average market price of our common stock during the period exceeded the warrants' exercise price of \$26.95.

We have excluded stock options to purchase approximately 0.7 million weighted-average shares of our common stock that were outstanding during the three months ended March 31, 2014 and 1.3 million shares during the three months ended March 31, 2013 in the computation of diluted net income per share attributable to Gilead common stockholders because their effect was antidilutive.

The following table is a reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per share attributable to Gilead common stockholders (in thousands):

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2014                            | 2013      |
| Numerator:   |                                 |           |
| Net income attributable to Gilead  | \$2,227,410                     | \$722,186 |
| Denominator:   |                                 |           |
| Weighted-average shares of common stock outstanding used in the calculation of basic net income per share attributable to Gilead common stockholders   | 1,536,525                       | 1,521,372 |
| Effect of dilutive securities:   |                                 |           |
| Stock options and equivalents  | 35,024                          | 36,812    |
| Conversion spread related to the May 2013 Notes  | —                               | 10,703    |
| Conversion spread related to the May 2014 Notes  | 7,036                           | 25,554    |
| Conversion spread related to the May 2016 Notes  | 31,936                          | 25,140    |
| Warrants related to the Convertible Notes  | 69,350                          | 45,479    |
| Weighted-average shares of common stock outstanding used in the calculation of diluted net income per share attributable to Gilead common stockholders | 1,679,871                       | 1,665,060 |

### 13. SEGMENT INFORMATION

We operate in one business segment, which primarily focuses on the discovery, development and commercialization of innovative medicines in areas of unmet medical need. All products are included in one segment, because the majority of our products have similar economic and other characteristics, including the nature of the products and production processes, type of customers, distribution methods and regulatory environment. Total product sales on an individual product basis are summarized in the following table (in thousands):

|                          | Three Months Ended<br>March 31, |             |
|--------------------------|---------------------------------|-------------|
|                          | 2014                            | 2013        |
| Antiviral products:      |                                 |             |
| Sovaldi                  | \$2,274,349                     | \$—         |
| Atripla                  | 779,594                         | 877,073     |
| Truvada                  | 759,700                         | 700,242     |
| Complera/Eviplera        | 250,733                         | 148,189     |
| Stribild                 | 215,271                         | 92,148      |
| Viread                   | 210,625                         | 210,332     |
| Hepsera                  | 11,723                          | 26,423      |
| Emtriva                  | 6,502                           | 6,671       |
| Total antiviral products | 4,508,497                       | 2,061,078   |
| Letairis                 | 122,885                         | 118,107     |
| Ranexa                   | 111,618                         | 96,286      |
| AmBisome                 | 92,093                          | 85,275      |
| Other products           | 35,881                          | 32,822      |
| Total product sales      | \$4,870,974                     | \$2,393,568 |

The following table summarizes revenues from each of our customers who individually accounted for 10% or more of our total revenues (as a percentage of total revenues):

|                         | Three Months Ended |      |   |
|-------------------------|--------------------|------|---|
|                         | March 31,          |      |   |
|                         | 2014               | 2013 |   |
| AmerisourceBergen Corp. | 27                 | % 11 | % |
| McKesson Corp.          | 23                 | % 14 | % |
| Cardinal Health, Inc.   | 13                 | % 19 | % |

The change in the percentage of total revenues was due primarily to sales of Sovaldi, the majority of which represent sales in the United States.

#### 14. INCOME TAXES

Our income tax rate of 24.6% for the three months ended March 31, 2014, differed from the U.S. federal statutory rate of 35% due primarily to tax credits and certain operating earnings from non-U.S. subsidiaries that are considered indefinitely reinvested, partially offset by state taxes, our portion of the non-deductible pharmaceutical excise tax and amortization expense of the intangible asset related to sofosbuvir for which we receive no tax benefit. We do not provide for U.S. income taxes on undistributed earnings of our foreign operations that are intended to be indefinitely reinvested in our foreign subsidiaries.

We file federal, state and foreign income tax returns in many jurisdictions in the United States and abroad. For federal income tax purposes, the statute of limitations is open for 2008 and onwards. For certain acquired entities, the statute of limitations is open for all years from inception due to our utilization of their net operating losses and credits carried over from prior years. For California income tax purposes, the statute of limitations is open for 2008 and onwards.

