AMAZON COM INC
Form 10-Q
July 25, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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. 000-22513

Amazon.com, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	91-1646860
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

410 Terry Avenue North, Seattle, WA 98109-5210
(206) 266-1000
(Address and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

462,036,113 shares of common stock, par value $0.01 per share, outstanding as of July 16, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Three Months Ended June 30,	
	2014	2013
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$5,074	$4,481
OPERATING ACTIVITIES:		
Net income (loss)	(126)	(7)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation of property and equipment, including internal-use software and website development, and other amortization	1,109	756
Stock-based compensation	391	298
Other operating expense (income), net	28	32
Losses (gains) on sales of marketable securities, net	(1)	—
Other expense (income), net	(8)	42
Deferred income taxes	(49)	21
	—	—

Excess tax benefits from stock-based compensation		
Changes in operating assets and liabilities:		
Inventories	92	(30)
Accounts receivable, net and other	(299)	(211)
Accounts payable	(344)	—
Accrued expenses and other	(15)	(77)
Additions to unearned revenue	894	516
Amortization of previously unearned revenue	(810)	(460)
Net cash provided by (used in) operating activities	862	880
INVESTING ACTIVITIES:		
Purchases of property and equipment, including internal-use software and website development	(1,290)	(855)
Acquisitions, net of cash acquired, and other	(67)	(148)
Sales and maturities of marketable securities and other investments	962	696

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

We and BMS shared marketing and sales efforts. Starting in the second quarter of 2011, exc
limited number of activities that are jointly managed, the parties no longer coordinate detail
promotional activities in the United States, and the parties have reduced their joint promotio
we launched Complera in August 2011 and Stribild in August 2012. The parties continue to
activities such as manufacturing, regulatory, compliance and pharmacovigilance. The daily
the joint venture are governed by several joint committees formed by both BMS and Gilead
responsible for accounting, financial reporting, tax reporting, manufacturing and product dis
the joint venture. Both parties provide their respective bulk active pharmaceutical ingredien
venture at their approximate market value. The agreement will continue until terminated by
agreement of the parties. In addition, either party may terminate the other party's participati
collaboration within 30 days after the launch of at least one generic version of such other pa
agent products (or the double agent products). The terminating party then has the right to co
Atripla and become the continuing party, but will be obligated to pay the terminated party c
for a three-year period following the effective date of the termination. The loss of exclusivit
States for Sustiva is expected in December 2017.

As of December 31, 2016 and 2015, the joint venture held efavirenz active pharmaceutical i
which it purchased from BMS at BMS's estimated net selling price of efavirenz in the U.S.
amounts were primarily included in Inventories on our Consolidated Balance Sheets as of D
2016 and 2015.

Europe

In 2007, Gilead Sciences Ireland UC, our wholly-owned subsidiary, and BMS entered into a
agreement under which we and BMS commercialize and distribute Atripla in the European
Liechtenstein, Norway and Switzerland (collectively, the European Territory). The parties f
liability company which we consolidate, to manufacture Atripla for distribution in the Europ
using efavirenz that it purchases from BMS at BMS's estimated net selling price of efaviren
European Territory. We are responsible for manufacturing, product distribution, inventory m
warehousing. Through our local subsidiaries, we have primary responsibility for order fulfil
collection of receivables, customer relations and handling of sales returns in all the territorie
BMS promote Atripla. In general, the parties share revenues and out-of-pocket expenses in
the net selling prices of the components of Atripla, Truvada and efavirenz.

Starting in 2012, except for a limited number of activities that are jointly managed, the parti
coordinate detailing and promotional activities in the European Territory. We are responsibl
accounting, financial reporting and tax reporting for the collaboration. As of December 31,
2016 and December 31, 2015, efavirenz purchased from BMS at BMS's estimated net sellin
efavirenz in the European Territory is primarily included in Inventories on our Consolidated
Sheets.

The parties also formed a limited liability company to hold the marketing authorization for A
European Territory. We have primary responsibility for regulatory activities. In the major m
both parties have agreed to independently continue to use commercially reasonable efforts t
Atripla.

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

• Janssen

In 2009, we entered into a collaboration agreement with Janssen to develop and commercial
combination of our Truvada and Janssen's rilpivirine. The agreement was amended in 2011
The combination was approved in the United States and European Union in 2011 and is sol
brand name Complera in the United States and Eviplera in the European Union. The 2014 a
expanded the collaboration to include another single-tablet regimen containing Janssen's ril
emtricitabine and tenofovir alafenamide (Odefsey). Under the agreement, Janssen granted u
license to Complera/Eviplera and Odefsey worldwide but has the right to distribute both co
products in 18 countries including Mexico, Russia and Japan. Neither party is restricted fro
drugs with any other drug products except those which are similar to the components of Co
and Odefsey.

We are responsible for manufacturing Complera/Eviplera and Odefsey and have the lead ro registration, distribution and commercialization of both products except in the countries wh distributes. Janssen has exercised a right to co-detail the combination product in some of the where Gilead is the selling party. The selling party sets the price of the products and the par revenues based on the ratio of the net selling prices of the parties' component(s), subject to restrictions and adjustments. We retain a specified percentage of Janssen's share of revenue major markets.

Either party may terminate the collaboration agreement with respect to a product and a cour product is withdrawn from the market in such country or with respect to a product in all cou other party materially breaches the agreement with respect to a product. The agreement and obligation to share revenues will expire on a product-by-product and country-by-country ba patents providing exclusivity for the product expire or, if later, on the tenth anniversary of t launch for such product. We may terminate the agreement without cause with respect to the where we sell the products in which case Janssen has the right to become the selling party f if the product has launched but has been on the market for fewer than 10 years.

• Japan Tobacco

In 2005, Japan Tobacco Inc. (Japan Tobacco) granted us exclusive rights to develop and co elvitegravir, a novel HIV integrase inhibitor, in all countries of the world, excluding Japan, Tobacco retained such rights. Under the agreement, we are responsible for seeking regulato our territories and are required to use diligent efforts to commercialize elvitegravir for the t infection. We bear all costs and expenses associated with such commercialization efforts.

We received approval of Stribild (an elvitegravir-containing product) from FDA in August the European Commission in May 2013. We received approval of Genvoya (an elvitegravir product) from FDA and the European Commission in November 2015.

The agreement and our obligation to pay royalties to Japan Tobacco will terminate on a pro basis as patents providing exclusivity for the product expire or, if later, on the tenth annive commercial launch for such product. We may terminate the agreement for any reason in wh license granted by Japan Tobacco to us would terminate. Either party may terminate the agr response to a material breach by the other party.

Research Collaborations

We have a number of collaborations with partners for the research and development (R&D) compounds and drug candidates. None of our research collaborations are significant to us f statement perspective.

Research and Development

Our R&D philosophy and strategy is to develop best-in-class drugs that improve safety or e unmet medical needs. We intend to continue committing significant resources to internal R opportunities and external business development activity.

Our product development efforts cover a wide range of medical conditions, including HIV/ diseases such as HCV and HBV, hematology/oncology, cardiovascular and inflammation/re diseases. We have research scientists in Foster City, Fremont, San Dimas and Oceanside, C Seattle, Washington; and Alberta, Canada engaged in the discovery and development of ne technologies that we hope will lead to the approval of new medicines addressing unmet nee

The development of our product candidates is subject to various risks and uncertainties. The uncertainties include our ability to enroll patients in clinical trials, the possibility of unfavo our clinical trials, the need to modify or delay our clinical trials or to perform additional tria of failing to obtain regulatory approvals. As a result, our product candidates may never be s commercialized. Drug development is inherently risky and many product candidates fail du development process.

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Below is a summary of our key product candidates and their corresponding current stages o

Product Candidates for the Treatment of HIV

Product Candidates	Description
Products in Phase 3	
Bictegravir/F/TAF	A single-tablet regimen of bictegravir, a non-boosted integrase inhibito being evaluated for the treatment of HIV infection.
Descovy	Descovy is being evaluated for PrEP.
Product in Phase 1	
GS-9620	GS-9620, a TLR-7 agonist, is being evaluated for the treatment of HIV

Product Candidates for the Treatment of Liver Diseases

Product Candidates	Description
Market Applications Pending	
Single-tablet regimen of sofosbuvir, velpatasvir and voxilaprevir	A single-tablet regimen of sofosbuvir, velpatasvir and v pan-genotypic NS3 protease inhibitor, is being evaluated treatment of HCV.
Product in Phase 3	
Selonsertib	Selonsertib, an ASK-1 inhibitor, is being evaluated for t NASH.
Products in Phase 2	
GS-9620	GS-9620, a TLR-7 agonist, is being evaluated for the tre HBV.
Selonsertib	Selonsertib, an ASK-1 inhibitor, is being evaluated for t alcoholic hepatitis.
GS-9674	GS-9674, a FXR agonist, is being evaluated for the treat primary biliary cirrhosis and primary sclerosing cholang
GS-0976	GS-0976, an ACC inhibitor, is being evaluated for the tr NASH.

Product Candidates for the Treatment of Hematology/Oncology

Product Candidates	Description
Products in Phase 3	
Idelalisib	Idelalisib, a PI3K delta inhibitor, is being evaluated for the treatment o refractory CLL.
GS-5745	GS-5745, a MMP9 mAb inhibitor, is being evaluated for the treatment cancer.
Products in Phase 2	
Entospletinib	Entospletinib, a Syk inhibitor, is being evaluated for the treatment of h malignancies and acute myeloid leukemia.
GS-4059	GS-4059, a BTK inhibitor, is being evaluated for the treatment of B-ce
Products in Phase 1	
GS-5745	GS-5745, a MMP9 mAb inhibitor, is being evaluated for the treatment
GS-5829	GS-5829, a BET inhibitor, is being evaluated for the treatment of solid

Product Candidates for the Treatment of Inflammation/Respiratory Diseases

Product Candidates	Description
Product in Phase 3	
Filgotinib	Filgotinib, a JAK1 inhibitor, is being evaluated for the treatment of rhe arthritis, Crohn’s disease and ulcerative colitis.
Products in Phase 2	
Filgotinib	Filgotinib, a JAK1 inhibitor, is being evaluated for the treatment of va inflammatory diseases.
Entospletinib	Entospletinib, a Syk inhibitor, is being evaluated for the treatment of c versus host disease.
Presatovir	Presatovir, a fusion inhibitor, is being evaluated for the treatment of re syncytial virus.
GS-5745	GS-5745, a MMP9 mAb inhibitor, is being evaluated for the treatment fibrosis and rheumatoid arthritis.
GS-9876	GS-9876, a Syk inhibitor, is being evaluated for the treatment of rheun
Other Product Candidates	
Product Candidates	Description
Product in Phase 2	
GS-5734	GS-5734, a Nuc inhibitor, is being evaluated for the treatment of Ebola

In total, our R&D expenses were $5.1 billion for 2016, $3.0 billion for 2015 and $2.9 billio
R&D expenses increased 69% in 2016 compared to 2015, primarily due to the overall progr
clinical studies, including ongoing milestone payments, our purchase of an FDA priority rev
up-front collaboration expenses related to our license and collaboration agreement with Gal
purchase of Nimbus Apollo, Inc. (Nimbus). We also recorded in-process R&D impairment
to momelotinib and simtuzumab in 2016.

In addition to our internal discovery and clinical development programs, we seek to add to
products through product acquisitions, licenses and collaborations.

In January 2016, we closed on a license and collaboration agreement with Galapagos, a clin
biotechnology company based in Belgium, for the development and commercialization of fi
JAK1-selective inhibitor being investigated for inflammatory disease indications. Filgotinib
clinical trials for the potential treatment of rheumatoid arthritis, Crohn’s disease and ulcerat

In May 2016, we acquired Nimbus, a privately held company, and its ACC inhibitor progra
being evaluated for the potential treatment of NASH, hepatocellular carcinoma and other di
Patents and Proprietary Rights
U.S. and European Patent Expiration
We have a number of U.S. and foreign patents, patent applications and rights to patents rela
compounds, products and technology, but we cannot be certain that issued patents will be e
provide adequate protection or that pending patent applications will result in issued patents.
The following table shows the estimated expiration dates (including Patent Term Extension
Protection Certificates and/or Pediatric exclusivity where granted) in the United States and
primary (typically compound) patents for our Phase 3 product candidates. Patents do not co
ranolazine compound, the active ingredient of Ranexa. Instead, when it was discovered that
sustained-release formulation of ranolazine would achieve therapeutic plasma levels, patent
on those formulations and the characteristic plasma levels they achieve. For our product can
single-tablet regimens, the estimated patent expiration date provided corresponds to the late
compound patent for one of the active ingredients in the single-tablet regimen.

Phase 3 Product Candidates	Patent Expiration	
Product Candidate for the Treatment of HIV	U.S.	E.U.
Single-tablet regimen of bictegravir and F/TAF	2033	2033
Product Candidates for the Treatment of Liver Diseases		
Single-tablet regimen of sofosbuvir, velpatasvir and voxilaprevir for the treatment of HCV	2033	2033
Selonsertib for the treatment of NASH	2033	2033
Product Candidates for the Treatment of Hematology/Oncology		
Idelalisib for the treatment of relapsed refractory CLL	2025	2025
GS-5745 for the treatment of gastric cancer	2031	(2031)
Product Candidates for the Treatment of Inflammation Diseases		
Filgotinib for the treatment of rheumatoid arthritis	2030	(2030)
Filgotinib for the treatment of Crohn’s disease	2030	(2030)
Filgotinib for the treatment of ulcerative colitis	2030	(2030)

Dates in parentheses reflect the estimated expiration date of patents which may issue from currently pending applications. The estimated expiration dates do not include any potential additional exclusivity (e.g., patent term extension, supplementary protection certificates or pediatric exclusivity) that has not yet been granted.

The following table shows the actual or estimated expiration dates (including Patent Term E
Supplementary Protection Certificates and/or Pediatric exclusivity where granted) in the Un
Europe for the primary (typically compound) patents for our marketed products. For our pro
fixed-dose combinations or single-tablet regimens (e.g., Truvada, Atripla, Complera/Eviple
Genvoya, Odefsey and Descovy), the estimated patent expiration dates provided correspond
expiring compound patent for one of the active ingredients in the single-tablet regimen.

Products	Patent Expiration	
	U.S.	E.U.
Hepsera	2014	2016
AmBisome	2016	2008
Macugen	2017	2017
Tamiflu	2017	2016
Letairis	2018 *	2020
Viread	2018 **	2017
Ranexa	2019 ***	2023
Atripla	2021	2017
Cayston	2021	2021
Emtriva	2021	2016
Truvada	2021	2017
Lexiscan	2022	2025
Complera/Eviplera	2022	2022
Vitekta	2023	2028
Zydelig	2025	(2025)
Sovaldi	2029	2028
Stribild	2029	2028
Genvoya	2029	2028
Tybost	2029	2027
Harvoni	2030	2030
Descovy	2022	2021
Odefsey	2025	2022
Epclusa	2032	2032
Vemlidy	2022	2021

Dates in parentheses reflect the estimated expiration date of patents which may issue from currently pending applications. The estimated expiration dates do not include any potential additional exclusivity (e.g., patent term extension, supplementary protection certificates or pediatric exclusivity) that has not yet been granted.

* In 2017, Gilead and Watson Laboratories, Inc. (Watson) reached an agreement to settleme litigation related to Letairis.

** In 2013, Gilead and Teva Pharmaceuticals (Teva) reached an agreement in principle to se patent litigation concerning the four patents that protect tenofovir disoproxil fumarate in Truvada and Atripla products. Under the agreement, Teva will be allowed to launch a ge Viread on December 15, 2017.

In 2013, Gilead and Lupin Limited (Lupin) reached an agreement to settle the patent liti
*** issuance of the court's decision. Under the agreement, Lupin will be allowed to launch a
of Ranexa on February 27, 2019.

Patent Protection and Certain Challenges

Patents and other proprietary rights are very important to our business. If we have a properly enforceable patent, it can be more difficult for our competitors to use our technology to crea products and more difficult for our competitors to obtain a patent that prevents us from usin we create. As part of our business strategy, we actively seek patent protection both in the U internationally and file additional patent applications, when appropriate, to cover improvem compounds, products and technology.

Patents covering certain of the active pharmaceutical ingredients (API) of Truvada, Atripla, Complera/Eviplera, Genvoya, Odefsey, Descovy, Vitekta, Emtriva, Letairis, and Hepsera ar parties. We acquired exclusive rights to these patents in the agreements we have with these do not cover the ranolazine compound, the active ingredient

of Ranexa. Instead, when it was discovered that only a sustained-release formulation of ranc
achieve therapeutic plasma levels, patents were obtained on those formulations and the char
plasma levels they achieve. Patents do not cover the active ingredients in AmBisome.
We may obtain patents for certain products many years before marketing approval is obtain
products. Because patents have a limited life, which may begin to run prior to the commerci
related product, the commercial value of the patent may be limited. However, we may be ab
patent term extensions or supplementary protection certificates in some countries. For exam
for the patents or supplementary protection certificates on many of our products have been g
United States and in a number of European countries, compensating in part for delays in obt
marketing approval. Similar patent term extensions may be available for other products that
developing, but we cannot be certain we will obtain them in some countries.
It is also important that we do not infringe the valid patents of third parties. If we infringe th
of third parties, we may be prevented from commercializing products or may be required to
from these third parties. We may not be able to obtain alternative technologies or any requir
reasonable terms or at all. If we fail to obtain these licenses or alternative technologies, we m
to develop or commercialize some or all of our products. For example, we are aware of a bo
that may relate to our operation of Letairis Education and Access Program (LEAP), our rest
distribution program designed to support Letairis and we are aware of patents and patent ap
owned by other parties that may claim to cover the use of sofosbuvir and the use of the com
sofosbuvir and ledipasvir.
Because patent applications are confidential for a period of time until a patent is issued, we
if our competitors have filed patent applications for technology covered by our pending app
we were the first to invent or first to file an application directed toward the technology that
our patent applications. Competitors may have filed patent applications or received patents a
additional patents and proprietary rights that block or compete with our products. In additio
file patent applications covering our technology, we may have to participate in interference/
proceedings or litigation to determine the right to a patent. Litigation and interference/deriva
proceedings are unpredictable and expensive, such that, even if we are ultimately successful
operations may be adversely affected by such events.
Patents relating to pharmaceutical, biopharmaceutical and biotechnology products, compoun
processes such as those that cover our existing compounds, products and processes and thos
likely file in the future, do not always provide complete or adequate protection. Future litiga
proceedings regarding the enforcement or validity of our existing patents or any future paten
in the invalidation of our patents or substantially reduce their protection. From time to time,
individuals or entities may challenge our patents.
Our pending patent applications and the patent applications filed by our collaborative partne
result in the issuance of any patents or may result in patents that do not provide adequate pr
result, we may not be able to prevent third parties from developing compounds or products
related to those which we have developed or are developing. In addition, certain countries in
America, Africa and Asia, including Brazil and China, do not provide effective enforcemen
and third-party manufacturers may be able to sell generic versions of our products in those c
Litigation Related to Sofosbuvir
In January 2012, we acquired Pharmasset, Inc. (Pharmasset). Through the acquisition, we ac
sofosbuvir, a nucleotide analog that acts to inhibit the replication of the HCV. In December
received U.S. FDA approval of sofosbuvir, now known commercially as Sovaldi. In Octobe
received approval of the fixed-dose combination of ledipasvir and sofosbuvir, now known c
Harvoni. In June 2016, we received approval of the fixed-dose combination of sofosbuvir an
now known commercially as Epclusa. We have received a number of contractual and intelle
claims regarding sofosbuvir. While we have carefully considered these claims both prior to

the acquisition and believe they are without merit, we cannot predict the ultimate outcome o
range of loss.

We own patents and patent applications that claim sofosbuvir (Sovaldi) as a chemical entity
metabolites and the fixed-dose combinations of ledipasvir and sofosbuvir (Harvoni) and sof
velpatasvir (Epclusa). Third parties may have, or may obtain rights to, patents that allegedly
to prevent or attempt to prevent us from commercializing Epclusa, Harvoni or Sovaldi. For
aware of patents and patent applications owned by other parties that have been or may in the
alleged by such parties to cover the use of Epclusa, Harvoni and Sovaldi. We cannot predict
outcome of intellectual property claims related to Epclusa, Harvoni or Sovaldi. We have spe
continue to spend, significant resources defending against these claims.

If third parties successfully obtain valid and enforceable patents, and successfully prove infr
those patents by Epclusa, Harvoni and/or Sovaldi, we could be prevented from selling these
we were able to obtain a license under such patents. Such a license may not be available on
reasonable terms or at all.

Interference Proceedings and Litigation with Idenix Pharmaceuticals, Inc. (Idenix), Univers
di Cagliari (UDSG), Centre National de la Recherche Scientifique and L'Universite Montpe
In February 2012, we received notice that the U.S. Patent and Trademark Office (USPTO) h
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 to determine who was the firs
certain nucleoside compounds. In January 2014, the USPTO Patent Trial and Appeal Board
determined that Pharmasset and not Idenix was the first to invent the compounds. Idenix ha
PTAB's decisions to the U.S. District Court for the District of Delaware, which has stayed t
pending the outcome of the appeal of the interference involving Idenix's U.S. Patent No. 7,
patent) as described below.
In December 2013, after receiving our request to do so, the USPTO declared Interference N
(Second Idenix Interference) between our pending U.S. Patent Application No. 11/854,218
patent. The '600 patent includes claims directed to methods of treating HCV with nucleosid
March 2015, the PTAB determined that Pharmasset and not Idenix was the first to invent th
methods of treating HCV. Idenix appealed this decision in both the U.S. District Court for t
Delaware and the U.S. Court of Appeal for the Federal Circuit (CAFC). The CAFC heard o
September 2016, and we are awaiting its decision. We filed a motion to dismiss the appeal i
and the court has stayed the appeal relating to the Second Idenix Interference.
We believe that the Idenix claims involved in the First and Second Idenix Interferences, and
and foreign patents claiming the same compounds, metabolites and uses thereof, are invalid
filed an Impeachment Action in the Federal Court of Canada to invalidate Idenix Canadian
2,490,191 (the '191 patent), which is the Canadian patent that corresponds to the '600 paten
that the commercialization of Sovaldi in Canada will infringe its '191 patent and that our Ca
No. 2,527,657, corresponding to our '572 patent, is invalid. In November 2015, the Canadia
Idenix's patent is invalid and that our patent is valid. Idenix appealed the decision to the Ca
Court of Appeal in November 2015. The appeal hearing was held in January 2017 and we a
decision.
We filed a similar legal action in Norway in the Oslo District Court seeking to invalidate Id
Norwegian patent corresponding to the '600 patent. In September 2013, Idenix filed an inva
in the Norwegian proceedings against our Norwegian Patent No. 333700, which correspond
patent. In March 2014, the Norwegian court found all claims in the Idenix Norwegian paten
and upheld the validity of all claims in our patent. Idenix appealed the decision to the Norw
Appeal. In April 2016, the Court of Appeal issued its decision invalidating the Idenix patent
our patent. Idenix has not filed a further appeal.
In January 2013, we filed a legal action in the Federal Court of Australia seeking to invalida
Australian patent corresponding to the '600 patent. In April 2013, Idenix asserted that the co
of Sovaldi in Australia infringes its Australian patent corresponding to the '600 patent. In M
Australian court revoked Idenix's Australian patent. Idenix has appealed this decision. The
was held in November 2016 and we are awaiting the decision.
In March 2014, the European Patent Office (EPO) granted Idenix European Patent No. 1 52
patent), which corresponds to the '600 patent. The same day that the '489 patent was grante
opposition with the EPO seeking to revoke the '489 patent. An opposition hearing was held
2016, and the EPO ruled in our favor and revoked the '489 patent. Idenix has appealed. In M
Idenix also initiated infringement proceedings against us in the United Kingdom (UK), Ger
France alleging that the commercialization of Sovaldi would infringe the UK, German and
counterparts of the '489 patent. A trial was held in the UK in October 2014. In December 20
Court of Justice of England and Wales (UK Court) invalidated all challenged claims of the
multiple grounds. Idenix appealed. In November 2016, the appeals court affirmed the UK C
invalidating Idenix's patent. In March 2015, the German court in Düsseldorf determined tha

patent was highly likely to be invalid and stayed the infringement proceedings pending the o
opposition hearing held by the EPO in February 2016. Idenix has not appealed this decision
court staying the proceedings. Upon Idenix's request, the French proceedings have been sta
not been awarded patents corresponding to the '600 patent in Japan or China.

