

GILEAD SCIENCES INC
Form 10-Q
November 05, 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 September 30, 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

(State or Other Jurisdiction of
Incorporation or Organization)

94-3047598

(IRS Employer
Identification No.)

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

94404

(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)

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

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 October 31, 2014:
1,508,664,333

GILEAD SCIENCES, INC.
INDEX

PART I. <u>FINANCIAL INFORMATION</u>	<u>2</u>
Item 1. <u>Condensed Consolidated Financial Statements</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets at September 30, 2014 (unaudited) and December 31, 2013</u>	<u>2</u>
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2014 and 2013 (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013 (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013 (unaudited)</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>6</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
Item 4. <u>Controls and Procedures</u>	<u>34</u>
PART II. <u>OTHER INFORMATION</u>	<u>35</u>
Item 1. <u>Legal Proceedings</u>	<u>35</u>
Item 1A. <u>Risk Factors</u>	<u>41</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>58</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>58</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>58</u>
Item 5. <u>Other Information</u>	<u>58</u>
Item 6. <u>Exhibits</u>	<u>59</u>
<u>SIGNATURES</u>	<u>66</u>

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®, ZYDELIG®, HARVONI®, HEPSERA®, VITEKTA®,

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

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

PART I. FINANCIAL INFORMATION

ITEM I. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

GILEAD SCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share amounts)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$6,209,060	\$2,112,806
Short-term marketable securities	107,266	18,756
Accounts receivable, net	2,850,367	2,100,286
Inventories	1,909,584	2,055,788
Deferred tax assets	384,588	330,530
Prepaid taxes	599,117	398,010
Prepaid expenses	234,802	165,652
Other current assets	267,247	91,925
Total current assets	12,562,031	7,273,753
Property, plant and equipment, net	1,509,796	1,166,181
Long-term portion of prepaid royalties	487,852	198,766
Long-term deferred tax assets	163,720	154,765
Long-term marketable securities	1,375,400	439,028
Intangible assets, net	11,306,547	11,900,106
Goodwill	1,171,561	1,169,023
Other long-term assets	267,486	195,163
Total assets	\$28,844,393	\$22,496,785
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$1,182,917	\$1,255,914
Accrued government rebates	1,741,829	983,490
Accrued compensation and employee benefits	267,599	243,540
Income taxes payable	43,781	10,855
Other accrued liabilities	1,224,864	1,023,938
Deferred revenues	116,880	110,640
Current portion of long-term debt and other obligations, net	1,477,082	2,697,044
Total current liabilities	6,054,952	6,325,421
Long-term debt, net	7,933,040	3,938,708
Long-term income taxes payable	417,434	162,412
Long-term deferred tax liabilities	65,433	83,286
Other long-term obligations	482,542	178,626
Commitments and contingencies		
Equity component of currently redeemable convertible notes	27,382	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 1,513,593 at September 30, 2014 and 1,534,414 at	1,514	1,534

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

December 31, 2013

Additional paid-in capital	2,143,092	5,386,735
Accumulated other comprehensive income (loss)	173,962	(124,446)
Retained earnings	11,247,655	6,105,244
Total Gilead stockholders' equity	13,566,223	11,369,067
Noncontrolling interest	297,387	375,434
Total stockholders' equity	13,863,610	11,744,501
Total liabilities and stockholders' equity	\$28,844,393	\$22,496,785

See accompanying notes.

2

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Product sales	\$5,968,208	\$2,709,652	\$17,252,119	\$7,760,505
Royalty, contract and other revenues	73,624	73,181	323,612	321,357
Total revenues	6,041,832	2,782,833	17,575,731	8,081,862
Costs and expenses:				
Cost of goods sold	987,306	681,868	2,725,220	2,000,979
Research and development	630,466	546,244	1,809,368	1,567,778
Selling, general and administrative	944,837	406,860	2,106,515	1,186,147
Total costs and expenses	2,562,609	1,634,972	6,641,103	4,754,904
Income from operations	3,479,223	1,147,861	10,934,628	3,326,958
Interest expense	(103,366)	(73,949)	(281,639)	(233,744)
Other income (expense), net	(5,037)	5,777	(26,594)	2,222
Income before provision for income taxes	3,370,820	1,079,689	10,626,395	3,095,436
Provision for income taxes	646,557	294,473	2,029,060	824,892
Net income	2,724,263	785,216	8,597,335	2,270,544
Net loss attributable to noncontrolling interest	7,011	3,390	16,942	12,853
Net income attributable to Gilead	\$2,731,274	\$788,606	\$8,614,277	\$2,283,397
Net income per share attributable to Gilead common stockholders—basic	\$1.80	\$0.51	\$5.64	\$1.50
Shares used in per share calculation—basic	1,513,899	1,532,105	1,527,633	1,526,847
Net income per share attributable to Gilead common stockholders—diluted	\$1.67	\$0.47	\$5.18	\$1.35
Shares used in per share calculation—diluted	1,636,530	1,691,898	1,662,281	1,689,647

See accompanying notes.

3

GILEAD SCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$2,724,263	\$785,216	\$8,597,335	\$2,270,544
Other comprehensive income:				
Change in foreign currency translation gain (loss), net of tax	(10,031)	2,381	(3,062)	5,155
Available-for-sale securities:				
Change in net unrealized gains (losses), net of tax impact of \$(481), \$2,182, \$697 and \$2,310	(831)	4,316	995	4,082
Reclassifications to net income, net of tax impact of \$(29), \$(38), \$(253) and \$(79)	(51)	(65)	(437)	(140)
Net change	(882)	4,251	558	3,942
Cash flow hedges:				
Change in net unrealized gains (losses), net of tax impact of \$6,462, \$6,083, \$6,288 and \$2,504	223,886	(82,453)	256,772	(3,371)
Reclassifications to net income, net of tax impact of \$(640), \$(358), \$(2,702) and \$(610)	2,449	3,380	44,140	(2,181)
Net change	226,335	(79,073)	300,912	(5,552)
Other comprehensive income (loss)	215,422	(72,441)	298,408	3,545
Comprehensive income	2,939,685	712,775	8,895,743	2,274,089
Comprehensive loss attributable to noncontrolling interest	7,011	3,390	16,942	12,853
Comprehensive income attributable to Gilead	\$2,946,696	\$716,165	\$8,912,685	\$2,286,942

See accompanying notes.

4

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

	Nine Months Ended September 30,	
	2014	2013
Operating Activities:		
Net income	\$8,597,335	\$2,270,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	93,669	76,046
Amortization expense	680,950	140,699
Stock-based compensation expense	264,583	180,293
Excess tax benefits from stock-based compensation	(357,928)	(168,728)
Tax benefits from exercise and vesting of stock-based awards	360,336	169,916
Deferred income taxes	(67,061)	(12,400)
Change in fair value of contingent consideration	(4,119)	47,442
Other	54,791	45,116
Changes in operating assets and liabilities:		
Accounts receivable, net	(826,970)	(226,308)
Inventories	100,828	(216,650)
Prepaid expenses and other assets	(428,969)	(111,199)
Accounts payable	(74,599)	23,131
Income taxes payable	135,672	(87,081)
Accrued liabilities	1,256,505	218,323
Deferred revenues	12,310	29,057
Net cash provided by operating activities	9,797,333	2,378,201
Investing Activities:		
Purchases of marketable securities	(1,532,426)	(254,657)
Proceeds from sales of marketable securities	477,152	226,291
Proceeds from maturities of marketable securities	26,582	57,556
Acquisitions, net of cash acquired	—	(378,645)
Capital expenditures	(389,549)	(121,310)
Net cash used in investing activities	(1,418,241)	(470,765)
Financing Activities:		
Proceeds from debt financing, net of issuance costs	3,965,446	—
Proceeds from convertible note hedges	1,629,483	1,257,869
Purchases of convertible note hedges	(26,249)	—
Proceeds from issuances of common stock	275,074	240,671
Repurchases of common stock	(3,348,477)	(182,259)
Repayments of debt and other long-term obligations	(2,859,872)	(2,224,782)
Payments to settle warrants	(4,092,758)	(1,039,695)
Excess tax benefits from stock-based compensation	357,928	168,728
Payment of contingent consideration	(98,346)	—
Contributions from (distributions to) noncontrolling interest	(61,105)	80,586
Net cash used in financing activities	(4,258,876)	(1,698,882)
Effect of exchange rate changes on cash and cash equivalents	(23,962)	(1,512)

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Net change in cash and cash equivalents	4,096,254	207,042
Cash and cash equivalents at beginning of period	2,112,806	1,803,694
Cash and cash equivalents at end of period	\$6,209,060	\$2,010,736

See accompanying notes.

5

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.

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 September 30, 2014, our accounts receivable in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled approximately \$587.2 million, of which \$154.5 million were greater than 120 days past due and \$52.0 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 September 30, 2014.

Branded Prescription Drug Fee

We, along with other pharmaceutical manufacturers of branded drug products, are required to pay a portion of the Branded Prescription Drug (BPD) Fee, which is calculated based on select government sales during each calendar year as a percentage of total industry government sales. During the third quarter of 2014, the IRS issued final regulations which required manufacturers to recognize an additional year of expense, which for us resulted in a cumulative catch-up of \$337 million within the quarter. The IRS is expected to communicate the final BPD fee amounts due for 2013 sales during the third quarter of 2015 and for 2014 sales during the third quarter of 2016. As of September 30, 2014, our BPD fee accrual totaled \$343 million, of which \$304 million was included in other long-term obligations on our Condensed Consolidated Balance Sheet.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, jointly with the International Accounting Standards Board, issued a comprehensive new standard on revenue recognition from contracts with customers. The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new guidance to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this new guidance will require significantly expanded revenue recognition disclosures. This guidance will become effective for us beginning in the first quarter of 2017. Early application is not permitted. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. We are currently evaluating the impact of our pending adoption of this standard on our Condensed Consolidated Financial Statements.

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.

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

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	September 30, 2014		December 31, 2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Convertible Senior	May 2014 Notes	\$—	\$—	\$234,217	\$783,651
Convertible Senior	May 2016 Notes	727,072	3,517,174	1,113,043	3,871,516
Senior Unsecured	April 2021 Notes	994,425	1,093,710	993,781	1,075,480
Senior Unsecured	December 2014 Notes	749,947	752,820	749,710	762,637
Senior Unsecured	December 2016 Notes	699,499	729,603	699,326	740,705
Senior Unsecured	December 2021 Notes	1,247,933	1,358,813	1,247,716	1,336,738
Senior Unsecured	December 2041 Notes	997,942	1,186,550	997,885	1,118,660
Senior Unsecured	April 2019 Notes	499,232	496,065	—	—
Senior Unsecured	April 2024 Notes	1,747,340	1,782,900	—	—
Senior Unsecured	April 2044 Notes	1,746,669	1,848,333	—	—

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):

	September 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Debt securities:								
Money market funds	\$5,049,683	\$—	\$—	\$5,049,683	\$1,490,964	\$—	\$—	\$1,490,964
Corporate debt securities	—	675,745	—	675,745	—	220,025	—	220,025
U.S. treasury securities	520,208	—	—	520,208	85,403	—	—	85,403
U.S. government agencies securities	—	131,417	—	131,417	—	93,350	—	93,350
Residential mortgage and asset-backed securities	—	151,287	—	151,287	—	46,941	—	46,941
Municipal debt securities	—	9,209	—	9,209	—	12,065	—	12,065
Total debt securities	5,569,891	967,658	—	6,537,549	1,576,367	372,381	—	1,948,748
Deferred compensation plan	52,261	—	—	52,261	44,461	—	—	44,461
Foreign currency derivative contracts	—	215,911	—	215,911	—	13,879	—	13,879
	\$5,622,152	\$1,183,569	\$—	\$6,805,721	\$1,620,828	\$386,260	\$—	\$2,007,088
Liabilities:								
Contingent consideration	\$—	\$—	\$94,899	\$94,899	\$—	\$—	\$263,760	\$263,760
Foreign currency derivative contracts	—	3,696	—	3,696	—	99,057	—	99,057

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Deferred compensation plan	52,261	—	—	52,261	44,461	—	—	44,461
	\$52,261	\$3,696	\$94,899	\$150,856	\$44,461	\$99,057	\$263,760	\$407,278

8

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 September 30, 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. (Calistoga) 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 \$47.4 million as of September 30, 2014 and \$220.5 million as of December 31, 2013. In July 2014, upon receiving U.S. Food and Drug Administration (FDA) approval of Zydelig, certain regulatory approval-based milestones related to our Calistoga acquisition were met and as a result, we made contingent consideration payments totaling \$175.0 million in the third quarter of 2014. The remainder of the contingent consideration liabilities as of September 30, 2014 and December 31, 2013 relate 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.

9

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
Milestone payments	(175,000)
Net changes in valuation	6,139
Balance at September 30, 2014	\$94,899

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):

	September 30, 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	\$5,049,683	\$—	\$—	\$5,049,683	\$1,490,964	\$—	\$—	\$1,490,964
Corporate debt securities	676,599	474	(1,328)	675,745	219,242	885	(102)	220,025
U.S. treasury securities	520,243	250	(285)	520,208	85,337	94	(28)	85,403
U.S. government agencies securities	131,396	94	(73)	131,417	93,211	156	(17)	93,350
Residential mortgage and asset-backed securities	151,359	51	(123)	151,287	46,969	37	(65)	46,941
Municipal debt securities	9,175	34	—	9,209	12,009	56	—	12,065
Total	\$6,538,455	\$903	\$(1,809)	\$6,537,549	\$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):

	September 30, 2014	December 31, 2013
Cash and cash equivalents	\$5,054,883	\$1,490,964
Short-term marketable securities	107,266	18,756
Long-term marketable securities	1,375,400	439,028
Total	\$6,537,549	\$1,948,748

Cash and cash equivalents in the table above exclude cash of \$1.15 billion as of September 30, 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):

	September 30, 2014	
	Amortized Cost	Fair Value
Less than one year	\$5,161,903	\$5,162,149
Greater than one year but less than five years	1,366,482	1,365,350

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Greater than five years but less than ten years	5,618	5,607
Greater than ten years	4,452	4,443
Total	\$6,538,455	\$6,537,549

10

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Gross realized gains on sales	\$ 164	\$ 269	\$ 865	\$ 652
Gross realized losses on sales	\$(84)	\$(166)	\$(175)	\$(433)

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
September 30, 2014						
Debt securities:						
U.S. treasury securities	\$(285)	\$ 230,148	\$—	\$—	\$(285)	\$ 230,148
Corporate debt securities	(1,328)	494,142	—	—	(1,328)	494,142
Residential mortgage and asset-backed securities	(110)	100,094	(13)	811	(123)	100,905
U.S. government agencies securities	(73)	49,849	—	—	\$(73)	\$ 49,849
Total	\$(1,796)	\$ 874,233	\$(13)	\$ 811	\$(1,809)	\$ 875,044
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 317 securities as of September 30, 2014 and 40 securities as of 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 September 30, 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 (loss) (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 September 30, 2014 will be reclassified to product sales within 12 months.

The cash flow effects of our derivative contracts for the nine months ended September 30, 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 \$5.56 billion at September 30, 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):

	September 30, 2014			
	Asset Derivatives		Liability Derivatives	
	Classification	Fair Value	Classification	Fair Value
Derivatives designated as hedges:				
Foreign currency exchange contracts	Other current assets	\$ 179,891	Other accrued liabilities	\$ 3,545
Foreign currency exchange contracts	Other long-term assets	36,016	Other long-term obligations	79
Total derivatives designated as hedges		215,907		3,624
Derivatives not designated as hedges:				
Foreign currency exchange contracts	Other current assets	4	Other accrued liabilities	72
Total derivatives not designated as hedges		4		72
Total derivatives		\$215,911		\$3,696

		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	

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

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Derivatives designated as hedges:				
Gains (losses) recognized in OCI (effective portion)	\$ 230,348	\$(83,528)	\$ 263,060	\$(867)
Gains (losses) reclassified from accumulated OCI into product sales (effective portion)	\$(1,810)	\$(3,022)	\$(41,439)	\$ 2,791
Gains (losses) recognized in other income (expense), net (ineffective portion and amounts excluded from effectiveness testing)	\$(2,626)	\$ 1,105	\$(6,525)	\$ 881
Derivatives not designated as hedges:				
Gains (losses) recognized in other income (expense), net	\$ 73,489	\$(41,929)	\$ 82,600	\$(232)

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 and nine months ended September 30, 2014 and 2013 as a result of the discontinuance of cash flow hedges.

As of September 30, 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):

September 30, 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	\$ 215,911	\$—	\$ 215,911	\$(3,688)	\$ —	\$ 212,223

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Derivative liabilities	\$ (3,696) \$—	\$(3,696) \$3,688	\$ —	\$(8)
------------------------	-----------	-------	----------	-----------	------	------	---

13

December 31, 2013

Offsetting of Derivative Assets/Liabilities

Description	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet				
		Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheet	Derivative Financial Instruments	Cash Collateral Received/Pledged	Net Amount (Legal Offset)
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):

	September 30, 2014	December 31, 2013
Raw materials	\$956,842	\$1,049,403
Work in process	501,856	412,945
Finished goods	450,886	593,440
Total	\$1,909,584	\$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 \$1.01 billion as of September 30, 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):

	September 30, 2014	December 31, 2013
Finite-lived intangible assets	\$10,874,157	\$11,325,751
Indefinite-lived intangible assets	432,390	574,355
Total intangible assets	\$11,306,547	\$11,900,106

Finite-Lived Intangible Assets

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

	September 30, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible asset - sofosbuvir	\$10,720,000	\$582,609	\$10,720,000	\$58,261
Intangible asset - Ranexa	688,400	243,697	688,400	190,849
Other	454,995	162,932	305,795	139,334
Total	\$11,863,395	\$989,238	\$11,714,195	\$388,444

Upon FDA approval and commercial launch of Sovaldi in December 2013, we reclassified the in-process R&D related to sofosbuvir to finite-lived intangible assets. After receiving FDA approval in July 2014, we launched Zydelig and reclassified the in-process R&D related to idelalisib to finite-lived intangibles. Amortization expense related to finite-lived intangible assets are included primarily in cost of goods sold in our Condensed Consolidated Statements of Income which totaled \$201.8 million and \$600.8 million for the three and nine months ended September 30, 2014 and \$21.3 million and \$63.8 million for the three and nine months ended September 30, 2013. As of September 30, 2014,

the estimated future amortization expense associated with our intangible assets for the remaining three months of 2014 and each of the five succeeding fiscal years is as follows (in thousands):

14

Fiscal Year	Amount
2014 (remaining three months)	\$202,902
2015	817,060
2016	824,992
2017	829,435
2018	841,543
2019	806,386
Total	\$4,322,318

Indefinite-Lived Intangible Assets

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

	September 30, 2014	December 31, 2013
Indefinite-lived intangible asset - momelotinib (formerly CYT387)	\$308,155	\$362,700
Indefinite-lived intangible assets - other	117,000	266,200
	425,155	628,900
Foreign currency translation adjustment	7,235	(54,545)
Total	\$432,390	\$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 September 30, 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 September 30, 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 September 30, 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 September 30, 2014, total assets held by the joint venture were \$2.26 billion and consisted primarily of cash and cash equivalents of \$213.9 million, accounts receivable of \$257.5 million and inventories of \$1.77 billion; total liabilities were \$1.47 billion and consisted primarily of accounts payable of \$1.08 billion and other accrued expenses of \$393.9 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 Ireland Unlimited Company, our wholly-owned subsidiary in Ireland, formerly known as Gilead Sciences Limited, and BMS entered into a collaboration agreement with BMS which sets forth the terms and conditions under which we and BMS 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 September 30, 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	September 30, 2014	December 31, 2013
Convertible Senior	May 2014 Notes	July 2010	May 2014	1.00%	\$ —	\$ 234,217
Convertible Senior	May 2016 Notes	July 2010	May 2016	1.625%	727,072	1,113,043
Senior Unsecured	April 2021 Notes	March 2011	April 2021	4.50%	994,425	993,781
Senior Unsecured	December 2014 Notes	December 2011	December 2014	2.40%	749,947	749,710
Senior Unsecured	December 2016 Notes	December 2011	December 2016	3.05%	699,499	699,326
Senior Unsecured	December 2021 Notes	December 2011	December 2021	4.40%	1,247,933	1,247,716
Senior Unsecured	December 2041 Notes	December 2011	December 2041	5.65%	997,942	997,885
Senior Unsecured	April 2019 Notes	March 2014	April 2019	2.05%	499,232	—
Senior Unsecured	April 2024 Notes	March 2014	April 2024	3.70%	1,747,340	—
Senior Unsecured	April 2044 Notes	March 2014	April 2044	4.80%	1,746,669	—
Credit Facility	Five-Year Revolver	January 2012	January 2017	Variable	—	600,000
Total debt, net					9,410,059	6,635,678
Less current portion					1,477,019	2,696,970
Total long-term debt, net					\$ 7,933,040	\$ 3,938,708

Convertible Senior Notes

During the nine months ended September 30, 2014, our convertible senior notes due in May 2014 (May 2014 Notes) matured and a portion of our convertible senior notes due in May 2016 (May 2016 Notes) (together, the Notes) were converted. During the nine months ended September 30, 2014, we repaid \$656.6 million of principal balance relating to the Notes. We also paid \$1.60 billion in cash related to the conversion spread of the Notes, which represents the conversion value in excess of the principal amount, and received \$1.60 billion in cash from the convertible note hedges related to the Notes.

