GILEAD SCIENCES INC
Form 10-Q
August 06, 2018

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________
Commission File No. 0-19731

GILEAD SCIENCES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	94-3047598
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer 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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Number of shares outstanding of the issuer’s common stock, par value $0.001 per share, as of July 30, 2018:
1,296,340,593

GILEAD SCIENCES, INC.
INDEX

We own or have rights to various trademarks, copyrights and trade names used in our business, including the following: GILEAD®, GILEAD SCIENCES®, AMBISOME®, ATRIPLA®, AXI-CEL™, BIKTARVY®, CAYSTON®, COMPLERA®, DESCOVY®, EMTRIVA®, EPCLUSA®, EVIPLERA®, GENVOYA®, GILEAD COMPASS INITIATIVE™, HARVONI®, HEPSERA®, LETAIRIS®, ODEFSEY®, RANEXA®, SOVALDI®,

STRIBILD®, SYNNOTCH™, THROTTLE™, TRUVADA®, TYBOST®, VEMLIDY®, VIREAD®, VOLIBRIS®, VOSEVI®, YESCARTA® and ZYDELIG®. LEXISCAN® is a registered trademark of Astellas U.S. LLC. MACUGEN® is a registered trademark of Eyetech, Inc. SYMTUZA® is a registered trademark of Janssen Sciences Ireland UC (Janssen). TAMIFLU® is a registered trademark of Hoffmann-La Roche Inc. This report also includes other trademarks, service marks and trade names of other companies.

PART I. FINANCIAL INFORMATION
Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
GILEAD SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in millions, except per share amounts)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$13,234	$ 7,588
Short-term marketable securities	12,683	17,922
Accounts receivable, net of allowances of $591 at June 30, 2018 and $455 at December 31, 2017	3,541	3,851
Inventories	859	801
Prepaid and other current assets	2,411	1,661
Total current assets	32,728	31,823
Property, plant and equipment, net	3,659	3,295
Long-term marketable securities	5,739	11,184
Intangible assets, net	16,496	17,100
Goodwill	4,124	4,159
Other long-term assets	2,609	2,722
Total assets	$65,355	$ 70,283
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$623	$ 814
Accrued government and other rebates	4,684	4,704
Other accrued liabilities	2,607	3,370
Current portion of long-term debt and other obligations, net	2,998	2,747
Total current liabilities	10,912	11,635
Long-term debt, net	26,062	30,795
Long-term income taxes payable	6,001	6,794
Other long-term obligations	646	558
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 5 shares authorized; none outstanding	—	—
Common stock, par value $0.001 per share; shares authorized of 5,600 at June 30, 2018 and December 31, 2017; shares issued and outstanding of 1,296 at June 30, 2018 and 1,308 at December 31, 2017	1	1
Additional paid-in capital	1,844	1,264
Accumulated other comprehensive income	2	165
Retained earnings	19,825	19,012
Total Gilead stockholders' equity	21,672	20,442
Noncontrolling interest	62	59
Total stockholders' equity	21,734	20,501
Total liabilities and stockholders' equity	$65,355	$ 70,283

See accompanying notes.

2

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues:				
Product sales	$5,540	$7,046	$10,541	$13,423
Royalty, contract and other revenues	108	95	195	223
Total revenues	5,648	7,141	10,736	13,646
Costs and expenses:				
Cost of goods sold	1,196	1,126	2,197	2,083
Research and development expenses	1,192	864	2,129	1,795
Selling, general and administrative expenses	980	897	1,977	1,747
Total costs and expenses	3,368	2,887	6,303	5,625
Income from operations	2,280	4,254	4,433	8,021
Interest expense	(266)	(269)	(556)	(530)
Other income (expense), net	72	130	242	241
Income before provision for income taxes	2,086	4,115	4,119	7,732
Provision for income taxes	267	1,046	761	1,964
Net income	1,819	3,069	3,358	5,768
Net income (loss) attributable to noncontrolling interest	2	(4)	3	(7)
Net income attributable to Gilead	$1,817	$3,073	$3,355	$5,775
Net income per share attributable to Gilead common stockholders - basic	$1.40	$2.35	$2.58	$4.42
Shares used in per share calculation - basic	1,298	1,307	1,302	1,307
Net income per share attributable to Gilead common stockholders - diluted	$1.39	$2.33	$2.55	$4.38
Shares used in per share calculation - diluted	1,308	1,317	1,314	1,319
Cash dividends declared per share	$0.57	$0.52	$1.14	$1.04

See accompanying notes.