In December 2013, Idenix, Universita Degli Studi di Cagliari (UDSG), Centre National de l
Scientifique and L'Université Montpellier II sued us in U.S. District Court for the District o
alleging that the commercialization of sofosbuvir will infringe the '600 patent and that an in
between the '600 patent and our U.S. Patent No. 8,415,322. Also in December 2013, Idenix
us in the U.S. District Court for the District of Massachusetts alleging that the commercializ
sofosbuvir will infringe U.S. Patent Nos. 6,914,054 (the '054 patent) and 7,608,597 (the '59
2014, the court transferred the Massachusetts litigation to the U.S. District Court for the Dis
Delaware. Idenix was acquired by Merck & Co. Inc. (Merck) in August 2014.

Prior to trial in December 2016, Idenix committed to give us a covenant not to sue with resp
claims arising out of the '054 patent related to sofosbuvir and withdrew that patent from the
addition, Idenix declined to litigate the '600 patent infringement action at trial in light of the
currently pending at the CAFC. In January 2017, the District Court stayed Idenix's infringe
the '600 patent pending the outcome of the appeal of the interference decision on that paten

above. A jury trial was held in December 2016 on the remaining ‘597 patent. In December 2
found that we willfully infringed the asserted claims of the ‘597 patent and awarded Idenix
past damages. The parties will file post-trial motions and briefings during the first quarter o
expect the judge to rule in the third or fourth quarter of 2017. Once the judge has issued the
case will move to the CAFC.

Although we cannot predict with certainty the ultimate outcome of this litigation, we believ
verdict to be in error, and that errors were also made by the court with respect to certain ruli
before and during trial. We are confident in the merits of our case and will vigorously pursu
in post-trial motions and on appeal. We expect that our arguments in the forthcoming post-t
on appeal will focus on one or more of the arguments we made to the judge and jury, those
properly construed, Gilead does not infringe the claims of the ‘597 patent, (ii) the patent is i
to properly describe the claimed invention and (iii) the patent is invalid because it does not
skill in the art to practice the claimed invention.

For further information, please see Note 12, Commitments and Contingencies - Legal Proce
Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Fo

If the jury’s verdict is upheld on appeal, the amount we could be required to pay could be m
timing and magnitude of the amount of any such payment could have a material adverse im
results of operations.

Litigation with Merck

In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbu
license to U.S. Patent No. 7,105,499 (the ’499 patent) and U.S. Patent No. 8,481,712 (the ’7
it co-owns with Ionis Pharmaceuticals, Inc. The ’499 and ’712 patents cover compounds wh
include, but may relate to, sofosbuvir. We filed a lawsuit in August 2013 in the U.S. Distric
Northern District of California seeking a declaratory judgment that the Merck patents are in
infringed. During patent prosecution, Merck amended its patent application in an attempt to
compounds related to sofosbuvir. Initially, in March 2016, a jury determined that we had no
that Merck’s patents are invalid for lack of written description or lack of enablement and aw
$200 million in damages. However, in June 2016, the court ruled in Gilead’s favor on our d
unclean hands and determined that Merck may not recover any damages from us for the ’49
patents. The judge has determined that Merck is required to pay our attorney’s fees due to th
nature of this case. The amount of fees owed to us by Merck is yet to be determined by the
Merck has filed a notice of appeal to the Court of Appeals for the Federal Circuit regarding
decision on our defense of unclean hands. We appealed the issue relating to the invalidity o

If the decision on our defense of unclean hands is reversed on appeal and Merck’s patent is
be required to pay damages and a royalty on sales of sofosbuvir-containing products follow
In that event, the judge has indicated that she will determine the amount of the royalty, if ne
conclusion of any appeal in this case.

Litigation with the University of Minnesota

The University of Minnesota (the University) has obtained Patent No. 8,815,830 (the ’830 p
purports to broadly cover nucleosides with antiviral and anticancer activity. In August 2016
filed a lawsuit against us in the U.S. District Court for the District of Minnesota, alleging th
commercialization of sofosbuvir-containing products infringes the ’830 patent. We believe
patent is invalid and will not be infringed by the continued commercialization of sofosbuvir

European Patent Claims

In February 2015, several parties filed oppositions in the EPO requesting revocation of our
European patent covering sofosbuvir that expires in 2028. In October 2016, the EPO upheld
certain claims of our sofosbuvir patent. We anticipate that the challengers will appeal this d
of our patent. The appeal process may take several years.

In January 2016, several parties filed oppositions in the EPO requesting revocation of our g
patent covering TAF that expires in 2021.
In March 2016, three parties filed oppositions in the EPO requesting revocation of our grant
patent covering cobicistat that expires in 2027. While we are confident in the strength of ou
cannot predict the ultimate outcome of these oppositions.

If we are unsuccessful in defending these oppositions, some or all of our patent claims may
revoked and the patent protection for sofosbuvir, TAF and cobicistat in Europe could be sub
shortened or eliminated entirely. If our patents are revoked, and no other European patents a
covering these compounds, our exclusivity may be based entirely on regulatory exclusivity
European Medicines Agency (EMA). Sovaldi has been granted regulatory exclusivity that w
generic sofosbuvir from entering the European Union for 10 years following approval of So
January 2024. If we lose exclusivity for Sovaldi prior to 2028, our expected revenues and re
operations could be negatively impacted for the years including and succeeding the year in
exclusivity is lost, which may cause our stock price to decline.

Litigation with Generic Manufacturers

As part of the approval process for some of our products, FDA granted us a New Chemical
exclusivity period during which other manufacturers' applications for approval of generic v
product will not be approved. Generic manufacturers may challenge the patents protecting p
have been granted NCE exclusivity one year prior to the end of the NCE exclusivity period.
manufacturers have sought and may continue to seek FDA approval for a similar or identica
an abbreviated new drug application (ANDA), the application form typically used by manuf
seeking approval of a generic drug. The sale of generic versions of our products earlier than
expiration would have a significant negative effect on our revenues and results of operations
approval for a generic version of a product having NCE status, a generic company may subm
FDA four years after the branded product's approval. For sofosbuvir, this date falls in Dece
Consequently, it is possible that one or more generics may file an ANDA for Sovaldi in Dec
Current legal proceedings of significance with generic manufacturers include:

HIV Products

In November 2011, December 2011 and August 2012, we received notices that Teva submit
abbreviated new drug submission (ANDS) to the Canadian Minister of Health requesting pe
manufacture and market generic versions of Truvada, Atripla and Viread. In the notices, Te
the patents associated with Truvada, Atripla and Viread are invalid, unenforceable and/or w
infringed by Teva's manufacture, use or sale of generic versions of those products. We filed
Teva in the Federal Court of Canada seeking an order of prohibition against approval of the
In December 2013, the court issued an order prohibiting the Canadian Minister of Health fr
Teva's generic versions of our Viread, Truvada and Atripla products until expiry of our pate
Teva has appealed that decision. The court's decision did not rule on the validity of the pate
accordingly the only issue on appeal is whether the Canadian Minister of Health should be p
approving Teva's products. In November 2016, we and Teva entered into a settlement agree
the ongoing contested proceedings concerning Teva's ANDS for generic versions of Truvad
Viread as well as Gilead's patents associated with Truvada, Atripla, and Viread.

In June 2014, we received notice that Apotex Inc. (Apotex) submitted an ANDS to the Cana
of Health requesting permission to manufacture and market a generic version of Truvada an
ANDS requesting permission to manufacture and market a generic version of Viread. In the
alleges that three of the patents associated with Truvada and two of the patents associated w
invalid, unenforceable and/or will not be infringed by Apotex's manufacture, use or sale of
of Truvada or Viread. In August 2014, we filed lawsuits against Apotex in the Federal Cour
seeking orders of prohibition against approval of these ANDS. A hearing in those cases was
2016. In July 2016, the court issued an order prohibiting the Canadian Minister of Health fr
Apotex's generic version of our Viread product until the expiry of our patents in July 2017.
declined to prohibit approval of Apotex's generic version of our Truvada product. The cour
not rule on the validity of the patents. The launch of Apotex's generic version of our Truvad
be at risk of infringement of our patents, including patents that we were unable to assert in t
lawsuit, and liability for our damages. Apotex has appealed the court's decision.

In February 2016, we received notice that Mylan Pharmaceuticals, Inc. (Mylan) submitted a
FDA requesting permission to manufacture and market a generic version of Tybost (cobicis
notice, Mylan alleges that the patent covering cobicistat is invalid as obvious and that Mylan
product cannot infringe an invalid claim. In March 2016, we filed lawsuits against Mylan in
District Court for the District of Delaware and U.S. District Court for the Northern District
Virginia. In January 2017, we received a letter from Mylan notifying us that it had submitte
ANDA to FDA for this same product. We are currently evaluating Mylan's letter. The trial
scheduled for January 2018. The patent in suit that covers Tybost is also listed in the Orang
Stribild and Genvoya.

Letairis

In February 2015, we received notice that Watson Laboratories, Inc. (Watson) submitted an
requesting permission to manufacture and market a generic version of Letairis. In the notice
alleges that one of the patents associated with ambrisentan tablets is invalid, unenforceable
be infringed by Watson's manufacture, use or sale of a generic

version of Letairis. In April 2015, we filed a lawsuit against Watson in the U.S. District Cou
District of New Jersey for infringement of our patents. In January 2017, we reached an agre
Watson to settle the litigation.

In June 2015, we received notice that SigmaPharm Laboratories, LLC (SigmaPharm) submi
to FDA requesting permission to manufacture and market a generic version of Letairis. In th
SigmaPharm alleges that one of the patents associated with ambrisentan tablets is invalid, u
and/or will not be infringed by SigmaPharm's manufacture, use or sale of a generic version
June 2015, we filed a lawsuit against SigmaPharm in the U.S. District Court for the District
for infringement of our patents. The date for trial against SigmaPharm is not yet set but esti
in the second quarter of 2017.

We cannot predict the ultimate outcome of these actions, and we may spend significant reso
and defending these patents. If we are unsuccessful in these lawsuits, some or all of our clai
patents may be narrowed or invalidated and the patent protection for our products could be s
shortened. Further, if all of the patents covering one or more products are invalidated, FDA
Minister of Health could approve the requests to manufacture a generic version of such proc
United States or Canada, respectively, prior to the expiration date of those patents. The sale
versions of these products earlier than their patent expiration could have a significant negati
revenues and results of operations.

TAF Litigation

In January 2016, AIDS Healthcare Foundation, Inc. (AHF) filed a complaint with the U.S. I
for the Northern District of California against Gilead, Japan Tobacco, Inc. and Japan Tobac
U.S.A. (together, JT), and Emory University (Emory). In April 2016, AHF amended its com
Janssen and Johnson & Johnson Inc. (J&J) as defendants. AHF claims that U.S. Patent Nos.
7,800,788; 8,754,065; 8,148,374; and 8,633,219 are invalid. In addition, AHF claims that G
independently and together with JT, Akros, Janssen and J&J, is violating federal and state a
unfair competition laws in the market for sales of TAF by offering TAF as part of a fixed-do
product with elvitegravir, cobicistat and emtricitabine (Genvoya), a fixed-dose combination
elvitegravir and rilpivirine (Odefsey) and in a fixed-dosed combination product with elviteg
(Descovy). AHF sought a declaratory judgment of invalidity against each of the patents as v
damages. In May 2016, we, JT, Janssen, and J&J filed motions to dismiss all of AHF's cla
opposed. In June 2016, a hearing was held on the motions to dismiss. In July 2016, the judg
and the other defendants' motions and dismissed all of AHF's claims. AHF has appealed the
dismissing the challenge to the validity of our TAF patents.

Department of Justice Investigations

In June 2011, we received a subpoena from the U.S. Attorney's Office for the Northern Dist
California requesting documents related to the manufacture, and related quality and distribu
of Complera, Atripla, Truvada, Viread, Emtriva, Hepsera and Letairis. We cooperated with
government's inquiry. In April 2014, the United States Department of Justice informed us th
investigation, it declined to intervene in a False Claims Act lawsuit filed by two former emp
2014, the former employees served a First Amended Complaint. In January 2015, the federa
issued an order granting in its entirety, without prejudice, our motion to dismiss the First An
Complaint. In February 2015, the plaintiffs filed a Second Amended Complaint and in June
federal district court issued an order granting our motion to dismiss the Second Amended C
July 2015, the plaintiffs filed a notice of appeal in the U.S. Court of Appeals for Ninth Circu

In February 2016, we received a subpoena from the U.S. Attorney's Office for the District o
requesting documents related to our support of 501(c)(3) organizations that provide financia
patients, and for our HCV products, documents concerning our provision of financial assista
Other companies have disclosed similar inquiries. We are cooperating with this inquiry.

Other Matters

We are a party to various legal actions that arose in the ordinary course of our business. We
that these other legal actions will have a material adverse impact on our consolidated busine
position or results of operations.

Trade Secrets

We also rely on unpatented trade secrets and improvements, unpatented internal know-how
technological innovation. For example, a great deal of our liposomal manufacturing expertis
key component of our liposomal technology, is not covered by patents but is instead protect
secret. We protect these rights mainly through confidentiality agreements with our corporate
employees, consultants and vendors. These agreements provide that all confidential informa
or made known to an individual during the course of their relationship with us will be kept c
will not be used or disclosed to third parties except in specified circumstances. In the case o
the agreements provide that all inventions made by an individual while employed by us will
exclusive property. We cannot be certain that these parties will

comply with these confidentiality agreements, that we have adequate remedies for any breac
trade secrets will not otherwise become known or be independently discovered by our comp
some of our R&D agreements, inventions become jointly owned by us and our corporate pa
other cases become the exclusive property of one party. In certain circumstances, it can be d
determine who owns a particular invention and disputes could arise regarding those inventio
secrets or confidential information become known or independent discovered by competitor
into disputes over ownership of inventions, our business and results of operations could be a
affected.

Manufacturing and Raw Materials

Our manufacturing strategy is to contract with third parties to manufacture the majority of o
solid dose products. We also rely on our corporate partners to manufacture certain of our pr
Additionally, we own or lease manufacturing facilities in Foster City, San Dimas and Ocean
California; Edmonton, Alberta, Canada and Cork, Ireland, where we manufacture certain pr
for clinical and/or commercial uses.

Manufacturing of our Products

We contract with third parties to manufacture certain API for clinical and commercial purpo
Epclusa, Harvoni, Sovaldi, Truvada, Atripla, Stribild, Complera/Eviplera, Viread, Genvoya
Descovy, Vemlidy, Emtriva, Tybost, Vitekta, Ranexa, AmBisome, Zydelig and Cayston. W
multiple third-party contract manufacturers to manufacture the API in our products. We are
manufacturer of ambrisentan, the API of Letairis, although another supplier is qualified to m
Letairis.

We also rely on third-party contract manufacturers to manufacture our oral liquid, tablet and
products. For example, we use multiple third-party contract manufacturers to tablet Epclusa
Sovaldi, Truvada, Atripla, Stribild, Complera/Eviplera, Viread, Genvoya, Odefsey, Descovy
Tybost, Vitekta, Letairis, Ranexa, Zydelig and Hepsera. Emtriva encapsulation is also comp
third-party contract manufacturer as is the liquid filling of Emtriva Oral Solution. In additio
third-party contract manufacturers to manufacture our aseptic products such as AmBisome a

We also have manufacturing agreements with many of our corporate partners. Roche, by its
third parties, is responsible for manufacturing Tamiflu. Under our agreement with Roche, th
manufacturing committee composed of representatives from Roche and Gilead, we have the
review Roche's existing manufacturing capacity for Tamiflu and global plans for manufactu
Astellas US LLC, our corporate partner for Lexiscan in the United States, is responsible for
manufacture and supply of product in the United States and is dependent on a single supplie
Lexiscan.

For our future products, we continue to develop additional manufacturing capabilities and e
additional third-party suppliers to manufacture sufficient quantities of our product candidate
clinical trials and to manufacture sufficient quantities of any product that is approved for co

Our Manufacturing Facilities

At our Foster City, California facility, we conduct process chemistry research and developm
manufacture API for our clinical trials and oversee our third-party contract manufacturers.

At our San Dimas, California facility, we package and label solid oral dosage form products
Epclusa, Harvoni, Sovaldi, Truvada, Atripla, Stribild, Complera/Eviplera, Viread, Genvoya
Descovy, Vemlidy, Emtriva, Ranexa and Zydelig, and label Hepsera and Letairis. We also r
label AmBisome and Cayston at our San Dimas facility. We depend on a single supplier for
quality cholesterol and the API used in the manufacture of AmBisome. Because we are the
supplier of key drug product intermediates of AmBisome, in the event of a disaster, includi
earthquake, equipment failure or other difficulty, we may be unable to replace this manufac
in a timely manner and may be unable to manufacture AmBisome to meet market needs.

We utilize our Cork, Ireland facility primarily for solid dose tablet manufacturing of certain products, as well as product packaging activities. We package and label drug product for Ep Sovaldi, Truvada, Atripla, Stribild, Complera/Eviplera, Viread, Genvoya, Odefsey, Descovy Tybost and Vitekta and label Hepsera and Emtriva at our facilities in Cork, Ireland. We also quality control testing, final labeling and secondary packaging of both AmBisome and Cays release of many of our products for the European Union and elsewhere at this facility. We d products to the European Union and other international markets from our Dublin, Ireland sit At our Edmonton, Alberta facility in Canada, we carry out process research and scale-up of development candidates, manufacture API for both investigational and commercial products chemical development activities to improve existing commercial manufacturing processes. manufacture the API of Letairis and Hepsera at our Edmonton site.

Our Oceanside, California facility is designed and equipped to produce biologic compounds
toxicological, Phase 1 and Phase 2 clinical studies. We use the facility for the process devel
manufacture of GS-5745 bulk drug substance, an investigational MMP9 mAb inhibitor, and

Third-party Manufacturers

Our third-party manufacturers and corporate partners are independent entities who are subje
unique operational and financial risks which are out of our control. If we or any of these thi
manufacturers or corporate partners fail to perform as required, this could impair our ability
products on a timely basis or receive royalties or cause delays in our clinical trials and appli
regulatory approval. Further, we may have to write-off the costs of manufacturing any batch
pass quality inspection or meet regulatory approval. To the extent these risks materialize an
performance obligations to us, our financial results may be adversely affected. In addition, w
third-party manufacturers and our corporate partners may only be able to produce some of o
one or a limited number of facilities and, therefore, have limited manufacturing capacity for
products.

We believe the technology we use to manufacture our products is proprietary. For products
by our third-party contract manufacturers, we have disclosed all necessary aspects of this te
enable them to manufacture the products for us. We have agreements with these third-party
that are intended to restrict these manufacturers from using or revealing this technology, but
certain that these third-party manufacturers will comply with these restrictions. In addition,
third-party manufacturers could develop their own technology related to the work they perfo
we may need to manufacture our products. We could be required to enter into additional agr
these third-party manufacturers if we want to use that technology ourselves or allow another
to use that technology. The third-party manufacturer could refuse to allow us to use their tec
could demand terms to use their technology that are not acceptable to us.

Regulation of Manufacturing Process

The manufacturing process for pharmaceutical products is highly regulated and regulators m
manufacturing facilities that they believe do not comply with regulations. We, our third-par
manufacturers and our corporate partners are subject to current Good Manufacturing Practic
extensive regulations governing manufacturing processes, stability testing, record keeping a
standards as defined by FDA and EMA. Similar regulations are in effect in other countries.

Our manufacturing operations are subject to routine inspections by regulatory agencies. For
2014, we received a letter from FDA related to the extent of method revalidations being con
program oversight, audit trail review/data management and Quality Management System ga
completed and filed our responses to these observations with FDA. If we are unable to reme
deficiencies cited by FDA or to the extent there are additional deficiencies cited by FDA in
inspections, our currently marketed products and the timing of regulatory approval of produ
development could be adversely affected. Further, there is risk that regulatory agencies in ot
where marketing applications are pending will undertake similar additional reviews or apply
standard of review, which could delay the regulatory approvals for products in those countri
of any of our product candidates were delayed or if production of our marketed products wa
our anticipated revenues and our stock price would be adversely affected.

Access to Supplies and Materials

We need access to certain supplies and products to conduct our clinical trials and manufactu
If we are unable to purchase sufficient quantities of these materials or find suitable alternate
timely manner, our development efforts for our product candidates may be delayed or our ab
manufacture our products would be limited, which would limit our ability to generate reven
example, a significant portion of the raw materials and intermediates used to manufacture o
products are supplied by third-party manufacturers and corporate partners outside of the Un
result, any political or economic factors in a specific country or region, including any chang

interpretations of trade regulations, compliance requirements or tax legislation, that would l
third parties outside of the United States from supplying these materials would adversely af
to manufacture and supply our antiviral products to meet market needs and have a material
effect on our operating results.

Seasonal Operations and Backlog

Our worldwide product sales do not reflect any significant degree of seasonality.

For the most part, we operate in markets characterized by short lead times and the absence
backlogs. We do not believe that backlog information is material to our business as a whole

Government Regulation

Our operations and activities are subject to extensive regulation by numerous government a
United States and other countries. In the United States, the European Union and other count
subject to rigorous regulation. Federal and state statutes and regulations govern the testing,
safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of o
a result of these regulations, product development and product approval processes are very
time consuming. The regulatory requirements applicable to drug development and approval
change. For example, in December 2016, former U.S. President Obama signed into law the
Cures Act, which contains a broad range of measures aimed at spurring drug discovery, dev
delivery. These and other legal and regulatory changes may impact our operations in the fut
A country's regulatory agency, such as FDA in the United States and EMA for the Europea
approve a drug before it can be sold in the respective country or countries. The general proc
approval in the United States is summarized below. Many other countries, including countri
European Union and Japan, have very similar regulatory structures.