As of September 30, 2014, the May 2016 Notes were classified as current given that their conversion criteria had been met. As a result, the related unamortized discount of \$27.4 million was classified as equity component of currently redeemable convertible notes on our Condensed Consolidated Balance Sheet.

During the third quarter of 2014, we exercised our option to settle in cash the warrants expiring in 2014 (the 2014 Warrants). As result, we paid \$4.09 billion to settle the warrants as the market value of our common stock at the time of the exercise of the warrants exceeds their strike price. There were 55.5 million shares of our common stock underlying the 2014 Warrants, which had a strike price of \$28.38 per share and expired during the 40 trading-day period commencing August 1, 2014 and ending on September 26, 2014. Because the warrants could have been settled, at our option, in cash or shares of our common stock, and the related contracts met all of the applicable criteria for equity classification, the settlement was recorded as a reduction of additional paid-in capital in our Condensed Consolidated Balance Sheet.

There are 55.1 million shares of our common stock underlying our warrants expiring in 2016 (the 2016 Warrants). The 2016 Warrants have a strike price of \$30.05 per share and are exercisable only on their expiration date. If the market value of our common stock at the time of the exercise of the warrants exceeds their strike price, we will be required to net settle in cash or shares of our common stock, at our option, for the value of the warrants in excess of the warrant strike price.

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 a 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 the 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. There were no amounts outstanding under the revolving credit facility credit agreement as of September 30, 2014.

We are required to comply with certain covenants under the credit agreement and note indentures and as of September 30, 2014, we were not in violation with any covenants.

9.COMMITMENTS AND CONTINGENCIES

We are a party to various legal actions. The most significant of these are described below. It is not possible to determine the outcome of these matters, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss.

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 U.S. Food and Drug Administration (FDA) approval of sofosbuvir, now known commercially as Sovaldi. In October 2014, we also received approval of the fixed dose combination of ledipasvir and sofosbuvir (LDV/SOF), now known commercially as Harvoni. We own patents that claim sofosbuvir as a chemical entity and its metabolites. However, the existence of patents does not necessarily guarantee our right to practice the patented technology or commercialize the patented product. Third parties may have, or may obtain rights to, patents that allegedly could be used to prevent or attempt to prevent us from commercializing sofosbuvir. For example, we are aware of patents and patent applications owned by other parties that may be alleged by such parties to cover the use of sofosbuvir. 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. We cannot predict the ultimate outcome of the intellectual property claims related to sofosbuvir and may spend significant resources enforcing and defending our patents. Any range of loss cannot be estimated at this time.

Current legal proceedings of significance regarding sofosbuvir include:

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

Gilead (as successor to Pharmasset) is a party to a 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 in 2006. In March 2013, Roche served an arbitration against us and Pharmasset, predecessor to Gilead Pharmasset LLC. In the arbitration demand, Roche asserted that it had an exclusive license to sofosbuvir pursuant to the collaboration agreement because sofosbuvir, a prodrug of a uridine analog, is allegedly a prodrug of PSI-6130, a cytidine analog. Roche further claimed that, because it had exclusive rights to sofosbuvir, it also had an exclusive license to a patent covering sofosbuvir, and that we infringed 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. The arbitration hearing was held in June 2014. In August 2014, the arbitration panel determined that Roche failed to establish any of their claims and ruled in favor of us. As a result, Roche is not entitled to any damages or other relief.

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 Trial 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.

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 was 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. A trial on these issues is scheduled to commence in January 2015 in Toronto.

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. A trial on these issues is scheduled to commence in September 2015 in Sydney.

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 that day, Idenix initiated infringement proceedings against Gilead 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, a trial was held in October 2014 to determine the issues of infringement and validity of the Idenix United Kingdom patent. A decision is expected in the fourth quarter of 2014. 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 Europe, Canada, Norway and Australia.

In December 2013, after receiving our 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. 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.

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.

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. On June 30, 2014, the court in Massachusetts granted our request and transferred the Massachusetts litigation to the U.S. District Court for the District of Delaware. 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.

On June 9, 2014, Merck & Co. Inc. (Merck) and Idenix announced that the companies had entered into a definitive agreement under which Merck would acquire Idenix. While the acquisition of Idenix Pharmaceuticals, Inc. by Merck in August 2014 does not change our view of the lack of merit in the claims made by Idenix, Merck has greater resources than Idenix and may therefore choose to fund the litigation at higher levels than Idenix.

Litigation with Merck

In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbuvir and obtain 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 a 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. The court has set a trial date of March 7, 2016 for this litigation.

Litigation with AbbVie, Inc. (AbbVie)

AbbVie has obtained U.S. Patent Nos. 8,466,159, 8,492,386, 8,680,106, 8,685,984, and 8,809,265 which purport to cover the use of a combination of LDV/SOF for the treatment of HCV. Gilead is aware that AbbVie has pending patent applications in other countries. We own published and pending patent applications directed to the use of combinations for the treatment of HCV, and, specifically, to the combination 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 and March 2014, AbbVie responded to our lawsuit by filing two lawsuits also in the U.S. District Court for the District of Delaware alleging that our fixed-dose combination of LDV/SOF will infringe its patents. All of those lawsuits have been consolidated into a single action. AbbVie's patents have not blocked or delayed the commercialization of our combination product in the United States, and we do not expect any foreign counterparts to block or delay the commercialization around the world.

Litigation with Generic Manufacturers

As part of the approval process for some of our products, the FDA granted us 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 cannot predict the ultimate outcome of the foregoing actions and other litigation with generic manufacturers, 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 Truvada and Viread 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.

Current legal proceedings of significance with some of our generic manufacturers include:

Mylan Inc. (Mylan)

In April 2014, we received notice that Mylan submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Truvada. In the notice, Mylan alleges that two of the patents associated with emtricitabine and one of our patents associated with the fixed-dose combination of emtricitabine with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Mylan's manufacture, use or sale of a generic version of Truvada. In June 2014, we filed a lawsuit against Mylan in U.S. District Court for the Northern District of West Virginia for infringement of our patents. In June 2014, we received notice that Mylan Inc. submitted petitions for Inter Partes Review (IPR) to the Board alleging that four patents associated with tenofovir disoproxil fumarate are invalid. We are opposing Mylan's petitions. We anticipate that the Board will issue a decision on whether to institute an IPR by December 2014. If the Board institutes an IPR, we anticipate a final decision by December 2015.

Apotex Corp. (Apotex)

In June 2014, we received notice that Apotex submitted an ANDS to the Canadian Minister of Health requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate and a separate ANDS requesting permission to manufacture and market a generic version of Viread. In the notice, Apotex alleges that three of the patents associated with Truvada and two of the patents associated with Viread are invalid, unenforceable and/or will not be infringed by Apotex's manufacture, use or sale of a generic version of Truvada or Viread. In August 2014, we filed a lawsuit against Apotex in the Federal Court of Canada seeking an order of prohibition against approval of this ANDS.

Teva Pharmaceuticals (Teva)

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 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 Minister 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 the decision of the court prohibiting the Minister of Health from issuing the Notices of Compliance until expiry of our patent in July 2017. This decision did not rule on the validity of the patents and accordingly the only issue on appeal is whether the Minister of Health should be prohibited from issuing the Notices of Compliance for Teva's products. Separately, the court will determine the validity of the patents in the pending Impeachment Action. A trial in the Impeachment Action is scheduled for March 2015.

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, Hepsara 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 have moved to dismiss the complaint.

10. STOCKHOLDERS' EQUITY

Stock Repurchase Program

During the third quarter of 2014, we completed the stock repurchase program authorized in January 2011 (2011 Program). We repurchased a total of \$1.70 billion or 19.1 million shares of common stock during the three months ended September 30, 2014, and a total of \$3.35 billion or 40.0 million shares of common stock during the nine months ended September 30, 2014. In May 2014, our Board of Directors authorized a new stock repurchase program of up to \$5.00 billion of our common stock. As of September 30, 2014, there were no shares repurchased under this new program.

Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Items	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Cash Flow Hedges	Total
Balance at December 31, 2013	\$(45,860)	\$ 11,907	\$(90,493)	\$(124,446)
Other comprehensive income (loss) before reclassifications	(3,062)	995	256,772	254,705
Amounts reclassified from accumulated other comprehensive income (loss)	—	(437)	44,140	43,703
Net current period other comprehensive income (loss)	(3,062)	558	300,912	298,408
Balance at September 30, 2014	\$(48,922)	\$ 12,465	\$210,419	\$173,962

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cost of goods sold	\$2,726	\$1,823	\$7,933	\$6,296
Research and development expenses	40,312	27,740	111,295	79,261
Selling, general and administrative expenses	56,298	33,010	145,466	94,736
Stock-based compensation expense included in total costs and expenses	99,336	62,573	264,694	180,293
Income tax effect	(18,075)	(15,997)	(48,098)	(47,958)
Stock-based compensation expense, net of tax	\$81,261	\$46,576	\$216,596	\$132,335

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 May 2016 Notes has a dilutive effect when the average market price of our common stock during the period exceeds the conversion price of \$22.71 for the May 2016 Notes. Warrants relating to the May 2016 Notes have a dilutive effect when the average market price of our common stock during the period exceeds the warrants' exercise price of \$30.05. Our May 2013 Notes and May 2014 Notes matured and as a result, we have only included their impact for the periods they were outstanding on our net income per share calculations for the periods shown. Our common stock resulting from the assumed settlement of the conversion spread of the May 2013 Notes and May 2014 Notes had a dilutive effect when the average market price of our common stock during the period exceeded the conversion price of \$19.05 for the May 2013 Notes and \$22.54 for the May 2014 Notes. 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 and nine months ended September 30, 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. Warrants related to our May 2014 Notes settled in

22

August and September 2014 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 and nine months ended September 30, 2014. 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 \$28.38.

We have excluded stock options to purchase approximately 1.1 million and 1.0 million weighted-average shares of our common stock that were outstanding during the three and nine months ended September 30, 2014, and approximately 0.1 million and 0.9 million weighted-average shares of our common stock that were outstanding during the three and nine months ended September 30, 2013. These shares were excluded 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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income attributable to Gilead	\$2,731,274	\$788,606	\$8,614,277	\$2,283,397
Shares used in per share calculation - basic	1,513,899	1,532,105	1,527,633	1,526,847
Effect of dilutive securities:				
Stock options and equivalents	31,727	38,575	33,769	39,085
Conversion spread related to the May 2013 Notes	—	—	—	5,268
Conversion spread related to the May 2014 Notes	—	24,335	3,138	27,435
Conversion spread related to the May 2016 Notes	27,178	33,873	29,633	30,587
Warrants related to the Convertible Notes	63,726	63,010	68,108	60,425
Shares used in per share calculation - diluted	1,636,530	1,691,898	1,662,281	1,689,647

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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Antiviral products:				
Sovaldi	\$2,796,093	\$—	\$8,550,768	\$—
Atripla	894,787	899,669	2,545,089	2,714,850
Truvada	875,454	813,652	2,441,764	2,321,673
Complera/Eviplera	330,263	210,736	880,460	547,608
Stribild	328,035	143,953	812,826	335,495
Viread	275,637	231,555	746,996	692,075
Harvoni	19,966	—	20,405	—
Other antiviral products	24,278	27,162	66,846	89,643
Total antiviral products	5,544,513	2,326,727	16,065,154	6,701,344
Letairis	146,415	135,072	414,016	381,436
Ranexa	132,510	115,815	366,084	318,698
AmBisome	98,108	97,812	284,995	258,224
Zydelig	5,862	—	5,862	—
Other products	40,800	34,226	116,008	100,803
Total product sales	\$5,968,208	\$2,709,652	\$17,252,119	\$7,760,505

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		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
AmerisourceBergen Corp.	23	% 15	% 25	% 13	%
McKesson Corp.	24	% 16	% 24	% 16	%
Cardinal Health, Inc.	15	% 16	% 13	% 18	%

14. INCOME TAXES

Our income tax rates of 19.2% and 19.1% for the three and nine months ended September 30, 2014, differed from the U.S. federal statutory rate of 35% due primarily to certain operating earnings from non-U.S. subsidiaries that are considered indefinitely reinvested and tax credits, partially offset by state taxes, our portion of the non-tax deductible Branded Prescription Drug Fee, also known as the 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 2010 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 September 30, 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 and nine months ended September 30, 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 and 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[®], Harvoni[®], Stribild[®], Complera[®]/Eviplera[®], Atripla[®], Truvada[®], Viread[®], Vitekta[®], Tybost[®], Zydelig[®], Hepsera[®], Emtriva[®], Letairis[®], Ranexa[®], AmBisome[®], Cayston[®] and Tamiflu[®]. 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

We continued to advance our product pipeline across our therapeutic areas. Recent key announcements made include:

Antiviral Program

Approval by the U.S. Food and Drug Administration (FDA) of Harvoni, the first once-daily single tablet regimen for the treatment of chronic HCV genotype 1 infection in adults. Harvoni combines the NS5A inhibitor ledipasvir with the nucleotide analog polymerase inhibitor sofosbuvir, approved under the tradename Sovaldi in December 2013.

- The Committee for Medicinal Products for Human Use, the scientific committee of the European Medicines Agency, adopted a positive opinion on our marketing authorization application for Harvoni.

Announced topline results from two Phase 3 clinical trials, which demonstrated that an investigational once-daily single tablet regimen containing tenofovir alafenamide (TAF) for the treatment of HIV-1 infection in treatment-naïve adults met their primary objectives. The studies demonstrated that the single tablet regimen comprising elvitegravir, cobicistat, emtricitabine and TAF (E/C/F/TAF), was non-inferior to Stribild based on the proportion of patients with HIV RNA levels (viral load) of less than 50 copies/mL at 48 weeks of therapy. In addition, E/C/F/TAF demonstrated more favorable renal and bone safety compared to Stribild.

Submitted a new drug application to Japan's Pharmaceutical and Medical Devices Agency for approval of our fixed-dose combination of ledipasvir and sofosbuvir for the treatment of chronic genotype 1 HCV infection in adults. If approved, the fixed-dose combination would simplify HCV treatment for genotype 1 patients in Japan to one daily tablet, eliminating the need for interferon and ribavirin.

Announced that non-exclusive licensing agreements have been signed with India-based generic pharmaceutical manufacturers to expand access to our chronic HCV medicines in developing countries. The agreements allow the companies to manufacture sofosbuvir and the fixed-dose combination of ledipasvir and sofosbuvir for distribution in 91 developing countries.

- Announced a new agreement with the Medicines Patent Pool (MPP) to expand access to TAF for HIV and hepatitis B, contingent on the medicine's U.S. regulatory approval. Under the agreement, the MPP can sub-license TAF to generic drug companies in India and China, who may manufacture and distribute it in 112 developing countries.

Oncology Program

Received FDA approval for Zydelig for the treatment of three B-cell blood cancers. Zydelig is indicated in combination with rituximab for patients with relapsed chronic lymphocytic leukemia (CLL) for whom rituximab alone would be considered appropriate therapy and as monotherapy for patients with relapsed follicular lymphoma (FL) and small lymphocytic lymphoma (SLL) who have received at least two prior systemic therapies.

The European Commission granted marketing authorization for Zydelig for CLL and FL. For the treatment of CLL, Zydelig has been approved for use in combination with rituximab for patients who have received at least one prior therapy; or as first-line treatment in the presence of 17p deletion or TP53 mutation in patients unsuitable for chemo-immunotherapy. For the treatment of FL, Zydelig has been approved as a monotherapy in patients who are refractory to two prior lines of treatment.

Cardiovascular Program

Announced positive results from the AMBITION study (a randomized, double-blind, multicenter study of first-line combination therapy with AMBRIsentan and Tadalafil in patients with pulmonary arterial hypertension), which was conducted in collaboration with GlaxoSmithKline plc. In AMBITION, first-line treatment of pulmonary arterial hypertension with the combination of ambrisentan 10 mg and tadalafil 40 mg reduced the risk of clinical failure by 50 percent compared to the pooled ambrisentan and tadalafil monotherapy arm. The combination was also statistically significant versus the individual ambrisentan and tadalafil monotherapy groups for the primary endpoint.

Financial Highlights

During the third quarter of 2014, total revenues increased to \$6.04 billion, compared to \$2.78 billion in the third quarter of 2013, driven primarily by sales of Sovaldi and growth of our HIV single tablet regimens, Stribild and Complera/Eviplera. Sales of Sovaldi were \$2.80 billion for the three months ended September 30, 2014. Sovaldi was approved in the United States in December 2013 and in the European Union in January 2014. Sovaldi is now available in 40 countries.

Research and development (R&D) expenses increased 15% to \$630.5 million for the third quarter of 2014 compared to the same period in 2013 due primarily to the progression and expansion of our clinical studies. Selling, general and administrative (SG&A) expenses increased 132% to \$944.8 million for the third quarter of 2014 compared to the same period in 2013 due primarily to a cumulative catch-up of \$337.0 million related to the non-tax deductible Branded Prescription Drug Fee as final regulations in the Affordable Care Act were issued during the third quarter of 2014.

SG&A expense increases also reflect costs to support our business expansion related primarily to Sovaldi, Zydelig and Harvoni.

Net income attributable to Gilead for the third quarter of 2014 increased to \$2.73 billion or \$1.67 per diluted share, compared to the same period in 2013, due primarily to the launch of Sovaldi, partially offset by the increase in R&D and SG&A expenses.

As of September 30, 2014, our cash, cash equivalents and marketable securities totaled \$7.69 billion. During the third quarter of 2014, we generated \$4.04 billion of operating cash flows, repurchased \$1.70 billion of common stock and paid \$4.09 billion to settle the warrants related to our May 2014 convertible senior notes.

Results of Operations

Total Revenues

Total revenues include product sales and royalty, contract and other revenues. Total revenues for the three months ended September 30, 2014 were \$6.04 billion, compared to \$2.78 billion for the same period in 2013. Total revenues for the nine months ended September 30, 2014 were \$17.58 billion, compared to \$8.08 billion for the same period in 2013. Increases in total revenues for both periods were driven by growth in product sales resulting primarily from the launch of Sovaldi.

Product Sales

Total product sales were \$5.97 billion for the three months ended September 30, 2014, an increase of 120% compared to the same period in 2013. Total product sales were \$17.25 billion for the nine months ended September 30, 2014, an increase of 122% compared to the same period in 2013. Increases in product sales for both periods were primarily driven by increases in antiviral product sales which totaled \$5.54 billion and \$16.07 billion for the three and nine months ended September 30, 2014. During the three and nine months ended September 30, 2014, approximately 30% 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 a favorable impact of \$37.8 million and \$68.2 million on our product sales for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013.