3

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$1,819	$3,069	$3,358	$5,768
Other comprehensive income (loss):				
Net foreign currency translation gain (loss), net of tax	(25)	29	(18)	(47)
Available-for-sale securities:				
Net unrealized gain (loss), net of tax impact of $0, $1, $0 and $3, respectively	30	(58)	(6)	126
Reclassifications to net income, net of tax impact of $0, $(8), $0 and $(8), respectively	4	(9)	4	(6)
Net change	34	(67)	(2)	120
Cash flow hedges:				
Net unrealized gain (loss), net of tax impact of $1, $(2), $1 and $(9), respectively	118	(115)	57	(202)
Reclassifications to net income, net of tax impact of $0, $0, $0 and $(1), respectively	45	13	93	(29)
Net change	163	(102)	150	(231)
Other comprehensive income (loss)	172	(140)	130	(158)
Comprehensive income	1,991	2,929	3,488	5,610
Comprehensive income (loss) attributable to noncontrolling interest	2	(4)	3	(7)
Comprehensive income attributable to Gilead	$1,989	$2,933	$3,485	$5,617

See accompanying notes.

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

	Six Months Ended June 30,	
	2018	2017
Operating Activities:		
Net income	$3,358	$5,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	112	103
Amortization expense	601	489
Stock-based compensation expense	472	191
Deferred income taxes	(2)	138
Other	149	189
Changes in operating assets and liabilities:		
Accounts receivable, net	277	118
Inventories	(34)	(14)
Prepaid expenses and other	622	145
Accounts payable	(193)	(399)
Income taxes payable	(1,838)	72
Accrued liabilities	319	(349)
Net cash provided by operating activities	3,843	6,451
Investing Activities:		
Purchases of marketable securities	(2,009)	(13,269)
Proceeds from sales of marketable securities	676	7,629
Proceeds from maturities of marketable securities	11,539	1,942
Capital expenditures	(509)	(241)
Other	(102)	—
Net cash provided by (used in) investing activities	9,595	(3,939)
Financing Activities:		
Proceeds from issuances of common stock	159	119
Repurchases of common stock	(1,489)	(695)
Repayments of debt and other obligations	(4,500)	(60)
Payments of dividends	(1,493)	(1,367)
Other	(424)	(121)
Net cash used in financing activities	(7,747)	(2,124)
Effect of exchange rate changes on cash and cash equivalents	(45)	95
Net change in cash and cash equivalents	5,646	483
Cash and cash equivalents at beginning of period	7,588	8,229
Cash and cash equivalents at end of period	$13,234	$8,712

See accompanying notes.

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 of normal recurring adjustments that the management of Gilead Sciences, Inc. (Gilead, we, our 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 certain variable interest entities for which we are the primary beneficiary. All intercompany transactions have been eliminated. For consolidated entities where we own or are exposed to less than 100% of the economics, we record net income (loss) attributable to noncontrolling interest in our Condensed Consolidated Statements of Income equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties.

We assess whether we are the primary beneficiary of a variable interest entity (VIE) at the inception of the arrangement and at each reporting date. This assessment is 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 June 30, 2018, we do not have any material VIEs.

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, 2017, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC).

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, we evaluate our significant accounting policies and 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. Estimates are assessed each period and updated to reflect current information. 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. 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 June 30, 2018.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 "Revenue from Contracts with Customers" (Topic 606). Topic 606 supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" (Topic 605) and requires entities to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled when promised goods or services are transferred to a customer.

Entities adopting Topic 606 had the option of using either a full retrospective or a modified retrospective approach. On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. As such, results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605.

As discussed further in Note 2, Revenues, our product sales are recognized when control of the product transfers, generally upon shipment or delivery to the customer. Certain product sales that were deferred under the sell-through or cash basis methods of accounting because fees were not fixed or determinable prior to the adoption of Topic 606 are now recognized upon transfer of control. Royalty revenue is recognized in the period in which the corresponding sales by our corporate partners occur. Prior to the adoption of Topic 606, royalty revenue was generally recognized in the quarter following the quarter in which the corresponding sales by our corporate partners occurred.