Preclinical Testing

Before we can test a drug candidate in humans, we must study the drug in laboratory experi
animals to generate data to support the drug candidate's potential benefits and safety. We su
FDA in an investigational new drug (IND) application seeking its approval to test the comp
humans.

Clinical Trials

If FDA accepts the IND, the drug candidate can then be studied in human clinical trials to d
drug candidate is safe and effective. These clinical trials involve three separate phases that
can take many years and are very expensive. These three phases, which are subject to consi
regulation, are as follows:

- Phase 1. The drug candidate is given to a small number of healthy human control subjects o
suffering from the indicated disease, to test for safety, dose tolerance, pharmacokinetics, me
distribution and excretion.
- Phase 2. The drug candidate is given to a limited patient population to determine the effect
candidate in treating the disease, the best dose of the drug candidate, and the possible side e
safety risks of the drug candidate. It is not uncommon for a drug candidate that appears pro
1 clinical trials to fail in the more rigorous Phase 2 clinical trials.
- Phase 3. If a drug candidate appears to be effective and safe in Phase 2 clinical trials, Phase
are commenced to confirm those results. Phase 3 clinical trials are conducted over a longer
significantly larger population, are conducted at numerous sites in different geographic regi
carefully designed to provide reliable and conclusive data regarding the safety and benefits
candidate. It is not uncommon for a drug candidate that appears promising in Phase 2 clinic
in the more rigorous and extensive Phase 3 clinical trials.

FDA Approval Process

When we believe that the data from our clinical trials show an acceptable benefit-risk profil
appropriate filing, usually in the form of an NDA or supplemental NDA, with FDA seeking
the drug candidate for a particular use. FDA may hold a public hearing where an independe
committee of expert advisors asks additional questions and makes recommendations regardi
candidate. This committee makes a recommendation to FDA that is not binding but is gener
by FDA. If FDA agrees that the compound has met the required level of safety and efficacy
use, it will allow us to sell the drug candidate in the United States for that use. It is not unus
for FDA to reject an application because it believes that the drug candidate is not safe enoug
enough or because it does not believe that the data submitted is reliable or conclusive.

At any point in this process, the development of a drug candidate can be stopped for a numb
including safety concerns and lack of treatment benefit. We cannot be certain that any clinic

are currently conducting or any that we conduct in the future will be completed successfully specified time period. We may choose, or FDA may require us, to delay or suspend our clin time if it appears that the patients are being exposed to an unacceptable health risk or if the does not appear to have sufficient treatment benefit.

FDA may also require Phase 4 non-registrational studies to explore scientific questions to fu characterize safety and efficacy during commercial use of our drug. FDA may also require u additional data or information, improve our manufacturing processes, procedures or facilitie require extensive surveillance to monitor the safety or benefits of our product candidates if i that our filing does not contain adequate evidence of the safety and benefits of the drug. In a FDA approves a drug, it could limit the uses of the drug. FDA can withdraw approvals if it that we are complying with regulatory standards or if problems are uncovered or occur after

In addition to obtaining FDA approval for each drug, we obtain FDA approval of the manuf
facilities for any drug we sell, including those of companies who manufacture our drugs for
facilities are subject to periodic inspections by FDA. FDA must also approve foreign establi
manufacture products to be sold in the United States and these facilities are subject to perio
inspection. Our manufacturing facilities located in California, including our Oceanside and
facilities, also must be licensed by the State of California in compliance with local regulator
Our manufacturing facilities located in Canada, including our Edmonton, Alberta facility, a
located near Dublin and in Cork, Ireland, also must obtain local licenses and permits in com
local regulatory requirements.

Drugs that treat serious or life threatening diseases and conditions that are not adequately ad
existing drugs, and for which the development program is designed to address the unmet me
be designated as fast track candidates by FDA and may be eligible for priority review. Drug
treatment of HIV infection that are designated for use under the U.S. President's Emergency
Relief may also qualify for an expedited or priority review.

Rest of World

Drugs are also subject to extensive regulation outside of the United States. In the European
a centralized approval procedure that authorizes marketing of a product in all countries of th
Union (which includes most major countries in Europe). If this centralized approval procedu
approval in one country of the European Union can be used to obtain approval in another co
European Union under one of two simplified application processes: the mutual recognition p
decentralized procedure, both of which rely on the principle of mutual recognition. After rec
regulatory approval through any of the European registration procedures, separate pricing an
reimbursement approvals are also required in most countries. The European Union also has
for approval of manufacturing facilities for all products that are approved for sale by the Eu
regulatory authorities.

Pricing and Reimbursement

Successful commercialization of our products depends, in part, on the availability of govern
third-party payer reimbursement for the cost of such products and related treatments in the m
we sell our products. Government health authorities, private health insurers and other organ
generally provide reimbursement. In the United States, the European Union, Japan and othe
potentially significant markets for our products and product candidates, government authori
third-party payers are increasingly attempting to limit or regulate the price of medical produ
services. A significant portion of our sales of the majority of our products are subject to sub
discounts from list price.

In addition, the non-retail sector in the United States, which includes government institution
state ADAPs, Veterans Administration (VA), correctional facilities and large health mainte
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 produ
and state budget pressures, including sequestration, as well as the annual grant cycles for fe
funds, may cause purchasing patterns to not reflect patient demand of our products. For exa
quarters of certain prior years, we observed large non-retail purchases of our HIV products
state ADAPs that exceeded patient demand. We believe such purchases were driven by the
federal ADAP funds. Additionally, during the second half of 2016, we experienced fluctuati
HCV patient starts and purchasing patterns due to VA funding. We expect to continue to ex
fluctuations in the purchasing patterns of our non-retail customers which may result in fluct
product sales, revenues and earnings in the future. In light of the global economic downturn
crises faced by many European countries, we have observed variations in purchasing pattern
cost containment measures in Europe. We believe these measures have caused some govern
and other purchasers to reduce inventory of our products in the distribution channels, which

our revenues and caused fluctuations in our product sales and earnings. We may continue to
in the future.

In addition, future sales of our HCV products are difficult to estimate because demand depe
the extent of reimbursement of our HCV products by private and government payers. In ligh
fiscal and debt crises experienced by several countries in the European Union and Japan, go
announced or implemented measures to manage healthcare expenditures. We may continue
global pricing pressure which could result in larger discounts or rebates on our products or c
reimbursement, which negatively impacts our product sales and results of operations. Also,
public payers can choose to exclude our HCV products from their formulary coverage lists c
types of patients for whom coverage will be provided, which would negatively impact the d
revenues of, our HCV products. Any change in the formulary coverage, reimbursement leve
or rebates offered on our HCV products to payers may impact our anticipated revenues. We
pressure in the HCV market to continue.

As our products mature, private insurers and government payers often reduce the amount th
reimburse patients, which increases pressure on us to reduce prices. Further, as new branded
products are introduced into major markets, our ability to maintain pricing and market share
affected.

See also our Item 1A - risk factor “A substantial portion of our revenues is derived from sal
treat HCV and HIV. If we are unable to maintain or continue increasing sales of these produ
of operations may be adversely affected.”

In February 2016, we received a subpoena from the U.S. Attorney’s Office for the District o
requesting documents related to our support of 501(c)(3) organizations that provide financia
patients, and for our HCV products, documents concerning our provision of financial assista
Other companies have disclosed similar inquiries. We are cooperating with this inquiry. It is
any actions taken by the U.S. Department of Justice could result in civil penalties or injunct
negative publicity or other negative actions that could harm our reputation, reduce demand f
and/or reduce coverage of our products, including by federal health care programs such as M
Medicaid and state health care programs. If any or all of these events occur, our business an
could be materially and adversely affected.

United States Healthcare Reform

Legislative and regulatory changes to government prescription drug procurement and reimb
programs occur relatively frequently in the United States and foreign jurisdictions. In the Un
along with other pharmaceutical manufacturers of branded drug products, are required to pa
an industry fee (also known as the branded prescription drug (BPD) fee), calculated based o
government sales during the year as a percentage of total industry government sales. The an
annual BPD fee imposed on the pharmaceutical industry as a whole was $3.0 billion in 2016
increase to $4.0 billion in 2017, increase to a peak of $4.1 billion in 2018, and then decrease
in 2019 and thereafter. Our BPD fee expenses were $270 million in 2016, $414 million in 2
million in 2014. The BPD fee is not tax deductible. In addition, discussions continue at the f
legislation that would either allow or require the federal government to directly negotiate pr
from pharmaceutical manufacturers or set minimum requirements for Medicare Part D prici
certain states have proposed legislation that seeks to regulate pharmaceutical drug pricing. I
legislation is passed, we may experience additional pricing pressures on our products.

There has been extensive discussion about a possible repeal or amendment of The Patient P
Affordable Care Act (the Affordable Care Act) or other government action, which could neg
the use and/or reimbursement of our products. In January 2017, Congress voted to adopt a b
resolution for fiscal year 2017, that while not law, is widely viewed as the first step toward
legislation that would repeal certain aspects of the Affordable Care Act. Further, on January
new administration issued an Executive Order directing federal agencies with authorities an
responsibilities under the Affordable Care Act to waive, defer, grant exemptions from, or de
implementation of any provision of the Affordable Care Act that would impose a fiscal burd
a cost, fee, tax, penalty or regulatory burden on individuals, healthcare providers, health ins
manufacturers of pharmaceuticals or medical devices. Congress could also consider legislat
repealed elements of the Affordable Care Act.

In addition, many states have proposed legislation that seeks to indirectly or directly regulat
pharmaceutical drug pricing by requiring biopharmaceutical manufacturers to publicly repo
pricing information or to place a maximum price ceiling on pharmaceutical products purcha
agencies. If such proposed legislation is passed, we may experience additional pricing press
products. Similar bills have been previously introduced at the federal level and we expect th
legislation may be introduced this year. The potential effect of health insurance market dest
during ongoing repeal and replace discussions, as well as the impact of potential changes to
Medicaid program is financed, will likely affect patients’ sources of insurance and resultant
Discussions continue at the federal level regarding policies that would either allow or requir
government to directly negotiate drug prices with pharmaceutical manufacturers for Medica
require manufacturers to pay higher rebates in Medicare Part D, give states more flexibility
are covered under the Medicaid program, and other policy proposals that could impact reim

our products. Other discussions have centered on legislation that would permit the re-impor
prescription medications from Canada or other countries. It is difficult to predict the impact
such legislation on the use and reimbursement of our products in the United States, includin
for the importation of generic versions of our products.

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

Health Care Fraud and Abuse Laws and Anti-Bribery Laws

We are subject to various federal and state laws pertaining to health care "fraud and abuse,"
anti-kickback laws and false claims laws. Anti-kickback laws make it illegal for a prescripti
manufacturer to solicit, offer, receive or pay any remuneration in exchange for, or to induce
business, including the purchase or prescription of a particular drug. Due to the breadth of th
provisions and the increasing attention being given to them by law enforcement authorities,
that certain of our practices may be challenged under anti-kickback or similar laws. False cl
generally prohibit anyone from knowingly presenting, or causing to be presented, a false or
claim for payment by federal and certain state

payers (including Medicare and Medicaid), or knowingly making, using or causing to be ma
false record or statement material to a false or fraudulent claim. Our sales, marketing, patien
medical activities may be subject to scrutiny under these laws. In addition, the U.S. Foreign
Practices Act and similar worldwide anti-bribery laws generally prohibit companies and the
intermediaries from making improper payments for the purpose of obtaining or retaining bu
policies mandate compliance with these anti-bribery laws. We operate in parts of the world
experienced governmental corruption to some degree. In certain circumstances, strict compl
anti-bribery laws may conflict with local customs and practices or may require us to interac
and hospitals, some of which may be state controlled, in a manner that is different than loca
Despite our training and compliance program, our internal control policies and procedures r
us from reckless or criminal acts committed by our employees or agents. Violations of frauc
or anti-bribery laws may be punishable by criminal and/or civil sanctions, including fines ar
monetary penalties, as well as the possibility of exclusion from federal health care programs
Medicare and Medicaid). Violations can also lead to the imposition of a Corporate Integrity
similar government oversight program. If the government were to allege against or convict u
these laws, there could be a disruption on our business and material adverse effect on our re
operations.

Compulsory Licenses

In a number of developing countries, government officials and other interested groups have
pharmaceutical companies should make drugs for HCV or HIV infection available at low co
Alternatively, governments in those developing countries could require that we grant compu
to allow competitors to manufacture and sell their own versions of our products, thereby red
product sales. For example, there is growing attention on the availability of HCV therapies a
activists are advocating for the increased availability of HCV therapies through other means
compulsory licenses. In the past, certain offices of the government of Brazil have expressed
the affordability of our HIV products and declared that they were considering issuing compu
to permit the manufacture of otherwise patented products for HIV infection, including Virea
concerns over the cost and availability of Tamiflu related to a potential avian flu pandemic a
influenza generated international discussions over compulsory licensing of our Tamiflu pate
example, the Canadian government considered allowing Canadian manufacturers to manufa
export the active ingredient in Tamiflu to eligible developing and least developed countries
Access to Medicines Regime. Furthermore, Roche issued voluntary licenses to permit third-
manufacturing of Tamiflu. For example, Roche granted a sublicense to Shanghai Pharmaceu
Co., Ltd. for China and a sublicense to India’s Hetero Drugs Limited for India and certain d
countries. If compulsory licenses permit generic manufacturing to override our product pate
HCV products, HIV products or Tamiflu, or if we are required to grant compulsory licenses
products, it could reduce our earnings and cash flows and harm our business.

In addition, certain countries do not permit enforcement of our patents, or permit our patent
third-party manufacturers are able to sell generic versions of our products in those countries
in July 2009, the Brazilian patent authority rejected our patent application for TDF, the activ
pharmaceutical ingredient in Viread. This was the highest level of appeal available to us wit
Brazilian patent authority. Because we do not currently have a patent in Brazil, the Brazilian
now purchases its supply of TDF from generic manufacturers. In the first quarter of 2017, th
Health Regulatory Agency rejected our patent applications related to sofosbuvir and our HC
plan to appeal this decision. Sales of generic versions of our products could significantly red
and adversely affect our results of operations, particularly if generic versions of our product
into territories where we have existing commercial sales.

Employees

As of January 31, 2017, we had approximately 9,000 employees. We believe we have good
our employees.

Environment, Health and Safety

We strive to reduce our environmental footprint and implement sustainable business proces
We incorporate sustainability throughout the development and distribution of our medicines
safety and regulatory compliance of our products to the regular efficiency improvements we
manufacturing processes, the operations surrounding our product portfolio are routinely eva
and innovative ways to further incorporate social and environmental responsibility. Our pra
ethical sourcing of materials, green chemistry practices, solvent recycling and continued im
the sustainability and efficiency of the API and product development process. Gilead sites a
identify opportunities to reduce natural resource usage through water conservation, sustaina
practices, energy conservation, recycling and diversion from landfill and alternative transpo
continue to look for ways to minimize our impact on the environment. Some factors that co
environmental impact include greenhouse gas emissions produced by employee commutes,
water consumed by our facilities, and the use of hazardous materials such as chemicals, viru
radioactive compounds in our R&D facilities. Please refer to our 2015 Corporate Social Res
Report found on our website at

www.gilead.com under “Responsibility” for some of the measures we have taken to mitigat
environmental impact from our business.
We are subject to a number of laws and regulations that require compliance with federal, sta
regulations regarding workplace safety and protection of the environment. We anticipate ad
regulations in the near future. Laws and regulations are implemented and under consideratio
the effects of climate change mainly caused by greenhouse gas emissions. Our business is n
intensive. Therefore, we do not anticipate being subject to a cap and trade system or other m
measure that would materially impact our capital expenditures, operations, or competitive p
on current information, and subject to the finalization of proposed regulations, we believe th
risk related to climate change is increased energy costs.
Other Information
We are subject to the information requirements of the Exchange Act. Therefore, we file peri
proxy statements and other information with the SEC. Such reports, proxy statements and o
may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Wa
20549 or by calling the SEC at 1-800-SEC-0330, by sending an electronic message to the S
publicinfo@sec.gov or by sending a fax to the SEC at 1-202-777-1027. In addition, the SEC
website (www.sec.gov) that contains reports, proxy and information statements, and other in
regarding issuers that file electronically.
The mailing address of our headquarters is 333 Lakeside Drive, Foster City, California 9440
telephone number at that location is 650-574-3000. Our website is www.gilead.com. Throug
“Investors” section of our website (under “SEC Filings” in the “Financial Information” sect
available the following filings as soon as reasonably practicable after they are electronically
furnished to the SEC: our Annual Reports on Form 10-K; Quarterly Reports on Form 10-Q;
Reports on Form 8-K; and any amendments to those reports filed or furnished pursuant to S
15(d) of the Exchange Act. All such filings are available free of charge upon request.
Transactions with Iran
We did not have any transactions with Iran during 2016 that would require disclosure in this
on Form 10-K.
ITEM 1A. RISK FACTORS
In evaluating our business, you should carefully consider the following risks in addition to t
information in this Annual Report on Form 10-K. A manifestation of any of the following ri
materially and adversely affect our business, results of operations and financial condition. W
factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. It
to predict or identify all such factors and, therefore, you should not consider the following r
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 HCV and HI
unable to increase HIV sales or if HCV sales decrease more than anticipated, then our result
may be adversely affected.
During the year ended December 31, 2016, sales of Epclusa, Harvoni and Sovaldi for the tre
accounted for approximately 50% of our total product sales. The primary driver of our HCV
revenues is patient starts, followed by market share, average treatment duration and price. S
quarter of 2015, the number of new patient starts has diminished, and we expect patient star
relative to 2016 in all major markets, resulting in a decline in HCV revenues. Revenue per p
decline as a result of increased competition and pricing pressures, a larger than anticipated s
payer mix to more highly discounted payer segments and geographic regions and a decrease
duration of treatment as fewer patients are treated for 24 or 12 weeks and more patients are
weeks. We also could experience a decline in market share due to increased competition fro
products that enter the market.

In addition, future sales of Epclusa, Harvoni and Sovaldi are difficult to estimate because de
in part, on the extent of reimbursement of our HCV products by private and government pay
continued financial crises experienced by several countries in the European Union, some go
announced or implemented measures to further reduce healthcare expenditures. We may co
experience global pricing pressure which could result in larger discounts or rebates on our p
delayed reimbursement, which negatively impacts our product sales and results of operation
and public payers can choose to exclude Epclusa, Harvoni and Sovaldi from their formulary
or limit the types of patients for whom coverage will be provided, which would negatively i
demand for, and revenues of, Epclusa, Harvoni and Sovaldi. Any change in the formulary c
reimbursement levels or discounts or rebates offered on our HCV products to payers may in
anticipated revenues. We expect pricing pressure in the HCV market to continue. If we are u
achieve our forecasted HCV sales, our HCV product revenues and results of operations cou
affected, and our stock price could experience significant volatility.

We receive a substantial portion of our revenue from sales of our products for the treatment
infection, which include Descovy, Odefsey, Genvoya, Truvada, Stribild, Complera/Eviplera
During the year ended December 31, 2016, sales of our HIV products accounted for approx
our total product sales. Most of our HIV products contain tenofovir alafenamide (TAF), ten
disoproxil fumarate (TDF) and/or emtricitabine, which belong to the nucleoside class of ant
therapeutics. In addition, if the treatment paradigm for HIV changes, causing nucleoside-ba
to fall out of favor, or if we are unable to maintain or increase our HIV product sales, our re
operations would likely suffer and we would likely need to scale back our operations, inclu
spending on research and development (R&D) efforts.

We may be unable to sustain or increase sales of our HCV or HIV products for any number
including, but not limited to, the reasons discussed above and the following:

- As our HCV and HIV products are used over a longer period of time in many patients and i
with other products, and additional studies are conducted, new issues with respect to safety,
interactions with other drugs may arise, which could cause us to provide additional warning
contraindications on our labels, narrow our approved indications or halt sales of a product, e
could reduce our revenues.
- As our products mature, private insurers and government payers often reduce the amount th
reimburse patients for these products, which increases pressure on us to reduce prices.
- If physicians do not see the benefit of our HCV or HIV products, the sales of our HCV or H
will be limited.
- As new branded or generic products are introduced into major markets, our ability to mainta
market share may be affected. For example, TDF, one of the active pharmaceutical ingredie
Complera/Eviplera, Atripla and Truvada, and the main active pharmaceutical ingredient in
expected to face generic competition in the United States, the European Union and other co
- In addition, because emtricitabine, the other active pharmaceutical ingredient of Truvada, fa
competition in the European Union in 2016, Truvada is also expected to face generic compe
European Union and other countries outside of the United States in 2017. This may have a
on our business and results of operations.

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

If we do not introduce new products or increase sales of our existing products, we will not b
increase or maintain our total revenues nor continue to expand our R&D efforts. Drug devel
inherently risky and many product candidates fail during the drug development process. For
during 2016 we announced that we terminated our Phase 2 and 2b studies of simtuzumab fo
of idiopathic pulmonary fibrosis, NASH and primary sclerosing cholangitis, our Phase 2 an
GS-5745 for the treatment of Crohn's Disease and ulcerative colitis, our Phase 2 studies of
the treatment of pulmonary arterial hypertension and diabetic kidney disease, and our studie
for the treatment of cardiovascular diseases. In addition, we may decide to terminate produc
after expending significant resources and effort. For example, after completion of two Phase
momelotinib for the treatment of myelofibrosis in 2016, we decided to terminate the develo
momelotinib.

In the fourth quarter of 2016 and the first quarter of 2017, we filed our new drug application
marketing authorization application (MAA) in the United States and European Union for th
investigational, once-daily, single-tablet regimen of sofosbuvir 400 mg, velpatasvir 100 mg
voxilaprevir 100 mg (SOF/VEL/VOX) for the treatment of direct-acting antiviral (DAA)-ex
HCV-infected patients. These and any future marketing applications we file may not be app
regulatory authorities on a timely basis, or at all. Even if marketing approval is granted for t
there may be significant limitations on their use. Further, we may be unable to file our mark
applications for new products.