Product sales in the United States increased by 152% to \$4.21 billion and 169% to \$12.65 billion for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, due primarily to sales of Sovaldi and increases in sales of Stribild and Complera.

Product sales in Europe increased by 74% to \$1.44 billion and 53% to \$3.76 billion for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, due primarily to sales of Sovaldi and increases in sales of Stribild and 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 \$41.0 million and \$83.7 million on our European product sales for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013.

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

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Antiviral products:						
Sovaldi	\$2,796,093	\$—	—	\$8,550,768	\$—	—
Atripla	894,787	899,669	(1)%	2,545,089	2,714,850	(6)%
Truvada	875,454	813,652	8 %	2,441,764	2,321,673	5 %
Complera/Eviplera	330,263	210,736	57 %	880,460	547,608	61 %
Stribild	328,035	143,953	128 %	812,826	335,495	142 %
Viread	275,637	231,555	19 %	746,996	692,075	8 %
Harvoni	19,966	—	—	20,405	—	—
Other antiviral products	24,278	27,162	(11)%	66,846	89,643	(25)%
Total antiviral products	5,544,513	2,326,727	138 %	16,065,154	6,701,344	140 %
Letairis	146,415	135,072	8 %	414,016	381,436	9 %

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Ranexa	132,510	115,815	14	%	366,084	318,698	15	%
AmBisome	98,108	97,812	—	%	284,995	258,224	10	%
Zydelig	5,862	—	—		5,862	—	—	
Other products	40,800	34,226	19	%	116,008	100,803	15	%
Total product sales	\$5,968,208	\$2,709,652	120	%	\$17,252,119	\$7,760,505	122	%

27

Antiviral Products

Antiviral product sales increased for the three and nine months ended September 30, 2014 compared to the same periods in 2013 due primarily to the launch of Sovaldi and increased sales of Stribild and Complera/Eviplera.

Following is additional discussion of our results by product:

Sovaldi

For the three and nine months ended September 30, 2014, sales of Sovaldi were \$2.80 billion and \$8.55 billion, respectively. Sovaldi sales accounted for 50% and 53% of our total antiviral product sales for the three and nine months ended September 30, 2014. Sovaldi sales in the United States were \$2.20 billion and \$7.33 billion for the three and nine months ended September 30, 2014. Sovaldi sales in Europe were \$523.5 million and \$1.09 billion for the three and nine months ended September 30, 2014. Since its launch in December 2013, we estimate approximately 117,000 patients in the United States and Europe have begun treatment for HCV with Sovaldi. While Sovaldi has received regulatory approval in the European Union, pricing and reimbursement is obtained on a country-by-country process, with some countries completing the process more quickly than others. Sovaldi is now available in 40 countries. We continue to work with local authorities to gain reimbursement for the product. Product sales related to Harvoni in the table above for the three and nine months ended September 30, 2014 represent early access sales in Europe as part of a defined use program. Harvoni was commercially approved in the United States on October 10, 2014.

While we believe the sales of Sovaldi for the three and nine months ended September 30, 2014 are indicative of significant unmet medical need, current period results may not be indicative of future results. Future results are difficult to estimate as demand for our HCV products will depend on a number of factors. For example, on a sequential basis, Sovaldi sales decreased by \$684.2 million or 20% in the third quarter of 2014 when compared to the second quarter of 2014. We believe this decline may be indicative of physicians holding off initiation of treatment in anticipation of the launch of Harvoni or another competitor's all-oral regimen for the treatment of genotype 1 HCV. Also, pricing pressures could influence private and public payers' decisions to list Sovaldi or Harvoni on formulary or limit the types of patients for whom coverage will be provided, thus impacting future demand for Sovaldi or Harvoni.

Atripla

Atripla sales accounted for 16% of our total antiviral product sales for both the three and nine months ended September 30, 2014, respectively, and decreased by 1% and 6% compared to the same periods in 2013, due primarily to declines in volume as doctors prescribed newer treatments such as Complera/Eviplera and Stribild. The efavirenz component of Atripla, which has a gross margin of zero, comprised \$328.7 million and \$929.6 million of our Atripla sales for the three and nine months ended September 30, 2014. For the three and nine months ended September 30, 2013, the efavirenz component of Atripla comprised \$334.7 million and \$1.01 billion of our Atripla sales.

A generic version of Bristol-Myers Squibb Company's Sustiva (efavirenz), a component of our Atripla, was made available in Canada and Europe during 2013 and will be made available in the United States in December 2017. While we have observed some pricing pressure related to the efavirenz component of our Atripla sales, we have not yet observed any meaningful splitting of the Atripla single tablet regimen.

Truvada

Truvada sales accounted for 16% and 15% of our total antiviral product sales for the three and nine months ended September 30, 2014, respectively. Truvada sales increased by 8% for the three months ended September 30, 2014 compared to the same period in 2013 and increased by 5% for the nine months ended September 30, 2014 compared to the same period in 2013, due primarily to an increase in the average net selling price during the first quarter of 2014.

Complera/Eviplera

Complera/Eviplera sales increased by 57% and 61% for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, due primarily to increased sales volume in Europe and the United States.

Stribild

Sales of Stribild increased by 128% and 142% for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, due primarily to increased sales volume in the United States and Europe.

Stribild was approved in the United States in August 2012 and in Europe in May 2013.

28

Cardiovascular Products

Cardiovascular product sales, which include Letairis and Ranexa, increased 11% during both the three and nine months ended September 30, 2014, compared to the same periods in 2013 due primarily to increased sales volume.

Royalty, Contract and Other Revenues

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,				
	2014	2013	Change	2014	2013	Change		
Royalty, contract and other revenues	\$73,624	\$73,181	1	% \$323,612	\$321,357	1	%	

Royalty, contract and other revenues remained constant for the three and nine months ended September 30, 2014 compared to the same periods in 2013. The majority of our royalties are recognized in the quarter following the quarter in which the corresponding product sales occur.

Cost of Goods Sold and Product Gross Margin

The following table summarizes the period over period changes in our product sales, cost of goods sold and product gross margin:

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,				
	2014	2013	Change	2014	2013	Change		
Total product sales	\$5,968,208	\$2,709,652	120	% \$17,252,119	\$7,760,505	122	%	
Cost of goods sold	\$987,306	\$681,868	45	% \$2,725,220	\$2,000,979	36	%	
Product gross margin	83	% 75	%	84	% 74	%		

Product gross margins were 83% and 84% for the three and nine months ended September 30, 2014, respectively, compared to 75% and 74% for the same periods in 2013. The increases were driven primarily by changes in product mix, primarily following the launch of Sovaldi, partially offset by amortization of the intangible asset related to sofosbuvir following the approval and commercial launch of Sovaldi.

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,				
	2014	2013	Change	2014	2013	Change		
Research and development expenses	\$630,466	\$546,244	15	% \$1,809,368	\$1,567,778	15	%	

R&D expenses summarized above consist primarily of clinical studies performed by contract research organizations, materials and supplies, licenses and fees, milestone payments under collaboration arrangements, personnel costs, including salaries, benefits and stock-based compensation and overhead allocations consisting of various support and facilities-related costs.

We do not track total R&D expenses by product candidate, therapeutic area or development phase. However, we manage our R&D expenses by identifying the R&D activities we anticipate will be performed during a given period and then prioritizing efforts based on scientific data, probability of successful development, market potential, available human and capital resources and other considerations. We continually review our R&D pipeline and the status of development and, as necessary, reallocate resources among the R&D portfolio that we believe will best support the future growth of our business.

R&D expenses for the three months ended September 30, 2014 increased by \$84.2 million or 15% compared to the same period in 2013 due primarily to an increase of \$52.2 million in personnel and infrastructure expenses to support the progression of clinical study activity, primarily in the oncology and HIV areas, geographic expansion and marketed product support.

R&D expenses for the nine months ended September 30, 2014 increased by \$241.6 million or 15% compared to the same period in 2013 due primarily to \$123.1 million related to the progression of clinical study activity, primarily in the oncology and HIV areas, and \$115.2 million related to personnel and infrastructure expenses to support our ongoing clinical study activity, geographic expansion and marketed product support. We expect R&D expenses to increase through the remainder of 2014 to support the expansion of our clinical studies in various therapeutic areas including HCV, HIV, and oncology.

Selling, General and Administrative Expenses

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Selling, general and administrative expenses	\$944,837	\$406,860	132 %	\$2,106,515	\$1,186,147	78 %

SG&A expenses relate to sales and marketing, finance, human resources, legal and other administrative activities.

Expenses are primarily comprised of facilities and overhead costs, outside marketing, advertising and legal expenses, and other general and administrative costs.

SG&A expenses for the three months ended September 30, 2014 increased by \$538.0 million or 132% compared to the same period in 2013 due primarily to a cumulative catch-up of \$337.0 million related to the non-tax deductible Branded Prescription Drug (BPD) Fee, also known as the pharmaceutical excise tax, as final regulations in the Affordable Care Act were issued during the third quarter of 2014 and an increase in headcount related and other expenses of \$148.5 million to support our ongoing growth, including the expansion of our business related to Sovaldi, Zydelig and Harvoni.

In July 2014, the Internal Revenue Service (IRS) issued final regulations related to the BPD fee that indicate that an entity's obligation to pay its portion of the fee in any given calendar year is triggered by the qualifying sales in the previous year, instead of the first qualifying sale in the current calendar year. As a result of the final IRS regulations, during the third quarter of 2014, we were required to:

Accelerate recognition of \$32.5 million previously recorded as an asset in accordance with the guidance in Accounting Standard Codification (ASC 720-50) - Other Expenses-Fees Paid to the Federal Government by Pharmaceutical Manufacturers and Health Insurers;

Recognize a catch-up of \$304.5 million reflective of our estimate of the fee payable based on the qualifying sales for the first nine months of 2014.

Going forward we will continue to accrue our estimate of the BPD fee as the related sales occur.

SG&A expenses for the nine months ended September 30, 2014 increased by \$920.4 million or 78% compared to the same period in 2013 due primarily to an increase in headcount related and other expenses of \$410.9 million to support our ongoing growth, including the expansion of our business related to Sovaldi, Zydelig and Harvoni. Included in the increase is the \$337.0 million cumulative catch-up related to the BPD fee. We estimate that our portion of the BPD fee will be in the range of \$550.0 million to \$570.0 million in 2014 compared to approximately \$110 million in 2013. Excluding the BPD fee, we expect SG&A expenses to increase through the remainder of 2014 to support our ongoing growth.

Interest Expense

Interest expense for the three months ended September 30, 2014 was \$103.4 million, an increase of \$29.4 million compared to the same period in 2013. Interest expense for the nine months ended September 30, 2014 was \$281.6 million, an increase of \$47.9 million compared to the same period in 2013. The increases for both periods were primarily a result of the March 2014 issuance of our senior unsecured notes due in April 2019 (April 2019 Notes), April 2024 (April 2024 Notes) and April 2044 (April 2044 Notes).

Other Income (Expense), Net

Other income (expense), net was not significant for the three and nine months ended September 30, 2014 and 2013.

Provision for Income Taxes

Our provision for income taxes was \$646.6 million and \$2.03 billion for the three and nine months ended September 30, 2014, respectively, compared to \$294.5 million and \$824.9 million for the same periods in 2013, respectively. Our effective tax rates were 19.2% and 19.1% for the three and nine months ended September 30, 2014, respectively, compared to 27.3% and 26.6% for the same periods in 2013, respectively. The effective tax rates for the three and nine months ended September 30, 2014 were lower than the effective tax rates for the same periods in 2013 due primarily to higher earnings from non-U.S. subsidiaries that are considered indefinitely reinvested, offset by the expiration of

the federal research tax credit as of December 31, 2013, the non tax deductible BPD fee and amortization expense of the intangible asset related to sofosbuvir for which we receive no tax benefit.

The effective tax rates for the three and nine months ended September 30, 2014 differed from the U.S. federal statutory rate of 35% due primarily to certain operating earnings from non-U.S. subsidiaries that are considered indefinitely reinvested and tax credits, partially offset by state taxes, our portion of the non-tax deductible BPD fee and amortization expense of the

30

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.

Liquidity and Capital Resources

We believe that our existing capital resources, supplemented by our cash flows generated from operating activities will be adequate to satisfy our capital needs for the foreseeable future. The following table summarizes our cash, cash equivalents and marketable securities, our working capital and our cash flow activities as of the end of, and for each of, the periods presented:

(In thousands)	September 30, 2014	December 31, 2013
Cash, cash equivalents and marketable securities	\$7,691,726	\$2,570,590
Working capital	\$6,507,079	\$948,332
	Nine Months Ended	
	September 30, 2014	2013
(In thousands)		
Cash provided by (used in):		
Operating activities	\$9,797,333	\$2,378,201
Investing activities	\$(1,418,241)	\$(470,765)
Financing activities	\$(4,258,876)	\$(1,698,882)

Cash, Cash Equivalents and Marketable Securities

As of September 30, 2014, cash, cash equivalents and marketable securities totaled \$7.69 billion, an increase of \$5.12 billion or 199% from December 31, 2013. During the nine months ended September 30, 2014, we generated \$9.80 billion in cash flows from operations; received \$3.97 billion from the issuance of senior unsecured notes in March 2014; repaid \$1.26 billion in debt, net of amounts received from convertible note hedges; repurchased \$3.35 billion of common stock; and paid approximately \$4.09 billion to settle the warrants related to our May 2014 convertible senior notes, which were retired in May 2014.

Of the total cash, cash equivalents and marketable securities at September 30, 2014, approximately \$6.89 billion was generated from operations in foreign jurisdictions and is intended for use in our foreign operations. We do not rely on unrepatriated earnings as a source of funds for our domestic business as we expect to have sufficient cash flow and borrowing capacity in the United States to fund our domestic operational and strategic needs.

Working Capital

Working capital was \$6.51 billion at September 30, 2014. The increase of \$5.56 billion in working capital from December 31, 2013 was driven primarily by positive cash flows from operations and an increase in cash and cash equivalents due to the issuance of senior unsecured notes in March 2014, partially offset by cash paid to settle convertible senior notes and the warrants related to the May 2014 convertible senior notes, repayment of our bank debt, and repurchases of common stock.

Cash Provided by Operating Activities

Cash provided by operating activities was \$9.80 billion for the nine months ended September 30, 2014 and consisted primarily of net income of \$8.60 billion, adjusted for non-cash items such as \$774.6 million of depreciation and amortization expenses, \$264.6 million for stock-based compensation expense and \$174.8 million of net cash outflow related to changes in operating assets and liabilities.

Cash provided by operating activities was \$2.38 billion for the nine months ended September 30, 2013 and consisted primarily of net income of \$2.27 billion, adjusted for non-cash items such as \$216.7 million of depreciation and amortization expenses and \$180.3 million of stock-based compensation expenses. This was partially offset by \$370.7 million of net cash outflow related to changes in operating assets and liabilities.

Cash Used in Investing Activities

Cash used in investing activities for the nine months ended September 30, 2014 was \$1.42 billion, consisting primarily of \$1.03 billion in net purchases of marketable securities and \$389.5 million in capital expenditures related

to the expansion of our business.

Cash used in investing activities for the nine months ended September 30, 2013 was \$470.8 million, consisting primarily of \$378.6 million used in our acquisition of YM BioSciences Inc., net of the cash acquired.

Cash Used in Financing Activities

Cash used in financing activities for the nine months ended September 30, 2014 was \$4.26 billion, consisting primarily of \$1.26 billion used to repay debt, net of amounts received from convertible note hedges; \$3.35 billion used to repurchase common stock under our stock repurchase program; and \$4.09 billion to settle the warrants related to our convertible senior notes that were retired in May 2014 (May 2014 Notes). These payments were primarily offset by \$3.97 billion in net proceeds from the issuance of our April 2019 Notes, April 2024 Notes and April 2044 Notes. Cash used in financing activities for the nine months ended September 30, 2013 was \$1.70 billion, driven primarily by \$2.22 billion used to repay debt financing which includes the maturity of our convertible senior notes due in May 2013 (May 2013 Notes), the conversions of our May 2014 Notes and convertible senior notes due in May 2016 (May 2016 Notes) and \$1.04 billion for the warrants related to our May 2013 Notes that settled in August 2013. This cash used was partially offset by net proceeds of \$1.26 billion related to our convertible note hedges and proceeds of \$240.7 million from issuances of common stock under our employee stock plans.

Long-Term Obligations

The following is a summary of our borrowings under various financing arrangements (in thousands):

Type of Borrowing	Description	Issue Date	Due Date	Interest Rate	September 30, 2014	December 31, 2013
Convertible Senior	May 2014 Notes	July 2010	May 2014	1.00%	\$ —	\$ 234,217
Convertible Senior	May 2016 Notes	July 2010	May 2016	1.625%	727,072	1,113,043
Senior Unsecured	April 2021 Notes	March 2011	April 2021	4.50%	994,425	993,781
Senior Unsecured	December 2014 Notes	December 2011	December 2014	2.40%	749,947	749,710
Senior Unsecured	December 2016 Notes	December 2011	December 2016	3.05%	699,499	699,326
Senior Unsecured	December 2021 Notes	December 2011	December 2021	4.40%	1,247,933	1,247,716
Senior Unsecured	December 2041 Notes	December 2011	December 2041	5.65%	997,942	997,885
Senior Unsecured	April 2019 Notes	March 2014	April 2019	2.05%	499,232	—
Senior Unsecured	April 2024 Notes	March 2014	April 2024	3.70%	1,747,340	—
Senior Unsecured	April 2044 Notes	March 2014	April 2044	4.80%	1,746,669	—
Credit Facility	Five-Year Revolver	January 2012	January 2017	Variable	—	600,000
Total debt, net					9,410,059	6,635,678
Less current portion					1,477,019	2,696,970
Total long-term debt, net					\$ 7,933,040	\$ 3,938,708

Debt Financing

In March 2014, we issued senior unsecured notes in a registered offering for a total aggregate principal amount of \$4.00 billion. We issued the April 2019 Notes for \$500.0 million which pay interest at a fixed annual rate of 2.05%, the April 2024 Notes for \$1.75 billion which pay interest at a fixed annual rate of 3.70% and the April 2044 Notes for \$1.75 billion which pay interest at a fixed annual rate of 4.80%. We have begun using the net proceeds from this debt financing for general corporate purposes, which may include the repayment of debt and related payments, working capital and the repurchase of outstanding common stock under our authorized stock repurchase program.

Convertible Senior Notes

During the nine months ended September 30, 2014, our May 2014 Notes matured and a portion of our May 2016 Notes (together, the Notes) was converted. During the nine months ended September 30, 2014, we repaid \$656.6 million of principal balance relating to the Notes. We also paid \$1.60 billion in cash related to the conversion spread of the Notes, which represents the conversion value in excess of the principal amount, and received \$1.60 billion in cash from the convertible note hedges related to the Notes.

During the third quarter of 2014, we exercised our option to settle in cash the warrants expiring in 2014 (the 2014 Warrants). As result, we paid \$4.09 billion to settle the warrants as the market value of our common stock at the time

of the exercise of the warrants exceeds their strike price. There were 55.5 million shares of our common stock underlying the 2014 Warrants, which had a strike price of \$28.38 per share and expired during the 40 trading-day period commencing August 1, 2014 and ending on September 26, 2014. Because the warrants could have been settled, at our option, in cash or shares of our common stock, and the related contracts met all of the applicable criteria for equity classification, the settlement was recorded as a reduction of additional paid-in capital in our Condensed Consolidated Balance Sheet.

As of September 30, 2014, the May 2016 Notes were classified as current given that their conversion criteria had been met. As a result, the related unamortized discount of \$27.4 million was classified as equity component of currently redeemable convertible notes on our Condensed Consolidated Balance Sheet.

There are 55.1 million shares of our common stock underlying our warrants expiring in 2016 (the 2016 Warrants). The 2016 Warrants have a strike price of \$30.05 per share and are exercisable only on their expiration date. If the market value of our common stock at the time of the exercise of the warrants exceeds their strike price, we will be required to net settle in cash or shares of our common stock, at our option, for the value of the warrants in excess of the warrant strike price.