The cumulative effect of the changes made to our Condensed Consolidated Balance Sheets at January 1, 2018 for the adoption of Topic 606 was as follows (in millions):

	December 31, 2017	Adjustments Due to Topic 606	January 1, 2018
Prepaid and other current assets	$ 1,661	$ 96	$ 1,757
Other long-term assets	$ 2,722	$ 10	$ 2,732
Other accrued liabilities	$ 3,370	$ (115)	$ 3,255
Other long-term obligations	$ 558	$ 31	$ 589
Retained earnings	$ 19,012	$ 190	$ 19,202

For the three and six months ended June 30, 2018, the impact to our Condensed Consolidated Financial Statements as a result of applying Topic 606 in place of Topic 605 was not material.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01). ASU 2016-01 changes accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. Additionally, ASU 2016-01 clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. On January 1, 2018, we adopted this standard using a modified retrospective approach. The standard requires that equity investments with readily determinable fair values be measured at fair value with any changes in fair value recognized in earnings. As a result of the adoption, we reclassified $293 million of unrealized net gain from accumulated other comprehensive income (AOCI) to retained earnings on January 1, 2018, which primarily consisted of $278 million unrealized gain from our equity investment in Galapagos NV.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12 “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities” (ASU 2017-12). The amendments in ASU 2017-12 more closely align the results of hedge accounting with risk management activities. ASU 2017-12 also amends the presentation and disclosure requirements and eases documentation and effectiveness assessment requirements. Pursuant to the provisions of ASU 2017-12, we are no longer required to separately measure and recognize hedge ineffectiveness for highly effective hedges. On January 1, 2018, we early adopted this standard on a prospective basis. Upon adoption of ASU 2017-12, we no longer recognize hedge ineffectiveness in our Condensed Consolidated Statements of Income, but we instead recognize the entire change in the fair value of the hedge contract in AOCI. The adoption did not have a material impact on our Condensed Consolidated Financial Statements. The primary impact of adoption was required disclosure changes. See Note 5, Derivative Financial Instruments for additional information.

In March 2018, the FASB issued Accounting Standards Update No. 2018-05 “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118” (ASU 2018-05). ASU 2018-05 amends Topic 740 by incorporating the SEC Staff Accounting Bulletin No. 118 (SAB 118) issued on December 22, 2017. SAB 118 provides guidance on accounting for the effects of the Tax Cuts and Jobs Act (Tax Reform) and allows a company to record provisional amounts during a measurement period not to extend beyond one year from the enactment date. See Note 14, Income Taxes for additional information.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 “Leases” (Topic 842). Topic 842 amends a number of aspects of lease accounting, including requiring lessees to recognize leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. In July, the FASB issued supplemental adoption guidance and clarification to Topic 842 within ASU 2018-10

“Codification Improvements to Topic 842, Leases” and ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance will become effective for us beginning in the first quarter of 2019 and is required to be adopted using a modified retrospective approach. Early adoption is permitted.

As we continue to evaluate the impact of the adoption of these standards, we anticipate recognition of additional assets and corresponding liabilities related to leases on our Condensed Consolidated Balance Sheets with no material impact to our Condensed Consolidated Statements of Income. We plan to adopt these standards using the modified retrospective approach with the cumulative effect of adoption recognized to retained earnings on January 1, 2019. We plan to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that existed prior to the adoption of these new standards. We will not reassess whether any contracts entered into prior to the adoption are leases.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 “Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments” (ASU 2016-13). ASU 2016-13 requires measurement and recognition of expected credit losses for financial assets. This guidance will become effective for us beginning in the first quarter of 2020 and must be adopted using a modified retrospective approach, with certain exceptions. Early adoption is permitted beginning in the first quarter of 2019. We are evaluating the impact of the adoption of this standard on our Condensed Consolidated Financial Statements.

2. REVENUES

On January 1, 2018, we adopted Topic 606 using the modified retrospective method. As a result, we have changed our accounting policies for revenue recognition as detailed below.

Product Sales

We recognize revenue from product sales when control of the product transfers, generally upon shipment or delivery, to the customer. Upon recognition of revenue from product sales, provisions are made for various forms of variable consideration, which include government and other rebates such as Medicaid reimbursements, customer incentives such as cash discounts for prompt payment, distributor fees and expected returns of expired products, as appropriate. Our payment terms to customers generally range from 30 to 90 days.

Royalty, Contract and Other Revenues

Royalty revenue is recognized in the period in which the obligation is satisfied and the corresponding sales by our corporate partners occur.

Policy Elections and Practical Expedients Taken

- We account for shipping and handling activities that are performed after a customer has obtained control of a good as fulfillment costs rather than as separate performance obligations; and
- If we expect, at contract inception, that the period between the transfer of control and corresponding payment from the customer will be one year or less, we do not adjust the amount of consideration for the effects of a significant financing component.