Our inability to accurately predict demand for our products, uptake of new products or fluct
customer inventories 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 ou
We may be unable to accurately predict demand for our products, including the uptake of ne
demand is dependent on a number of factors. For example, our HCV products, Epclusa, Har
Sovaldi, represent a significant change in the treatment paradigm for HCV-infected patients
shortened duration of treatment and the elimination of pegylated interferon injection and rib
patient populations. Because these products represent a cure and competitors' HCV product
the market and will continue to enter the market, revenues from our HCV products are diffi
investors to estimate. The primary driver of our HCV product revenues is patient starts, foll
share, average treatment duration and price. In our experience, the number of patient starts i
to accurately predict. In addition, demand for Epclusa, Harvoni and Sovaldi will depend on
reimbursement of our HCV products by private and public payers in the United States and o
Private and public payers can choose to exclude Epclusa, Harvoni or Sovaldi from their form
lists or limit the types of patients for whom coverage will be provided, which would negativ
demand for

and revenues of Epclusa, Harvoni and Sovaldi. We continue to experience pricing pressure
States, the European Union, Japan and other countries. Any change in the formulary covera
reimbursement levels or discounts or rebates offered on our HCV products to payers may ne
our anticipated revenues. In addition, because rebate claims for product discounts are made
or two quarters in arrears, we estimate the rebates we will be required to pay in connection
during a particular quarter based on claims data from prior quarters. In the first quarter of 20
received higher than expected prior quarter rebate claims. This had the effect of lowering ou
the quarter. Because HCV-related revenues are difficult to predict, investors may have wide
expectations that may be materially higher or lower than our actual or anticipated revenues.
our actual or anticipated HCV product revenues exceed or fall short of these expectations, o
may experience significant volatility.

During the year ended December 31, 2016, approximately 88% of our product sales in the U
were to three wholesalers, McKesson Corp., AmerisourceBergen Corp., and Cardinal Healt
wholesalers with whom we have entered into inventory management agreements make estim
determine end user demand and may not be completely effective in matching their inventory
actual end user demand. As a result, changes in inventory levels held by those wholesalers c
operating results to fluctuate unexpectedly if our sales to these wholesalers do not match en

In addition, inventory is held at retail pharmacies and other non-wholesaler locations with w
no inventory management agreements and no control over buying patterns. Adverse change
conditions or other factors may cause retail pharmacies to reduce their inventories of our pr
would reduce their orders from wholesalers and, consequently, the wholesalers' orders from
user demand has not changed. For example, during the fourth quarter of 2015, strong whole
sub-wholesaler purchases of our HIV products resulted in inventory draw-down by wholesa
sub-wholesalers in the first quarter of 2016. As inventory in the distribution channel fluctua
to quarter, we may continue to see fluctuations in our earnings and a mismatch between pre
demand for our products and our revenues.

In addition, the non-retail sector in the United States, which includes government institution
state ADAPs, VA, correctional facilities and large health maintenance organizations, tends t
consistent in terms of buying patterns and often causes quarter-over-quarter fluctuations tha
necessarily mirror patient demand for our products. Federal and state budget pressures, inclu
sequestration, as well as the annual grant cycles for federal and state funds, may cause purch
to not reflect patient demand of our products. For example, in the first quarters of certain pr
observed large non-retail purchases of our HIV products by a number of state ADAPs that e
demand. We believe such purchases were driven by the grant cycle for federal ADAP funds
during the second half of 2016, we experienced fluctuations in VA new HCV patient starts a
patterns due to VA funding. We expect to continue to experience fluctuations in the purchas
our non-retail customers which may result in fluctuations in our product sales, revenues and
future. In light of the global economic downturn and budget crises faced by many European
have observed variations in purchasing patterns induced by cost containment measures in E
believe these measures have caused some government agencies and other purchasers to redu
our products in the distribution channels, which has decreased our revenues and caused fluc
product sales and earnings. We may continue to see this trend in the future.

We may be required to pay significant damages to Merck as a result of a jury's finding that
infringed a patent owned by Merck's Idenix subsidiary.

In December 2013, Idenix, Universita Degli Studi di Cagliari (UDSG), Centre National de l
Scientifique and L'Université Montpellier II sued us in U.S. District Court for the District o
alleging that the commercialization of sofosbuvir will infringe Idenix's U.S. Patent No. 7,60
patent) and that an interference exists between the '600 patent and our U.S. Patent No. 8,41
December 2013, Idenix and UDSG sued us in the U.S. District Court for the District of Mas

alleging that the commercialization of sofosbuvir will infringe U.S. Patent Nos. 6,914,054 (and 7,608,597 (the ’597 patent). In June 2014, the court transferred the Massachusetts litiga District Court for the District of Delaware. Idenix was acquired by Merck in August 2014.

A jury trial was held in December 2016 on the ’597 patent. In December 2016, the jury foun willfully infringed the asserted claims of the ’597 patent and awarded Idenix $2.54 billion in The parties will file post-trial motions and briefings during the first quarter of 2017, and we judge to rule in the third or fourth quarter of 2017. Once the judge has issued these rulings, move to the U.S. Court of Appeal for the Federal Circuit.

Although we cannot predict with certainty the ultimate outcome of this litigation, we believe verdict to be in error, and that errors were also made by the court with respect to certain ruli before and during trial. We expect that our arguments in the forthcoming post-trial motions will focus on one or more of the arguments we made to the judge and jury, those being (i) w construed, Gilead does not infringe the claims of the ’597 patent, (ii) the patent is invalid fo properly describe the claimed invention and (iii) the patent is invalid because it does not ena in the art to practice the claimed invention.

If the jury’s verdict is upheld on appeal, our estimated potential loss as of December 31, 201 (i) the $2.54 billion determined by the jury, which represents 10% of our adjusted revenues containing products from launch

through August 2016, (ii) approximately $230 million, which represents 10% of our adjuste
sofosbuvir containing products from September 2016 through December 31, 2016, (iii) pre-
interest, (iv) enhanced damages of up to three times the sum of (i) and (ii) above as a result
finding of willfulness, and (v) attorney's fees. Therefore, we estimate the range of possible
December 31, 2016 to be between zero and $8.5 billion. This sum excludes (i) an immateria
related to pre-judgment sales and interest in January 2017, and (ii) going forward royalties y
assessed by the court, which we have estimated would be 10%, but which could be up to thr
as a result of the jury's finding of willfulness, and which would be payable based on adjuste
sofosbuvir-containing products for the period from January 26, 2017 through expiry of the
May 2021. We expect the judge to rule on the amount of going forward royalties and any en
damages in the course of deciding the post-trial motions at a time to be determined by the ju
case. The court's determination of enhanced damages, if any, can also be appealed.

If the jury's verdict is upheld on appeal, the amount we could be required to pay could be m
timing and magnitude of the amount of any such payment could have a material adverse imp
results of operations and stock price.

Our results of operations may be adversely affected by current and potential future healthca
Legislative and regulatory changes to government prescription drug procurement and reimb
programs occur relatively frequently in the United States and foreign jurisdictions. In the Un
along with other pharmaceutical manufacturers of branded drug products, are required to pa
an industry fee (also known as the branded prescription drug (BPD) fee), calculated based o
government sales during the year as a percentage of total industry government sales. The an
annual BPD fee imposed on the pharmaceutical industry as a whole is $3.0 billion in 2016,
increase to $4.0 billion in 2017, increase to a peak of $4.1 billion in 2018, and then decrease
in 2019 and thereafter. Our BPD fee expenses were $270 million in 2016, $414 million in 2
million in 2014. The BPD fee is not tax deductible.

There has been extensive discussion about a possible repeal or amendment of The Patient P
Affordable Care Act (the Affordable Care Act) or other government action, which could neg
the use and/or reimbursement of our products. In January 2017, Congress voted to adopt a b
resolution for fiscal year 2017, that while not law, is widely viewed as the first step toward
legislation that would repeal certain aspects of the Affordable Care Act. Further, on January
new administration issued an Executive Order directing federal agencies with authorities an
responsibilities under the Affordable Care Act to waive, defer, grant exemptions from, or de
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a cost, fee, tax, penalty or regulatory burden on individuals, healthcare providers, health ins
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In addition, many states have proposed legislation that seeks to indirectly or directly regulat
pharmaceutical drug pricing by requiring biopharmaceutical manufacturers to publicly repo
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products. Similar bills have been previously introduced at the federal level and we expect th
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during ongoing repeal and replace discussions, as well as the impact of potential changes to
Medicaid program is financed, will likely affect patients' sources of insurance and resultant
Discussions continue at the federal level regarding policies that would either allow or requir
government to directly negotiate drug prices with pharmaceutical manufacturers for Medica
require manufacturers to pay higher rebates in Medicare Part D, give states more flexibility
are covered under the Medicaid program, and other policy proposals that could impact reim
our products. Other discussions have centered on legislation that would permit the re-impor

prescription medications from Canada or other countries. It is difficult to predict the impact
such legislation on the use and reimbursement of our products in the United States, includin
for the importation of generic versions of our products.

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

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

Successful commercialization of our products depends, in part, on the availability of govern
third-party payer reimbursement for the cost of such products and related treatments in the r
we sell our products. Government health authorities, private health insurers and other organ
generally provide reimbursement. In the United States, the European Union, Japan and othe
potentially significant markets for our products and product candidates, government authori
third-party payers are increasingly attempting to limit or regulate the price of medical produ
services. A significant portion of our sales of the majority of our products are subject to sig
discounts from list price. See also our risk factor “A

substantial portion of our revenues is derived from sales of products to treat HCV and HIV. unable to maintain or continue increasing sales of these products, our results of operations m adversely affected."

Patient assistance programs for pharmaceutical products have come under increasing scrutin governments, legislative bodies and enforcement agencies. These activities may result in ac the effect of reducing prices or harming our business or reputation.

Recently, there has been enhanced scrutiny of company-sponsored patient assistance progra insurance premium and co-pay assistance programs and donations to third-party charities th assistance. If we, or our vendors or donation recipients, are deemed to have failed to comply laws, regulations or government guidance in any of these areas, we could be subject to crim sanctions, including significant fines, civil monetary penalties and exclusion from participat government healthcare programs, including Medicare and Medicaid, actions against executi our business, and burdensome remediation measures.

In February 2016, we received a subpoena from the U.S. Attorney's Office for the District o requesting documents related to our support of 501(c)(3) organizations that provide financia patients, and for our HCV products, documents concerning our provision of financial assista Other companies have disclosed similar inquiries. We are cooperating with this inquiry.

It is possible that any actions taken by the U.S. Department of Justice as a result of this inqu future action taken by federal or local governments, legislative bodies and enforcement ager result in civil penalties or injunctive relief, negative publicity or other negative actions that reputation, reduce demand for our products and/or reduce coverage of our products, includi health care programs such as Medicare and Medicaid and state health care programs. If any events occur, our business and stock price could be materially and adversely affected.

Approximately 36% of our product sales occur outside the United States, and currency fluct hedging expenses may cause our earnings to fluctuate, which could adversely affect our stoc Because a significant percentage of our product sales are denominated in foreign currencies Euro and Yen, we face exposure to adverse movements in foreign currency exchange rates. dollar strengthens against these foreign currencies, the relative value of sales made in the re currency decreases. Conversely, when the U.S. dollar weakens against these currencies, the of such sales increases. Overall, we are a net receiver of foreign currencies and, therefore, b weaker U.S. dollar and are adversely affected by a stronger U.S. dollar.

We use foreign currency exchange forward and option contracts to hedge a percentage of ou international sales, primarily those denominated in the Euro and Yen. We also hedge certain assets and liabilities denominated in foreign currencies, which reduces but does not elimina to currency fluctuations between the date a transaction is recorded and the date that cash is paid. Foreign currency exchange, net of hedges, had an unfavorable impact of $498 million product sales compared to 2015 and an unfavorable impact of $737 million on our 2015 rev to 2014.

We cannot predict future fluctuations in the foreign currency exchange rates of the U.S. doll dollar appreciates significantly against certain currencies and our hedging program does not offset the effects of such appreciation, our results of operations will be adversely affected an price may decline.

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

We face significant competition.

We face significant competition from large global pharmaceutical and biotechnology compa specialized pharmaceutical firms and generic drug manufacturers. Our products compete wi available products based primarily on efficacy, safety, tolerability, acceptance by doctors, ea

compliance, ease of use, price, insurance and other reimbursement coverage, distribution an
Our HCV products, Epclusa, Harvoni and Sovaldi, compete with Viekira Pak (ombitasvir, p
ritonavir tablets co-packaged with dasabuvir tablets) and Viekira XR (dasabuvir, ombitasvi
and ritonavir) marketed by AbbVie Inc. (AbbVie), Zepatier (elbasvir and grazoprevir) mark
& Co. Inc. (Merck), Daklinza (daclastavir) marketed by Bristol-Myers Squibb (BMS) and C
(simeprevir) marketed by Janssen Therapeutics. We expect a new short duration, all-oral di
antiviral product to be launched by a competitor in 2017, which may negatively impact our
share.

Our HIV products compete primarily with products from ViiV, which markets fixed-dose c
products that compete with Descovy, Odefsey, Genvoya, Stribild, Complera/Eviplera, Atrip
For example, two products marketed by ViiV, Tivicay (dolutegravir), an integrase inhibitor,
single-tablet triple-combination antiretroviral regimen, have adversely impacted sales of ou
In addition, lamivudine, marketed by ViiV, competes with emtricitabine, the active pharmac
ingredient of Emtriva and a component of Genvoya, Stribild, Complera/Eviplera, Atripla an
Tybost, we compete with ritonavir marketed by AbbVie.
We also face competition from generic HIV products. Generic versions of lamivudine and C
(lamivudine and zidovudine) are available in the United States and certain other countries. C
of Sustiva (efavirenz), a component of our Atripla, are now available in Canada and Europe
anticipate competition from generic efavirenz in the United States in December 2017. We h
some pricing pressure related to the Sustiva component of our Atripla sales. TDF, one of the
pharmaceutical ingredients in Stribild, Complera/Eviplera, Atripla and Truvada, and the ma
pharmaceutical ingredient in Viread, is expected to face generic competition in the United S
European Union and other countries in 2017. In addition, because emtricitabine, the other ac
pharmaceutical ingredient of Truvada, faced generic competition in the European Union in 2
is also expected to face generic competition in the European Union and other countries outs
United States in 2017.
Our HBV products, Vemlidy, Viread and Hepsera, face competition from Baraclude (enteca
by BMS as well as generic entecavir. Our HBV products also compete with Tyzeka/Sebivo
marketed by Novartis.
Zydelig competes with Imbruvica (ibrutinib) marketed by Pharmacyclics LLC (an AbbVie
Gazyva (obinutuzumab) marketed by Genentech (a member of the Roche Group) and Trean
(bendamustine hydrochloride) marketed by Cephalon, Inc.
Letairis competes with Tracleer (bosentan) and Opsumit (macitentan) marketed by Actelion
Pharmaceuticals US, Inc. and also with Adcirca (tadalafil) marketed by United Therapeutics
and Pfizer.
Ranexa competes predominantly with generic compounds from three distinct classes of drug
treatment of chronic angina in the United States, including generic and/or branded beta-bloc
channel blockers and long-acting nitrates.
Cayston competes with Tobi (tobramycin inhalation solution) marketed by Novartis.
Tamiflu competes with Relenza (zanamivir) marketed by GSK and products sold by generic
AmBisome competes with Vfend (voriconazole) marketed by Pfizer and caspofungin, a pro
by Merck that is marketed as Cancidas in the United States and as Caspofungin elsewhere. I
are aware of at least three lipid formulations that claim similarity to AmBisome becoming a
of the United States. These formulations may reduce market demand for AmBisome. Furthe
manufacture of lipid formulations of amphotericin B is very complex and if any of these for
found to be unsafe, sales of AmBisome may be negatively impacted by association.
In addition, a number of companies are pursuing the development of technologies which are
with our existing products or research programs. These competing companies include specia
pharmaceutical firms and large pharmaceutical companies acting either independently or tog
other pharmaceutical companies. Furthermore, academic institutions, government agencies
and private organizations conducting research may seek patent protection and may establish
arrangements for competitive products or programs. If any of these competitors gain market
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 fu
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
in our product labels were obtained in controlled clinical trials of limited duration and, in so

post-approval use. As our products are used over longer periods of time by many patients w
health problems, taking numerous other medicines, we expect to continue to find new issue
resistance or drug interaction issues, which may require us to provide additional warnings o
contraindications on our labels or narrow our approved indications, each of which could red
acceptance of these products.

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

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

Our operations depend on compliance with complex FDA and comparable international reg
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
approved, are subject to extensive regulation by FDA, the European Medicines Agency (EM
comparable regulatory agencies in other countries. We are continuing clinical trials for man
products for currently approved and additional uses. We anticipate that we will file for mark
in additional countries and for additional indications and products over the next several year
products may fail to receive such marketing approvals on a timely basis, or at all.

Further, how we manufacture and sell our products is subject to extensive regulation and re
of previously unknown problems with our marketed products or problems with our manufac
reporting or promotional activities may result in restrictions on our products, including with
products from the market. If we fail to comply with applicable regulatory requirements, incl
related to promotion and manufacturing, we could be subject to penalties including fines, su
regulatory approvals, product recalls, seizure of products and criminal prosecution.

For example, under FDA rules, we are often required to conduct post-approval clinical studi
known serious risk, signals of serious risk or to identify an unexpected serious risk and impl
Evaluation and Mitigation Strategy for our products, which could include a medication guid
package insert, a communication plan to healthcare providers or other elements as FDA dee
necessary to assure safe use of the drug, which could include imposing certain restrictions o
distribution or use of a product. Failure to comply with these or other requirements, if impos
by FDA, could result in significant civil monetary penalties and our operating results may b
affected.

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

We are required to demonstrate the safety and efficacy of products that we develop for each
through extensive preclinical studies and clinical trials. The results from preclinical and earl
studies do not always accurately predict results in later, large-scale clinical trials. Even succ
completed large-scale clinical trials may not result in marketable products. For example, du
announced that we terminated our Phase 2 and 2b studies of simtuzumab for the treatment o
pulmonary fibrosis, NASH and primary sclerosing cholangitis, our Phase 2 and 2/3 studies o
the treatment of Crohn's Disease and ulcerative colitis, our Phase 2 studies of selonsertib fo
of pulmonary arterial hypertension and diabetic kidney disease, and our studies of eleclazine
treatment of cardiovascular diseases, after determining that study data showed insufficient e
treatment benefit. In addition, after completion of two Phase 3 studies of momelotinib for th
myelofibrosis, we have decided to terminate development of momelotinib. If any of our pro
fails to achieve its primary endpoint in clinical trials, if safety issues arise or if the results fr
trials are otherwise inadequate to support regulatory approval of our product candidates, co
of that product candidate could be delayed or halted. In addition, we may also face challeng
trial protocol design.

If the clinical trials for any of the product candidates in our pipeline are delayed or terminat
prospects for future revenue growth would be adversely impacted. For example, we face nu
and uncertainties with our product candidates, including the single-tablet regimen of bictegr
emtricitabine and TAF for the treatment of HIV infection; Descovy for PrEP; selonsertib fo
of NASH; idelalisib for the treatment of relapsed refractory chronic lymphocytic leukemia;
treatment of gastric cancer; and filgotinib for the treatment of rheumatoid arthritis, Crohn's
ulcerative colitis, each currently in Phase 3 clinical trials, that could prevent completion of o
these product candidates. These risks include our ability to enroll patients in clinical trials, t
unfavorable results of our clinical trials, the need to modify or delay our clinical trials or to

additional trials and the risk of failing to obtain FDA and other regulatory body approvals. A product candidates may never be successfully commercialized. Further, we may make a stra to discontinue development of our product candidates if, for example, we believe commerci difficult relative to other opportunities in our pipeline. If these programs and others in our p be completed on a timely basis or at all, then our prospects for future revenue growth may b impacted. In addition, clinical trials involving our commercial products could raise new safe 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 tria 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 portio start-up activities in-house. We rely on independent third-party contract research organizatio perform most of our clinical studies, including document preparation, site identification, scr preparation, pre-study visits, training, program management and bioanalytical analysis. Mar aspects of the services performed for us by the CROs are out of our direct control. If there is disruption in our relationship with our CROs, our clinical trials may be delayed. Moreover, regulatory submissions, we rely on the quality and validity of the clinical work performed b CROs. If any of our CROs' processes,

methodologies or results were determined to be invalid or inadequate, our own clinical data
related regulatory approvals could be adversely affected.

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

We rely on a number of significant collaborative relationships with major pharmaceutical co
our sales and marketing performance in certain territories. These include collaborations with
Odefsey and Complera/Eviplera; BMS for Atripla in the United States, Europe and Canada;
Hoffmann-La Roche Ltd. (together with Hoffmann-La Roche Inc., Roche) for Tamiflu worl
GSK for ambrisentan in territories outside of the United States. In some countries, we rely o
distributors for sales of Truvada, Viread, Hepsera, Emtriva and AmBisome. Some of these r
also involve the clinical development of these products by our partners. Reliance on collabo
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 proc
- disputes may arise with respect to the ownership of rights to technology developed with our partners;
- disagreements with our corporate partners could cause delays in, or termination of, the resea 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 t enforced if one of these partners fails to perform;
- our corporate partners have considerable discretion in electing whether to pursue the develo additional products and may pursue alternative technologies or products either on their own collaboration with our competitors;
- our corporate partners with marketing rights may choose to pursue competing technologies fewer resources to the marketing of our products than they do to products of their own deve
- our distributors and our corporate partners may be unable to pay us, particularly in light of c economic conditions.

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

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

- not provide us with accurate or timely information regarding their inventories, patient data c complaints;
- not effectively sell or support Letairis or Cayston;
- not devote the resources necessary to sell Letairis or Cayston in the volumes and within the 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 our Letairis Education and Access Program, the
distribution program designed to support Letairis. This third party provides information and
prescribers and patients on the risks of Letairis, confirms insurance coverage and investigate
sources of reimbursement or assistance, ensures fulfillment of the risk management requirem
for Letairis by FDA and coordinates and controls dispensing to patients through the third-pa
pharmacies. Failure of this third party or the specialty pharmacies that distribute Letairis to
expected may result in regulatory action from FDA or decreased Letairis sales, either of wh

our business.

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

Patents and other proprietary rights are very important to our business. Our success will dep 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 compet technology to create competitive products and more difficult for our competitors to obtain a prevents us from using technology we create. As part of our business strategy, we actively s protection both in the United States and internationally and file additional patent application 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 rela compounds, products and technology, but we cannot be certain that issued patents will be en provide adequate protection or that pending patent applications will result in issued patents. applications are confidential for a period of time before a patent is issued. As a result, we m our competitors filed patent applications for technology covered by our pending application the first to invent or first to file an application directed toward the technology that is the sub patent applications. Competitors may have filed patent applications or received patents and additional patents and proprietary rights that block or compete with our products. In additio file patent applications covering our technology, we may have to participate in litigation, int other proceedings to determine the right to a patent. Litigation, interference or other proceed unpredictable and expensive, such that, even if we are ultimately successful, our results of o be adversely affected by such events.