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. There were no amounts outstanding under the revolving credit facility credit agreement as of September 30, 2014.

We are required to comply with certain covenants under the credit agreement and note indentures and as of September 30, 2014, we were not in violation with any covenants.

Stock Repurchase Program

Under our stock repurchase program authorized in January 2011 (2011 Program), we repurchased a total of \$1.70 billion or 19.1 million shares of common stock during the three months ended September 30, 2014, and a total of \$3.35 billion or 40.0 million shares of common stock during the nine months ended September 30, 2014. In May 2014, our Board of Directors authorized a new stock repurchase program of up to \$5.00 billion of our common stock (2014 Program) through open market and private block transactions pursuant to Rule 10b5-1 plans, privately negotiated transactions or other means. This new program expires three years after the completion of the 2011 Program. We began repurchases under our 2014 Program in October 2014. We intend to use the additional authorization to repurchase shares opportunistically and to offset the dilution created by shares issued under employee stock plans.

Critical Accounting Policies, Estimates and Judgments

We, along with other pharmaceutical manufacturers of branded drug products, are required to pay a portion of the Branded Prescription Drug (BPD) Fee, which is calculated based on select government sales during each calendar year as a percentage of total industry government sales. During the third quarter of 2014, the IRS issued final regulations which required manufacturers to recognize an additional year of expense, which for us resulted in a cumulative catch-up of \$337 million within the quarter. The IRS is expected to communicate the final BPD fee amounts due for 2013 sales during the third quarter of 2015 and for 2014 sales during the third quarter of 2016. As of September 30, 2014, our BPD fee accrual totaled \$343 million, of which \$304 millions was included in other long-term obligations on our Condensed Consolidated Balance Sheet.

There have been no other changes in our critical accounting policies, estimates and judgments during the nine months ended September 30, 2014 compared to the disclosures in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, jointly with the International Accounting Standards Board, issued a comprehensive new standard on revenue recognition from contracts with customers. The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new guidance to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this new guidance will require significantly expanded revenue recognition disclosures. This guidance will become effective for us beginning in the first quarter of 2017. Early

application is not permitted. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. We are currently evaluating the impact of our pending adoption of this standard on our Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the nine months ended September 30, 2014 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2013. As of September 30, 2014, our accounts receivable in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled approximately \$587.2 million, of which \$154.5 million were past due greater than 120 days and \$52.0 million were past due greater than 365 days. 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 September 30, 2014. However, we will continue to monitor the European economic environment for collectability issues related to our outstanding receivables.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation as of September 30, 2014 was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our “disclosure controls and procedures,” which are defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at September 30, 2014.

Changes in Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014, and has concluded that there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

ITEM 1. 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 U.S. Food and Drug Administration (FDA) approval of sofosbuvir, now known commercially as Sovaldi. In October 2014, we also received approval of the fixed dose combination of ledipasvir and sofosbuvir (LDV/SOF), now known commercially as Harvoni. 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.

We own patents that claim sofosbuvir as a chemical entity and its metabolites. However, the existence of patents does not necessarily guarantee our right to practice the patented technology or commercialize the patented product. Third parties may have, or may obtain rights to, patents that allegedly could be used to prevent or attempt to prevent us from commercializing sofosbuvir. For example, we are aware of patents and patent applications owned by other parties that may be alleged by such parties to cover the use of sofosbuvir. We cannot predict the ultimate outcome of contractual and intellectual property claims related to sofosbuvir, and we have and may continue 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.

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

Gilead (as successor to Pharmasset) is a party to a 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 in 2006. In March 2013, Roche served an arbitration against us and Pharmasset, predecessor to Gilead Pharmasset LLC. In the arbitration demand, Roche asserted that it had an exclusive license to sofosbuvir pursuant to the collaboration agreement because sofosbuvir, a prodrug of a uridine analog, is allegedly a prodrug of PSI-6130, a cytidine analog. Roche further claimed that, because it had exclusive rights to sofosbuvir, it also had an exclusive license to a patent covering sofosbuvir, and that we infringed 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. The arbitration hearing was held in New York in June 2014. In August 2014, the arbitration panel determined that Roche failed to establish any of their claims and ruled in favor of us. As a result, Roche is not entitled to any damages or other relief.

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 Trial 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 was 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. A trial on these issues is scheduled to commence in January 2015 in Toronto.

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 patent. 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. On April 30, 2014, Idenix appealed the March 21, 2014 decision to the Norwegian Court of Appeal. Idenix's obligation to pay our attorneys' fees will be stayed during the pendency of the appeal. The appeal from the March 2014 decision is scheduled to commence in December 2015.

In August 2013 and April 2014, Idenix filed two separate requests 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 patent. In August 2014 Idenix withdrew its invalidation requests and the Chinese proceedings were terminated with our challenged patent remaining valid and enforceable.

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. A trial on these issues is scheduled to commence in September 2015 in Sydney.

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 that day, Idenix initiated infringement proceedings against Gilead 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, a trial was held in October 2014 to determine the issues of infringement and validity of the Idenix United Kingdom patent. A decision is expected in the fourth quarter of 2014. 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 Europe, 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 our 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. 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. On June 30, 2014, the court in Massachusetts granted our request and transferred the Massachusetts litigation to the U.S. District Court for the District of Delaware. 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.

Idenix was acquired by Merck & Co., Inc. (Merck) in August 2014. While the acquisition does not change our view of the lack of merit in the claims made by Idenix, Merck has greater resources than Idenix and may therefore choose to fund the litigation at higher levels than Idenix.

Litigation with Merck

In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbuvir and obtain 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 a 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. The court has set a trial date of March 7, 2016 for this litigation.

Litigation with AbbVie, Inc. (AbbVie)

AbbVie has obtained U.S. Patent Nos. 8,466,159, 8,492,386, 8,680,106, 8,685,984, and 8,809,265 which purport to cover the use of a combination of LDV/SOF for the treatment of HCV. Gilead is aware that AbbVie has pending patent applications in other countries. We own published and pending patent applications directed to the use of combinations for the treatment of HCV, and, specifically, to the combination 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 and March 2014, AbbVie responded to our lawsuit by filing two lawsuits also in the U.S. District Court for the District of Delaware alleging that our fixed-dose combination of LDV/SOF will infringe its patents. All of those lawsuits have been consolidated into a single action. AbbVie's patents have not blocked or delayed the commercialization of our combination product in the United States, and we do not expect any foreign counterparts to block or delay the commercialization around the world. If a 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.

Litigation with Generic Manufacturers

As part of the approval process for some of our products, the FDA granted us 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

37

identical drug through an abbreviated new drug application (ANDA), the application form typically used by manufacturers seeking approval of a generic drug.

Tenofovir Disoproxil Fumarate, Emtricitabine and Fixed-Dose Combination of Emtricitabine, Tenofovir Disoproxil Fumarate and Efavirenz

In 2008 and 2009, we received notices that Teva Pharmaceuticals (Teva) submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Truvada. In the notices, Teva alleged that patents associated with emtricitabine and tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of a generic fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate. In April 2013, we and Teva reached an agreement to settle the ongoing patent litigation concerning the patents that protect tenofovir disoproxil fumarate in Atripla, Truvada and Viread. Under the agreement, Teva will be allowed to launch a generic version of Viread on December 15, 2017. In April 2014, we and Teva entered into an agreement to settle the ongoing patent litigation concerning the emtricitabine patents that protect Atripla and Truvada. In November 2011, we received notice that Teva submitted an abbreviated new drug submission (ANDS) to the Canadian Minister of Health requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate. In the notice, Teva alleges that three of the patents associated with Truvada are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of a generic version of Truvada. In January 2012, we filed a lawsuit against Teva in the Federal Court of Canada seeking an order of prohibition against approval of this ANDS.

In December 2011, we received notice that Teva submitted an ANDS to the Canadian Minister of Health requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine, tenofovir disoproxil fumarate and efavirenz. In the notice, Teva alleges that three of our patents associated with Atripla and two of Merck's patents associated with Atripla are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of a generic fixed-dose combination of emtricitabine, tenofovir disoproxil fumarate and efavirenz. In February 2012, we filed a lawsuit against Teva in the Federal Court of Canada seeking an order of prohibition against approval of this ANDS. In August 2012, we received notice that Teva submitted an ANDS to the Canadian Minister of Health requesting permission to manufacture and market a generic version of Viread. In the notice, Teva alleges that two patents associated with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of a generic version of Viread, Truvada, and Atripla. In September 2012, we filed a lawsuit against Teva in the Federal Court of Canada seeking an order of prohibition against approval of this ANDS. 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. We are currently defending that Impeachment Action. The requests for orders of prohibition in connection with all three of Teva's ANDS filings (for Teva's generic versions of Viread, Truvada and Atripla) were consolidated and a hearing on the consolidated requests for the orders of prohibition took place in September 2013. In December 2013, the court issued our requested order prohibiting the Canadian Minister 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 the decision of the court prohibiting the Minister of Health from issuing the Notices of Compliance until expiry of our patent in July 2017. This decision did not rule on the validity of the patents and accordingly the only issue on appeal is whether the Minister of Health should be prohibited from issuing the Notices of Compliance for Teva's products. Separately, the court will determine the validity of the patents in the pending Impeachment Action. A trial in the Impeachment Action is scheduled for March 2015. If Teva is successful in invalidating our patents, Teva may be able to launch generic versions of our Viread, Truvada and Atripla products in Canada prior to the expiry of our patents.

In July 2012, we received notice that Lupin Limited (Lupin) submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Truvada. In the notice, Lupin alleges that four patents associated with emtricitabine and four patents associated with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Lupin's manufacture, use or sale of a generic version of a fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate. In August 2012, we filed two lawsuits against Lupin in U.S. District Court for the Southern District of New York for infringement of our patents. In October 2012, we received notice that Lupin submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Viread. In the

notice, Lupin alleges that four patents associated with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Lupin's manufacture, use or sale of a generic version of tenofovir disoproxil fumarate. In October 2012, we filed a lawsuit against Lupin in U.S. District Court for the Southern District of New York for infringement of our patents. In May 2014, Lupin amended its ANDAs to certify that it is no longer seeking approval to market generic versions of Truvada and Viread prior to the expiration of the four patents associated with tenofovir disoproxil fumarate in January 2018 (including pediatric exclusivity). As a result, in May 2014, the District Court granted Gilead and Lupin's Joint Motion for Order of Dismissal in our patent infringement lawsuit against Lupin for the tenofovir disoproxil fumarate patents. In September 2014, we reached agreement with Lupin to settle the lawsuit related to the emtricitabine patents that protect Truvada and Atripla. Terms of the settlement are confidential.

In July 2012, we received notice that Cipla Ltd. (Cipla) submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Emtriva and a generic version of Viread. In the notice, Cipla alleges that two patents associated with emtricitabine are invalid, unenforceable and/or will not be infringed by Cipla's manufacture, use or sale of a generic version of emtricitabine and four patents associated with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Cipla's manufacture, use or sale of a generic version of tenofovir disoproxil fumarate. In August 2012, we filed lawsuits against Cipla in U.S. District Court for the Southern District of New York for infringement of our patents. In July 2014, we and Cipla reached agreement to settle those lawsuits. Terms of the settlement are confidential.

In April 2014, we received notice that Mylan Inc. (Mylan) submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Truvada. In the notice, Mylan alleges that two of the patents associated with emtricitabine and one of our patents associated with the fixed-dose combination of emtricitabine with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Mylan's manufacture, use or sale of a generic version of Truvada. In June 2014, we filed a lawsuit against Mylan in U.S. District Court for the Northern District of West Virginia for infringement of our patents.

In June 2014, we received notice that Mylan Inc. submitted petitions for Inter Partes Review (IPR) to the Board alleging that four patents associated with tenofovir disoproxil fumarate are invalid. We are opposing Mylan's petitions. We anticipate that the Board will issue a decision on whether to institute an IPR by December 2014. If the Board institutes an IPR, we anticipate a final decision by December 2015. Either party can appeal a decision of the Board to the CAFC. If Mylan is successful in invalidating our patents, generic companies will be able to launch a generic version of our Viread product prior to the expiry of our patents.

In June 2014, we received notice that Apotex Inc. (Apotex) submitted an ANDS to the Canadian Minister of Health requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate and a separate ANDS requesting permission to manufacture and market a generic version of Viread. In the notice, Apotex alleges that three of the patents associated with Truvada and two of the patents associated with Viread are invalid, unenforceable and/or will not be infringed by Apotex's manufacture, use or sale of a generic version of Truvada or Viread. In August 2014, we filed a lawsuit against Apotex in the Federal Court of Canada seeking an order of prohibition against approval of this ANDS.

Ranolazine

In June 2010, we received notice that Lupin submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of sustained-release ranolazine. In the notice, Lupin alleged that ten of the patents associated with Ranexa are invalid, unenforceable and/or will not be infringed by Lupin's manufacture, use or sale of a generic version of Ranexa. In July 2010, we filed a lawsuit against Lupin in U.S. District Court for the District of New Jersey for infringement of certain Ranexa patents challenged by Lupin. The trial took place in April and May 2013. In August 2013, the parties reached agreement to settle the patent litigation prior to issuance of the court's decision. Under the agreement, Lupin would be allowed to launch a generic version of Ranexa on February 27, 2019.

Tamiflu

In February 2011, we received notice that Natco Pharma Ltd. (Natco) submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Tamiflu. In the notice, Natco alleges that one of the patents associated with oseltamivir phosphate is invalid, unenforceable and/or will not be infringed by Natco's manufacture, use or sale of a generic version of Tamiflu. In March 2011, we and Roche filed a lawsuit against 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 reason stated in Natco's notice letter. Natco has appealed this decision to the CAFC. A hearing on Natco's appeal took place in January 2014. The court issued a decision on April 22, 2014 which will allow Natco's patent invalidity challenge to proceed if the case is remanded to the District Court of New Jersey for a full trial on the merits. On June 30, 2014, we filed a petition for rehearing en banc with the CAFC, which was subsequently denied. We have submitted a request for an extension of time to submit our petition for certiorari to the Supreme Court and are concurrently proceeding before the District Court.

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 have moved 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.

ITEM 1A. RISK FACTORS

In evaluating our business, you should carefully consider the following risks in addition to the other information in this Quarterly Report on Form 10-Q. A manifestation of any of the following risks could materially and adversely affect our business, results of operations and financial condition. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. It is not possible to predict or identify all such factors and, therefore, you should not consider the following risks to be a complete statement of all the potential risks or uncertainties that we face.

A substantial portion of our revenues is derived from sales of products to treat hepatitis C virus infection (HCV) and HIV. If we are unable to maintain or continue increasing sales of these products, our results of operations may be adversely affected.

During the nine months ended September 30, 2014, sales of Sovaldi for the treatment of HCV, accounted for approximately 50% of our total products sales. Since this is the third full quarter following Sovaldi's launch, we cannot be certain if these sales are indicative of future revenue. In addition, in October 2014, we received U.S. regulatory approval and launched Harvoni, our fixed-dose combination of ledipasvir and sofosbuvir. Sales of Sovaldi and Harvoni are difficult to predict, especially during the fourth quarter of 2014. Demand for Sovaldi and Harvoni, depend in part on the amount of patient coverage under private and public insurance programs in the United States and our ability to obtain and maintain government reimbursement in countries outside the United States. Demand could influence private and public payers' decisions to list Sovaldi or Harvoni on formulary or limit the types of patients for whom coverage will be provided, thus impacting the revenues for the products. In addition, physicians may delay treatment for some genotype 1 HCV-infected patients in anticipation of the approval and availability of another competitor's all-oral regimen for the treatment of genotype 1 HCV-infected patients. If we are unable to maintain the current or expected future sales levels of Sovaldi and Harvoni or obtain approval or reimbursement for our HCV product candidates in the currently anticipated timelines, our results of operations and stock price could be negatively impacted.

We receive a substantial portion of our revenue from sales of our products for the treatment of HIV infection, particularly our single tablet regimen products, Atripla, Stribild and Complera/Eviplera. During the nine months ended September 30, 2014, sales of our HIV products accounted for more than 40% of our total products sales. Most of our HIV products contain tenofovir disoproxil fumarate and/or emtricitabine, which belong to the nucleoside class of antiviral therapeutics. If the treatment paradigm for HIV changes, causing nucleoside-based therapeutics to fall out of favor, or if we are unable to maintain or continue increasing our HIV product sales, our results of operations would likely suffer and we would likely need to scale back our operations, including our spending on research and development (R&D) efforts. We may not be able to sustain or increase the growth rate of sales of our HIV products, especially Atripla, Stribild and Complera/Eviplera, for any number of reasons including, but not limited to, the following:

As our HIV products are used over a longer period of time in many patients and in combination with other products, and additional studies are conducted, new issues with respect to safety, resistance and interactions with other drugs may arise, which could cause us to provide additional warnings or contraindications on our labels, narrow our approved indications or halt sales of a product, each of which could reduce our revenues.

As our HIV products mature, private insurers and government payers often reduce the amount they will reimburse patients for these products, which increases pressure on us to reduce prices.

A large part of the market for our HIV products consists of patients who are already taking other HIV drugs. If physicians do not see the benefit of our HIV products, the sales of our HIV products will be limited.

As generic HIV products are introduced into major markets, our ability to maintain pricing and market share may be affected. For example, generic versions of Sustiva (efavirenz), a component of our Atripla, are now available in Canada and Europe and we anticipate competition from generic efavirenz in the United States in December 2017. We have observed some pricing pressure related to the Sustiva component of our Atripla sales. Tivicay (dolutegravir), an integrase inhibitor, launched in the fourth quarter of 2013 by ViiV Healthcare (ViiV), and Triumeq, a single-tablet triple-combination antiretroviral regimen, launched in the third quarter of 2014 by ViiV, could adversely impact sales of our HIV products.

If we fail to commercialize new products or expand the indications for existing products, our prospects for future revenues may be adversely affected.

If we do not introduce new products to market or increase sales of our existing products, we will not be able to increase or maintain our total revenues nor continue to expand our R&D efforts. Drug development is inherently risky and many product candidates fail during the drug development process. For example, in April 2013, we announced our decision to terminate our Phase 3 clinical trial of aztreonam for inhalation solution for the treatment of bronchiectasis and in September 2014, we

announced results from our Phase 2 study of simtuzumab for the treatment of pancreatic cancer, showing that the product candidate did not provide clinical benefit in these difficult-to-treat advanced cancer patients.

In February 2014, we filed our marketing application for approval of Harvoni in Europe and our application received a positive opinion from the Committee for Medicinal Products for Human Use, the scientific committee of the European Medicines Agency, in September 2014. In June 2014, we submitted a new drug application (NDA) with Japan's Pharmaceutical and Medical Devices Agency (PMDA) for approval of sofosbuvir for the treatment of HCV and in September 2014, we submitted a NDA with the PMDA for approval of the fixed dose combination of ledipasvir and sofosbuvir. These marketing applications may not be approved by the regulatory authorities on a timely basis, or at all. Even if marketing approval is granted for these products, there may be significant limitations on their use. Further, we may be unable to file our marketing applications for new products.

Our inability to accurately estimate demand for our products, the uptake of new products or the timing of fluctuations in the inventories maintained by customers makes it difficult for us to accurately forecast sales and may cause our revenues and earnings to fluctuate, which could adversely affect our financial results and our stock price.