Variable Consideration

Rebates and Chargebacks

We estimate reductions to our revenues for amounts paid to payers and healthcare providers in the United States, including Medicaid rebates, AIDS Drug Assistance Program rebates and chargebacks, Veterans Administration and Public Health Service chargebacks and other rebates, as well as foreign government rebates. Rebates and chargebacks are based on contractual arrangements or statutory requirements which may vary by product, payer and individual payer plans. Our estimates are based on products sold, historical utilization rates, and as available, pertinent third-party industry information, estimated patient population, known market events or trends, and for our U.S. product sales, channel inventory data obtained from our major U.S. wholesalers in accordance with our inventory management agreements. We also take into consideration, as available, new information regarding changes in programs’ regulations and guidelines that would impact the amount of the actual rebates and/or our expectations regarding future utilization rates for these programs. Government and other chargebacks that are payable to our direct customers are classified as reductions of Accounts receivable on our Condensed Consolidated Balance Sheets. Government and other rebates that are invoiced directly to us are recorded in Accrued government and other rebates on our Condensed Consolidated Balance Sheets.

Cash Discounts

We estimate cash discounts based on contractual terms, historical utilization rates and our expectations regarding future utilization rates.

Distributor Fees

Under our inventory management agreements with our significant U.S. wholesalers, we pay the wholesalers a fee primarily for compliance with certain contractually determined covenants such as the maintenance of agreed upon inventory levels. These distributor fees are based on a contractually determined fixed percentage of sales.

Product Returns

We do not provide our customers with a general right of product return, but typically permit returns if the product is damaged or defective when received by the customer, or in the case of product sold in the United States and certain countries outside the United States, if the product has expired. We will accept returns for product that will expire within six months or that have expired

8

up to one year after their expiration dates. Our estimates for expected returns of expired products are based primarily on an ongoing analysis of our historical return patterns, historical industry information reporting the return rates for similar products and contractual agreements intended to limit the amount of inventory maintained by our wholesalers.

Revenue Recognized from Performance Obligations Satisfied in Prior Periods

During the three and six months ended June 30, 2018, revenue recognized from performance obligations satisfied in prior years was $222 million and $232 million, respectively, consisting primarily of royalties for licenses of our intellectual property of $131 million and $228 million, respectively, and revised estimates for variable consideration related to sales made in prior years of $91 million and $4 million, respectively.

Contract Assets

Our contract assets, which consist of unbilled amounts primarily from arrangements where the licensing of intellectual property is the only or predominant performance obligation, totaled $126 million and $132 million at June 30, 2018 and January 1, 2018, respectively.

Disaggregation of Revenues

The following table disaggregates our product sales by product and geographic region and disaggregates our royalty, contract and other revenues by geographic region for the three and six months ended June 30, 2018 and 2017. The information for the three and six months ended June 30, 2017 has not been adjusted in accordance with our modified retrospective adoption of Topic 606 and continues to be reported in accordance with our historical accounting under Topic 605.

	Three Months Ended June 30, 2018				Three Months Ended June 30, 2017			
(In millions)	U.S.	Europe	Other International	Total	U.S.	Europe	Other International	Total
Product sales:								
Atripla	$274	$39	$ 36	$349	$334	$86	$ 55	$475
Biktarvy	183	2	—	185	—	—	—	—
Complera/Eviplera	82	103	14	199	112	127	15	254
Descovy	311	78	14	403	232	47	7	286
Genvoya	904	207	49	1,160	710	125	22	857
Odefsey	303	77	5	385	230	27	1	258
Stribild	144	34	9	187	225	54	14	293
Truvada	649	86	30	765	567	184	61	812
Other HIV(1)	11	3	5	19	7	2	2	11
Revenue share - Symtuza(2)	—	13	—	13	—	—	—	—
AmBisome	14	55	34	103	8	50	34	92
Epclusa	239	168	93	500	864	248	59	1,171
Harvoni	230	22	79	331	984	230	168	1,382
Letairis	244	—	—	244	230	—	—	230
Ranexa	208	—	—	208	200	—	—	200
Vemlidy	59	3	14	76	21	1	—	22
Viread	16	32	34	82	141	76	83	300
Vosevi	86	20	3	109	—	—	—	—
Yescarta	68	—	—	68	—	—	—	—
Zydelig	17	22	—	39	19	16	—	35
Other(3)	27	41	47	115	98	126	144	368
Total product sales	4,069	1,005	466	5,540	4,982	1,399	665	7,046
Royalty, contract and other revenues	14	79	15	108	22	59	14	95
Total revenues	$4,083	$1,084	$ 481	$5,648	$5,004	$1,458	$ 679	$7,141