For example, TDF, one of the active pharmaceutical ingredients in Stribild, Complera/Evipl Truvada, and the main active pharmaceutical ingredient in Viread, is expected to face gener in the United States, the European Union and other countries in 2017. In addition, because e the other active pharmaceutical ingredient of Truvada, faced generic competition in the Eur 2016, Truvada is also expected to face generic competition in the European Union and othe outside of the United States in 2017. The entry of these generic products may lead to marke erosion and have a negative impact on our business and results of operations. In addition, pa cover the ranolazine compound, the active ingredient of Ranexa. Instead, when it was disco a sustained-release formulation of ranolazine would achieve therapeutic plasma levels, pate obtained on those formulations and the characteristic plasma levels they achieve. Patents do active ingredients in AmBisome.

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

Generic manufacturers have sought, and may continue to seek, FDA approval to market ger our products through an abbreviated new drug application (ANDA), the application form ty manufacturers seeking approval of a generic drug. See a description of our ANDA litigation 12, Commitments and Contingencies - Legal Proceedings of the Notes to Consolidated Fina Statements included in Item 8 of this Annual Report on Form 10-K and risk factor entitled " generic manufacturers has increased our expenses which may continue to reduce our earnin unsuccessful in all or some of these lawsuits, some or all of our claims in the patents may be invalidated and generic versions of our products could be launched prior to our patent expir page 39.

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

If we infringe the valid patents of third parties, we may be prevented from commercializing may be required to obtain licenses from these third parties. We may not be able to obtain alt technologies or any required license on reasonable terms or at all. If we fail to obtain these l

alternative technologies, we may be unable to develop or commercialize some or all of our p
example, we are aware of patents that may relate to our operation of LEAP, our restricted di
program designed to support Letairis and we are aware of patents and patent applications ov
parties that may claim to cover the use of sofosbuvir. We are also aware of U.S. Patent No.
assigned to the U.S. Department of Health and Human Services that purports to claim a proc
protecting a primate host from infection by an immunodeficiency retrovirus by administerin
combination of emtricitabine and tenofovir or TDF prior to exposure of the host to the immu
retrovirus. We have been in contact with the U.S. Department of Health and Human Service
scope and relevance of the patent. See also a description of our litigation regarding sofosbuv
12, Commitments and Contingencies - Legal Proceedings of the Notes to Consolidated Fina
Statements included in Item 8 of this Annual Report on Form 10-K and the risk factor entitl
is successful in establishing exclusive rights to Epclusa, Harvoni and/or Sovaldi, our expect
earnings from the sale of those products could be adversely affected" beginning on page 36.
Furthermore, we also rely on unpatented trade secrets and improvements, unpatented interna
and technological innovation. For example, a great deal of our liposomal manufacturing exp
a key component of our liposomal

technology, is not covered by patents but is instead protected as a trade secret. We protect th
mainly through confidentiality agreements with our corporate partners, employees, consulta
vendors. These agreements provide that all confidential information developed or made kno
individual during the course of their relationship with us will be kept confidential and will n
disclosed to third parties except in specified circumstances. In the case of employees, the ag
provide that all inventions made by an individual while employed by us will be our exclusiv
cannot be certain that these parties will comply with these confidentiality agreements, that v
adequate remedies for any breach or that our trade secrets will not otherwise become known
independently discovered by our competitors. Under some of our R&D agreements, inventi
jointly owned by us and our corporate partner and in other cases become the exclusive prop
party. In certain circumstances, it can be difficult to determine who owns a particular invent
disputes could arise regarding those inventions. If our trade secrets or confidential informati
known or independently discovered by competitors or if we enter into disputes over owners
inventions, our business and results of operations could be adversely affected.

If any party is successful in establishing exclusive rights to Epclusa, Harvoni and/or Sovald
revenues and earnings from the sale of those products could be adversely affected.

We own patents and patent applications that claim sofosbuvir (Sovaldi) as a chemical entity
metabolites and the fixed-dose combinations of ledipasvir and sofosbuvir (Harvoni) and sof
velpatasvir (Epclusa). Third parties may have, or may obtain rights to, patents that allegedly
to prevent or attempt to prevent us from commercializing Epclusa, Harvoni or Sovaldi. For
aware of patents and patent applications owned by other parties that may be alleged by such
the use of Epclusa, Harvoni and Sovaldi. We cannot predict the ultimate outcome of intellec
claims related to Epclusa, Harvoni or Sovaldi, and we have spent, and will continue to spen
resources defending against these claims. If third parties successfully obtain valid and enfor
and successfully prove infringement of those patents by Epclusa, Harvoni and/or Sovaldi, w
prevented from selling sofosbuvir unless we were able to obtain a license under such patent
may not be available on commercially reasonable terms or at all.

Interference Proceedings and Litigation with Idenix Pharmaceuticals, Inc. (Idenix), Univers
di Cagliari (UDSG), Centre National de la Recherche Scientifique and L'Universite Montpe

In February 2012, we received notice that the U.S. Patent and Trademark Office (USPTO) h
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 to determine who was the firs
certain nucleoside compounds. In January 2014, the USPTO Patent Trial and Appeal Board
determined that Pharmasset and not Idenix was the first to invent the compounds. Idenix has
PTAB's decisions to the U.S. District Court for the District of Delaware, which has stayed t
pending the outcome of the appeal of the interference involving Idenix's U.S. Patent No. 7,6
patent) as described below.

In December 2013, after receiving our request to do so, the USPTO declared Interference N
(Second Idenix Interference) between our pending U.S. Patent Application No. 11/854,218
U.S. Patent No. 7,608,600 (the '600 patent). The '600 patent includes claims directed to me
HCV with nucleoside compounds. In March 2015, the PTAB determined that Pharmasset ar
was the first to invent the claimed methods of treating HCV. Idenix appealed this decision i
District Court for the District of Delaware and the U.S. Court of Appeal for the Federal Circ
The CAFC heard oral arguments in September 2016, and we are awaiting its decision. We f
dismiss the appeal in Delaware, and the court has stayed the appeal relating to the Second Id
Interference.

We believe that the Idenix claims involved in the First and Second Idenix Interferences, and
and foreign patents claiming the same compounds, metabolites and uses thereof, are invalid
filed an Impeachment Action in the Federal Court of Canada to invalidate Idenix Canadian

2,490,191 (the ’191 patent), which is the Canadian patent that corresponds to the ’600 paten
that the commercialization of Sovaldi in Canada will infringe its ’191 patent and that our Ca
No. 2,527,657, corresponding to our ’572 patent, is invalid. In November 2015, the Canadia
Idenix’s patent is invalid and that our patent is valid. Idenix appealed the decision to the Ca
Court of Appeal in November 2015. The appeal hearing was held in January 2017 and we a
decision.

We filed a similar legal action in Norway in the Oslo District Court seeking to invalidate Id
Norwegian patent corresponding to the ’600 patent. In September 2013, Idenix filed an inva
in the Norwegian proceedings against our Norwegian Patent No. 333700, which correspond
patent. In March 2014, the Norwegian court found all claims in the Idenix Norwegian paten
and upheld the validity of all claims in our patent. Idenix appealed the decision to the Norw
Appeal. In April 2016, the Court of Appeal issued its decision invalidating the Idenix patent
our patent. Idenix has not filed a further appeal.

In January 2013, we filed a legal action in the Federal Court of Australia seeking to invalida
Australian patent corresponding to the ’600 patent. In April 2013, Idenix asserted that the co
of Sovaldi in Australia infringes its Australian patent corresponding to the ’600 patent. In M
Australian court revoked Idenix’s Australian patent. Idenix has appealed this decision. The
was held in November 2016 and we are awaiting the decision.

In March 2014, the European Patent Office (EPO) granted Idenix European Patent No. 1 52
patent), which corresponds to the ’600 patent. The same day that the ’489 patent was grante
opposition with the EPO seeking to revoke the ’489 patent. An opposition hearing was held
2016, and the EPO ruled in our favor and revoked the ’489 patent. Idenix has appealed. In M
Idenix also initiated infringement proceedings against us in the United Kingdom (UK), Ger
France alleging that the commercialization of Sovaldi would infringe the UK, German and
counterparts of the ’489 patent. A trial was held in the UK in October 2014. In December 20
Court of Justice of England and Wales (UK Court) invalidated all challenged claims of the
multiple grounds. Idenix appealed. In November 2016, the appeals court affirmed the UK C
invalidating Idenix’s patent. In March 2015, the German court in Düsseldorf determined tha
patent was highly likely to be invalid and stayed the infringement proceedings pending the
opposition hearing held by the EPO in February 2016. Idenix has not appealed this decision
court staying the proceedings. Upon Idenix’s request, the French proceedings have been sta
not been awarded patents corresponding to the ’600 patent in Japan or China.
See also our risk factor “We may be required to pay significant damages to Merck as a resu
finding that we willfully infringed a patent owned by Merck’s Idenix subsidiary.”
Idenix was acquired by Merck in August 2014, and Merck continues to pursue the Idenix cl
herein.
Litigation with Merck
In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbu
license to U.S. Patent No. 7,105,499 (the ’499 patent) and U.S. Patent No. 8,481,712 (the ’7
it co-owns with Ionis Pharmaceuticals, Inc. The ’499 and ’712 patents cover compounds wh
include, but may relate to, sofosbuvir. We filed a lawsuit in August 2013 in the U.S. Distric
Northern District of California seeking a declaratory judgment that the Merck patents are in
infringed. During patent prosecution, Merck amended its patent application in an attempt to
compounds related to sofosbuvir. Initially, in March 2016, a jury determined that we had no
that Merck’s patents are invalid for lack of written description or lack of enablement and aw
$200 million in damages. However, in June 2016, the court ruled in our favor on our defens
hands and determined that Merck may not recover any damages from us for the ’499 and ’7
judge has determined that Merck is required to pay our attorney’s fees due to the exceptiona
case. The amount of fees owed to us by Merck is yet to be determined by the court.
Merck has filed a notice of appeal to the Court of Appeals for the Federal Circuit regarding
decision on our defense of unclean hands. We appealed the issue relating to the invalidity o
If the decision on our defense of unclean hands is reversed on appeal and Merck’s patent is
be required to pay damages and a royalty on sales of sofosbuvir-containing products follow
In that event, the judge has indicated that she will determine the amount of the royalty, if ne
conclusion of any appeal in this case.
Litigation with the University of Minnesota
The University of Minnesota (the University) has obtained Patent No. 8,815,830 (’830 pate
purports to broadly cover nucleosides with antiviral and anticancer activity. In August 2016
filed a lawsuit against us in the U.S. District Court for the District of Minnesota, alleging th
commercialization of sofosbuvir-containing products infringes the ’830 patent. We believe
patent is invalid and will not be infringed by the continued commercialization of sofosbuvir
European Patent Claims
In February 2015, several parties filed oppositions in the EPO requesting revocation of our
European patent covering sofosbuvir that expires in 2028. In October 2016, the EPO upheld
certain claims of our sofosbuvir patent. We anticipate that the challengers will appeal this d
of our patent. The appeal process may take several years.

In January 2016, several parties filed oppositions in the EPO requesting revocation of our gr
patent covering TAF that expires in 2021.
In March 2016, three parties filed oppositions in the EPO requesting revocation of our grant
patent covering cobicistat that expires in 2027.
While we are confident in the strength of our patents, we cannot predict the ultimate outcom
actions. If we are unsuccessful in defending these oppositions, some or all of our patent clai
narrowed or revoked and the patent protection for sofosbuvir, TAF and cobicistat in Europe
substantially shortened or eliminated entirely. If our patents are revoked, and no other Europ
granted covering these compounds, our exclusivity may be based entirely on regulatory exc
by EMA. Sovaldi has been granted regulatory exclusivity that will prevent generic sofosbuv
the European Union for 10 years following approval of Sovaldi, or January 2024. If we lose
Sovaldi prior to 2028, our expected revenues and results of operations could be negatively i
years including and succeeding the year in which such exclusivity is lost, which may cause
to decline.

Manufacturing problems, including at our third-party manufacturers and corporate partners, inventory shortages and delay product shipments and regulatory approvals, which may adve results of operations.

In order to generate revenue from our products, we must be able to produce sufficient quant products to satisfy demand. Many of our products are the result of complex manufacturing p manufacturing process for pharmaceutical products is also highly regulated and regulators m manufacturing facilities that they believe do not comply with regulations.

Our products are either manufactured at our own facilities or by third-party manufacturers c partners. We depend on third parties to perform manufacturing activities effectively and on for the majority of our solid dose products. In addition, Roche, either by itself or through thi responsible for manufacturing Tamiflu. We, our third-party manufacturers and our corporat subject to Good Manufacturing Practices (GMP), which are extensive regulations governing processes, stability testing, record keeping and quality standards as defined by FDA and EM regulations are in effect in other countries.

Our third-party manufacturers and corporate partners are independent entities who are subje unique operational and financial risks which are out of our control. If we or any of these thi manufacturers or corporate partners fail to perform as required, this could impair our ability products on a timely basis or receive royalties or cause delays in our clinical trials and appli regulatory approval. Further, we may have to write-off the costs of manufacturing any batch pass quality inspection or meet regulatory approval. In addition, we, our third-party manufa corporate partners may only be able to produce some of our products at one or a limited num and, therefore, have limited manufacturing capacity for certain products. To the extent these materialize and affect their performance obligations to us, our financial results may be adve

Our manufacturing operations are subject to routine inspections by regulatory agencies. If w remedy any deficiencies cited by FDA in these inspections, our currently marketed products of regulatory approval of products in development could be adversely affected. Further, ther regulatory agencies in other countries where marketing applications are pending will undert additional reviews or apply a heightened standard of review, which could delay the regulato products in those countries. If approval of any of our product candidates were delayed or if our marketed products was interrupted, our anticipated revenues and our stock price would affected.

We may not be able to obtain materials or supplies necessary to conduct clinical trials or to 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 manufa products. If we are unable to purchase sufficient quantities of these materials or find suitable materials in a timely manner, our development efforts for our product candidates may be de ability to manufacture our products would be limited, which would limit our ability to gener

Suppliers of key components and materials must be named in the NDA or MAA filed with t other regulatory authority for any product candidate for which we are seeking marketing app significant delays can occur if the qualification of a new supplier is required. Even after a m qualified by the regulatory authority, the manufacturer must continue to expend time, money the area of production and quality control to ensure full compliance with GMP. Manufacture to regular, periodic inspections by the regulatory authorities following initial approval. If, as these inspections, a regulatory authority determines that the equipment, facilities, laboratori do not comply with applicable regulations and conditions of product approval, the regulator suspend the manufacturing operations. If the manufacturing operations of any of the single s products are suspended, we may be unable to generate sufficient quantities of commercial o supplies of product to meet market demand, which would in turn decrease our revenues and business. In addition, if delivery of material from our suppliers were interrupted for any reas

unable to ship certain of our products for commercial supply or to supply our products in de
clinical trials. In addition, some of our products and the materials that we utilize in our oper
at only one facility. For example, we manufacture certain drug product intermediates utilize
exclusively at our facilities in San Dimas, California. In the event of a disaster, including an
equipment failure or other difficulty, we may be unable to replace this manufacturing capac
manner and may be unable to manufacture AmBisome to meet market needs.

In addition, we depend on a single supplier for amphotericin B, the active pharmaceutical in
AmBisome, and high-quality cholesterol in the manufacture of AmBisome. We also rely on
for the active pharmaceutical ingredients found in Letairis and Cayston. Astellas US LLC, v
Lexiscan in the United States, is responsible for the commercial manufacture and supply of
United States and is dependent on a single supplier for the active pharmaceutical ingredient
Problems with any of the single suppliers we depend on may negatively impact our develop
commercialization efforts.

A significant portion of the raw materials and intermediates used to manufacture our antivir
supplied by third-party manufacturers and corporate partners outside of the United States. A
political or economic factors in a specific country or region, including any changes in or int
trade regulations, compliance requirements or tax legislation, that would limit or prevent thi
outside of the United States from supplying these materials would adversely affect our abili
manufacture and supply our antiviral products to meet market needs and have a material and
on our operating results.

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

As part of the approval process for some of our products, FDA granted us a New Chemical
exclusivity period during which other manufacturers' applications for approval of generic v
product will not be approved. Generic manufacturers may challenge the patents protecting p
have been granted NCE exclusivity one year prior to the end of the NCE exclusivity period.
manufacturers have sought and may continue to seek FDA approval for a similar or identica
an ANDA, the application form typically used by manufacturers seeking approval of a gene
seek approval for a generic version of a product having NCE status, a generic manufacturer
ANDA to FDA four years after the branded product's approval. For sofosbuvir, this date fal
2017. Consequently, it is possible that one or more generic manufacturers may file an AND
sofosbuvir in December 2017.

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

Apotex

In June 2014, we received notice that Apotex Inc. (Apotex) submitted an abbreviated new d
(ANDS) to Health Canada requesting permission to manufacture and market a generic versi
and a separate ANDS requesting permission to manufacture and market a generic version of
notice, Apotex alleges that three of the patents associated with Truvada and two of the paten
with Viread are invalid, unenforceable and/or will not be infringed by Apotex's manufactur
a generic version of Truvada or Viread. In August 2014, we filed lawsuits against Apotex in
Court of Canada seeking orders of prohibition against approval of these ANDS. A hearing i
was held in April 2016. In July 2016, the court issued an order prohibiting the Canadian Mi
from approving Apotex's generic version of our Viread product until the expiry of our paten
The court declined to prohibit approval of Apotex's generic version of our Truvada product
decision did not rule on the validity of the patents. The launch of Apotex's generic version o
product would be at risk of infringement of our patents, including patents that we were unab
the present lawsuit, and liability for our damages. Apotex has appealed the court's decision.

Teva

In November 2011, December 2011 and August 2012, we received notices that Teva Pharm
(Teva) submitted an ANDS to the Canadian Minister of Health requesting permission to ma
market generic versions of Truvada, Atripla and Viread. In the notices, Teva alleges that the
associated with Truvada, Atripla and Viread are invalid, unenforceable and/or will not be in
Teva's manufacture, use or sale of generic versions of those products. We filed lawsuits aga
Federal Court of Canada seeking an order of prohibition against approval of these applicatio
In December 2013, the court issued an order prohibiting the Canadian Minister of Health fr
Teva's generic versions of our Viread, Truvada and Atripla products until expiry of our pate
Teva has appealed that decision. The court's decision did not rule on the validity of the pate
accordingly the only issue on appeal is whether the Canadian Minister of Health should be p
approving Teva's products. In November 2016, we and Teva entered into a settlement agree
the ongoing contested proceedings concerning Teva's ANDS for generic versions of Truvad

Viread as well as Gilead's patents associated with Truvada, Atripla, and Viread.

Mylan

In February 2016, we received notice that Mylan Pharmaceuticals, Inc. (Mylan) submitted a
FDA requesting permission to manufacture and market a generic version of Tybost (cobicis
notice, Mylan alleges that the patent covering cobicistat is invalid as obvious and that Mylan
product cannot infringe an invalid claim. In March 2016, we filed lawsuits against Mylan in
District Court for the District of Delaware and U.S. District Court for the Northern District
Virginia. In January 2017, we received a letter from Mylan notifying us that it had submitte
ANDA to FDA for this same product. We are currently evaluating Mylan's letter. The trial
scheduled for January 2018. The patent in suit that covers Tybost is also listed in the Orange
Stribild and Genvoya.

Watson

In February 2015, we received notice that Watson Laboratories, Inc. (Watson) submitted an
requesting permission to manufacture and market a generic version of Letairis. In the notice
alleges that one of the patents associated with ambrisentan tablets is invalid, unenforceable
be infringed by Watson's manufacture, use or sale of a generic version of Letairis. In April
lawsuit against Watson in the U.S. District Court for the District of New Jersey. In January
reached an agreement with Watson to settle the litigation.

SigmaPharm

In June 2015, we received notice that SigmaPharm Laboratories, LLC (SigmaPharm) submi
to FDA requesting permission to manufacture and market a generic version of Letairis. In th
SigmaPharm alleges that one of the patents associated with ambrisentan tablets is invalid, u
and/or will not be infringed by SigmaPharm's manufacture, use or sale of a generic version
June 2015, we filed a lawsuit against SigmaPharm in the U.S. District Court for the District
for infringement of our patents. The date for trial against SigmaPharm is not yet set but esti
in the second quarter of 2017.

We cannot predict the ultimate outcome of the foregoing actions and other litigation with ge
manufacturers, and we may spend significant resources enforcing and defending these pater
unsuccessful in these lawsuits, some or all of our original claims in the patents may be narro
invalidated and the patent protection for Truvada, Viread and Letairis in the United States a
Truvada and Viread in Canada could be substantially shortened. Further, if all of the patents
or more products are invalidated, FDA or the Canadian Minister of Health could approve th
manufacture a generic version of such products in the United States or Canada, respectively
expiration date of those patents. The sale of generic versions of these products earlier than t
expiration would have a significant negative effect on our revenues and results of operations

We face credit risks from our Emerging Market and Southern European customers that may
affect our results of operations.

We have exposure to customer credit risks in emerging markets and Southern Europe. Soutl
product sales to government-owned or supported customers in Southern Europe, specifically
Portugal and Greece have historically been subject to significant payment delays due to gov
funding and reimbursement practices. This has resulted and may continue to result in days s
being significantly higher in these countries due to the average length of time that accounts
remain outstanding. As of December 31, 2016, our accounts receivable, net in Southern Eur
specifically Greece, Italy, Portugal and Spain, totaled approximately $317 million, of which
were greater than 120 days past due, including $45 million greater than 365 days past due.

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

Imports from countries where our products are available at lower prices and counterfeit vers
products could have a negative impact on our reputation and business.

Prices for our products are based on local market economics and competition and sometime
country to country. Our sales in countries with relatively higher prices may be reduced if pr
imported into those or other countries from lower price markets. There have been cases in w
pharmaceutical products were sold at steeply discounted prices in the developing world and
re-exported to European countries where they could be re-sold at much higher prices. If this
our products, particularly Truvada and Viread, which we have agreed to make available at s
reduced prices to more than 130 countries participating in our Gilead Access Program, or A

Complera, which Merck and Janssen, respectively, distributes at substantially reduced price
infected patients in developing countries, our revenues would be adversely affected. In addi
established partnerships with India-based generic manufacturers to distribute generic versio
disoproxil fumarate and TAF, to 112 developing world countries, including India. We expar
agreements to include rights to Stribild, Tybost and Vitekta. We also entered into agreemen
India-based generic manufacturers to produce and distribute generic emtricitabine in the dev
including single-tablet regimens containing emtricitabine and fixed-dose combinations of er
co-formulated with our other HIV medicines. Starting in 2014, we entered into licensing ag
India-based generic manufacturers to produce and distribute generic versions of our HCV p
developing countries. If generic versions of our HIV and HCV products under these license
re-exported to the United States, Europe or other markets outside of these developing world
revenues would be adversely affected. We also make our HCV products available in low- ar
middle-income countries at significantly discounted prices. If the discounted

HCV products are re-exported from these low- and middle-income countries into the United higher price markets, our revenues could be adversely affected.