We are unable to accurately estimate demand for our products, including the uptake of new products, as demand is dependent on a number of factors. For example, our HCV products, Sovaldi and Harvoni, represent a significant change in the treatment paradigm for HCV-infected patients due to the shortened duration of treatment and the reduction or elimination of the need for pegylated interferon (peg-IFN) injection and ribavirin (RBV) in certain patient populations. Because these products are in a new therapeutic area for us and product demand is dependent on a number of factors, revenues from these products in 2014 and beyond are difficult for us and investors to estimate. Since Sovaldi has only been available for three full quarters and Harvoni was recently approved in the United States in October 2014, demand for these products will depend in part on the amount of their coverage under private and public insurance programs in the United States and our ability to obtain and maintain government reimbursement in countries outside the United States. Pricing pressures could influence private and public payers' decisions to list Sovaldi or Harvoni on formulary or limit the types of patients for whom coverage will be provided, thus impacting the demand for Sovaldi or Harvoni. In addition, doctors may choose to wait to treat their genotype 1 HCV-infected patients until later in 2014 or 2015 when they anticipate the approval and availability of another competitor's all-oral regimen for the treatment of genotype 1 HCV-infected patients. Also, because our HCV products represent a significant change in the treatment paradigm of HCV infection and are highly anticipated by the medical and patient community, sales levels or prescription growth rates early in the launch may not be indicative of future results. Because HCV-related revenues are difficult to predict, investors may have widely varying expectations that may be materially higher or lower than our actual revenues. To the extent Sovaldi or Harvoni revenues exceed or fall short of these expectations, our stock price may experience significant volatility.

In the quarter ended September 30, 2014, approximately 88% of our product sales in the United States were to three wholesalers, AmerisourceBergen Corp., McKesson Corp. and Cardinal Health, Inc. The U.S. wholesalers with whom we have entered into inventory management agreements make estimates to determine end user demand and may not be completely effective in matching their inventory levels to actual end user demand. As a result, changes in inventory levels held by those wholesalers can cause our operating results to fluctuate unexpectedly if our sales to these wholesalers do not match end user demand. In addition, inventory is held at retail pharmacies and other non-wholesaler locations with whom we have no inventory management agreements and no control over buying patterns. Adverse changes in economic conditions or other factors may cause retail pharmacies to reduce their inventories of our products, which would reduce their orders from wholesalers and, consequently, the wholesalers' orders from us, even if end user demand has not changed. For example, during the fourth quarter of 2013, strong wholesaler and sub-wholesaler purchases of our HIV products resulted in inventory draw-down by wholesalers and sub-wholesalers in the first quarter of 2014. As inventory in the distribution channel fluctuates from quarter to quarter, we may continue to see fluctuations in our earnings and a mismatch between prescription demand for our products and our revenues.

In addition, the non-retail sector in the United States, which includes government institutions, including state AIDS Drug Assistance Programs (ADAPs), correctional facilities and large health maintenance organizations, tends to be even less consistent in terms of buying patterns and often causes quarter over quarter fluctuations that do not

necessarily mirror patient demand for our products. Federal and state budget pressures, including sequestration, as well as the annual grant cycles for federal and state ADAP funds, may cause ADAP purchasing patterns to not reflect patient demand of our HIV products. For example, in the first quarters of certain prior years, we observed large non-retail purchases of our HIV products by a number of state ADAPs that exceeded patient demand. We believe such purchases were driven by the grant cycle for federal ADAP funds. We expect to continue to experience fluctuations in the purchasing patterns of our non-retail customers which may result in fluctuations in our product sales, revenues and earnings in the future. In light of the global economic downturn and budget crises faced by many European countries, we have observed variations in purchasing patterns induced by cost containment measures in Europe. We believe these measures have caused some government agencies and other purchasers to reduce

inventory of our products in the distribution channels, which has decreased our revenues and caused fluctuations in our product sales and earnings. We may continue to see this trend in the future.

Our results of operations may be adversely affected by current and potential future healthcare reforms.

Legislative and regulatory changes to government prescription drug procurement and reimbursement programs occur relatively frequently in the United States and foreign jurisdictions. In March 2010, healthcare reform legislation was adopted in the United States, requiring us to further rebate or discount products reimbursed or paid for by various public payers, including Medicaid and other entities eligible to purchase discounted products through the 340B Drug Pricing Program under the Public Health Service Act, such as ADAPs. As a result of the 2010 legislation, the discounts, rebates and fees that impacted us include:

our minimum base rebate amount owed to Medicaid on products reimbursed by Medicaid increased by 8%, and the discounts or rebates we owe to ADAPs and other Public Health Service entities which reimburse or purchase our products also increased by 8%;

we are required to extend rebates to patients receiving our products through Medicaid managed care organizations; we are required to provide a 50% discount on products sold to patients while they are in the Medicare Part D “donut hole;” and

we, along with other pharmaceutical manufacturers of branded drug products, are required to pay a portion of a new industry fee (also known as the Branded Prescription Drug (BPD) Fee), of \$3.0 billion for 2014, calculated based on select government sales during the 2012 calendar year as a percentage of total industry government sales.

The amount of the annual industry fee imposed on the pharmaceutical industry as a whole will be \$3.0 billion in 2014 through 2016, increase to \$4.0 billion in 2017, increase to a peak of \$4.1 billion in 2018, and then decrease to \$2.8 billion in 2019 and thereafter. We expect our portion of the BPD fee to increase as our revenues grow and as the amount of the annual industry fee increases through 2018 and drug patents expire on major drugs of other companies. In addition, during the third quarter of 2014, the IRS issued final regulations which required manufacturers to recognize an additional year of expense, which resulted in a cumulative catch-up of \$337 million within the quarter. We estimate our portion of the BPD fee to be recorded in 2014 as an expense will be approximately \$400 million higher than the \$150 to \$170 million previously expected compared to approximately \$110 million in 2013 and approximately \$85 million in 2012. The BPD fee is not tax deductible. Further, even though not addressed in the healthcare reform legislation, discussions continue at the federal level on legislation that would either allow or require the federal government to directly negotiate price concessions from pharmaceutical manufacturers or set minimum requirements for Medicare Part D pricing.

In addition, state Medicaid programs could request additional supplemental rebates on our products as a result of the increase in the federal base Medicaid rebate. Private insurers could also use the enactment of these increased rebates to exert pricing pressure on our products, and to the extent that private insurers or managed care programs follow Medicaid coverage and payment developments, the adverse effects may be magnified by private insurers adopting lower payment schedules.

Our existing products are subject to reimbursement from government agencies and other third parties. Pharmaceutical pricing and reimbursement pressures may reduce profitability.

Successful commercialization of our products depends, in part, on the availability of governmental and third-party payer reimbursement for the cost of such products and related treatments. Government health administration authorities, private health insurers and other organizations generally provide reimbursement. In the United States, the European Union and other significant or potentially significant markets for our products and product candidates, government authorities and third-party payers are increasingly attempting to limit or regulate the price of medical products and services, particularly for new and innovative products and therapies, which has resulted in lower average selling prices.

A significant portion of our sales of the majority of our products are subject to significant discounts from list price and rebate obligations. In the United States, state ADAPs, which purchase a significant portion of our HIV products, rely on federal, supplemental federal and state funding to help fund purchases of our products. In recent years, we have experienced a shift in our payer mix as patients previously covered by private insurance move to public reimbursement programs that require rebates or discounts from us or as patients previously covered by one public

reimbursement program move to another public reimbursement program that requires greater rebates or discounts from us. As a result of this shift, revenue growth may be lower than prescription growth. If federal and state funds are not available in amounts sufficient to support the number of patients that rely on ADAPs, sales of our HIV products could be negatively impacted which would reduce our revenues. For example, during the first quarter of 2011, the state budget crisis in Florida led to a temporary movement of patients who were previously covered by Florida's ADAP into industry-supported patient assistance programs. In prior quarters, because of the insufficiency of federal and state funds and as many states reduced eligibility criteria, we saw an increase in the number of patients on state ADAP waitlists, and we may see similar increases in future periods as a result of any reduction in federal and

state ADAP support resulting from the sequestration. Until these patients are enrolled in ADAP, they generally receive product from industry-supported patient assistance programs or are unable to access treatment. The increased emphasis on managed healthcare in the United States and on country and regional pricing and reimbursement controls in the European Union will put additional pressure on product pricing, reimbursement and usage, which may adversely affect our product sales and profitability. These pressures can arise from rules and practices of managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and healthcare reform, pharmaceutical reimbursement policies and pricing in general.

In July 2014, we received a letter from the U.S. Senate Committee on Finance requesting information and supporting documentation from us related to Sovaldi and the pricing of Sovaldi in the United States. The letter raised concerns about our approach to pricing Sovaldi, its affordability and its impact on federal government spending and public health. We are cooperating with the inquiries. It is both costly and time-consuming for us to comply with these inquiries. We cannot predict the outcome. It is possible that the inquiries could result in negative publicity or other negative actions that could harm our reputation, reduce demand for Sovaldi, Harvoni or other sofosbuvir containing products and/or reduce coverage of Sovaldi, Harvoni or other sofosbuvir containing products, including by federal health care programs such as Medicare and Medicaid. If any or all of these events occur, our business and stock price could be materially and adversely affected.

In countries outside the United States, the success of our commercialized products, and any other product candidates we may develop, will depend largely on obtaining and maintaining government reimbursement, because in many countries patients are unlikely to use prescription drugs that are not reimbursed by their governments. In addition, negotiating prices with certain governmental authorities can delay commercialization by 12 months or more. Reimbursement policies may adversely affect our ability to sell our products on a profitable basis. In many international markets, governments control the prices of prescription pharmaceuticals, including through the implementation of reference pricing, price cuts, rebates, revenue-related taxes, tenders and profit control, and they expect prices of prescription pharmaceuticals to decline over the life of the product or as volumes increase. Recently, many countries in the European Union have increased the amount of discounts required on our products, and these efforts could continue as countries attempt to manage healthcare expenditures, especially in light of the severe fiscal and debt crises experienced by many countries in the European Union. For example, in June 2010, Spain imposed an incremental discount on all branded drugs. As generic drugs come to market, we may face price decreases for our products in some countries in the European Union. Further, cost containment pressures in the European Union, especially in Southern Europe, could lead to delays in the treatment of patients and also delay pricing approval, which could negatively impact the commercialization of new products.

Government agencies also issue regulations and guidelines directly applicable to us and to our products. In addition, from time to time, professional societies, practice management groups, private health/science foundations and organizations publish guidelines or recommendations directed to certain health care and patient communities. Such recommendations and guidelines may relate to such matters as product usage, dosage, route of administration, and use of related or competing therapies and can consequently result in increased or decreased usage of our products.

Approximately 27% of our product sales occur outside the United States, and currency fluctuations and hedging expenses may cause our earnings to fluctuate, which could adversely affect our stock price.

Because a significant percentage of our product sales are denominated in foreign currencies, primarily the Euro, we face exposure to adverse movements in foreign currency exchange rates. When the U.S. dollar strengthens against these foreign currencies, the relative value of sales made in the respective foreign currency decreases. Conversely, when the U.S. dollar weakens against these currencies, the relative value of such sales increases. Overall, we are a net receiver of foreign currencies and, therefore, benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to those foreign currencies in which we transact significant amounts of business.

We use foreign currency exchange forward and option contracts to hedge a percentage of our forecasted international sales, primarily those denominated in the Euro. We also hedge certain monetary assets and liabilities denominated in foreign currencies, which reduces but does not eliminate our exposure to currency fluctuations between the date a transaction is recorded and the date that cash is collected or paid. We cannot predict future fluctuations in the foreign currency exchange rate of the U.S. dollar. If the U.S. dollar appreciates significantly against certain currencies and our

hedging program does not sufficiently offset the effects of such appreciation, our results of operations will be adversely affected and our stock price may decline.

Additionally, the expenses that we recognize in relation to our hedging activities can also cause our earnings to fluctuate. The level of hedging expenses that we recognize in a particular period is impacted by the changes in interest rate spreads between the foreign currencies that we hedge and the U.S. dollar.

We face significant competition.

We face significant competition from large global pharmaceutical and biotechnology companies, specialized pharmaceutical firms and generic drug manufacturers.

Our HCV products, Sovaldi and Harvoni, compete with Janssen R&D Ireland's Olysio (simeprevir) in the United States and to a lesser extent with direct-acting antivirals, such as Victrelis (boceprevir) marketed by Merck & Co., Inc. (Merck).

Our HIV products compete primarily with products from a joint venture established by GlaxoSmithKline Inc. (GSK) and Pfizer Inc. (Pfizer), ViiV Healthcare (ViiV), which markets fixed-dose combination products that compete with Stribild, Complera/Eviplera, Atripla and Truvada. For example, lamivudine, marketed by this joint venture, competes with emtricitabine, the active pharmaceutical ingredient of Emtriva and a component of Complera/Eviplera, Atripla and Truvada. For Tybost, we compete with ritonavir marketed by AbbVie Inc. (AbbVie). In addition, Tivicay (dolutegravir), an integrase inhibitor, launched in the fourth quarter of 2013 by ViiV, and Triumeq, a single-tablet triple-combination antiretroviral regimen, launched in the third quarter of 2014 by ViiV, could adversely impact sales of our HIV products.

We also face competition from generic HIV products. In May 2010, the compound patent covering Epivir (lamivudine) expired in the United States, and generic lamivudine is now available in the United States, Spain, Portugal and Italy. We expect that generic versions of lamivudine will be launched in other countries within the European Union. In May 2011, a generic version of Combivir (lamivudine and zidovudine) was approved and was recently launched in the United States. In addition, in late 2011, generic tenofovir also became available in Turkey, which resulted in an increase in the rebate for Viread in Turkey. Generic versions of Sustiva (efavirenz), a component of our Atripla, are now available in Canada and Europe and we anticipate competition from generic efavirenz to be in the United States in December 2017. We have observed some pricing pressure related to the Sustiva component of our Atripla sales.

For Viread and Hepsera for treatment of chronic hepatitis B virus (HBV) infection, we face competition from Baraclude (entecavir) marketed by Bristol Myers-Squibb Company and Tyzeka/Sebivo (telbivudine) marketed by by Novartis Pharmaceuticals Corporation (Novartis).

AmBisome competes predominantly with Vfend (voriconazole) developed by Pfizer and caspofungin, a product developed by Merck that is marketed as Cancidas in the United States and as Caspofungin elsewhere. In addition, we are aware of at least three lipid formulations that claim similarity to AmBisome becoming available outside of the United States, including the possible entry of such formulations in Taiwan. These formulations may reduce market demand for AmBisome. Furthermore, the manufacture of lipid formulations of amphotericin B is very complex and if any of these formulations are found to be unsafe, sales of AmBisome may be negatively impacted by association. Letairis competes directly with Tracleer (bosentan) and Opsumit (macitentan) produced by Actelion Pharmaceuticals US, Inc. and also with Adcirca (tadalafil) from United Therapeutics Corporation and Pfizer.

Ranaxa competes predominantly with generic compounds from three distinct classes of drugs, beta-blockers, calcium channel blockers and long-acting nitrates for the treatment of chronic angina in the United States.

Cayston competes with Tobi (tobramycin inhalation solution) marketed by Novartis.

Tamiflu competes with Relenza (zanamivir) sold by GSK and products sold by generic competitors.

Zydelig competes with Imbruvica (ibrutinib) marketed by Pharmacyclics, Inc.

In addition, a number of companies are pursuing the development of technologies which are competitive with our existing products or research programs. These competing companies include specialized pharmaceutical firms and large pharmaceutical companies acting either independently or together with other pharmaceutical companies. Furthermore, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection and may establish collaborative arrangements for competitive products or programs. If any of these competitors gain market share on our products, it could adversely affect our results of operations and stock price.

If significant safety issues arise for our marketed products or our product candidates, our future sales may be reduced, which would adversely affect our results of operations.

The data supporting the marketing approvals for our products and forming the basis for the safety warnings in our product labels were obtained in controlled clinical trials of limited duration and, in some cases, from post-approval use. As our products are used over longer periods of time by many patients with underlying health problems, taking numerous other medicines, we expect to continue to find new issues such as safety, resistance or drug interaction issues, which may require us to provide

45

additional warnings or contraindications on our labels or narrow our approved indications, each of which could reduce the market acceptance of these products.

Our product Letairis, which was approved by the U.S. Food and Drug Administration (FDA) in June 2007, is a member of a class of compounds called endothelin receptor antagonists which pose specific risks, including serious risks of birth defects. Because of these risks, Letairis is available only through the Letairis Education and Access Program (LEAP), a restricted distribution program intended to help physicians and patients learn about the risks associated with the product and assure appropriate use of the product. As the product is used by additional patients, we may discover new risks associated with Letairis which may result in changes to the distribution program and additional restrictions on the use of Letairis which may decrease demand for the product.

Regulatory authorities have been moving towards more active and transparent pharmacovigilance and are making greater amounts of stand-alone safety information and clinical trial data directly available to the public through websites and other means, e.g. periodic safety update report summaries, risk management plan summaries and various adverse event data. Safety information, without the appropriate context and expertise, may be misinterpreted and lead to misperception or legal action which may potentially cause our product sales or stock price to decline.

Further, if serious safety, resistance or drug interaction issues arise with our marketed products, sales of these products could be limited or halted by us or by regulatory authorities and our results of operations would be adversely affected.

Our operations depend on compliance with complex FDA and comparable international regulations. Failure to obtain broad approvals on a timely basis or to maintain compliance could delay or halt commercialization of our products.

The products we develop must be approved for marketing and sale by regulatory authorities and, once approved, are subject to extensive regulation by the FDA, the EMA and comparable regulatory agencies in other countries. We are continuing clinical trials for Sovaldi, Harvoni, Stribild, Complera/Eviplera, Atripla, Truvada, Viread, Emtriva, Tybost, Zydelig, Vitekta, Hepsera, Letairis, Ranexa, AmBisome and Cayston for currently approved and additional uses. We anticipate that we will file for marketing approval in additional countries and for additional indications and products over the next several years. These products may fail to receive such marketing approvals on a timely basis, or at all. Further, our marketed products and how we manufacture and sell these products are subject to extensive regulation and review. Discovery of previously unknown problems with our marketed products or problems with our manufacturing or promotional activities may result in restrictions on our products, including withdrawal of the products from the market. If we fail to comply with applicable regulatory requirements, including those related to promotion and manufacturing, we could be subject to penalties including fines, suspensions of regulatory approvals, product recalls, seizure of products and criminal prosecution.

For example, under FDA rules, we are often required to conduct post-approval clinical studies to assess a known serious risk, signals of serious risk or to identify an unexpected serious risk and implement a Risk Evaluation and Mitigation Strategy for our products, which could include a medication guide, patient package insert, a communication plan to healthcare providers or other elements as the FDA deems are necessary to assure safe use of the drug, which could include imposing certain restrictions on the distribution or use of a product. Failure to comply with these or other requirements, if imposed on a sponsor by the FDA, could result in significant civil monetary penalties and our operating results may be adversely affected.

The results and anticipated timelines of our clinical trials are uncertain and may not support continued development of a product candidate, which would adversely affect our prospects for future revenue growth.

We are required to demonstrate the safety and efficacy of products that we develop for each intended use through extensive preclinical studies and clinical trials. The results from preclinical and early clinical studies do not always accurately predict results in later, large-scale clinical trials. Even successfully completed large-scale clinical trials may not result in marketable products. If any of our product candidates fails to achieve its primary endpoint in clinical trials, if safety issues arise or if the results from our clinical trials are otherwise inadequate to support regulatory approval of our product candidates, commercialization of that product candidate could be delayed or halted. For example, in April 2013, we announced our decision to terminate our Phase 3 clinical trial of aztreonam for inhalation solution for the treatment of bronchiectasis and in September 2014, we announced results from our Phase 2 study of simtuzumab for the treatment of pancreatic cancer, showing that the product candidate did not provide clinical benefit in these difficult-to-treat advanced cancer patients. In addition, we may also face challenges in clinical trial protocol

design. If the clinical trials for any of the product candidates in our pipeline are delayed or terminated, our prospects for future revenue growth would be adversely impacted. For example, we face numerous risks and uncertainties with our product candidates, including momelotinib for the treatment of myelofibrosis, ranolazine for the treatment of incomplete revascularization post-percutaneous coronary intervention, our single tablet regimen of tenofovir alafenamide (TAF)/elvitegravir/cobicistat/emtricitabine, and TAF as a standalone agent, each currently in Phase 3

clinical trials, that could prevent completion of development of these product candidates. These risks include our ability to enroll patients in clinical trials, the possibility of unfavorable results of our clinical trials, the need to modify or delay our clinical trials or to perform additional trials and the risk of failing to obtain FDA and other regulatory body approvals. As a result, our product candidates may never be successfully commercialized. Further, we may make a strategic decision to discontinue development of our product candidates if, for example, we believe commercialization will be difficult relative to other opportunities in our pipeline. If these programs and others in our pipeline cannot be completed on a timely basis or at all, then our prospects for future revenue growth may be adversely impacted. In addition, clinical trials involving our commercial products could raise new safety issues for our existing products, which could in turn decrease our revenues and harm our business.