Our income tax returns are audited by federal, state and foreign tax authorities. We are currently under examination by the Internal Revenue Service (IRS) for the 2010, 2011 and 2012 tax years and by various state and foreign jurisdictions. There are differing interpretations of tax laws and regulations, and as a result, significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions. We periodically evaluate our exposures associated with our tax filing positions.

As of March 31, 2014, we believe that it is reasonably possible that our unrecognized tax benefits will decrease by approximately \$12.0 million in the next 12 months as we expect to have clarification from the IRS and other tax authorities regarding our uncertain tax positions. With respect to the remaining unrecognized tax benefits, we are currently unable to make a reasonable estimate as to the period of cash settlement, if any, with the respective tax authorities.

We record liabilities related to uncertain tax positions in accordance with the income tax guidance which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We do not believe any of our uncertain tax positions will have a material adverse effect on our Condensed Consolidated Financial Statements, although an adverse resolution of one or more of these uncertain tax positions in any period could have a material impact on the results of operations for that period.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The forward-looking statements are contained principally in this section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors." Words such as "expect," "anticipate," "target," "goal," "project," "hope," "intend," "plan," "believe," "seek," "estimate," "continue," "should," "might," variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements other than statements of historical fact are forward-looking statements, including statements regarding overall trends, operating cost and revenue trends, liquidity and capital needs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions. We have based these forward-looking statements on our current expectations about future events. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Our actual results may differ materially from those suggested by these forward-looking statements for various reasons, including those identified below under "Risk Factors." Given these risks and uncertainties, you are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. Except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission, we do not undertake, and specifically decline, any obligation to update any of these statements or to publicly announce the results of any revisions to any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise. In evaluating our business, you should carefully consider the risks described in the section entitled "Risk Factors" under Part II, Item 1A below, in addition to the other information in this Quarterly Report on Form 10-Q. Any of the risks contained herein could materially and adversely affect our business, results of operations and financial condition. You should read the following management's discussion and analysis of our financial condition and results of operations in conjunction with our audited Consolidated Financial Statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2013 and our unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2014 and other disclosures (including the disclosures under "Part II. Item 1A. Risk Factors") included in this Quarterly Report on Form 10-Q. Our Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars.

### Management Overview

Gilead Sciences, Inc. (Gilead, we or us), incorporated in Delaware on June 22, 1987, is a research-based biopharmaceutical company that discovers, develops and commercializes innovative medicines in areas of unmet medical need. With each new discovery and investigational drug candidate, we strive to transform and simplify care for people with life-threatening illnesses around the world. Gilead's primary areas of focus include human immunodeficiency virus (HIV), liver diseases such as chronic hepatitis B virus (HBV) infection and chronic hepatitis C virus (HCV) infection, oncology/inflammation and serious cardiovascular and respiratory conditions. Headquartered in Foster City, California, we have operations in North and South America, Europe and Asia-Pacific. We continue to add to our existing portfolio of products through our internal discovery and clinical development programs and through a product acquisition and in-licensing strategy.

Our portfolio of marketed products includes Sovaldi<sup>®</sup>, Stribild<sup>®</sup>, Complera<sup>®</sup>/Eviplera<sup>®</sup>, Atripla<sup>®</sup>, Truvada<sup>®</sup>, Viread<sup>®</sup>, Vitekta<sup>®</sup>, Tybost<sup>®</sup>, Hepsera<sup>®</sup>, Emtriva<sup>®</sup>, Letairis<sup>®</sup>, Ranexa<sup>®</sup>, AmBisome<sup>®</sup>, Cayston<sup>®</sup>, Vistide<sup>®</sup> and Tamiflu<sup>®</sup>. We have U.S. and international commercial sales operations, with marketing subsidiaries in North and South America, Europe and Asia-Pacific. We also sell and distribute certain products through our corporate partners under royalty-paying collaborative agreements.

### Business Highlights

During the first quarter of 2014, we continued to advance our product pipeline across our therapeutic areas and made the following announcements:

#### Antiviral Program

The European Commission granted marketing authorization for Sovaldi in combination with other antiviral agents ribavirin and pegylated interferon alpha in all 28 countries of the European Union.

Submitted a new drug application (NDA) to the U.S. Food and Drug Administration (FDA) for a once-daily fixed-dose combination of the NS5A inhibitor ledipasvir (LDV) 90 mg and the nucleotide analog polymerase inhibitor sofosbuvir (SOF) 400 mg for the treatment of chronic hepatitis C genotype 1 infection in adults for eight or 12 weeks, depending on prior treatment history and whether they have cirrhosis. The FDA has assigned LDV/SOF a Breakthrough Therapy designation,

which is granted to investigational medicines that may offer major advances in treatment over existing options. The FDA has set a target review date of October 10, 2014 under the Prescription Drug User Fee Act (PDUFA).