In addition, purchases of our products in countries where our selling prices are relatively lo countries in which our selling prices are relatively high may adversely impact our revenues margin and may cause our sales to fluctuate from quarter to quarter. For example, in the Eu we are required to permit products purchased in one country to be sold in another country. F products in countries where our selling prices are relatively low for resale in countries in wh prices are relatively high can affect the inventory level held by our wholesalers and can caus sales levels in the various countries to fluctuate from quarter to quarter and not reflect the ac demand in any given quarter. These quarterly fluctuations may impact our earnings, which c affect our stock price and harm our business.

Further, third parties may illegally distribute and sell counterfeit versions of our products, w meet the rigorous quality standards of our manufacturing and supply chain. For example, in of 2017, bottles of counterfeit drugs labeled under the Harvoni brand name were discovered pharmacy chain and pharmaceutical wholesalers in Japan. We are investigating this matter a with the Japanese health ministry. In order to help prevent similar issues in Japan, we accele changes to our product packaging to make counterfeiting more difficult. We actively take ac discourage counterfeits of our products around the world, including working with local regu authorities to enforce laws against counterfeit drugs. Counterfeit drugs pose a serious risk to and safety. Our reputation and business could suffer as a result of counterfeit drugs sold unc name.

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

We are involved in a number of litigation, investigation and other dispute-related matters th expend substantial internal and financial resources. We expect these matters will continue to level of internal and financial resources for the foreseeable future. These matters have reduc continue to reduce our earnings. Please see a description of our litigation, investigation and dispute-related matters in Note 12, Commitments and Contingencies - Legal Proceedings of Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. such lawsuits or any other lawsuits that may be brought against us, the investigations or any investigations that may be initiated, are inherently uncertain, and adverse developments or c result in significant expenses, monetary damages, penalties or injunctive relief against us tha significantly reduce our earnings and cash flows and harm our business.

In some countries, we may be required to grant compulsory licenses for our products or our be enforced.

In a number of developing countries, government officials and other interested groups have pharmaceutical companies should make drugs for HCV or HIV infection available at low co Alternatively, governments in those developing countries could require that we grant compu to allow competitors to manufacture and sell their own versions of our products, thereby red product sales. For example, there is growing attention on the availability of HCV therapies a activists are advocating for the increased availability of HCV therapies through other means compulsory licenses. In the past, certain offices of the government of Brazil have expressed the affordability of our HIV products and declared that they were considering issuing compu to permit the manufacture of otherwise patented products for HIV infection, including Virea concerns over the cost and availability of Tamiflu related to a potential avian flu pandemic a influenza generated international discussions over compulsory licensing of our Tamiflu pate example, the Canadian government considered allowing Canadian manufacturers to manufa export the active ingredient in Tamiflu to eligible developing and least developed countries Access to Medicines Regime. Furthermore, Roche issued voluntary licenses to permit third-

manufacturing of Tamiflu. For example, Roche granted a sublicense to Shanghai Pharmaceu Co., Ltd. for China and a sublicense to India's Hetero Drugs Limited for India and certain d countries. If compulsory licenses permit generic manufacturing to override our product pate HCV, HIV or other products, or if we are required to grant compulsory licenses for these pr reduce our earnings and cash flows and harm our business.

In addition, certain countries do not permit enforcement of our patents, or permit our patent third-party manufacturers are able to sell generic versions of our products in those countries in July 2009, the Brazilian patent authority rejected our patent application for tenofovir diso the active pharmaceutical ingredient in Viread. This was the highest level of appeal availabl the Brazilian patent authority. Because we do not currently have a patent in Brazil, the Braz government now purchases its supply of tenofovir disoproxil fumarate from generic manufa first quarter of 2017, the Brazilian Health Regulatory Agency rejected our patent applicatio sofosbuvir and our HCV products. We plan to appeal this decision. Sales of generic version products could significantly reduce our sales and adversely affect our results of operations, generic versions of our products are imported into territories where we have existing comm

We may face significant liability resulting from our products that may not be covered by ins
such liability could materially reduce our earnings.
The testing, manufacturing, marketing and use of our commercial products, as well as produ
development, involve substantial risk of product liability claims. These claims may be made
consumers, healthcare providers, pharmaceutical companies or others. We may be unable to
sufficient insurance coverage for product liabilities that may arise. In addition, the cost to de
or pay damages for product liability claims may exceed our insurance coverage. If we are u
maintain adequate coverage or if claims exceed our coverage, our financial condition and ou
clinically test our product candidates and market our products will be adversely affected. In
negative publicity associated with any claims, regardless of their merit, may decrease the fu
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
disasters for which we may be self-insured. Our corporate headquarters and Fremont locatio
together house a majority of our R&D activities, and our San Dimas and Oceanside manufa
are located in California, a seismically active region. As we may not carry adequate earthqu
and significant recovery time could be required to resume operations, our financial conditio
results could be materially adversely affected in the event of a major earthquake.
We are dependent on information technology systems, infrastructure and data.
We are dependent upon information technology systems, infrastructure and data. The multit
complexity of our computer systems make them inherently vulnerable to service interruptio
malicious intrusion and random attack. Likewise, data privacy or security breaches by empl
may pose a risk that sensitive data, including our intellectual property, trade secrets or perso
of our employees, patients, customers or other business partners may be exposed to unautho
to the public. Cyberattacks are increasing in their frequency, sophistication and intensity. Cy
could include the deployment of harmful malware, denial-of-service, social engineering and
affect service reliability and threaten data confidentiality, integrity and availability. Our bus
face similar risks and any security breach of their systems could adversely affect our securit
While we have invested, and continue to invest, in the protection of our data and informatio
infrastructure, there can be no assurance that our efforts will prevent service interruptions, c
breaches in our systems, that could adversely affect our business and operations and/or resu
critical or sensitive information, which could result in financial, legal, business or reputation
In addition, our liability insurance may not be sufficient in type or amount to cover us again
related to security breaches, cyberattacks and other related breaches.
Changes in our effective income tax rate could reduce our earnings.
We are subject to income taxes in the United States and various foreign jurisdictions includi
to economic and political conditions, various countries are actively considering changes to e
laws. We cannot predict the form or timing of potential legislative changes that could have a
adverse impact on our results of operations. In addition, significant judgment is required in
worldwide provision for income taxes. Various factors may have favorable or unfavorable e
income tax rate including, but not limited to, changes in forecasted demand for our HCV pr
portion of the non-tax deductible annual BPD fee, the accounting for stock options and othe
awards, mergers and acquisitions, the ability to manufacture product in our Cork, Ireland fa
amortization of certain acquisition related intangibles for which we receive no tax benefit, f
R&D spending, changes in the mix of earnings in the various tax jurisdictions in which we
in overall levels of pre-tax earnings and resolution of federal, state and foreign income tax a
impact on our income tax provision resulting from the above mentioned factors may be sign
could have a negative impact on our consolidated results of operations.

Our income tax returns are subject to audit by federal, state and foreign tax authorities. We
under examination by the Internal Revenue Service for the 2010, 2011, 2012, 2013 and 201
by various state and foreign jurisdictions. There are differing interpretations of tax laws and
and as a result, significant disputes may arise with these tax authorities involving issues of t
amount of deductions and allocations of income among various tax jurisdictions. Resolution
of these exposures in any reporting period could have a material impact on the results of op
period.

If we fail to attract and retain highly qualified personnel, we may be unable to successfully
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 hig
scientific, technical and management personnel, as well as personnel with expertise in clinic
governmental regulation and commercialization. We face competition for personnel from ot
universities, public and private research institutions, government entities and other organiza
Competition for qualified personnel in the biopharmaceutical field is intense, and there is a

of qualified potential employees to recruit. We may not be able to attract and retain quality
acceptable terms. If we are unsuccessful in our recruitment and retention efforts, our busine
harmed.

There can be no assurance that we will pay dividends or continue to repurchase stock.

Our Board of Directors authorized a dividend program under which we intend to pay quarte
$0.52 per share, subject to quarterly declarations by our Board of Directors. Our Board of D
approved the repurchase of up to $12.0 billion of our common stock, of which $9 billion is
repurchase as of December 31, 2016. Any future declarations, amount and timing of any div
the amount and timing of such stock repurchases are subject to capital availability and deter
our Board of Directors that cash dividends and/or stock repurchases are in the best interest
stockholders and are in compliance with all respective laws and our agreements applicable t
declaration and payment of cash dividends and the repurchase of stock. Our ability to pay d
repurchase stock will depend upon, among other factors, our cash balances and potential fut
requirements for strategic transactions, including acquisitions, debt service requirements, re
operations, financial condition and other factors beyond our control that our Board of Direc
relevant. A reduction in or elimination of our dividend payments, our dividend program and
repurchases could have a negative effect on our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Foster City, California, where we house our admini
manufacturing and R&D activities. We also have R&D facilities in Oceanside, California; F
California; Seattle, Washington; and Alberta, Canada and manufacturing facilities in San Di
California; Oceanside, California; Alberta, Canada; and Cork, Ireland. Our global operation
offices in Europe, North America, Asia, South America, Africa, Australia, India and the Mi

We believe that our existing properties, including both owned and leased sites, are in good c
suitable for the conduct of our business. We believe our capital resources are sufficient to pu
construct any additional facilities required to meet our expected long-term growth needs.

ITEM 3. LEGAL PROCEEDINGS

For a description of our significant pending legal proceedings, please see Note 12, Commitm
Contingencies - Legal Proceedings of the Notes to Consolidated Financial Statements inclu
this Annual Report on Form 10-K, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOL
AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Select Market under the symbol "GILD"
table sets forth the high and low intra-day sale prices per share of our common stock on the
Select Market for the periods indicated. These prices represent quotations among dealers wi
adjustments for retail mark-ups, markdowns or commissions and may not represent prices o
transactions.

	2016		2015	
	High	Low	High	Low
First Quarter	$100.68	$81.89	$107.77	$93.18
Second Quarter	$103.10	$77.92	$123.37	$95.38
Third Quarter	$88.85	$76.67	$120.37	$86.00
Fourth Quarter	$80.00	$70.83	$111.11	$94.37

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As of February 16, 2017, we had 1,307,066,900 shares of common stock outstanding held b
approximately 349 stockholders of record, which include shares held by a broker, bank or o

Dividends

During 2016, we declared and paid quarterly cash dividends for an aggregate amount of $2.
$1.84 per common share. During 2015, we initiated a quarterly cash dividend of $0.43 per s
in the second quarter of 2015 and declared and paid an aggregate amount of $1.9 billion or
common share. See Note 13, Stockholders' Equity of the Notes to Consolidated Financial S
included in Item 8 of this Annual Report on Form 10-K for additional information.

Performance Graph [1]

The following graph compares our cumulative total stockholder return for the past five year
the Standard & Poor's 500 Stock Index, labeled S&P 500 Index; and the Nasdaq Biotechno
Index, labeled NBI Index. The stockholder return shown on the graph below is not necessar
future performance, and we do not make or endorse any predictions as to future stockholder

Comparison of Cumulative Total Return on Investment for the Past Five Years [2]

Notes:

(1) This section is not "soliciting material," is not deemed "filed" with the SEC and is not to reference in any of our filings under the Securities Act or the Exchange Act whether mad after the date hereof and irrespective of any general incorporation language in any such f

(2) Shows the cumulative return on investment assuming an investment of $100 in our comm NBI Index and the S&P 500 Index on December 30, 2011, and that all dividends were re

Issuer Purchases of Equity Securities

In 2016, we repurchased 123 million shares of our common stock for an aggregate purchase
billion, of which $5.0 billion was through an accelerated stock repurchase program and $6.0
through open market transactions.

In February 2016, our Board of Directors authorized a $12.0 billion share repurchase progra
Program) under which repurchases may be made in the open market or in privately negotiat
We started repurchases under the 2016 Program in April 2016. The table below summarizes
repurchase activity under the 2016 Program for the three months ended December 31, 2016

	Total Number of Shares Purchased (in thousands)		Average Price Paid per Share (in dollars)	Total Number of Shares Purchased as Part of Publicly Announced Program (in thousands)	
October 1 - October 31, 2016	4,722		$ 74.77	4,694	
November 1 - November 30, 2016	4,827		$ 75.07	4,607	
December 1 - December 31, 2016	4,139		$ 73.55	4,128	
Total	13,688	(1)	$ 74.51	13,429	(1)

Note:

(1) The difference between the total number of shares purchased and the total number of sha as part of publicly announced program is due to shares of common stock withheld by us restricted stock awards in order to satisfy applicable tax withholding obligations.

ITEM 6. SELECTED FINANCIAL DATA

GILEAD SCIENCES, INC.

SELECTED CONSOLIDATED FINANCIAL DATA

(in millions, except per share data)

	Year Ended December 31,			
	2016	2015	2014	2013
CONSOLIDATED STATEMENT OF INCOME DATA:				
Total revenues [1]	$30,390	$32,639	$24,890	$11,
Total costs and expenses [1]	$12,757	$10,446	$9,625	$6,6
Income from operations	$17,633	$22,193	$15,265	$4,5
Provision for income taxes	$3,609	$3,553	$2,797	$1,1
Net income	$13,488	$18,106	$12,059	$3,0
Net income attributable to Gilead	$13,501	$18,108	$12,101	$3,0
Net income per share attributable to Gilead common stockholders - basic	$10.08	$12.37	$7.95	$2.0
Shares used in per share calculation - basic	1,339	1,464	1,522	1,529
Net income per share attributable to Gilead common stockholders - diluted	$9.94	$11.91	$7.35	$1.8
Shares used in per share calculation - diluted	1,358	1,521	1,647	1,695
Cash dividends declared per share	$1.84	$1.29	$—	$—

	December 31,				
	2016	2015	2014	2013	2
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and marketable securities [2]	$32,380	$26,208	$11,726	$2,571	$
Working capital [2]	$11,226	$14,872	$11,953	$590	$
Total assets [2][3]	$56,977	$51,716	$34,601	$22,555	$
Other long-term obligations	$296	$395	$586	$262	$
Long-term debt, including current portion [2][3]	$26,346	$22,055	$12,341	$6,612	$
Retained earnings	$18,154	$18,001	$12,732	$6,106	$
Total stockholders' equity	$19,363	$19,113	$15,819	$11,745	$

Notes:

(1) See Management's Discussion and Analysis of Financial Condition and Results of Oper in Item 7 of this Annual Report on Form 10-K for a description of our results of operati

(2) During 2016, we issued $5.0 billion principal amount of senior unsecured notes in a reg We also repaid $285 million of principal balance of convertible senior notes due in May million of principal balance of senior unsecured notes due in December 2016.
During 2015, we issued $10.0 billion principal amount of senior unsecured notes in a re offering. We also repaid $213 million of principal balance of convertible senior notes du
During 2014, we issued $8.0 billion principal amount of senior unsecured notes in regis We also repaid $912 million of principal balance of convertible senior notes due in May million of principal balance of senior unsecured notes due in December 2014 and $600 our five-year revolving credit facility agreement.
During 2013, we repaid $1.5 billion of principal balance of convertible senior notes and million under our five-year revolving credit facility agreement.
During 2012, we completed the acquisition of Pharmasset, Inc. and recognized consider transferred of $11.1 billion which was primarily recorded in Intangible assets, net. We f transaction with approximately $5.2 billion in cash on hand, $2.2 billion in bank debt is 2012 and $3.7 billion in senior unsecured notes issued in December 2011.

In 2016, we retrospectively adopted Accounting Standards Update No. 2015-03 “Simpl
Presentation of Debt Issuance Costs,” which requires presentation of debt issuance costs
(3) deduction from the carrying amount of a recognized debt liability on the balance sheet.
reclassified unamortized debt issuance costs from assets to Long-term debt, including cu
for each of the years presented.

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

The following Management's Discussion and Analysis of Financial Condition and Results o (MD&A) is intended to help the reader understand our results of operations and financial co MD&A is provided as a supplement to, and should be read in conjunction with, our audited Financial Statements and the accompanying Notes to Consolidated Financial Statements and disclosures included in Item 8 of this Annual Report on Form 10-K (including the disclosure Item 1A, "Risk Factors"). Our Consolidated Financial Statements have been prepared in acc 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 res biopharmaceutical company that discovers, develops and commercializes innovative medici unmet medical need. With each new discovery and investigational drug candidate, we strive and simplify care for people with life-threatening illnesses around the world. We have opera than 30 countries worldwide, with headquarters in Foster City, California. Gilead's primary include human immunodeficiency virus (HIV), liver diseases such as chronic hepatitis C vir infection and chronic hepatitis B virus (HBV) infection, hematology/oncology, cardiovascu inflammation/respiratory diseases. We seek to add to our existing portfolio of products throu discovery and clinical development programs and through product acquisition and in-licens Our portfolio of marketed products includes AmBisome®, Atripla®, Cayston®, Complera®/E Descovy®, Emtriva®, Epclusa®, Genvoya®, Harvoni®, Hepsera®, Letairis®, Odefsey®, Rane Stribild®, Truvada®, Tybost®, Vemlidy®, Viread®, Vitekta®, and Zydelig®. We have U.S. a commercial sales operations, with marketing subsidiaries in over 30 countries. We also sell certain products through our corporate partners under royalty-paying collaborative agreeme

2016 Business Highlights

During 2016, we continued to advance our product pipeline across our therapeutic areas wit delivering best-in-class drugs that advance the current standard of care and/or address unme Highlights of our 2016 activities include:

- Submission of marketing authorization applications for the once-daily, single-tablet regimen 400 mg, velpatasvir 100 mg and voxilaprevir 100 mg for the treatment of HCV-infected pat Food and Drug Administration (FDA) and the European Commission.
- FDA and Japanese Ministry of Health, Labour and Welfare (MHLW) approval of Ve once-daily treatment for adults with HBV infection with compensated liver disease.
- European Commission approval of marketing authorization for once-daily Truvada in comb
- safer-sex practices to reduce the risk of sexually acquired HIV-1 infection among uninfecte risk, a strategy known as pre-exposure prophylaxis, or PrEP.
- FDA and European Commission approval of Epclusa, the first all-oral, pan-genotypic, singl regimen for the treatment of adults with genotype 1-6 chronic HCV infection.
- FDA and the European Commission approval of two tenofovir alafenamide (TAF)-based re Odefsey and Descovy, a fixed-dose combination for the treatment of HIV-1 infection.
- Purchase of Nimbus Apollo, Inc. (Nimbus), a wholly-owned subsidiary of Nimbus Therape Acetyl-CoA Carboxylase (ACC) inhibitor program. The Nimbus program includes the lead NDI-010976, an ACC inhibitor, and other pre-clinical ACC inhibitors for the potential treat non-alcoholic steatohepatitis (NASH), hepatocellular carcinoma and other diseases.
- Closed on a license and collaboration agreement with Galapagos NV (Galapagos), a clinica biotechnology company based in Belgium, for the development and commercialization of f JAK1-selective inhibitor being investigated for inflammatory disease indications.

2016 Financial Highlights

During 2016, total revenues decreased to $30.4 billion and total product sales decreased to $
compared to $32.6 billion and $32.2 billion in 2015, respectively, primarily due to lower sal
and Sovaldi, partially offset by sales of Epclusa and TAF-based products, Genvoya, Descov
In the United States, product sales were $19.3 billion in 2016, compared to $21.2 billion in
Europe, product sales were $6.1 billion in 2016, compared to $7.2 billion in 2015. In Japan,
were $2.5 billion, compared to $1.9 billion in 2015. Sales in other international locations we
in 2016, compared to $1.9 billion in 2015.

Research and development (R&D) expenses increased 69% to $5.1 billion for 2016 compar
primarily due to the overall progression of clinical studies, including ongoing milestone pay
purchase of an FDA priority review voucher, up-front collaboration expenses related to our
collaboration agreement with Galapagos and our purchase of Nimbus. In addition, we recor
R&D (IPR&D) impairment charges related to momelotinib and simtuzumab.
Selling, general and administrative (SG&A) expenses were $3.4 billion for 2016 and 2015.
branded prescription drug (BPD) fee expense were offset by higher costs to support new pro
and our geographic expansion.
Net income attributable to Gilead for 2016 was $13.5 billion or $9.94 per diluted share, com
billion or $11.91 per diluted share in 2015, primarily due to lower product sales and higher
Year-over-year earnings per share were favorably impacted by our share repurchase activiti
2016, we repurchased a total of 123 million shares for $11.0 billion, of which 54 million sha
billion were repurchased under an accelerated stock repurchase program.
As of December 31, 2016, we had $32.4 billion of cash, cash equivalents and marketable se
compared to $26.2 billion as of December 31, 2015. This increase was primarily due to the
billion aggregate principal amount of senior unsecured notes in September 2016 (the 2016 N
2016, we generated $16.7 billion in operating cash flow, utilized $11.0 billion to repurchase
cash dividends of $2.5 billion.
Outlook 2017
In 2017, we will continue to maintain our strong operating and financial discipline. From a
perspective, we will continue to invest in conducting new and ongoing clinical studies, whic
our existing products and our product candidates. We expect to move forward on a number
clinical studies for new product candidates, including progress of our Phase 3 studies of selo
NASH. In order to further develop our product pipeline, we will focus on leveraging our cap
external licensing and acquisition opportunities which fit into our long-term strategic plan.
From a commercial perspective, we will continue to focus on supporting the uptake of our r
launched TAF-based regimens and continue to promote the use of our existing commercial
also hired a field-based team to promote Truvada for PrEP as we believe it will continue to
part of our growth in HIV in the United States as communities embrace the public health be
prevention. In HCV, it is very difficult for us to accurately predict our revenue because HCV
market. We expect patient starts to decline relative to 2016 in all major markets, and this wi
primary driver of our expected decline in total product sales. We also expect product sales t
by the effects of competition on market share and net price, as well as a continued decrease
duration of treatment as fewer patients are treated for 24 or 12 weeks and more patients are
weeks. While we anticipate HCV revenues in 2017 to decline from prior year levels, there a
patients to treat and we expect our HCV products to generate significant revenues and cash
future. We will continue to focus on helping HCV patients get diagnosed and into treater ca
we will continue to invest strategically and selectively in educational programs that raise aw
access to our medications.
We will continue to focus on ensuring patient access to our products around the world. Our
of these initiatives is subject to a number of uncertainties, including, but not limited to, the c
an uncertain global macroeconomic environment; additional pricing pressures from payers a
slower than anticipated growth in our HIV franchise; an increase in discounts, chargebacks
to ongoing contracts and future negotiations with commercial and government payers; mark
price erosion caused by the introduction of generic versions of Truvada outside the United S
Viread later in 2017; inaccuracies in our HCV patient start estimates; potential amendments
Affordable Care Act or other government action that could have the effect of lowering price
anticipated shift in payer mix to more highly discounted payer segment; and volatility in for
exchange rates.