Due to our reliance on third-party contract research organizations to conduct our clinical trials, we are unable to directly control the timing, conduct, expense and quality of our clinical trials.

We extensively outsource our clinical trial activities and usually perform only a small portion of the start-up activities in-house. We rely on independent third-party contract research organizations (CROs) to perform most of our clinical studies, including document preparation, site identification, screening and preparation, pre-study visits, training, program management and bioanalytical analysis. Many important aspects of the services performed for us by the CROs are out of our direct control. If there is any dispute or disruption in our relationship with our CROs, our clinical trials may be delayed. Moreover, in our regulatory submissions, we rely on the quality and validity of the clinical work performed by third-party CROs. If any of our CROs' processes, methodologies or results were determined to be invalid or inadequate, our own clinical data and results and related regulatory approvals could be adversely impacted. Expenses associated with clinical trials may cause our earnings to fluctuate, which could adversely affect our stock price.

The clinical trials required for regulatory approval of our products, as well as clinical trials we are required to conduct after approval, are very expensive. It is difficult to accurately predict or control the amount or timing of these expenses from quarter to quarter, and the FDA and/or other regulatory agencies may require more clinical testing than we originally anticipated. Uneven and unexpected spending on these programs, including on the clinical trials that will be necessary to advance our other product candidates, may cause our operating results to fluctuate from quarter to quarter and volatility in our stock price.

We depend on relationships with other companies for sales and marketing performance, development and commercialization of product candidates and revenues. Failure to maintain these relationships, poor performance by these companies or disputes with these companies could negatively impact our business.

We rely on a number of significant collaborative relationships with major pharmaceutical companies for our sales and marketing performance in certain territories. These include collaborations with BMS for Atripla in the United States, Europe and Canada; F. Hoffmann-La Roche Ltd. (together with Hoffmann-La Roche Inc., Roche) for Tamiflu worldwide; and GSK for ambrisentan in territories outside of the United States. In some countries, we rely on international distributors for sales of Truvada, Viread, Hepsera, Emtriva and AmBisome. Some of these relationships also involve the clinical development of these products by our partners. Reliance on collaborative relationships poses a number of risks, including the risk that:

- we are unable to control the resources our corporate partners devote to our programs or products;
- disputes may arise with respect to the ownership of rights to technology developed with our corporate partners;
- disagreements with our corporate partners could cause delays in, or termination of, the research, development or commercialization of product candidates or result in litigation or arbitration;
- contracts with our corporate partners may fail to provide significant protection or may fail to be effectively enforced if one of these partners fails to perform;
- our corporate partners have considerable discretion in electing whether to pursue the development of any additional products and may pursue alternative technologies or products either on their own or in collaboration with our competitors;
- our corporate partners with marketing rights may choose to pursue competing technologies or to devote fewer resources to the marketing of our products than they do to products of their own development; and
-

our distributors and our corporate partners may be unable to pay us, particularly in light of current economic conditions.

Given these risks, there is a great deal of uncertainty regarding the success of our current and future collaborative efforts. If these efforts fail, our product development or commercialization of new products could be delayed or revenues from products could decline.

47

In addition, Cayston and Letairis are distributed through third-party specialty pharmacies, which are pharmacies specializing in the dispensing of medications for complex or chronic conditions that may require a high level of patient education and ongoing counseling. The use of specialty pharmacies requires significant coordination with our sales and marketing, medical affairs, regulatory affairs, legal and finance organizations and involves risks, including but not limited to risks that these specialty pharmacies will:

- not provide us with accurate or timely information regarding their inventories, patient data or safety complaints;
- not effectively sell or support Cayston or Letairis;
- not devote the resources necessary to sell Cayston or Letairis in the volumes and within the time frames that we expect;
- not be able to satisfy their financial obligations to us or others; or
- cease operations.

We also rely on a third party to administer LEAP, the restricted distribution program designed to support Letairis. This third party provides information and education to prescribers and patients on the risks of Letairis, confirms insurance coverage and investigates alternative sources of reimbursement or assistance, ensures fulfillment of the risk management requirements mandated for Letairis by the FDA and coordinates and controls dispensing to patients through the third-party specialty pharmacies. Failure of this third party or the specialty pharmacies that distribute Letairis to perform as expected may result in regulatory action from the FDA or decreased Letairis sales, either of which would harm our business.

Further, Cayston may only be taken by patients using a specific inhalation device that delivers the drug to the lungs of patients. Our ongoing distribution of Cayston is entirely reliant upon the manufacturer of that device. This manufacturer could encounter other issues with regulatory agencies related to the device or be unable to supply sufficient quantities of this device. In addition, the manufacturer may not be able to provide adequate warranty support for the device after it has been distributed to patients. With respect to distribution of the drug and device to patients, we are reliant on the capabilities of specialty pharmacies. For example, the distribution channel for drug and device is complicated and requires coordination. The reimbursement approval processes associated with both drug and device are similarly complex. If the device manufacturer is unable to obtain reimbursement approval or receives approval at a lower-than-expected price, sales of Cayston may be adversely affected. Any of the previously described issues may limit the sales of Cayston, which would adversely affect our financial results.

Our success will depend to a significant degree on our ability to defend our patents and other intellectual property rights both domestically and internationally. We may not be able to obtain effective patents to protect our technologies from use by competitors and patents of other companies could require us to stop using or pay for the use of required technology.

Patents and other proprietary rights are very important to our business. Our success will depend to a significant degree on our ability to:

- obtain patents and licenses to patent rights;
- preserve trade secrets;
- defend against infringement and efforts to invalidate our patents; and
- operate without infringing on the intellectual property of others.

If we have a properly drafted and enforceable patent, it can be more difficult for our competitors to use our technology to create competitive products and more difficult for our competitors to obtain a patent that prevents us from using technology we create. As part of our business strategy, we actively seek patent protection both in the United States and internationally and file additional patent applications, when appropriate, to cover improvements in our compounds, products and technology.

We have a number of U.S. and foreign patents, patent applications and rights to patents related to our compounds, products and technology, but we cannot be certain that issued patents will be enforceable or provide adequate protection or that pending patent applications will result in issued patents. Patent applications are confidential for a period of time before a patent is issued. As a result, we may not know if our competitors filed patent applications for technology covered by our pending applications or if we were the first to invent or first to file an application directed toward the technology that is the subject of our patent applications. Competitors may have filed patent applications or

received patents and may obtain additional patents and proprietary rights that block or compete with our products. In addition, if competitors file patent applications covering our technology, we may have to participate in litigation, interference or other proceedings to determine the right to a patent. Litigation, interference or other proceedings are unpredictable and expensive, such that, even if we are ultimately successful, our results of operations may be adversely affected by such events.

48

Patents do not cover the ranolazine compound, the active ingredient of Ranexa. Instead, when it was discovered that only a sustained-release formulation of ranolazine would achieve therapeutic plasma levels, patents were obtained on those formulations and the characteristic plasma levels they achieve. Patents do not cover the active ingredients in AmBisome. In addition, we do not have patent filings in China or certain other Asian countries covering all forms of adefovir dipivoxil, the active ingredient in Hepsera. Asia is a major market for therapies for HBV, the indication for which Hepsera has been developed.

We may obtain patents for certain products many years before marketing approval is obtained for those products. Because patents have a limited life, which may begin to run prior to the commercial sale of the related product, the commercial value of the patent may be limited. However, we may be able to apply for patent term extensions or supplementary protection certificates in some countries.

Generic manufacturers have sought, and may continue to seek, FDA approval to market generic versions of our products through an abbreviated new drug application (ANDA), the application form typically used by manufacturers seeking approval of a generic drug. See a description of our ANDA litigation in "Legal Proceedings" beginning on page 35 and risk factor entitled "Litigation with generic manufacturers has reduced and may continue to reduce our earnings. If we are unsuccessful in all or some of these lawsuits, some or all of our claims in the patents may be narrowed or invalidated and generic versions of our products could be launched prior to our patent expiry." beginning on page 53.

Our success depends in large part on our ability to operate without infringing upon the patents or other proprietary rights of third parties.

If we infringe the valid patents of third parties, we may be prevented from commercializing products or may be required to obtain licenses from these third parties. We may not be able to obtain alternative technologies or any required license on reasonable terms or at all. If we fail to obtain these licenses or alternative technologies, we may be unable to develop or commercialize some or all of our products. For example, we are aware of patents that may relate to our operation of LEAP, our restricted distribution program designed to support Letairis and we are aware of patents and patent applications owned by other parties that may claim to cover the use of sofosbuvir. See a description of our litigation regarding sofosbuvir in the risk factor entitled "If any party is successful in establishing exclusive rights to sofosbuvir, our expected revenues and earnings from the sale of sofosbuvir could be adversely affected" beginning on page 49.

Furthermore, we also rely on unpatented trade secrets and improvements, unpatented internal know-how and technological innovation. In particular, a great deal of our liposomal manufacturing expertise, which is a key component of our liposomal technology, is not covered by patents but is instead protected as a trade secret. We protect these rights mainly through confidentiality agreements with our corporate partners, employees, consultants and vendors. These agreements provide that all confidential information developed or made known to an individual during the course of their relationship with us will be kept confidential and will not be used or disclosed to third parties except in specified circumstances. In the case of employees, the agreements provide that all inventions made by an individual while employed by us will be our exclusive property. We cannot be certain that these parties will comply with these confidentiality agreements, that we have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently discovered by our competitors. Under some of our R&D agreements, inventions become jointly owned by us and our corporate partner and in other cases become the exclusive property of one party. In certain circumstances, it can be difficult to determine who owns a particular invention and disputes could arise regarding those inventions. If our trade secrets or confidential information become known or independently discovered by competitors or if we enter into disputes over ownership of inventions, our business and results of operations could be adversely affected.

If any party is successful in establishing exclusive rights to sofosbuvir, our expected revenues and earnings from the sale of sofosbuvir could be adversely affected.

We own patents that claim sofosbuvir as a chemical entity and its metabolites. However, the existence of patents does not necessarily guarantee our right to practice the patented technology or commercialize the patented product. Third parties may have, or obtain rights to, patents that allegedly could be used to prevent or attempt to prevent us from commercializing sofosbuvir. For example, we are aware of patents and patent applications owned by other parties that

may be alleged by such parties to cover the use of sofosbuvir. We cannot predict the ultimate outcome of the intellectual property claims related to sofosbuvir, and we may continue to 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.

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 Trial 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. A trial on these issues is scheduled to commence in January 2015 in Toronto.

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. On April 30, 2014, Idenix appealed the March 21, 2014 decision to the Norwegian Court of Appeal. Idenix's obligation to pay our attorneys' fees will be stayed during the pendency of the appeal. The appeal from the March 2014 decision is scheduled to commence in December 2015.

In August 2013 and April 2014, Idenix filed two separate requests 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 patent. In August 2014, Idenix withdrew its invalidation requests and the Chinese proceedings were terminated with our challenged patent remaining valid and enforceable.

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. A trial on these issues is scheduled to commence in September 2015 in Sydney.

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 that day, 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, a trial was held in October 2014 to determine the issues of infringement and validity of the Idenix United Kingdom patent. A decision is expected in the fourth quarter of 2014. 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 Europe, 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. We believe the Board's determination in the First Idenix Interference that Idenix is not entitled 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 patent. 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. On June 30, 2014, the court in Massachusetts granted our request and transferred the Massachusetts litigation to the U.S. District Court for the District of Delaware. 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.

Idenix was acquired by Merck in August 2014. While the acquisition does not change our view of the lack of merit in the claims made by Idenix, Merck has greater resources than Idenix and may therefore choose to fund the litigation at higher levels than Idenix.

Litigation with Merck

In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbuvir and obtain 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 a 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. The court has set a trial date of March 7, 2016 for this litigation.

Litigation with AbbVie

AbbVie has obtained U.S. Patent Nos. 8,466,159, 8,492,386, 8,680,106, 8,685,984 and 8,809,265, which purport to cover the use of a combination of LDV/SOF for the treatment of HCV. We are aware that AbbVie has pending patent applications in other countries. We own published and pending patent applications directed to the use of combinations for the treatment of

HCV, and, specifically, to the combination 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 and March 2014, AbbVie responded to our lawsuit by filing two lawsuits also in the U.S. District Court for the District of Delaware alleging that our fixed-dose combination of LDV/SOF will infringe its patents. All of those lawsuits have been consolidated into a single action. AbbVie's patents have not blocked or delayed the commercialization of our combination product in the United States, and we do not expect any foreign counterparts to block or delay the commercialization around the world. If a 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. Manufacturing problems, including at our third-party manufacturers and corporate partners, could cause inventory shortages and delay product shipments and regulatory approvals, which may adversely affect our results of operations. In order to generate revenue from our products, we must be able to produce sufficient quantities of our products to satisfy demand. Many of our products are the result of complex manufacturing processes. The manufacturing process for pharmaceutical products is also highly regulated and regulators may shut down manufacturing facilities that they believe do not comply with regulations.

Our products are either manufactured at our own facilities or by third-party manufacturers or corporate partners. We depend on third parties to perform manufacturing activities effectively and on a timely basis for the majority of our solid dose products. In addition, Roche, either by itself or through third parties, is responsible for manufacturing Tamiflu. We, our third-party manufacturers and our corporate partners are subject to current Good Manufacturing Practices (GMP), which are extensive regulations governing manufacturing processes, stability testing, record keeping and quality standards as defined by the FDA and the EMA. Similar regulations are in effect in other countries. Our third-party manufacturers and corporate partners are independent entities who are subject to their own unique operational and financial risks which are out of our control. If we or any of these third-party manufacturers or corporate partners fail to perform as required, this could impair our ability to deliver our products on a timely basis or receive royalties or cause delays in our clinical trials and applications for regulatory approval. Further, we may have to write-off the costs of manufacturing any batch that fails to pass quality inspection or meet regulatory approval. To the extent these risks materialize and affect their performance obligations to us, our financial results may be adversely affected.

In addition, we, our third-party manufacturers and our corporate partners may only be able to produce some of our products at one or a limited number of facilities and, therefore, have limited manufacturing capacity for certain products. For example, in 2012, due to unexpected delays both in qualifying two new external sites and with expanding Cayston manufacturing in San Dimas, we were unable to supply enough Cayston to fulfill our projected demand. From February through September 2012, we suspended access for patients with new prescriptions for Cayston, subject to certain exceptions where specific medical need existed. As a result of our inability to manufacture sufficient Cayston to meet demand, the amount of revenues we received from the sale of Cayston was reduced.

Our manufacturing operations are subject to routine inspections by regulatory agencies. For example, in April 2013, the FDA conducted an inspection of our Foster City facility and issued Form 483 Inspectional Observations, which noted deficiencies in documentation and validation of certain quality testing procedures and methods. As a result of the observations, the FDA delivered Complete Response Letters notifying us that it was unable to approve our NDAs for elvitegravir and cobicistat as standalone agents. In mid-October 2013, the FDA completed its sofosbuvir pre-approval inspection of our Foster City facility. Following that inspection, the FDA issued additional Form 483 Inspectional Observations citing deficiencies related to testing and reconciliation of stability samples, testing protocols, testing of shipping samples, and procedures for calibrating test equipment. We recently completed and filed our responses to these observations with the FDA. If we are unable to remedy the deficiencies cited by the FDA in these inspections, our currently marketed products and the timing of regulatory approval of products in development

could be adversely affected. Further, there is risk that regulatory agencies in other countries where marketing applications are pending will undertake similar additional reviews or apply a heightened standard of review, which could delay the regulatory approvals for products in those countries. If approval of any of our product candidates were delayed or if production of our marketed products was interrupted, our anticipated revenues and our stock price would be adversely affected.

We may not be able to obtain materials or supplies necessary to conduct clinical trials or to manufacture and sell our products, which would limit our ability to generate revenues.

We need access to certain supplies and products to conduct our clinical trials and to manufacture our products. In light of the global economic downturn, we have had increased difficulty in purchasing certain of the raw materials used in our manufacturing processes. If we are unable to purchase sufficient quantities of these materials or find suitable alternate materials in a timely manner, our development efforts for our product candidates may be delayed or our ability to manufacture our products would be limited, which would limit our ability to generate revenues.

Suppliers of key components and materials must be named in an NDA filed with the FDA, EMA or other regulatory authority for any product candidate for which we are seeking marketing approval, and significant delays can occur if the qualification of a new supplier is required. Even after a manufacturer is qualified by the regulatory authority, the manufacturer must continue to expend time, money and effort in the area of production and quality control to ensure full compliance with GMP. Manufacturers are subject to regular, periodic inspections by the regulatory authorities following initial approval. If, as a result of these inspections, a regulatory authority determines that the equipment, facilities, laboratories or processes do not comply with applicable regulations and conditions of product approval, the regulatory authority may suspend the manufacturing operations. If the manufacturing operations of any of the single suppliers for our products are suspended, we may be unable to generate sufficient quantities of commercial or clinical supplies of product to meet market demand, which would in turn decrease our revenues and harm our business. In addition, if delivery of material from our suppliers were interrupted for any reason, we may be unable to ship certain of our products for commercial supply or to supply our products in development for clinical trials. In addition, some of our products and the materials that we utilize in our operations are made at only one facility. For example, we manufacture certain drug product intermediates utilized in AmBisome exclusively at our facilities in San Dimas, California. In the event of a disaster, including an earthquake, equipment failure or other difficulty, we may be unable to replace this manufacturing capacity in a timely manner and may be unable to manufacture AmBisome to meet market needs.

In addition, we depend on a single supplier for high-quality cholesterol and active pharmaceutical ingredient, which is used in the manufacture of AmBisome. We also rely on a single source for the active pharmaceutical ingredient of Letairis. Astellas US LLC, which markets Lexiscan in the United States, is responsible for the commercial manufacture and supply of product in the United States and is dependent on a single supplier for the active pharmaceutical ingredient of Lexiscan. Problems with any of the single suppliers we depend on may negatively impact our development and commercialization efforts.

A significant portion of the raw materials and intermediates used to manufacture our anti-viral products (Sovaldi, Harvoni, Stribild, Complera/Eviplera, Atripla, Truvada, Viread, Emtriva and Tybost) are supplied by Chinese-based companies. As a result, an international trade dispute between China and the United States or any other actions by the Chinese government that would limit or prevent Chinese companies from supplying these materials would adversely affect our ability to manufacture and supply our antiviral products to meet market needs and have a material and adverse effect on our operating results.

Litigation with generic manufacturers has increased our expenses which may continue to reduce our earnings. If we are unsuccessful in all or some of these lawsuits, some or all of our claims in the patents may be narrowed or invalidated and generic versions of our products could be launched prior to our patent expiry.

As part of the approval process for some of our products, the FDA granted us 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 ANDA, the application form typically used by manufacturers seeking approval of a generic drug. Current legal proceedings of significance with some of our generic manufacturers include:

Mylan Inc. (Mylan)

In April 2014, we received notice that Mylan submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Truvada. In the notice, Mylan alleges that two of the patents associated with

emtricitabine and one of our patents associated with the fixed-dose combination of emtricitabine with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Mylan's manufacture, use or sale of a generic version of Truvada. In June 2014, we filed a lawsuit against Mylan in U.S. District Court for the Northern District of West Virginia for infringement of our patents.

In June 2014, we received notice that Mylan Inc. submitted petitions for Inter Partes Review (IPR) to the Board alleging that four patents associated with tenofovir disoproxil fumarate are invalid. We are opposing Mylan's petitions. We anticipate

that the Board will issue a decision on whether to institute an IPR by December 2014. If the Board institutes an IPR, we anticipate a final decision by December 2015. Either party can appeal a decision of the Board to the CAFC. If Mylan is successful in invalidating our patents, generic companies will be able to launch a generic version of our Viread product prior to the expiry of our patents.