9

(In millions)	Six Months Ended June 30, 2018 U.S.	Europe	Other International	Total	Six Months Ended June 30, 2017 U.S.	Europe	Other International	Total
Product Sales:								
Atripla	$502	$90	$ 71	$663	$650	$180	$ 97	$927
Biktarvy	218	2	—	220	—	—	—	—
Complera/Eviplera	149	212	28	389	224	252	31	507
Descovy	585	153	26	764	441	84	12	537
Genvoya	1,757	393	92	2,242	1,379	212	35	1,626
Odefsey	582	135	10	727	433	50	2	485
Stribild	277	63	21	361	451	121	30	602
Truvada	1,156	183	78	1,417	1,031	373	122	1,526
Other HIV(1)	20	4	8	32	21	3	2	26
Revenue share - Symtuza(2)	—	20	—	20	—	—	—	—
AmBisome	31	111	68	210	17	102	65	184
Epclusa	508	366	162	1,036	1,599	386	78	2,063
Harvoni	464	78	137	679	1,910	473	370	2,753
Letairis	448	—	—	448	441	—	—	441
Ranexa	403	—	—	403	353	—	—	353
Vemlidy	106	6	22	134	32	1	—	33
Viread	23	62	94	179	258	147	155	560
Vosevi	172	36	8	216	—	—	—	—
Yescarta	108	—	—	108	—	—	—	—
Zydelig	31	40	1	72	34	35	1	70
Other(3)	56	56	109	221	158	246	326	730
Total product sales	7,596	2,010	935	10,541	9,432	2,665	1,326	13,423
Royalty, contract and other revenues	34	131	30	195	41	152	30	223
Total revenues	$7,630	$2,141	$ 965	$10,736	$9,473	$2,817	$ 1,356	$13,646

(1) Includes Emtriva and Tybost

(2) Represents Gilead's revenue from cobicistat (C), emtricitabine (FTC) and tenofovir alafenamide (TAF) in Symtuza (darunavir/C/FTC/TAF), a fixed dose combination product commercialized by Janssen

(3) Includes Cayston, Hepsera and Sovaldi

3. 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 include quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs 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

10

- Level 3 inputs 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 assets and 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 primarily of cash and cash equivalents, marketable securities, accounts receivable, foreign currency exchange contracts, equity securities, accounts payable and short-term and long-term debt. Cash and cash equivalents, marketable debt and equity securities, and foreign currency exchange contracts are reported at their respective fair values on our Condensed Consolidated Balance Sheets. Short-term and long-term debt are reported at their amortized costs on our Condensed Consolidated Balance Sheets. The remaining financial instruments are reported in our Condensed Consolidated Balance Sheets at amounts that approximate current fair values. There were no transfers between Level 1, Level 2 and Level 3 in the periods presented.

The following table summarizes the types of assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy (in millions):

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Available-for-sale debt securities:								
Corporate debt securities	$—	$12,092	$ —	$12,092	$—	$14,747	$ —	$14,747
U.S. treasury securities	3,391	—	—	3,391	4,061	—	—	4,061
Residential mortgage and asset-backed securities	—	2,657	—	2,657	—	4,058	—	4,058
U.S. government agencies securities	—	872	—	872	—	926	—	926
Certificates of deposit	—	3,145	—	3,145	—	5,131	—	5,131
Non-U.S. government securities	—	404	—	404	—	664	—	664
Marketable equity securities:								
Money market funds	7,060	—	—	7,060	4,714	—	—	4,714
Equity securities	663	—	—	663	635	—	—	635
Deferred compensation plan	131	—	—	131	116	—	—	116
Foreign currency derivative contracts	—	53	—	53	—	13	—	13
Total	$11,245	$19,223	$ —	$30,468	$9,526	$25,539	$ —	$35,065
Liabilities:								
Deferred compensation plan	$131	$—	$ —	$131	$116	$—	$ —	$116
Foreign currency derivative contracts	—	11	—	11	—	93	—	93
Total	$131	$11	$ —	$142	$116	$93	$ —	$209

Our available-for-sale debt securities are classified as cash equivalents, short-term marketable securities and long-term marketable securities. See Note 4, Available-for-Sale Debt Securities for additional information.