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2016 Results of Operations

Total Revenues

The following table summarizes the period over period changes in our product sales and roy
and other revenues:

(In millions, except percentages)	2016	Change	2015	Change	2014
Revenues:					
Product sales	$29,953	(7)%	$32,151	31 %	$24,474
Royalty, contract and other revenues	437	(10)%	488	17 %	416
Total revenues	$30,390	(7)%	$32,639	31 %	$24,890

Product Sales

2016 Compared to 2015

Total product sales were $30.0 billion in 2016, compared to $32.2 billion in 2015, primarily decrease in antiviral product sales.

Antiviral product sales, which include sales of our HIV and other antiviral products and our were $27.7 billion in 2016, compared to $30.2 billion in 2015. HIV and other antiviral prod $12.9 billion in 2016, compared to $11.1 billion in 2015. The increase was primarily driven continued uptake of our TAF-based products, Genvoya, Descovy and Odefsey, partially off in sales of tenofovir disoproxil (TDF)-based products. HCV product sales, which consist of Sovaldi and Epclusa, were $14.8 billion in 2016, compared to $19.1 billion in 2015. The de to lower sales of Harvoni and Sovaldi, partially offset by sales of Epclusa, which was launc across various locations.

Other product sales, which include sales of Letairis, Ranexa and AmBisome, were $2.2 billi increase of 14% compared to $1.9 billion in 2015.

Of our product sales in 2016, 36% were generated outside the United States. We faced expo movements in foreign currency exchange rates, primarily in the Euro and Yen. We used for exchange contracts to hedge a percentage of our foreign currency exposure. Foreign currenc of hedges, had an unfavorable impact of $498 million on our 2016 product sales compared t

We record product sales net of estimated mandatory and supplemental discounts to governm addition to discounts to private payers, including rebates, chargebacks, cash discounts for pr distributor fees and other related costs. These deductions are generally referred to as gross-to-net deductions and totaled $20.3 billion or 40% of gross product sales in 2016, c $18.1 billion or 36% in 2015. Of the $20.3 billion in 2016, $19.1 billion or 38% of gross pr related to government and other rebates and chargebacks, and $1.2 billion was related to cas prompt payment, distributor fees and other related costs. The increase in our 2016 gross-to- was primarily due to an increase in discounts and a higher percentage of sales to more deepl segments for our HCV products in the United States.

Product sales in the United States decreased by 9% to $19.3 billion in 2016, compared to $2 2015. Declines in sales of our HCV products were partially offset by increases in sales of ou other antiviral products. The increases in the sales of our HIV and other antiviral products w driven by sales of our newly launched TAF-based products and a favorable revision to our r of $332 million, primarily related to our TDF-based products.

Product sales in Europe decreased by 15% to $6.1 billion in 2016, compared to $7.2 billion primarily due to lower Harvoni and Sovaldi sales volume. Foreign currency exchange, net c an unfavorable impact of $503 million on our product sales in 2016 compared to 2015.

Product sales in Japan, which consist of Sovaldi and Harvoni, increased by 31% to $2.5 bill compared to $1.9 billion in 2015. The increase was primarily driven by higher sales volume which was launched in September 2015, partially offset by a mandatory price reduction of 3 and Harvoni that was effective April 1, 2016.

Product sales in other international locations increased by 10% to $2.1 billion in 2016, comp
billion in 2015, primarily driven by continued launches of our HCV and TAF-based produc
locations.

2015 Compared to 2014

Total product sales were $32.2 billion in 2015, compared to $24.5 billion in 2014, primarily
increase in antiviral product sales.

Antiviral product sales were $30.2 billion in 2015, compared to $22.8 billion in 2014. The i
primarily driven by the launch of Harvoni across various geographies, partially offset by a d
Sovaldi sales with patients being prescribed Harvoni instead of Sovaldi. HIV products also
the sales increases primarily due to increased sales of our newer HIV single-tablet regimens
Complera/Eviplera and Genvoya, partially offset by declines in Atripla sales volumes.
Other product sales, which include sales of Letairis, Ranexa, AmBisome and Zydelig, were
2015, an increase of 16% compared to $1.7 billion in 2014.
Of our product sales in 2015, 34% were generated outside the United States. Foreign curren
net of hedges, had an unfavorable impact of $737 million on our 2015 product sales compar
Our gross-to-net deductions totaled $18.1 billion or 36% in 2015, compared to $7.3 billion
Of the $18.1 billion in 2015, $16.4 billion or 33% of gross product sales was related to gove
other rebates and chargebacks, and $1.7 billion was related to cash discounts for prompt pay
distributor fees and other related costs. Our 2015 gross-to-net deductions attributable to our
sales exceeded our overall gross-to-net of 36% in order to obtain formulary status or expand
patients.
Product sales in the United States increased by 17% to $21.2 billion in 2015, compared to $
2014, primarily due to sales of Harvoni and increases in sales of Stribild, Truvada and Com
offset by declines in sales of Sovaldi.
Product sales in Europe increased by 39% to $7.2 billion in 2015, compared to $5.1 billion
primarily due to sales of Harvoni. Foreign currency exchange, net of hedges, had an unfavo
$611 million on our product sales in 2015 compared to 2014.
Product sales in other international locations increased to $3.8 billion in 2015 compared to
2014, primarily due to the launch in Japan of Sovaldi in May 2015 and Harvoni in Septemb
The following table summarizes the period over period changes in our product sales:

(In millions, except percentages)	2016	Change	2015	Change	2014
Antiviral products:					
HCV products					
Harvoni	$9,081	(34)%	$13,864	*	$2,127
Sovaldi	4,001	(24)%	5,276	(49)%	10,283
Epclusa	1,752	*	—	*	—
HIV and other antiviral products					
Truvada	3,566	3 %	3,459	4 %	3,340
Atripla	2,605	(17)%	3,134	(10)%	3,470
Stribild	1,914	5 %	1,825	52 %	1,197
Genvoya	1,484	*	45	*	—
Complera/Eviplera	1,457	2 %	1,427	16 %	1,228
Viread	1,186	7 %	1,108	5 %	1,058
Odefsey	329	*	—	*	—
Descovy	298	*	—	*	—
Other antiviral	72	4 %	69	(22)%	88
Total antiviral products	27,745	(8)%	30,207	33 %	22,791
Other products:					
Letairis	819	17 %	700	18 %	595
Ranexa	677	15 %	588	15 %	510
AmBisome	356	2 %	350	(10)%	388
Zydelig	168	27 %	132	*	23
Other	188	8 %	174	4 %	167
Total product sales	$29,953	(7)%	$32,151	31 %	$24,474

* Percentage not meaningful

The following is additional discussion of our results by product:

- Harvoni

Harvoni was approved by FDA in October 2014, by the European Commission in Novembe
the Japanese MHLW in July 2015.

Harvoni sales accounted for 33%, 46% and 9% of our total antiviral product sales for 2016,
respectively. In 2016, product sales were $4.9 billion in the United States, $1.8 billion in Eu
billion in Japan and $491 million in other international locations. In 2015, product sales wer
in the United States, $2.2 billion in Europe, $1.0 billion in Japan and $545 million in other i
locations. In 2014, product sales were $2.0 billion in the United States and $103 million in E

In the United States, the decrease in 2016 compared to 2015 was primarily due to lower sale
lower average net selling price, which was partially offset by a favorable revision to our sale
of $181 million recorded during the second quarter of 2016. The number of patients that sta
with Harvoni in the United States peaked in the first half of 2015, as many warehoused patie
treatment after the product launch. In Europe, the decrease in 2016 compared to 2015 was p
lower sales volume and unfavorable foreign currency exchange, net of hedges. In Japan, the
2016 compared to 2015 was driven by higher sales volume, partially offset by a mandatory
of 32% that was effective April 1, 2016. In other international locations, the decrease in 201
2015 was primarily due to a lower average net selling price, partially offset by the continued
Harvoni across various locations.

The increase in product sales in 2015 compared to 2014 was primarily due to the launch of H
United States, Europe and Japan.

- Sovaldi

Sovaldi was approved by FDA in December 2013, by the European Commission in January
the Japanese MHLW in March 2015.

Sovaldi sales accounted for 14%, 17% and 45% of our total antiviral product sales for 2016
2014, respectively. In 2016, product sales were $1.9 billion in the United States, $891 millio
$635 million in Japan and $580 million in other international locations. In 2015, product sal
billion in the United States, $1.6 billion in Europe, $878 million in Japan and $409 million i
international locations. In 2014, product sales were $8.5 billion in the United States, $1.5 bi
and $230 million in other international locations.

In the United States, the decrease in 2016 compared to 2015 was primarily due to lower sale
partially offset by a favorable revision to our sales return reserve of $98 million recorded du
quarter of 2016. In Europe, the decrease in 2016 compared to 2015 was primarily due to low
volume. In Japan, the decrease in 2016 compared to 2015 was primarily due to a mandatory
of 32% that was effective April 1, 2016 and lower sales volume. In other international locat
increase in 2016 compared to 2015 was primarily driven by higher sales volume.

The decrease in product sales in 2015 compared to 2014 was primarily due to volume declin
United States with patients being prescribed Harvoni instead of Sovaldi, partially offset by v
increases in Japan and Europe due to the launch of Sovaldi.

- Epclusa

Epclusa was launched in the United States and Europe in June and July 2016, respectively, a
for 6% of our total antiviral product sales. In 2016, product sales were $1.8 billion, primaril
sales in the United States of $1.6 billion.

- Truvada

Truvada sales accounted for 13%, 11% and 15% of our total antiviral product sales for 2016
2014, respectively. In 2016, product sales were $2.4 billion in the United States, $913 millio
and $269 million in other international locations. In 2015, product sales were $2.1 billion in
States, $1.1 billion in Europe and $284 million in other international locations. In 2014, pro
$1.8 billion in the United States, $1.3 billion in Europe and $278 million in other internation

Truvada sales increased by 3% to $3.6 billion in 2016, compared to $3.5 billion in 2015, pri
higher average net selling price and higher sales volume in the United States, as a result of t
usage of Truvada for PrEP. Truvada sales increased by 4% in 2015, compared to $3.3 billio
primarily due to sales volume growth and an increase in the average net selling price in the

- Atripla

Atripla sales accounted for 9%, 10% and 15% of our total antiviral product sales for 2016, 2
respectively. In 2016, product sales were $1.9 billion in the United States, $520 million in E
million in other international locations. In 2015, product sales were $2.2 billion in the Unite
million in Europe and $218 million in other international locations. In 2014, product sales w
in the United States, $888 million in Europe and $225 million in other international location
Atripla sales decreased by 17% to $2.6 billion in 2016, compared to $3.1 billion in 2015 and
2015, compared to $3.5 billion in 2014, primarily due to declines in sales volume as doctors
newer regimens, including TDF- and TAF-based regimens. The efavirenz component of Atr
a gross margin of zero, comprised $966 million, $1.2 billion and $1.3 billion of our Atripla
2015 and 2014, respectively.

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

- Stribild

Stribild sales accounted for 7%, 6% and 5% of our total antiviral product sales for 2016, 20
respectively. In 2016, product sales were $1.5 billion in the United States and $314 million
2015, product sales were $1.5 billion in the United States and $282 million in Europe. In 20
sales were $1.0 billion in the United States and $145 million in Europe.

Stribild sales increased by 5% to $1.9 billion in 2016, compared to $1.8 billion in 2015, prim
favorable revision to our rebate reserves of $223 million during the third quarter of 2016, pa
lower sales volume as a result of the continued launch of our new TAF-based product, Genv
sales increased by 52% in 2015, compared to $1.2 billion in 2014, primarily due to higher sa
the United States and Europe.

- TAF-based regimens - Genvoya, Descovy and Odefsey

Genvoya was launched in the United States and Europe in November 2015. Descovy was la
United States and Europe in April 2016. Odefsey was launched in the United States in Marc
launched in Europe in July 2016.

Our newly launched TAF-based regimens accounted for 8% of our total antiviral product sa
2016, product sales of our TAF-based regimens were $2.1 billion, primarily driven by sales
States of $1.8 billion.

- Complera/Eviplera

Complera/Eviplera sales accounted for 5% of our total antiviral product sales for 2016, 201
2016, product sales were $821 million in the United States and $580 million in Europe. In 2
sales were $796 million in the United States and $576 million in Europe. In 2014, product s
million in the United States and $513 million in Europe.

Complera/Eviplera sales increased by 2% to $1.5 billion in 2016, compared to $1.4 billion i
primarily due to a favorable revision to our rebate reserves of $89 million during the third q
Complera/Eviplera increased by 16% in 2015, compared to $1.2 billion in 2014, driven prim
sales volume in the United States and Europe.

Royalty, Contract and Other Revenues

The following table summarizes the period over period changes in our royalty, contract and

(In millions, except percentages)	2016	Change	2015	Change	2014
Royalty, contract and other revenues	$437	(10)%	$488	17 %	$416

Royalty, contract and other revenues declined by 10% to $437 million in 2016, compared to
in 2015 and increased by 17% in 2015, compared to $416 million in 2014. The changes wer
to royalty revenues from F. Hoffman-La Roche Ltd for sales of Tamiflu. The majority of ou
recognized in the quarter following the quarter in which the corresponding product sales oc

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Cost of Goods Sold and Product Gross Margin

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

(In millions, except percentages)	2016	Change	2015	Change	2014
Total product sales	$29,953	(7)%	$32,151	31 %	$24,474
Cost of goods sold	$4,261	6 %	$4,006	6 %	$3,788
Product gross margin	86 %		88 %		85 %

Our product gross margin for 2016 decreased compared to 2015 primarily due to changes in as our HCV product sales decreased as a percentage of total product sales. Our product gross 2015 increased compared to 2014 primarily due to changes in product mix, as Atripla sales, the efavirenz component at a gross margin of zero, declined and HCV product sales increase percentage of total product sales.

Research and Development Expenses

The following table summarizes the period over period changes in R&D expenses:

(In millions, except percentages)	2016	Change	2015	Change	2014
R&D expenses	$5,098	69 %	$3,014	6 %	$2,854

R&D expenses summarized above consisted primarily of clinical studies performed by cont organizations, materials and supplies, licenses and fees, up-front payments under collaborat milestone payments, personnel costs, including salaries, benefits and stock-based compensa 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 However, we manage our R&D expenses by identifying the R&D activities we anticipate w during a given period and then prioritizing efforts based on scientific data, probability of su development, market potential, available human and capital resources and other considerati continually review our R&D pipeline and the status of development and, as necessary, reall among the R&D portfolio that we believe will best support the future growth of our busines

The following table provides a breakout of R&D expenses by major cost type:

(In millions, except percentages)	2016	2015	2014
Clinical studies and outside services	$3,219	$1,634	$1,688
Personnel and infrastructure expenses	1,122	1,041	900
Facilities, IT and other costs	325	339	266
IPR&D impairment charges	432	—	—
Total	$5,098	$3,014	$2,854

In 2016, R&D expenses increased $2.1 billion or 69%, compared to 2015, primarily due to clinical studies and outside services expenses of $1.6 billion. The increases in clinical studie services were primarily due to the overall progression of clinical studies, including ongoing payments, our purchase of an FDA priority review voucher, up-front collaboration expenses license and collaboration agreement with Galapagos and our purchase of Nimbus. IPR&D i charges were a result of termination of clinical developments for momelotinib and simtuzum

In 2015, R&D expenses increased $160 million or 6%, compared to 2014, primarily due to personnel and infrastructure expenses of $141 million and facilities, IT and other costs of $7 support our ongoing clinical study activity and geographic expansion. In 2014, clinical stud services included expenses of $350 million for collaboration and acquisition related expense purchase of an FDA priority review voucher.

Selling, General and Administrative Expenses

The following table summarizes the period over period changes in SG&A expenses:

(In millions, except percentages)	2016	Change	2015	Change	2014
SG&A expenses	$3,398	(1)%	$3,426	15 %	$2,983

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SG&A expenses relate to sales and marketing, finance, human resources, legal and other ad
activities. Expenses are primarily comprised of facilities and overhead costs, outside market
and legal expenses, and other general and administrative costs. SG&A expenses also includ
In the United States, we, along with other pharmaceutical manufacturers of branded drug pr
required to pay a portion of an industry fee (the BPD fee), which is estimated based on selec
sales during each calendar year as a percentage of total industry government sales and is tru
receipt of invoices from the Internal Revenue Service (IRS). The amount of the annual BPD
the pharmaceutical industry as a whole was $3.0 billion in 2016 and will increase to $4.0 bi
In 2016, SG&A expenses were flat compared to 2015. Declines in our BPD fee were offset
to support new product launches and our geographic expansion. The 2016 BPD fee was fav
by a credit of $191 million based on receipt of the IRS invoice.
In 2015, SG&A expenses increased $443 million or 15% compared to 2014, primarily due t
$627 million in headcount-related, marketing and other expenses to support the growth and
expansion of our business, partially offset by a decrease in BPD fee of $100 million based o
IRS invoice.
Our BPD fee expenses were $270 million in 2016, $414 million in 2015 and $590 million in
BPD fee is not tax deductible.

Interest Expense

In 2016, interest expense increased to $964 million, compared to $688 million in 2015, prim
issuance of $5.0 billion aggregate principal amount of the 2016 Notes and $10.0 billion agg
amount of senior unsecured notes (the 2015 Notes). In 2015, interest expense increased to $
compared to $412 million in 2014, primarily due to the issuance of the 2015 Notes and the i
billion aggregate principal amount of senior unsecured notes in 2014.

Other Income (Expense), Net

Other income (expense), net was $428 million, $154 million and $3 million in 2016, 2015 a
respectively, primarily due to our cash, cash equivalents and marketable securities earning a

Provision for Income Taxes

Our provision for income taxes was $3.6 billion, $3.6 billion and $2.8 billion in 2016, 2015
respectively. The effective tax rate of 21.1%, 16.4% and 18.8% for 2016, 2015 and 2014, re
differed from the U.S. federal statutory rate of 35% primarily due to earnings from non-U.S
that operate in jurisdictions with lower tax rates than the United States and where the earnin
considered indefinitely reinvested.

Liquidity and Capital Resources

We believe that our existing capital resources, supplemented by our cash flows generated fr
activities will be adequate to satisfy our capital needs for the foreseeable future. The follow
summarizes our cash, cash equivalents, and marketable securities and working capital (in m

	December 31,		
	2016	2015	2014
Cash, cash equivalents and marketable securities	$32,380	$26,208	$11,726
Working capital	$11,226	$14,872	$11,953

Cash, Cash Equivalents and Marketable Securities

Cash, cash equivalents and marketable securities totaled $32.4 billion at December 31, 2016
$6.2 billion or 24% when compared to $26.2 billion at December 31, 2015. During 2016, w

$16.7 billion in operating cash flow, received $4.9 billion in net proceeds from the 2016 No
$11.0 billion to repurchase stock, repaid $985 million principal balance of our senior notes a
senior notes and paid cash dividends of $2.5 billion.

Cash, cash equivalents and marketable securities totaled $26.2 billion at December 31, 2015
$14.5 billion or 124% when compared to $11.7 billion at December 31, 2014. During 2015,
$20.3 billion in operating cash flow, received $9.9 billion in net proceeds from our issuance
unsecured notes, utilized $10.0 billion to repurchase stock, utilized $3.9 billion to settle 46 m
related to the convertible senior notes due in May 2016 (the Convertible Notes) and paid cas
$1.9 billion.

Of the total cash, cash equivalents and marketable securities at December 31, 2016, approxi
billion was generated from operations in foreign jurisdictions and is intended for use in our
operations. We do not rely on unrepatriated earnings as a source of funds for our domestic b
expect to have sufficient cash flow and borrowing capacity in the United States to fund our
operational and strategic needs.

Working Capital

Working capital was $11.2 billion at December 31, 2016. The decrease of $3.6 billion from
as of December 31, 2015 was primarily due to a decline in cash and cash equivalents, as a re
increase in our long-term marketable securities.

Working capital was $14.9 billion at December 31, 2015. The increase of $2.9 billion from
as of December 31, 2014 was driven primarily by the increase in cash, cash equivalents and
marketable securities and an increase in accounts receivable, partially offset by increases in
government and other rebates.

Cash Flows

The following table summarizes our cash flow activities (in millions):

	2016	2015	2014
Cash provided by (used in):			
Operating activities	$16,669	$20,329	$12,818
Investing activities	$(11,985)	$(12,475)	$(1,823)
Financing activities	$(9,347)	$(4,963)	$(3,025)

Cash Provided by Operating Activities

Cash provided by operating activities represents the cash receipts and disbursements related
activities other than investing and financing activities. Operating cash flow is derived by adj
income for non-cash items and changes in operating assets and liabilities. Cash provided by
activities decreased by $3.7 billion to $16.7 billion in 2016 when compared to 2015, primar
cash receipts as a result of lower product sales and higher cash payments related to accrued
other rebates and chargebacks. Cash flows from operations may decrease in the future as ou
sales are expected to decline.

Cash provided by operating activities increased by $7.5 billion to $20.3 billion in 2015 whe
2014, primarily due to higher cash receipts as a result of higher product sales.

Cash Used in Investing Activities

Cash used in investing activities primarily consists of net purchases of marketable securities
investments and our capital expenditures. Cash used in investing activities decreased by $49
$12.0 billion in 2016 when compared to 2015, primarily due to lower net purchases of mark
securities, partially offset by other investments related to our license and collaboration agree
Galapagos.

Cash used in investing activities increased by $10.7 billion to $12.5 billion in 2015 when co
2014, primarily due to higher net purchases of marketable securities.

Cash Used in Financing Activities

Cash used in financing activities increased by $4.4 billion to $9.3 billion in 2016 when com
primarily due to higher repurchases of our common stock, higher net payments on debt, hig
cash dividends and lower proceeds from the issuances of debt. These increases were partiall

lower payments to settle warrants related to the Convertible Notes.

Cash used in financing activities increased by $1.9 billion to $5.0 billion in 2015 when com
primarily due to higher repurchases of our common stock and payments of cash dividends,
2015. These increases were partially offset by lower net payments on debt and higher proce
issuances of debt.

Debt and Credit Facility

Long-Term Obligations

The summary of our borrowings under various financing arrangements is included in Note
Credit Facility of the Notes to Consolidated Financial Statements included in Item 8 of this
on Form 10-K.

Debt Financing

In September 2016, we issued our 2016 Notes in the aggregate principal amount of $5.0 bil
December 2016, repaid $700 million of principal balance related to our senior unsecured no
September 2015, we issued our 2015 Notes in the aggregate principal amount of $10.0 billio
use the net proceeds from the 2016 Notes and 2015 Notes for general corporate purposes, w
include the repayment of debt, working capital, payments of cash dividends, repurchases of
common stock pursuant to our authorized share repurchase program and future acquisitions.
required to comply with certain covenants under our notes indentures and as of December 3
were not in violation of any covenants.