Apotex Inc. (Apotex)

In June 2014, we received notice that Apotex submitted an abbreviated new drug submission (ANDS) to the Canadian Minister of Health requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate and a separate ANDS requesting permission to manufacture and market a generic version of Viread. In the notice, Apotex alleges that three of the patents associated with Truvada and two of the patents associated with Viread are invalid, unenforceable and/or will not be infringed by Apotex's manufacture, use or sale of a generic version of Truvada or Viread. In August 2014, we filed a lawsuit against Apotex in the Federal Court of Canada seeking an order of prohibition against approval of this ANDS.

Natco

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 reason stated in Natco's notice letter. Natco has appealed this decision to the CAFC. In April 2014, the CAFC issued a decision which will allow Natco's patent invalidity challenge to proceed if the case is remanded to the District Court for a full trial on the merits. On June 30, 2014, we filed a petition for rehearing en banc with the CAFC, which was subsequently denied. We have submitted a request for an extension of time to submit our petition for certiorari to the Supreme Court and are concurrently proceeding before the District Court.

Teva

In August 2012, Teva Pharmaceuticals (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 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 the decision of the court prohibiting the Minister of Health from issuing the Notices of Compliance until expiry of our patent in July 2017. This decision did not rule on the validity of the patents and accordingly the only issue on appeal is whether the Minister of Health should be prohibited from issuing the Notices of Compliance for Teva's products. Separately, the court will determine the validity of the patents in the pending Impeachment Action. A trial in the Impeachment Action is scheduled for March 2015. If Teva is successful in invalidating our patents, Teva may be able to launch generic versions of our Viread, Truvada and Atripla products in Canada prior to the expiry of our patents. We cannot predict the ultimate outcome of the foregoing actions and other litigation with generic manufacturers, 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 Truvada, Viread 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.

We face credit risks from our Southern European customers that may adversely affect our results of operations. Our European product sales to government-owned or supported customers in Southern Europe, specifically Greece, Italy, Portugal and Spain have historically been and continue to be subject to significant payment delays due to government funding and reimbursement practices. This has resulted and may continue to result in days sales outstanding being significantly higher in these countries due to the average length of time that accounts receivable remain outstanding. As of September 30, 2014, our accounts receivable in these countries totaled approximately

\$587.2 million, of which \$154.5 million were past due greater than 120 days and \$52.0 million were past due greater than 365 days as follows:

54

(In thousands)	September 30, 2014	
	Greater than 120 days past due	Greater than 365 days past due
Portugal	\$49,656	\$20,985
Italy	41,200	25,832
Spain	54,056	4,305
Greece	9,551	829
Total	\$154,463	\$51,951

Historically, receivable balances with certain publicly-owned hospitals accumulate over a period of time and are then subsequently settled as large lump sum payments. This pattern is also experienced by other pharmaceutical companies that sell directly to hospitals. If significant changes were to occur in the reimbursement practices of these European governments or if government funding becomes unavailable, we may not be able to collect on amounts due to us from these customers and our results of operations would be adversely affected.

Our revenues and gross margin could be reduced by imports from countries where our products are available at lower prices.

Prices for our products are based on local market economics and competition and sometimes differ from country to country. Our sales in countries with relatively higher prices may be reduced if products can be imported into those or other countries from lower price markets. There have been cases in which other pharmaceutical products were sold at steeply discounted prices in the developing world and then re-exported to European countries where they could be re-sold at much higher prices. If this happens with our products, particularly Truvada and Viread, which we have agreed to make available at substantially reduced prices to more than 125 countries participating in our Gilead Access Program, or Atripla, which Merck distributes at substantially reduced prices to HIV infected patients in developing countries under our 2006 agreement, our revenues would be adversely affected. In addition, we have established partnerships with India-based generic manufacturers to distribute generic versions of tenofovir disoproxil fumarate to 112 developing world countries, including India. We expanded these agreements to include rights to Stribild, Tybost and Vitekta. We also entered into agreements with certain India-based generic manufacturers to produce and distribute generic emtricitabine in the developing world, including single tablet regimens containing emtricitabine and fixed-dose combinations of emtricitabine co-formulated with our other HIV medicines. In September 2014, we entered into licensing agreements with India-based generic manufacturers to produce and distribute generic sofosbuvir and the fixed-dose combination of LDV/SOF to 91 developing countries. If generic versions of our HIV and HCV medications under these licenses are then re-exported to the United States, Europe or other markets outside of these 112 countries, our revenues would be adversely affected. As part of our commitment to make Sovaldi available in the developing world at discounted prices, we entered into an agreement to make Sovaldi available in Egypt, a country that has among the highest HCV prevalence in the world. If the discounted Sovaldi is re-exported from these developing countries into the United States or other higher price markets, our revenues could be adversely affected. In addition, purchases of our products in countries where our selling prices are relatively low for resale in countries in which our selling prices are relatively high may adversely impact our revenues and gross margin and may cause our sales to fluctuate from quarter to quarter. For example, in the European Union, we are required to permit products purchased in one country to be sold in another country. Purchases of our products in countries where our selling prices are relatively low for resale in countries in which our selling prices are relatively high can affect the inventory level held by our wholesalers and can cause the relative sales levels in the various countries to fluctuate from quarter to quarter and not reflect the actual consumer demand in any given quarter. These quarterly fluctuations may impact our earnings, which could adversely affect our stock price and harm our business.

Expensive litigation and government investigations have increased our expenses which may continue to reduce our earnings.

We are involved in a number of litigation, investigation and other dispute-related matters that require us to expend substantial internal and financial resources. We expect these matters will continue to require a high level of internal and financial resources for the foreseeable future. These matters have reduced and will continue to reduce our

earnings. Please see a description of our Litigation Regarding Sofosbuvir, Litigation with Generic Manufacturers and the Department of Justice investigation; in "Legal Proceedings" beginning on page 35. The outcome of the lawsuits above, or any other lawsuits that may be brought against us, the investigation or any other investigations that may be initiated, are inherently uncertain, and adverse developments or outcomes can result in significant expenses, monetary damages, penalties or injunctive relief against us that could significantly reduce our earnings and cash flows and harm our business.

55

In some countries, we may be required to grant compulsory licenses for our products or our patents may not be enforced.

In a number of developing countries, government officials and other interested groups have suggested that pharmaceutical companies should make drugs for HCV or HIV infection available at low cost. Alternatively, governments in those developing countries could require that we grant compulsory licenses to allow competitors to manufacture and sell their own versions of our products, thereby reducing our product sales. For example, there is growing attention on the availability of HCV therapies and some activists are advocating for the increased availability of HCV therapies through means including compulsory licenses. In the past, certain offices of the government of Brazil have expressed concern over the affordability of our HIV products and declared that they were considering issuing compulsory licenses to permit the manufacture of otherwise patented products for HIV infection, including Viread. In addition, concerns over the cost and availability of Tamiflu related to a potential avian flu pandemic and H1N1 influenza generated international discussions over compulsory licensing of our Tamiflu patents. For example, the Canadian government considered allowing Canadian manufacturers to manufacture and export the active ingredient in Tamiflu to eligible developing and least developed countries under Canada's Access to Medicines Regime. Furthermore, Roche issued voluntary licenses to permit third-party manufacturing of Tamiflu. For example, Roche granted a sublicense to Shanghai Pharmaceutical (Group) Co., Ltd. for China and a sublicense to India's Hetero Drugs Limited for India and certain developing countries. If compulsory licenses permit generic manufacturing to override our product patents for Sovaldi, Harvoni, our HIV products or Tamiflu, or if we are required to grant compulsory licenses for these products, it could reduce our earnings and cash flows and harm our business. In addition, certain countries do not permit enforcement of our patents, and third-party manufacturers are able to sell generic versions of our products in those countries. For example, in July 2009, the Brazilian patent authority rejected our patent application for tenofovir disoproxil fumarate, the active pharmaceutical ingredient in Viread. This was the highest level of appeal available to us within the Brazilian patent authority. Because we do not currently have a patent in Brazil, the Brazilian government now purchases its supply of tenofovir disoproxil fumarate from generic manufacturers. Sales of generic versions of our products could significantly reduce our sales and adversely affect our results of operations, particularly if generic versions of our products are imported into territories where we have existing commercial sales.

We may face significant liability resulting from our products that may not be covered by insurance and successful claims could materially reduce our earnings.

The testing, manufacturing, marketing and use of our commercial products, as well as product candidates in development, involve substantial risk of product liability claims. These claims may be made directly by consumers, healthcare providers, pharmaceutical companies or others. In recent years, coverage and availability of cost-effective product liability insurance has decreased, so we may be unable to maintain sufficient coverage for product liabilities that may arise. In addition, the cost to defend lawsuits or pay damages for product liability claims may exceed our coverage. If we are unable to maintain adequate coverage or if claims exceed our coverage, our financial condition and our ability to clinically test our product candidates and market our products will be adversely impacted. In addition, negative publicity associated with any claims, regardless of their merit, may decrease the future demand for our products and impair our financial condition.

Business disruptions from natural or man-made disasters may harm our future revenues.

Our worldwide operations could be subject to business interruptions stemming from natural or man-made disasters for which we may be self-insured. Our corporate headquarters and Fremont locations, which together house a majority of our R&D activities, and our San Dimas and Oceanside manufacturing facilities are located in California, a seismically active region. As we do not carry earthquake insurance and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake.

Changes in our effective income tax rate could reduce our earnings.

We are subject to income taxes in both the United States and various foreign jurisdictions including Ireland. Due to economic and political conditions various countries are actively considering changes to existing tax laws. We cannot predict the form or timing of potential legislative changes that could have a material adverse impact on our results of

operations. In addition, significant judgment is required in determining our worldwide provision for income taxes. Various factors may have favorable or unfavorable effects on our income tax rate including, but not limited to, changes in forecasted demand for our HCV products, our portion of the non-tax deductible Branded Prescription Drug Fee (also known as the pharmaceutical excise tax), the accounting for stock options and other share-based payments, mergers and acquisitions, the ability to manufacture product in our Cork, Ireland facility, the amortization of certain acquisition related intangibles for which we receive no tax benefit, expiration of the federal research tax credit, future levels of R&D spending, changes in the mix of earnings in the various tax jurisdictions in which we operate, changes in overall levels of pre-tax earnings and resolution of federal, state and

foreign income tax audits. The impact on our income tax provision resulting from the above mentioned factors may be significant and could have a negative impact on our net income.

Our income tax returns are audited by federal, state and foreign tax authorities. We are currently under examination by the Internal Revenue Service 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. Resolution of one or more of these exposures in any reporting period could have a material impact on the results of operations for that period.

If we fail to attract and retain highly qualified personnel, we may be unable to successfully develop new product candidates, conduct our clinical trials and commercialize our product candidates.

Our future success will depend in large part on our continued ability to attract and retain highly qualified scientific, technical and management personnel, as well as personnel with expertise in clinical testing, governmental regulation and commercialization. We face competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations. Competition for qualified personnel in the biopharmaceutical field is intense, and there is a limited pool of qualified potential employees to recruit. We may not be able to attract and retain quality personnel on acceptable terms. If we are unsuccessful in our recruitment and retention efforts, our business may be harmed.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

During the three months ended September 30, 2014, we repurchased a total of \$1.70 billion or 19.1 million shares of common stock under our January 2011 stock repurchase program (2011 Program) which completed the \$5.00 billion program. In May 2014, our Board of Directors authorized a new stock repurchase program of up to \$5.00 billion of our common stock (2014 Program). We began repurchases under our 2014 Program in October 2014.

The table below summarizes our stock repurchase activity under the 2011 Program for the three months ended September 30, 2014 (in thousands, except per share amounts):

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Fair Value of Shares that May Yet Be Purchased Under the Program	(1)
July 1 – July 31, 2014	19,131	\$ 89.10	19,052	\$394	
August 1 – August 31, 2014	382	\$ 92.42	4	\$—	
September 1 – September 30, 2014	30	\$ 108.22	—	\$—	
Total	19,543	(2) \$ 89.19	19,056		(2)

(1) In January 2011, we announced that our Board authorized our 2011 Program, which was completed in September 2014.

The difference between the total number of shares purchased and the total number of shares purchased as part of

(2) publicly announced programs is due to the equivalent value in shares of common stock withheld by us from restricted stock awards in order to satisfy applicable tax withholding obligations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Footnote	Exhibit Number	Description of Document
(1)	1.1	Underwriting Agreement, dated March 4, 2014, among Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as representatives of the several underwriters listed in Schedule 1 thereto
†(2)	2.1	Agreement and Plan of Merger among Registrant, Merger Sub and Pharmasset, Inc., dated as of November 21, 2011
*(3)	3.1	Restated Certificate of Incorporation of Registrant
*(4)	3.2	Amended and Restated Bylaws of Registrant, as amended and restated on May 7, 2014
	4.1	Reference is made to Exhibit 3.1, Exhibit 3.2 and Exhibit 3.3
*(5)	4.2	Indenture related to the Convertible Senior Notes due 2013 (2013 Notes), between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 0.625% Convertible Senior Note due 2013), dated April 25, 2006
*(6)	4.3	Indenture related to the Convertible Senior Notes due 2014 (2014 Notes), between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.00% Convertible Senior Note due 2014), dated July 30, 2010
*(6)	4.4	Indenture related to the Convertible Senior Notes due 2016 (2016 Notes), between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.625% Convertible Senior Note due 2016), dated July 30, 2010
*(7)	4.5	Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee
*(7)	4.6	First Supplemental Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including form of Senior Notes)
*(8)	4.7	Second Supplemental Indenture related to Senior Notes, dated as of December 13, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including Form of 2014 Note, Form of 2016 Note, Form of 2021 Note, Form of 2041 Note)
(1)	4.8	Third Supplemental Indenture related to Senior Notes, dated as of March 7, 2014, between Registrant and Wells Fargo, National Association, as Trustee (including Form of 2019 Note, Form of 2024 Note, Form of 2044 Note)
*(9)	10.1	Confirmation of OTC Convertible Note Hedge related to 2013 Notes, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A.
*(9)	10.2	Confirmation of OTC Warrant Transaction, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A. for warrants expiring in 2013

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- * (10) 10.3 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.
 - * (10) 10.4 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association
 - * (10) 10.5 Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.
 - * (10) 10.6 Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association
 - * (10) 10.7 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014
 - * (10) 10.8 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014
 - * (10) 10.9 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016
 - * (10) 10.10 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016
 - * (11) 10.11 Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.
-

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- * (11) 10.12 Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.13 Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.14 Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.15 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014
- * (11) 10.16 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014
- * (11) 10.17 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016
- * (11) 10.18 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016
- * (11) 10.19 Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.20 Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.21 Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.22 Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.23 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.24 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.25 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.26 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (12) 10.27 5-Year Revolving Credit Facility Credit Agreement among Registrant and Gilead Biopharmaceuticals Ireland Corporation, as Borrowers, Bank of America, N.A., as

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Administrative Agent, Swing Line Lender and L/C Issuer, certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012

- * (12) 10.28 Parent Guaranty Agreement (5-Year Revolving Credit Facility), dated as of January 12, 2012, by Registrant
 - * (3) 10.29 Gilead Sciences, Inc. 2004 Equity Incentive Plan, as amended through May 8, 2013
 - * (13) 10.30 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants prior to February 2008)
 - * (14) 10.31 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants made February 2008 through April 2009)
 - * (15) 10.32 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in May 2009)
 - * (16) 10.33 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in February 2010)
 - * (17) 10.34 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for 2011 and subsequent year grants)
 - * (14) 10.35 Form of non-employee director stock option agreement used under 2004 Equity Incentive Plan (for grants prior to 2008)
-

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- * (14) 10.36 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for initial grants made in 2008)
- * (14) 10.37 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2008 and through May 2012)
- * (15) 10.38 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants commencing in May 2009 and through May 2012)
- * (18) 10.39 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2013)
- * (18) 10.40 Form of non-employee director option agreement (non-U.S.) used under 2004 Equity Incentive Plan (for annual grants made in May 2013)
- * (19) 10.41 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2014)
- * (20) 10.42 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors in May 2012)
- * (15) 10.43 Form of restricted stock award agreement used under 2004 Equity Incentive Plan (for annual grants to certain non-employee directors prior to May 2012)
- * (18) 10.44 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2013)
- * (19) 10.45 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2014)
- * (18) 10.46 Form of restricted stock unit issuance agreement (non-U.S.) used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2013)
- * (15) 10.47 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2009)
- * (16) 10.48 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2010)
- * (17) 10.49 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2011)
- * (18) 10.50 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2012)
- * (21) 10.51 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for TSR Goals in 2013 and 2014)
- * (22) 10.52 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for Revenue Goals in 2013 and 2014)

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- | | | |
|-------|-------|---|
| *(23) | 10.53 | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made prior to May 2009) |
| *(15) | 10.54 | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers commencing in May 2009) |
| *(24) | 10.55 | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in November 2009) |
| *(17) | 10.56 | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in 2011) |
| *(18) | 10.57 | Gilead Sciences, Inc. Employee Stock Purchase Plan, amended and restated through May 8, 2013 |
| *(25) | 10.58 | Gilead Sciences, Inc. Deferred Compensation Plan-Basic Plan Document |
| *(24) | 10.59 | Gilead Sciences, Inc. Deferred Compensation Plan-Adoption Agreement |
| *(25) | 10.60 | Addendum to the Gilead Sciences, Inc. Deferred Compensation Plan |
| *(26) | 10.61 | Gilead Sciences, Inc. 2005 Deferred Compensation Plan, as amended and restated on October 23, 2008 |
| *(21) | 10.62 | Gilead Sciences, Inc. Severance Plan, as amended on January 26, 2012 |
-

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

* (13)	10.63	Gilead Sciences, Inc. Corporate Bonus Plan
* (27)	10.64	Amended and Restated Gilead Sciences, Inc. Code Section 162(m) Bonus Plan
* (28)	10.65	2014 Base Salaries for the Named Executive Officers
* (29)	10.66	Offer Letter dated April 16, 2008 between Registrant and Robin Washington
* (30)	10.67	Form of Indemnity Agreement entered into between Registrant and its directors and executive officers
* (31)	10.68	Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees
* (16)	10.69	Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees (revised in September 2006)
+ (32)	10.70	Amended and Restated Collaboration Agreement by and among Registrant, Gilead Holdings, LLC, Bristol-Myers Squibb Company, E.R. Squibb & Sons, L.L.C., and Bristol-Myers Squibb & Gilead Sciences, LLC, dated September 28, 2006
+ (14)	10.71	Commercialization Agreement by and between Gilead Sciences Limited and Bristol-Myers Squibb Company, dated December 10, 2007
+ (33)	10.72	Amendment Agreement, dated October 25, 1993, between Registrant, the Institute of Organic Chemistry and Biochemistry (IOCB) and Rega Stichting v.z.w. (REGA), together with the following exhibits: the License Agreement, dated December 15, 1991, between Registrant, IOCB and REGA (the 1991 License Agreement), the License Agreement, dated October 15, 1992, between Registrant, IOCB and REGA (the October 1992 License Agreement) and the License Agreement, dated December 1, 1992, between Registrant, IOCB and REGA (the December 1992 License Agreement)
(34)	10.73	Amendment Agreement between Registrant and IOCB/REGA, dated December 27, 2000 amending the 1991 License Agreement and the December 1992 License Agreement
(32)	10.74	Sixth Amendment Agreement to the License Agreement, between IOCB/REGA and Registrant, dated August 18, 2006 amending the October 1992 License Agreement and the December 1992 License Agreement
+ (35)	10.75	Seventh Amendment Agreement to the License Agreement, between IOCB/REGA and Registrant dated July 1, 2013 amending the October 1992 License Agreement and the December 1992 License Agreement
+ (32)	10.76	Development and License Agreement among Registrant and F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc., dated September 27, 1996
+ (36)	10.77	First Amendment and Supplement dated November 15, 2005 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- | | | |
|-------|-------|--|
| +(37) | 10.78 | Second Amendment dated December 22, 2011 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996 |
| +(38) | 10.79 | Third Amendment dated October 5, 2012 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996 |
| +(39) | 10.80 | Exclusive License Agreement between Registrant (as successor to Triangle Pharmaceuticals, Inc.), Glaxo Group Limited, The Wellcome Foundation Limited, Glaxo Wellcome Inc. and Emory University, dated May 6, 1999 |
| +(40) | 10.81 | Royalty Sale Agreement by and among Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 18, 2005 |
| +(40) | 10.82 | Amended and Restated License Agreement between Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 21, 2005 |
| +(41) | 10.83 | License Agreement between Japan Tobacco Inc. and Registrant, dated March 22, 2005 |
| +(42) | 10.84 | First Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 19, 2005 |
| +(42) | 10.85 | Second Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 17, 2010 |
| +(42) | 10.86 | Third Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011 |
| +(42) | 10.87 | Fourth Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011 |
-

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

+ (43)	10.88	Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated October 10, 2013
+	10.89	Fifth Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated September 29, 2014
+ (44)	10.90	License Agreement between Registrant (as successor to Myogen, Inc.) and Abbott Deutschland Holding GmbH dated October 8, 2001
+ (45)	10.91	License Agreement between Registrant (as successor to Myogen, Inc.) and Glaxo Group Limited, dated March 3, 2006
+ (44)	10.92	License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated March 27, 1996
+ (46)	10.93	First Amendment to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated July 3, 1997
(46)	10.94	Amendment No. 2 to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated November 30, 1999
+ (47)	10.95	Amendment No. 4 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated June 20, 2006
+ (37)	10.96	Amendment No. 5 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated December 22, 2011
+ (48)	10.97	License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated July 16, 2009
+ (42)	10.98	Second Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated July 1, 2011
+ (19)	10.99	Third Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated June 18, 2014
+ (22)	10.100	Amended and Restated Second Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated February 7, 2013
+ (49)	10.101	Master Clinical and Commercial Supply Agreement between Gilead World Markets, Limited, Registrant and Patheon Inc., dated January 1, 2003

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

+ (36)	10.102	Restated and Amended Toll Manufacturing Agreement between Gilead Sciences Limited, Registrant and Takeda GmbH (formerly Nycomed GmbH and Altana Pharma Oranienburg GmbH), dated November 7, 2005
	31.1	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
	31.2	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
	32.1**	Certifications of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)
	101***	The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Income (unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income (unaudited), (iv) Condensed Consolidated Statements of Cash Flows (unaudited) and (v) Notes to Condensed Consolidated Financial Statements (unaudited).