Announced that our Marketing Authorisation Application (MAA) for LDV/SOF has been fully validated and is now under assessment by the European Medicines Agency (EMA). The application was submitted on February 27, 2014.

#### Oncology Program

Announced FDA acceptance for review of our NDA for idelalisib, a targeted, oral inhibitor of PI3K delta, for the treatment of relapsed chronic lymphocytic leukemia with priority review and a target review date of August 6, 2014 under PDUFA and for the treatment of refractory indolent non-Hodgkin's lymphoma with a standard review and a target review date of September 11, 2014 under PDUFA.

#### Financial Highlights

During the first quarter of 2014, total revenues increased 97% to \$5.00 billion, compared to \$2.53 billion in the first quarter of 2013, driven primarily by the launch of Sovaldi. Sales of Sovaldi were \$2.27 billion for the three months ended March 31, 2014. Sovaldi was approved in the United States in December 2013 and in Europe in January 2014. Research and development (R&D) expenses increased 20% to \$595.0 million for the first quarter of 2014 compared to the same period in 2013 due to the progression of our clinical studies, primarily in oncology and HIV. Selling, general and administrative (SG&A) expenses increased 46% to \$548.1 million for the first quarter of 2014 compared to the same period in 2013, to support the expansion of our business, primarily in HCV and in preparation for the anticipated launch of idelalisib.

Net income attributable to Gilead for the first quarter of 2014 increased 208% to \$2.23 billion or \$1.33 per diluted share, compared to the same period in 2013, due to the increase in total revenues, partially offset by the increase in R&D and SG&A expenses.

During the three months ended March 31, 2014, our cash, cash equivalents and marketable securities increased to \$6.86 billion from \$2.57 billion as of December 31, 2013. During the first quarter of 2014, we issued senior unsecured notes for a total aggregate principal balance of \$4.00 billion and generated \$1.57 billion of operating cash flows. We also repaid \$843.4 million in debt, net of convertible note hedges and repurchased \$450.1 million of common stock.

#### Results of Operations

##### Total Revenues

Total revenues include product sales and royalty, contract and other revenues. Total revenues for the three months ended March 31, 2014 were \$5.00 billion, up 97% compared to \$2.53 billion for the same period in 2013 due to growth in product sales resulting primarily from the launch of Sovaldi.

##### Product Sales

Total product sales were \$4.87 billion for the three months ended March 31, 2014, an increase of 104% compared to the same period in 2013 driven primarily by an increase in antiviral and cardiovascular product sales. Antiviral product sales, including Sovaldi totaled \$4.51 billion for the first quarter of 2014, an increase of 119% compared to the same period in 2013. Cardiovascular product sales, which include Letairis and Ranexa, totaled \$234.5 million for the first quarter of 2014, an increase of 9% compared to the same period in 2013.

Product sales in the United States increased by 159% to \$3.63 billion for the three months ended March 31, 2014, compared to \$1.40 billion in the same period in 2013, due primarily to sales of Sovaldi, which launched in December 2013, and increases in sales of Stribild and Complera. During the three months ended March 31, 2014, approximately 25% of our product sales were generated outside of the United States and as a result, we face exposure to adverse movements in foreign currency exchange rates, primarily in Euro. We used foreign currency exchange contracts to hedge a percentage of our foreign currency exposure. Foreign currency exchange, net of hedges, had an unfavorable impact of \$3.4 million on our product sales for the three months ended March 31, 2014 compared to the same period in 2013.

Product sales in Europe increased by 25% to \$1.02 billion for the three months ended March 31, 2014, compared to \$818.3 million in the same period in 2013, due primarily to sales of Sovaldi, which launched in January 2014, and increases in sales of Eviplera. In light of the continued fiscal and debt crises experienced by several countries in the European Union, several governments have announced or implemented measures to manage healthcare expenditures. We continue to experience pricing pressure such as increases in the amount of discounts required on our products and

delayed reimbursement which could negatively impact our future product sales and results of operations. Foreign currency exchange, net of hedges, had a favorable

impact of \$1.5 million on our European product sales for the three months ended March 31, 2014 compared to the same period in 2013.

The following table summarizes the period over period changes in our product sales:

Three Months Ended  
March 31,