The following table summarizes the classification of our marketable equity securities in our Condensed Consolidated Balance Sheets (in millions):

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$7,060	$ 4,714
Prepaid and other current assets	666	637
Other long-term assets	128	114
Total	$7,854	$ 5,465

For the three and six months ended June 30, 2018, changes in the estimated fair values of marketable equity securities resulted in unrealized losses of $64 million and $19 million, respectively, which were included in Other income (expense), net, on our Condensed Consolidated Statements of Income.
Cash and cash equivalents in the table above excludes cash of $2.0 billion and $2.4 billion, respectively, and cash equivalents of $4.1 billion and $481 million as of June 30, 2018 and December 31, 2017, respectively.
Level 2 Inputs
We estimate the fair values of Level 2 instruments by taking into consideration valuations obtained from third-party pricing services. The pricing services utilize industry standard valuation models, including both income-based 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 within an 18-month time horizon and all are with counterparties that have a minimum credit rating of A- or equivalent by S&P Global Ratings, Moody's Investors Service, Inc. or Fitch Ratings, 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 exchange rates, London Interbank Offered Rates (LIBOR) and swap rates. These inputs, where applicable, are observable at commonly quoted intervals.
The total estimated fair values of our short-term and long-term debt, determined using Level 2 inputs based on their quoted market values, were approximately $29.3 billion and $35.5 billion at June 30, 2018 and December 31, 2017, respectively, and the carrying values were $29.1 billion and $33.5 billion at June 30, 2018 and December 31, 2017, respectively.
4. AVAILABLE-FOR-SALE DEBT SECURITIES
The following table summarizes our available-for-sale debt securities (in millions):

	June 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$12,144	$ 3	$ (55)	$ 12,092	$14,790	$ 3	$ (46)	$ 14,747
U.S. treasury securities	3,412	—	(21)	3,391	4,090	—	(29)	4,061
Residential mortgage and asset-backed securities	2,674	—	(17)	2,657	4,072	1	(15)	4,058
U.S. government agencies securities	880	—	(8)	872	934	—	(8)	926
Certificates of deposit	3,145	—	—	3,145	5,131	—	—	5,131
Non-U.S. government securities	407	—	(3)	404	668	—	(4)	664
Total	$22,662	$ 3	$ (104)	$ 22,561	$29,685	$ 4	$ (102)	$ 29,587

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

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$4,139	$ 481
Short-term marketable securities	12,683	17,922
Long-term marketable securities	5,739	11,184
Total	$22,561	$ 29,587

12

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

	June 30, 2018	
	Amortized Cost	Fair Value
Within one year	$16,861	$16,822
After one year through five years	5,710	5,649
After five years through ten years	67	66
After ten years	24	24
Total	$22,662	$22,561

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 millions):

	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
June 30, 2018						
Corporate debt securities	$(15)	$3,774	$(40)	$3,449	$(55)	$7,223
U.S. treasury securities	(1)	239	(20)	2,482	(21)	2,721
Residential mortgage and asset-backed securities	(5)	1,176	(12)	1,167	(17)	2,343
U.S. government agencies securities	—	46	(8)	687	(8)	733
Certificates of deposit	—	71	—	—	—	71
Non-U.S. government securities	—	64	(3)	323	(3)	387
Total	$(21)	$5,370	$(83)	$8,108	$(104)	$13,478
December 31, 2017						
Corporate debt securities	$(14)	$7,674	$(32)	$3,561	$(46)	$11,235
U.S. treasury securities	(2)	821	(27)	3,240	(29)	4,061
Residential mortgage and asset-backed securities	(4)	2,245	(11)	1,206	(15)	3,451
U.S. government agencies securities	(1)	206	(7)	700	(8)	906
Non-U.S. government securities	(1)	203	(3)	461	(4)	664
Total	$(22)	$11,149	$(80)	$9,168	$(102)	$20,317

We held a total of 1,866 and 2,957 positions as of June 30, 2018 and December 31, 2017, respectively, which were in an unrealized loss position.

Based on our review of these securities, we believe we had no other-than-temporary impairments as of June 30, 2018 and December 31, 2017, because we do not intend to sell these securities nor do we believe that we will be required to sell these securities before the recovery of their amortized cost basis. Gross realized gains and gross realized losses were not material for the three and six months ended June 30, 2018 and 2017.

5. DERIVATIVE FINANCIAL INSTRUMENTS

Our operations in foreign countries expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, primarily 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 entities 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 maturities of 18 months or less. Upon executing a hedging contract and quarterly thereafter, we assess hedge effectiveness using regression analysis. Prior to January 2018, we excluded time value from our effectiveness testing and recognized changes in the time value of the hedge in Other income (expense), net, on our Condensed Consolidated Statements of Income. Starting in January 2018, we include time value in our effectiveness testing and the entire change in the value of hedge contracts is recorded as unrealized gains or losses in AOCI within Stockholders' equity on our Condensed Consolidated Balance Sheets. The unrealized gains or losses in AOCI are reclassified into product sales when the respective hedged transactions affect earnings. The majority of gains and losses related to the hedged forecasted transactions reported in AOCI at June 30, 2018 are expected to be reclassified to product sales within 12 months.