- (1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 7, 2014, and incorporated herein by reference.
 - (2) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on November 25, 2011, and incorporated herein by reference.
 - (3) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 7, 2014, and incorporated herein by reference.
 - (4) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 17, 2011, and incorporated herein by reference.
 - (5) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 25, 2006, and incorporated herein by reference.
 - (6) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on August 2, 2010, and incorporated herein by reference.
 - (7) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 1, 2011, and incorporated herein by reference.
 - (8) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on December 13, 2011, and incorporated herein by reference.
-

- (9) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (10) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, and incorporated herein by reference.
- (11) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference.
- (12) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on January 17, 2012, and incorporated herein by reference.
- (13) Filed as an exhibit to Registrant's Current Report on Form 8-K/A filed on February 22, 2006, and incorporated herein by reference.
- (14) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and incorporated herein by reference.
- (15) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference.
- (16) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and incorporated herein by reference.
- (17) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference.
- (18) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, and incorporated herein by reference.
- (19) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, and incorporated herein by reference.
- (20) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, and incorporated herein by reference.
- (21) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference.
- (22) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, and incorporated herein by reference.
- (23) Filed as an exhibit to Registrant's Current Report on Form 8-K first filed on December 19, 2007, and incorporated herein by reference.
- (24) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and incorporated herein by reference.
- (25) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and incorporated herein by reference.
- (26) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and incorporated herein by reference.
- (27) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 13, 2013, and incorporated herein by reference.
- (28) Information is included in Registrant's Current Report on Form 8-K filed on January 29, 2014, and incorporated herein by reference.
- (29) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, and incorporated herein by reference.
- (30) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-55680), as amended, and incorporated herein by reference.
- (31) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-102912) filed on January 31, 2003, and incorporated herein by reference.
- (32) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, and incorporated herein by reference.
- (33) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1994, and incorporated herein by reference.

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- (34) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, and incorporated herein by reference.
 - (35) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, and incorporated herein by reference.
 - (36) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporated herein by reference.
 - (37) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and incorporated herein by reference.
 - (38) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and incorporated herein by reference.
-

- (39) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q/A filed on November 3, 1999, and incorporated herein by reference.
- (40) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and incorporated herein by reference.
- (41) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, and incorporated herein by reference.
- (42) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference.
- (43) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and incorporated herein by reference.
- (44) Filed as an exhibit to Myogen, Inc.'s Registration Statement on Form S-1 (No. 333-108301), as amended, originally filed on August 28, 2003, and incorporated herein by reference.
- (45) Filed as an exhibit to Myogen, Inc.'s Quarterly Report on Form 10-Q filed on May 9, 2006, and incorporated herein by reference.
- (46) Filed as an exhibit to CV Therapeutics, Inc.'s Registration Statement on Form S-3 (No. 333-59318), as amended, originally filed on April 20, 2001, and incorporated herein by reference.
- (47) Filed as an exhibit to CV Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (48) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and incorporated herein by reference.
- (49) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and incorporated herein by reference.

The Agreement and Plan of Merger (the Pharmasset Merger Agreement) contains representations and warranties of Registrant, Merger Sub and Pharmasset, Inc. made solely to each other as of specific dates. Those representations and warranties were made solely for purposes of the Pharmasset Merger Agreement and may be subject to important qualifications and limitations agreed to by Registrant, Merger Sub and Pharmasset, Inc. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a standard of materiality provided for in the Pharmasset Merger Agreement and have been used for the purpose of allocating risk among Registrant, Merger Sub and Pharmasset, Inc. rather than establishing matters as facts.

*Management contract or compensatory plan or arrangement.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

***XBRL information is filed herewith.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GILEAD SCIENCES, INC.
(Registrant)

Date: November 5, 2014

/s/ JOHN C. MARTIN
John C. Martin, Ph.D.
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 5, 2014

/s/ ROBIN L. WASHINGTON
Robin L. Washington
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Exhibit Index

Exhibit Footnote	Exhibit Number	Description of Document
(1)	1.1	Underwriting Agreement, dated March 4, 2014, among Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as representatives of the several underwriters listed in Schedule 1 thereto
†(2)	2.1	Agreement and Plan of Merger among Registrant, Merger Sub and Pharmasset, Inc., dated as of November 21, 2011
*(3)	3.1	Restated Certificate of Incorporation of Registrant
*(4)	3.2	Amended and Restated Bylaws of Registrant, as amended and restated on May 7, 2014
	4.1	Reference is made to Exhibit 3.1, Exhibit 3.2 and Exhibit 3.3
*(5)	4.2	Indenture related to the Convertible Senior Notes due 2013 (2013 Notes), between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 0.625% Convertible Senior Note due 2013), dated April 25, 2006
*(6)	4.3	Indenture related to the Convertible Senior Notes due 2014 (2014 Notes), between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.00% Convertible Senior Note due 2014), dated July 30, 2010
*(6)	4.4	Indenture related to the Convertible Senior Notes due 2016 (2016 Notes), between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.625% Convertible Senior Note due 2016), dated July 30, 2010
*(7)	4.5	Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee
*(7)	4.6	First Supplemental Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including form of Senior Notes)
*(8)	4.7	Second Supplemental Indenture related to Senior Notes, dated as of December 13, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including Form of 2014 Note, Form of 2016 Note, Form of 2021 Note, Form of 2041 Note)
(1)	4.8	Third Supplemental Indenture related to Senior Notes, dated as of March 7, 2014, between Registrant and Wells Fargo, National Association, as Trustee (including Form of 2019 Note, Form of 2024 Note, Form of 2044 Note)
*(9)	10.1	Confirmation of OTC Convertible Note Hedge related to 2013 Notes, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A.
*(9)	10.2	Confirmation of OTC Warrant Transaction, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A. for warrants expiring

in 2013

- * (10) 10.3 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.
- * (10) 10.4 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (10) 10.5 Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.
- * (10) 10.6 Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (10) 10.7 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014
- * (10) 10.8 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014
- * (10) 10.9 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016
- * (10) 10.10 Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016
- * (11) 10.11 Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- * (11) 10.12 Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.13 Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.14 Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.15 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014
- * (11) 10.16 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014
- * (11) 10.17 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016
- * (11) 10.18 Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016
- * (11) 10.19 Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.20 Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.21 Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.22 Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.23 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.24 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (11) 10.25 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- * (11) 10.26 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- * (12) 10.27

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

5-Year Revolving Credit Facility Credit Agreement among Registrant and Gilead Biopharmaceuticals Ireland Corporation, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012

- * (12) 10.28 Parent Guaranty Agreement (5-Year Revolving Credit Facility), dated as of January 12, 2012, by Registrant
- * (3) 10.29 Gilead Sciences, Inc. 2004 Equity Incentive Plan, as amended through May 8, 2013
- * (13) 10.30 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants prior to February 2008)
- * (14) 10.31 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants made February 2008 through April 2009)
- * (15) 10.32 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in May 2009)
- * (16) 10.33 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in February 2010)
- * (17) 10.34 Form of employee stock option agreement used under 2004 Equity Incentive Plan (for 2011 and subsequent year grants)
- * (14) 10.35 Form of non-employee director stock option agreement used under 2004 Equity Incentive Plan (for grants prior to 2008)

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- * (14) 10.36 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for initial grants made in 2008)
- * (14) 10.37 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2008 and through May 2012)
- * (15) 10.38 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants commencing in May 2009 and through May 2012)
- * (18) 10.39 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2013)
- * (18) 10.40 Form of non-employee director option agreement (non-U.S.) used under 2004 Equity Incentive Plan (for annual grants made in May 2013)
- * (19) 10.41 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2014)
- * (20) 10.42 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors in May 2012)
- * (15) 10.43 Form of restricted stock award agreement used under 2004 Equity Incentive Plan (for annual grants to certain non-employee directors prior to May 2012)
- * (18) 10.44 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2013)
- * (19) 10.45 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2014)
- * (18) 10.46 Form of restricted stock unit issuance agreement (non-U.S.) used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2013)
- * (15) 10.47 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2009)
- * (16) 10.48 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2010)
- * (17) 10.49 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2011)
- * (18) 10.50 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2012)
- * (21) 10.51 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for TSR Goals in 2013 and 2014)
- * (22) 10.52

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

Form of performance share award agreement used under the 2004 Equity Incentive Plan (for Revenue Goals in 2013 and 2014)

- * (23) 10.53 Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made prior to May 2009)
- * (15) 10.54 Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers commencing in May 2009)
- * (24) 10.55 Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in November 2009)
- * (17) 10.56 Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in 2011)
- * (18) 10.57 Gilead Sciences, Inc. Employee Stock Purchase Plan, amended and restated through May 8, 2013
- * (25) 10.58 Gilead Sciences, Inc. Deferred Compensation Plan-Basic Plan Document
- * (24) 10.59 Gilead Sciences, Inc. Deferred Compensation Plan-Adoption Agreement
- * (25) 10.60 Addendum to the Gilead Sciences, Inc. Deferred Compensation Plan
- * (26) 10.61 Gilead Sciences, Inc. 2005 Deferred Compensation Plan, as amended and restated on October 23, 2008
- * (21) 10.62 Gilead Sciences, Inc. Severance Plan, as amended on January 26, 2012

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

* (13)	10.63	Gilead Sciences, Inc. Corporate Bonus Plan
* (27)	10.64	Amended and Restated Gilead Sciences, Inc. Code Section 162(m) Bonus Plan
* (28)	10.65	2014 Base Salaries for the Named Executive Officers
* (29)	10.66	Offer Letter dated April 16, 2008 between Registrant and Robin Washington
* (30)	10.67	Form of Indemnity Agreement entered into between Registrant and its directors and executive officers
* (31)	10.68	Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees
* (16)	10.69	Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees (revised in September 2006)
+ (32)	10.70	Amended and Restated Collaboration Agreement by and among Registrant, Gilead Holdings, LLC, Bristol-Myers Squibb Company, E.R. Squibb & Sons, L.L.C., and Bristol-Myers Squibb & Gilead Sciences, LLC, dated September 28, 2006
+ (14)	10.71	Commercialization Agreement by and between Gilead Sciences Limited and Bristol-Myers Squibb Company, dated December 10, 2007
+ (33)	10.72	Amendment Agreement, dated October 25, 1993, between Registrant, the Institute of Organic Chemistry and Biochemistry (IOCB) and Rega Stichting v.z.w. (REGA), together with the following exhibits: the License Agreement, dated December 15, 1991, between Registrant, IOCB and REGA (the 1991 License Agreement), the License Agreement, dated October 15, 1992, between Registrant, IOCB and REGA (the October 1992 License Agreement) and the License Agreement, dated December 1, 1992, between Registrant, IOCB and REGA (the December 1992 License Agreement)
(34)	10.73	Amendment Agreement between Registrant and IOCB/REGA, dated December 27, 2000 amending the 1991 License Agreement and the December 1992 License Agreement
(32)	10.74	Sixth Amendment Agreement to the License Agreement, between IOCB/REGA and Registrant, dated August 18, 2006 amending the October 1992 License Agreement and the December 1992 License Agreement
+ (35)	10.75	Seventh Amendment Agreement to the License Agreement, between IOCB/REGA and Registrant dated July 1, 2013 amending the October 1992 License Agreement and the December 1992 License Agreement
+ (32)	10.76	Development and License Agreement among Registrant and F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc., dated September 27, 1996
+ (36)	10.77	First Amendment and Supplement dated November 15, 2005 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- | | | |
|-------|-------|--|
| +(37) | 10.78 | Second Amendment dated December 22, 2011 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996 |
| +(38) | 10.79 | Third Amendment dated October 5, 2012 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996 |
| +(39) | 10.80 | Exclusive License Agreement between Registrant (as successor to Triangle Pharmaceuticals, Inc.), Glaxo Group Limited, The Wellcome Foundation Limited, Glaxo Wellcome Inc. and Emory University, dated May 6, 1999 |
| +(40) | 10.81 | Royalty Sale Agreement by and among Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 18, 2005 |
| +(40) | 10.82 | Amended and Restated License Agreement between Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 21, 2005 |
| +(41) | 10.83 | License Agreement between Japan Tobacco Inc. and Registrant, dated March 22, 2005 |
| +(42) | 10.84 | First Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 19, 2005 |
| +(42) | 10.85 | Second Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 17, 2010 |
| +(42) | 10.86 | Third Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011 |
| +(42) | 10.87 | Fourth Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011 |

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- + (43) 10.88 Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated October 10, 2013
- + 10.89 Fifth Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated September 29, 2014
- + (44) 10.90 License Agreement between Registrant (as successor to Myogen, Inc.) and Abbott Deutschland Holding GmbH dated October 8, 2001
- + (45) 10.91 License Agreement between Registrant (as successor to Myogen, Inc.) and Glaxo Group Limited, dated March 3, 2006
- + (44) 10.92 License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated March 27, 1996
- + (46) 10.93 First Amendment to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated July 3, 1997
- (46) 10.94 Amendment No. 2 to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated November 30, 1999
- + (47) 10.95 Amendment No. 4 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated June 20, 2006
- + (37) 10.96 Amendment No. 5 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated December 22, 2011
- + (48) 10.97 License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated July 16, 2009
- + (42) 10.98 Second Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated July 1, 2011
- + (19) 10.99 Third Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated June 18, 2014
- + (22) 10.100 Amended and Restated Second Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Janssen R&D Ireland (formerly Tibotec Pharmaceuticals), dated February 7, 2013
- + (49) 10.101 Master Clinical and Commercial Supply Agreement between Gilead World Markets, Limited, Registrant and Patheon Inc., dated January 1, 2003

+(36)	10.102	Restated and Amended Toll Manufacturing Agreement between Gilead Sciences Limited, Registrant and Takeda GmbH (formerly Nycomed GmbH and Altana Pharma Oranienburg GmbH), dated November 7, 2005
	31.1	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
	31.2	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
	32.1**	Certifications of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)
	101***	The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Income (unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income (unaudited), (iv) Condensed Consolidated Statements of Cash Flows (unaudited) and (v) Notes to Condensed Consolidated Financial Statements (unaudited).

- (1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 7, 2014, and incorporated herein by reference.
- (2) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on November 25, 2011, and incorporated herein by reference.
- (3) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 7, 2014, and incorporated herein by reference.
- (4) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 17, 2011, and incorporated herein by reference.
- (5) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 25, 2006, and incorporated herein by reference.
- (6) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on August 2, 2010, and incorporated herein by reference.
- (7) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 1, 2011, and incorporated herein by reference.
- (8) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on December 13, 2011, and incorporated herein by reference.

- (9) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (10) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, and incorporated herein by reference.
- (11) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference.
- (12) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on January 17, 2012, and incorporated herein by reference.
- (13) Filed as an exhibit to Registrant's Current Report on Form 8-K/A filed on February 22, 2006, and incorporated herein by reference.
- (14) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and incorporated herein by reference.
- (15) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference.
- (16) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and incorporated herein by reference.
- (17) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference.
- (18) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, and incorporated herein by reference.
- (19) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, and incorporated herein by reference.
- (20) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, and incorporated herein by reference.
- (21) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference.
- (22) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, and incorporated herein by reference.
- (23) Filed as an exhibit to Registrant's Current Report on Form 8-K first filed on December 19, 2007, and incorporated herein by reference.
- (24) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and incorporated herein by reference.
- (25) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and incorporated herein by reference.
- (26) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and incorporated herein by reference.
- (27) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 13, 2013, and incorporated herein by reference.
- (28) Information is included in Registrant's Current Report on Form 8-K filed on January 29, 2014, and incorporated herein by reference.
- (29) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, and incorporated herein by reference.
- (30) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-55680), as amended, and incorporated herein by reference.
- (31) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-102912) filed on January 31, 2003, and incorporated herein by reference.
- (32) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, and incorporated herein by reference.
- (33)

Edgar Filing: GILEAD SCIENCES INC - Form 10-Q

- Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1994, and incorporated herein by reference.
- (34) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, and incorporated herein by reference.
- (35) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, and incorporated herein by reference.
- (36) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporated herein by reference.
- (37) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and incorporated herein by reference.
- (38) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and incorporated herein by reference.

- (39) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q/A filed on November 3, 1999, and incorporated herein by reference.
- (40) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and incorporated herein by reference.
- (41) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, and incorporated herein by reference.
- (42) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference.
- (43) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and incorporated herein by reference.
- (44) Filed as an exhibit to Myogen, Inc.'s Registration Statement on Form S-1 (No. 333-108301), as amended, originally filed on August 28, 2003, and incorporated herein by reference.
- (45) Filed as an exhibit to Myogen, Inc.'s Quarterly Report on Form 10-Q filed on May 9, 2006, and incorporated herein by reference.
- (46) Filed as an exhibit to CV Therapeutics, Inc.'s Registration Statement on Form S-3 (No. 333-59318), as amended, originally filed on April 20, 2001, and incorporated herein by reference.
- (47) Filed as an exhibit to CV Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (48) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and incorporated herein by reference.
- (49) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and incorporated herein by reference.

The Agreement and Plan of Merger (the Pharmasset Merger Agreement) contains representations and warranties of Registrant, Merger Sub and Pharmasset, Inc. made solely to each other as of specific dates. Those representations and warranties were made solely for purposes of the Pharmasset Merger Agreement and may be subject to important qualifications and limitations agreed to by Registrant, Merger Sub and Pharmasset, Inc. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a standard of materiality provided for in the Pharmasset Merger Agreement and have been used for the purpose of allocating risk among Registrant, Merger Sub and Pharmasset, Inc. rather than establishing matters as facts.

*Management contract or compensatory plan or arrangement.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

***XBRL information is filed herewith.

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