The cash flow effects of our derivative contracts for the six months ended June 30, 2018 and 2017 are included within Net cash provided by operating activities on our Condensed Consolidated Statements of Cash Flows.

We had notional amounts on foreign currency exchange contracts outstanding of $2.5 billion and $2.8 billion at June 30, 2018 and December 31, 2017, respectively.

While all of our derivative contracts allow us the right to offset assets and liabilities, we have presented amounts on a gross basis. The following table summarizes the classification and fair values of derivative instruments in our Condensed Consolidated Balance Sheets (in millions):

	June 30, 2018			
	Asset Derivatives		Liability Derivatives	
	Classification	Fair Value	Classification	Fair Value
Derivatives designated as hedges:				
Foreign currency exchange contracts	Other current assets	$ 44	Other accrued liabilities	$ (11)
Foreign currency exchange contracts	Other long-term assets	9	Other long-term obligations	—
Total derivatives designated as hedges		53		(11)
Derivatives not designated as hedges:				
Foreign currency exchange contracts	Other current assets	—	Other accrued liabilities	—
Total derivatives not designated as hedges		—		—
Total derivatives		$ 53		$ (11)

	December 31, 2017			
	Asset Derivatives		Liability Derivatives	
	Classification	Fair Value	Classification	Fair Value
Derivatives designated as hedges:				
Foreign currency exchange contracts	Other current assets	$ 2	Other accrued liabilities	$ (89)
Foreign currency exchange contracts	Other long-term assets	1	Other long-term obligations	(3)
Total derivatives designated as hedges		3		(92)
Derivatives not designated as hedges:				
Foreign currency exchange contracts	Other current assets	10	Other accrued liabilities	(1)
Total derivatives not designated as hedges		10		(1)
Total derivatives		$ 13		$ (93)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Derivatives designated as hedges:				
Gains (losses) recognized in AOCI	$119	$(117)	$58	$(211)
Gains (losses) reclassified from AOCI into product sales	$(45)	$(13)	$(93)	$30
Gains recognized in Other income (expense), net	$—	$9	$—	$22
Derivatives not designated as hedges:				
Gains (losses) recognized in Other income (expense), net	$10	$25	$(4)	$(110)

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, on our Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017 as a result of the discontinuance of cash flow hedges.

As of June 30, 2018 and December 31, 2017, we held one type of financial instrument, which was 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 millions):

				Gross Amounts Not Offset on our Condensed Consolidated Balance Sheets		
Description	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset on our Condensed Consolidated Balance Sheets	Amounts of Assets/Liabilities Presented on our Condensed Consolidated Balance Sheets	Derivative Financial Instruments	Cash Collateral Received/ Pledged	Net Amount (Legal Offset)
As of June 30, 2018						
Derivative assets	$ 53	$ —	$ 53	$ (9)	$ —	$ 44
Derivative liabilities	$ (11)	$ —	$ (11)	$ 9	$ —	$ (2)
As of December 31, 2017						
Derivative assets	$ 13	$ —	$ 13	$ (8)	$ —	$ 5
Derivative liabilities	$ (93)	$ —	$ (93)	$ 8	$ —	$ (85)

6. ACQUISITION, COLLABORATIONS AND OTHER ARRANGEMENTS

Acquisition

On October 3, 2017 (the Kite acquisition date), we completed a tender offer for all of the outstanding common stock of Kite Pharma, Inc. (Kite) for $180 per share in cash. As a result, Kite became our wholly-owned subsidiary. The acquisition of Kite helps establish our foundation for improving the treatment of hematological malignancies and solid tumors.

The consideration transferred for the acquisition of Kite was $11,155 million, consisting of $10,420 million in cash to the outstanding Kite common stockholders, $645 million cash payment to vested equity award holders, $15 million to warrant holders and $75 million representing the portion of the replaced stock-based awards attributable to the pre-combination period. In addition, $733 million was excluded from the consideration transferred, representing the portion of the replaced stock-based awards attributable to the post combination period, which is expected to be recognized through 2021.

The acquisition of Kite was accounted for as a business combination using the acquisition method of accounting. This method requires, among other things, that assets acquired and liabilities assumed be recognized at fair value as of the Kite acquisition date. The fair value estimates for the assets acquired and liabilities assumed in the acquisition have not yet been finalized as of June 30, 2018. During the three months ended June 30, 2018, we recorded a $35 million reduction to goodwill due to revision of deferred income taxes as a result of finalization of Kite’s pre-acquisition federal income tax return.

The following table summarizes the preliminary Kite acquisition date fair values of assets acquired and liabilities assumed, and the consideration transferred (in millions):

Cash and cash equivalents	$652
Identifiable intangible assets:	
Indefinite-lived intangible assets - IPR&D	8,950
Outlicense acquired	91
Deferred income taxes	(1,571)
Other assets acquired (liabilities assumed), net	81
Total identifiable net assets	8,203
Goodwill	2,952
Total consideration transferred	$11,155

We will be able to complete our valuation when we obtain additional information, primarily related to certain forecast assumptions used to perform our preliminary valuation of intangibles and estimates to record the benefit of certain tax attributes. Changes to these assumptions and estimates could cause an impact to the valuation of assets acquired, including intangible assets, goodwill and the related tax impacts of the acquisition of Kite. We expect to finalize these amounts as soon as possible but no later than one year from the Kite acquisition date.

Collaborations and Other Arrangements

We enter into collaborations and other arrangements with third parties for the research and development of certain products and product candidates. These arrangements may include non-refundable, up-front payments, payments by us for options to acquire certain rights, contingent obligations by us for potential development and regulatory milestone payments and/or sales-based milestone payments, royalty payments, revenue or profit sharing arrangements, cost sharing arrangements and equity investments.

For the three and six months ended June 30, 2018, the total initial cash consideration related to collaborations and other arrangements commenced was $284 million and $304 million, respectively. We recorded up-front collaboration payments of $160 million within Research and development expenses on our Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018 and the remaining initial cash consideration was recorded in current and other long-term assets on our Condensed Consolidated Balance Sheets. We do not consider any of these collaborations and other arrangements to be individually material. There was no initial cash consideration related to collaborations and other arrangements for the three and six months ended June 30, 2017.

7. OTHER FINANCIAL INFORMATION

Inventories

Inventories are summarized as follows (in millions):

	June 30, 2018	December 31, 2017
Raw materials	$ 1,960	$ 1,880
Work in process	267	352
Finished goods	604	670
Total	$ 2,831	$ 2,902
Reported as:		
Inventories	$ 859	$ 801
Other long-term assets	1,972	2,101
Total	$ 2,831	$ 2,902

Amounts reported as other long-term assets primarily consisted of raw materials as of June 30, 2018 and December 31, 2017.

Other Accrued Liabilities

The components of other accrued liabilities are summarized as follows (in millions):

	June 30, 2018	December 31, 2017
Compensation and employee benefits	$ 424	$ 455
Branded prescription drug fee	310	284
Income taxes payable	17	713
Other accrued expenses	1,856	1,918
Total	$ 2,607	$ 3,370

Supplemental Disclosure of Cash Flow Information - Non-Cash Investing Activity

At June 30, 2018, Prepaid and other current assets on our Condensed Consolidated Balance Sheets included $520 million of available-for-sale debt securities that were matured but unsettled. These available-for-sale debt securities were settled in July 2018 and will be reflected as cash from investing activities in the third quarter of 2018. Available-for-sale debt securities that were matured but unsettled were not material at December 31, 2017.

8. INTANGIBLE ASSETS

The following table summarizes the carrying amount of our intangible assets, net (in millions):

	June 30, 2018	December 31, 2017
Finite-lived intangible assets	$ 13,746	$ 14,350
Indefinite-lived intangible assets	2,750	2,750
Total intangible assets	$ 16,496	$ 17,100

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

	June 30, 2018				December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation Adjustment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible asset - sofosbuvir	$ 10,720	$ (3,205)	$ —	$ 7,515	$ 10,720	$ (2,855)	$ 7,865
Intangible asset - axicabtagene ciloleucel (DLBCL)	6,200	(244)	—	5,956	6,200	(72)	6,128
Intangible asset - Ranexa	688	(622)	—	66	688	(566)	122
Other	546	(334)	(3)	209	546	(311)	235
Total	$ 18,154	$ (4,405)	$ (3)	$ 13,746	$ 18,154	$ (3,804)	$ 14,350

Amortization expense related to finite-lived intangible assets is included in Cost of goods sold on our Condensed Consolidated Statements of Income and totaled $300 million and $601 million for the three and six months ended June 30, 2018, respectively, and $210 million and $420 million for the three and six months ended June 30, 2017, respectively. As of June 30, 2018, the estimated future amortization expense associated with our finite-lived intangible assets is as follows (in millions):

Fiscal Year	Amount
2018 (remaining six months)	$ 602
2019	1,088
2020	1,064
2021	1,063
2022	1,063
Thereafter	8,866
Total	$ 13,746

9. DEBT AND CREDIT FACILITIES

The following table summarizes our borrowings under various financing arrangements (in millions):

		Carrying Amount
Type of Borrowing	Issue Date	