Convertible Notes Repayment and Warrant Settlements

Our Convertible Notes were partially converted during 2016 and 2015 and on May 1, 2016,
matured. We repaid an aggregate principal balance of $285 million and $213 million during
respectively. We also paid in cash $956 million and $784 million during 2016 and 2015, res
related to the conversion spread of the Convertible Notes. We received $956 million and $7
cash during 2016 and 2015, respectively, from our convertible note hedges related to the Co
During 2015, a portion of the warrants related to the Convertible Notes was modified and se
August 2016, the remainder expired. We paid $469 million and $3.9 billion during 2016 and
respectively, to settle the warrants as the average market price of our common stock exceed
exercise price.

Credit Facility

In 2016, we terminated our existing revolving credit facility and entered into a new $2.5 bil
revolving credit facility maturing in May 2021. The facility can be used for working capital
and for general corporate purposes, including, without limitation, acquisitions. We are requi
with certain covenants under the credit agreement and as of December 31, 2016, we were no
any covenants, and no amounts were outstanding under the revolving credit facility.

Capital Return Program

Stock Repurchase Programs

In February 2016, our Board of Directors authorized a $12.0 billion stock repurchase progra
Program). Purchases under the 2016 Program may be made in the open market or in private
transactions. The 2016 Program commenced after the $15.0 billion stock repurchase progra
our Board of Directors in January 2015 was completed in the second quarter of 2016. The $
repurchase program authorized by our Board of Directors in May 2014 was completed in th
2015. The $5.0 billion repurchase program authorized by our Board of Directors in January
completed in 2014. As of December 31, 2016, the remaining authorized repurchase amount
Program was $9 billion.

The following table summarizes our stock repurchases under the above-described programs

	2016	2015	2014
Shares repurchased and retired	123	95	59
Amount	$14,001	$10,002	$5,349

Dividends

On February 7, 2017, we announced that our Board of Directors declared a quarterly cash d
per share of our common stock, with a payment date of March 30, 2017 to all stockholders
the close of business on March 16, 2017.

In April 2016, we announced that our Board of Directors declared a quarterly cash dividend
common share, which became effective for the second quarter of 2016. During 2016, we de
quarterly cash dividends for an aggregate amount of $2.5 billion or $1.84 per common share

In the second quarter of 2015, we initiated a cash dividend of $0.43 per common share. Dur
declared and paid quarterly cash dividends for an aggregate amount of $1.9 billion or $1.29
Capital Resources

We believe our existing capital resources, supplemented by cash flows generated from our o
be adequate to satisfy our capital needs for the foreseeable future. Our future capital require
depend on many factors, including but not limited to the following:

- the commercial performance of our current and future products;

- the progress and scope of our R&D efforts, including preclinical studies and clinical trials;
- the cost, timing and outcome of regulatory reviews;
- the expansion of our sales and marketing capabilities;
- the possibility of acquiring additional manufacturing capabilities or office facilities;
- the possibility of acquiring other companies or new products;
- debt service requirements;
- the establishment of additional collaborative relationships with other companies; and
- costs associated with the defense, settlement and adverse results of government investigatio litigation, including matters related to sofosbuvir.

We may in the future require additional funding, which could be in the form of proceeds fro debt financings. If such funding is required, we cannot guarantee that it will be available to terms, if at all.

Critical Accounting Policies, Estimates and Judgments

The discussion and analysis of our financial condition and results of operations is based on Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, been prepared in accordance with U.S. generally accepted accounting principles. The prepar financial statements requires us to make estimates and judgments that affect the reported am liabilities, revenues and expenses and related disclosures. On an ongoing basis, we evaluate estimates on historical experience and on various other market specific and other relevant as we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent fro sources. Actual results may differ significantly from these estimates.

We believe the following critical accounting policies reflect the more significant judgments used in the preparation of our Consolidated Financial Statements.

Revenue Recognition

Product Sales

We recognize revenues from product sales when there is persuasive evidence that an arrang delivery has occurred, the price is fixed or determinable and collectability is reasonably assu product sales net of estimated mandatory and supplemental discounts to government payers discounts to private payers, and other related charges. These are generally referred to as gro deductions and are recorded in the same period the related sales occur. Government and oth chargebacks represent the majority of our gross-to-net deductions and require complex and judgment by management. Estimates are assessed each period and updated to reflect current

Government and Other Rebates and Chargebacks

Government and other rebates and chargebacks include amounts paid to payers and healthca the United States, including Medicaid rebates, AIDS Drug Assistance Programs, Veterans A and Public Health Service discounts, and other rebates, as well as foreign government rebat chargebacks are based on contractual arrangements or statutory requirements which may va by payer and individual payer plans.

For qualified programs that can purchase our products through wholesalers or other distribu contractual price, the wholesalers or distributors charge back to us the difference between th cost and the lower contractual price. Our consolidated allowances for government and other that are payable to our direct customers are classified as reductions of accounts receivable, a million as of December 31, 2016 and $907 million as of December 31, 2015.

Our consolidated allowance for government and other rebates that will be paid to parties oth direct customers are recorded in Accrued government and other rebates on our Consolidated Sheets, and totaled $5.0 billion as of December 31, 2016 and $4.1 billion as of December 31

Our allowances for government and other rebates and chargebacks are estimated based on p historical utilization rates, pertinent third-party industry information, estimated patient popu

market events or trends, channel inventory data and/or other market data. We also consider information regarding changes in programs' regulations and guidelines that would impact th actual rebates and/or our expectations regarding future utilization rates for these programs. the methodology that we use to estimate our government and other rebates and chargebacks and appropriate given the current facts and circumstances. However, actual results may diff from our estimates. During the last

three years, our actual government rebates and chargebacks claimed for prior periods have v
than 5% from our estimates.

The following table summarizes the consolidated activities and ending balances in our gove
other rebates and chargebacks accounts (in millions):

Accrued government and other rebates and chargebacks:	Balance at Beginning of Year	Decrease/(Increase) to Product Sales	Pay
Year ended December 31, 2016:			
Activity related to 2016 sales	$ —	$ 19,219	$(1
Activity related to sales prior to 2016	5,025	(148)	(4,3
Total	$ 5,025	$ 19,071	$(1
Year ended December 31, 2015:			
Activity related to 2015 sales	$ —	$ 16,400	$(1
Activity related to sales prior to 2015	2,536	7	(2,3
Total	$ 2,536	$ 16,407	$(1

The majority of the increase in allowance for government and other rebates and chargeback
compared to 2015 was driven by higher rebates and chargebacks for our HCV products.

Legal Contingencies

We are a party to various legal actions. The most significant of these are described in Note 1
Commitments and Contingencies - Legal Proceedings of the Notes to Consolidated Financia
included in Item 8 of this Annual Report on Form 10-K. It is not possible to determine the o
matters. We recognize accruals for such actions to the extent that we conclude that a loss is
and reasonably estimable. We accrue for the best estimate of a loss within a range; however
in the range is better than any other, then we accrue the minimum amount in the range. If we
a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the p
Significant judgment is required in both the determination of probability and the determinat
whether an exposure is reasonably estimable. Because of the inherent uncertainty and unpre
related to these matters, accruals are based on what we believe to be the best information av
time of our assessment, including the legal facts and circumstances of the case, status of the
applicable law and the views of legal counsel. Upon the final resolution of such matters, it is
there may be a loss in excess of the amount recorded, and such amounts could have a mater
effect on our results of operations, cash flows or financial position. We periodically reassess
when additional information becomes available and adjust our estimates and assumptions w
circumstances indicate the need for any changes.

We did not recognize any accruals for such matters as of December 31, 2016 and 2015 as w
believe losses were probable.

Valuation of Intangible Assets

In conjunction with our business combinations, we have recorded intangible assets primarily
IPR&D projects. We had total intangible assets of $9.0 billion as of December 31, 2016 and
as of December 31, 2015.

The identifiable intangible assets are measured at their respective fair values as of the acqui
models used in valuing these intangible assets require the use of significant estimates and as
including but not limited to:

- estimates of revenues and operating profits related to the products or product candidates;
- the probability of success for unapproved product candidates considering their stages of dev
- the time and resources needed to complete the development and approval of product candid
- the life of the potential commercialized products and associated risks, including the inheren
- and uncertainties in developing a product candidate such as obtaining FDA and other regula

and

- risks related to the viability of and potential alternative treatments in any future target mark

We believe the fair values used to record intangible assets acquired in connection with a bus combination are based upon reasonable estimates and assumptions given the facts and circu the related valuation dates.

Intangible assets related to IPR&D projects are considered to be indefinite-lived until the co
abandonment of the associated R&D efforts. If and when development is complete, which g
if and when regulatory approval to market a product is obtained, the associated assets would
finite-lived and would then be amortized based on their respective estimated useful lives at
time. During the period the assets are considered indefinite-lived, they are not amortized bu
impairment on an annual basis as well as between annual tests if we become aware of any e
changes that would indicate that it is more likely than not that the fair value of the IPR&D p
their respective carrying amounts. The fair value of our indefinite-lived intangible assets is
assumptions such as the expected timing or probability of achieving the specified milestone
projected revenues or changes in discount rates. Significant judgment is employed in determ
assumptions and changes to our assumptions could have a significant impact on our results
any given period.

In 2016, the estimated fair value of our IPR&D related to momelotinib and simtuzumab was
to zero due to termination of clinical developments of such programs, and as a result, we rec
impairment charges of $432 million within Research and development expenses on our Con
Statements of Income included in Item 8 of this Annual Report on Form 10-K.

Intangible assets with finite useful lives are amortized over their estimated useful lives prim
straight-line basis. Intangible assets with finite useful lives are reviewed for impairment whe
circumstances suggest that the carrying value of these assets may not be recoverable.

Tax Provision

We estimate our income tax provision, including deferred tax assets and liabilities, based on
management judgment. We evaluate the realization of all or a portion of our deferred tax ass
quarterly basis. We record a valuation allowance to reduce our deferred tax assets to the am
more likely than not to be realized. We consider future taxable income, ongoing tax plannin
our historical financial performance in assessing the need for a valuation allowance. If we e
deferred tax assets for which we have previously recorded a valuation allowance, we will re
valuation allowance in the period in which such determination is first made. The valuation a
$126 million as of December 31, 2016 and $6 million as of December 31, 2015. The increas
valuation allowance from December 31, 2015 to December 31, 2016 was primarily due to w
the IPR&D value of momelotinib during 2016.

We are subject to income taxes in the United States and various foreign jurisdictions includi
to economic and political conditions, various countries are actively considering changes to e
laws. We cannot predict the form or timing of potential legislative changes that could have a
adverse impact on our results of operations. In addition, significant judgment is required in
worldwide provision for income taxes.

We record liabilities related to uncertain tax positions in accordance with the guidance that
accounting for uncertainty in income taxes recognized in an enterprise's financial statement
a minimum recognition threshold and measurement attribute for the financial statement reco
measurement of a tax position taken or expected to be taken in a tax return. An adverse reso
more of these uncertain tax positions in any period could have a material impact on the resu
for that period.

At December 31, 2016 and 2015, we had total federal, state and foreign unrecognized tax be
billion and $1.4 billion, respectively. Of the total unrecognized tax benefits, $1.8 billion and
December 31, 2016 and 2015, respectively, if recognized, would reduce our effective tax ra
of recognition. As of December 31, 2016, we do not believe our unrecognized tax benefits w
change in the next 12 months. Due to the high degree of uncertainly on the timing of clarifi
IRS and other tax authorities regarding our uncertain tax positions, we are unable to reasona
period of cash settlement, if any, with the respective tax authorities.

We file federal, state and foreign income tax returns in the United States and in many jurisd
For federal income tax purposes, the statute of limitations is open for 2010 and onwards. Fo
acquired entities, the statute of limitations is open for all years from inception due to our uti
net operating losses and credits carried over from prior years. For California income tax pur
statute of limitations is open for 2010 and onwards.

Our income tax returns are subject to audit by federal, state and foreign tax authorities. We
under examination by the IRS for the 2010, 2011, 2012, 2013 and 2014 tax years and by va
foreign jurisdictions. There are differing interpretations of tax laws and regulations, and as a
significant disputes may arise with these tax authorities involving issues of the timing and a
deductions and allocations of income among various tax jurisdictions. We periodically evalu
exposures associated with our tax filing positions.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regu

Contractual Obligations

Our contractual obligations consist of debt obligations, operating leases, capital commitmen obligations for active pharmaceutical ingredients and inventory-related items and clinical tri

The following table summarizes our significant enforceable and legally binding obligations, commitments and obligations related to all contracts that we are likely to continue regardles certain of these obligations may be cancelable as of December 31, 2016 (in millions):

	Payments due by Period				
Contractual Obligations	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Debt [1]	$42,874	$ 982	$ 3,769	$6,582	$ 31,541
Operating lease obligations	369	75	120	72	102
Capital commitments [2]	880	536	341	1	2
Purchase obligations [3][4]	2,124	1,551	505	44	24
Clinical trials [5]	1,737	752	675	204	106
Total [6]	$47,984	$ 3,896	$ 5,410	$6,903	$ 31,775

Notes:

(1) Debt primarily consisted of senior unsecured notes, including principal and interest payn payments are incurred and calculated based on terms of the related notes. See Note 11, D Facility of the Notes to Consolidated Financial Statements included in Item 8 of this Ann Form 10-K for additional information.

(2) Amounts include firm capital project commitments primarily relating to construction of

(3) Amounts include firm purchase commitments primarily relating to active pharmaceutica and certain inventory-related items. These amounts include minimum purchase requirem

(4) In addition to the above, we have committed to make potential future milestone payment parties as part of licensing, collaboration and development arrangements. Payments unde agreements generally become due and payable only upon achievement of certain develop regulatory and/or commercial milestones. Because the achievement of these milestones i probable nor reasonably estimable, such contingencies have not been recorded on our Co Balance Sheets and have not been included in the table above.

(5) At December 31, 2016, we had several clinical studies in various clinical trial phases. Ou significant clinical trial expenditures are to contract research organizations (CROs). Alth material contracts with CROs are cancelable, we historically have not canceled such con amounts reflect commitments based on existing contracts and do not reflect any future m or terminations of, existing contracts or anticipated or potential new contracts.

(6) As of December 31, 2016, our Consolidated Balance Sheets reflect liabilities for unrecog positions, interest and penalties totaling $1.9 billion. Due to the high degree of uncertain of future cash settlement and other events that could extinguish these liabilities, we are u estimate the period of cash settlement and therefore we have excluded the liabilities relat unrecognized tax positions from the table above.

Recent Accounting Pronouncements

The information required by this item is included in Note 1, Organization and Summary of Accounting Policies of the Notes to Consolidated Financial Statements included in Item 8 o Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET

We are exposed to market risks that may result from changes in foreign currency exchange rates and credit risks. To reduce certain of these risks, we enter into various types of foreign

interest rate derivative hedging transactions, follow investment guidelines and monitor outst
receivables as part of our risk management program.

Foreign Currency Exchange Risk

Our operations include manufacturing and sales activities in the United States, Canada and
as sales activities in countries outside the United States, including Europe and Asia Pacific.
financial results could be significantly affected by factors such as changes in foreign curren
rates or weak economic conditions in the foreign markets in which we distribute our produc
operating results are exposed to changes in foreign currency exchange rates between the U.S
various foreign currencies, the most significant of which are the Euro and Yen. When the U
strengthens against these currencies, the relative value of sales made in the respective foreig
decreases. Conversely, when the U.S. dollar weakens against these currencies, the relative a
sales increase. Overall, we are a net receiver of foreign currencies and, therefore, benefit fro
U.S. dollar and are adversely affected by a stronger U.S. dollar relative to those foreign curr
we transact significant amounts of business.

Approximately 36% of our product sales were denominated in foreign currencies during 20
mitigate the impact of changes in currency exchange rates on net cash flows from our foreig
denominated sales, we may enter into foreign currency exchange forward and option contra
hedge certain monetary assets and liabilities denominated in foreign currencies, which redu
eliminate our exposure to currency fluctuations between the date a transaction is recorded a
cash is collected or paid. In general, the market risks of these contracts are offset by corresp
and losses on the transactions being hedged.

As of December 31, 2016 and 2015, we had open foreign currency forward contracts with n
of $6.2 billion and $9.1 billion, respectively. A hypothetical 10% adverse movement in fore
exchange rates compared with the U.S. dollar relative to exchange rates at December 31, 20
resulted in a reduction in fair value of these contracts of approximately $583 million on this
realized, would negatively affect earnings over the remaining life of the contracts. The same
movement in foreign currency exchange rates compared with the U.S. dollar relative to excl
December 31, 2015, would have resulted in a reduction in fair value of these contracts of ap
$893 million on this date and, if realized, would negatively affect earnings over the remaini
contracts. The analysis does not consider the impact that hypothetical changes in foreign cu
rates would have on anticipated transactions that these foreign currency sensitive instrumen
designed to offset.

Interest Rate Risk

Our portfolio of available-for-sale marketable securities and our fixed and variable rate liab
exposure to interest rate risk. With respect to our investment portfolio, we adhere to an inve
that requires us to limit amounts invested in securities based on credit rating, maturity, indu
investment type and issuer, except for securities issued by the U.S. government. The goals o
investment policy, in order of priority, are as follows:

- safety and preservation of principal and diversification of risk;
- liquidity of investments sufficient to meet cash flow requirements; and
- competitive after-tax rate of return.

The following table summarizes the expected maturities and average interest rates of our interest-generating assets and interest-bearing liabilities at December 31, 2016 (in millions, percentages):

	Expected Maturity					
	2017	2018	2019	2020	2021	Thereafter
Assets						
Available-for-sale debt securities	$3,914	$8,834	$9,018	$1,158	$747	$728
Average interest rate	1.21 %	1.43 %	1.69 %	1.31 %	1.53 %	1.99 %
Liabilities						
Debt[1]	$—	$1,000	$812	$2,500	$2,250	$20,000
Average interest rate	— %	1.85 %	2.05 %	2.51 %	4.44 %	4.00 %

Note:

(1) As of December 31, 2016, our debt consisted primarily of fixed rate senior unsecured no reported at their amortized cost on our Consolidated Balance Sheets. Since these instrum interest at fixed rates, changes in interest rates do not affect interest expense or cash flow fair value of these instruments fluctuates when interest rates change. In addition to the se notes, we have a $2.5 billion five-year revolving credit facility. Interest charged on loans revolving credit facility is based on floating rates which may fluctuate when interest rate

were no amounts outstanding under the revolving credit facility as of December 31, 201
Debt and Credit Facility of the Notes to Consolidated Financial Statements included in I
Annual Report on Form 10-K for additional information.

Credit Risk

We are subject to credit risk from our portfolio of cash equivalents and marketable securitie
investment policy, we limit amounts invested in such securities by credit rating, maturity, in
investment type and issuer, except for securities issued by the U.S. government. We are not
significant concentrations of credit risk from these financial instruments. The goals of our in
policy, in order of priority, are as follows: safety and preservation of principal and diversifi
liquidity of investments sufficient to meet cash flow requirements; and a competitive after-t
return.

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

As of December 31, 2016, our accounts receivable, net in Southern Europe, specifically Gre
Portugal and Spain, totaled approximately $317 million, of which $110 million were greate
past due, including $45 million greater than 365 days past due. As of December 31, 2015, o
receivable, net in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled ap
$713 million, of which $213 million were greater than 120 days past due, including $31 mil
than 365 days past due. To date, we have not experienced significant losses with respect to t
our accounts receivable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

GILEAD SCIENCES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY
Years ended December 31, 2016, 2015 and 2014

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Gilead Sciences, Inc.

We have audited the accompanying consolidated balance sheets of Gilead Sciences, Inc. as
31, 2016 and 2015, and the related consolidated statements of income, comprehensive incor
equity, and cash flows for each of the three years in the period ended December 31, 2016. C
included the financial statement schedule listed in the Index at Item 15(a). These financial s
schedule are the responsibility of the Company's management. Our responsibility is to expr
on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respe
consolidated financial position of Gilead Sciences, Inc. at December 31, 2016 and 2015, and
consolidated results of its operations and its cash flows for each of the three years in the per
December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also
opinion, the related financial statement schedule, when considered in relation to the basic fi
statements taken as a whole, presents fairly in all material respects the information set forth

We also have audited, in accordance with the standards of the Public Company Accounting
Board (United States), Gilead Sciences, Inc.'s internal control over financial reporting as of
2016, based on criteria established in Internal Control—Integrated Framework issued by the
Sponsoring Organizations of the Treadway Commission (2013 framework), and our report d
27, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California

February 27, 2017

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

	D 20
Assets	
Current assets:	
Cash and cash equivalents	$
Short-term marketable securities	3,
Accounts receivable, net of allowances of $763 at December 31, 2016 and $1,032 at December 31, 2015	4,
Inventories	1,
Deferred tax assets	8
Prepaid and other current assets	1,
Total current assets	2
Property, plant and equipment, net	2,
Long-term portion of prepaid royalties	4
Long-term deferred tax assets	4
Long-term marketable securities	2
Intangible assets, net	8,
Goodwill	1,
Other long-term assets	2,
Total assets	$
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$
Accrued government and other rebates	5,
Other accrued liabilities	2,
Deferred revenues	2
Current portion of long-term debt and other obligations, net	—
Total current liabilities	9,
Long-term debt, net	2
Long-term income taxes payable	1,
Other long-term obligations	2
Commitments and contingencies (Note 12)	
Equity component of currently redeemable convertible notes	—
Stockholders' equity:	
Preferred stock, par value $0.001 per share; 5 shares authorized; none outstanding	—
Common stock, par value $0.001 per share; shares authorized of 5,600 at December 31, 2016 and December 31, 2015; shares issued and outstanding of 1,310 at December 31, 2016 and 1,422 at December 31, 2015	1
Additional paid-in capital	4
Accumulated other comprehensive income	2
Retained earnings	1
Total Gilead stockholders' equity	1
Noncontrolling interest	4
Total stockholders' equity	1
Total liabilities and stockholders' equity	$

See accompanying notes.

GILEAD SCIENCES, INC.
Consolidated Statements of Income
(in millions, except per share amounts)

	Year Ended D	
	2016	201
Revenues:		
Product sales	$29,953	$32
Royalty, contract and other revenues	437	488
Total revenues	30,390	32,6
Costs and expenses:		
Cost of goods sold	4,261	4,00
Research and development expenses	5,098	3,01
Selling, general and administrative expenses	3,398	3,42
Total costs and expenses	12,757	10,4
Income from operations	17,633	22,1
Interest expense	(964)	(68
Other income (expense), net	428	154
Income before provision for income taxes	17,097	21,6
Provision for income taxes	3,609	3,55
Net income	13,488	18,1
Net loss attributable to noncontrolling interest	(13)	(2
Net income attributable to Gilead	$13,501	$18
Net income per share attributable to Gilead common stockholders - basic	$10.08	$12
Shares used in per share calculation - basic	1,339	1,46
Net income per share attributable to Gilead common stockholders - diluted	$9.94	$11
Shares used in per share calculation - diluted	1,358	1,52
Cash dividends declared per share	$1.84	$1.2

See accompanying notes.

GILEAD SCIENCES, INC.
Consolidated Statements of Comprehensive Income
(in millions)

	Year Ended D	
	2016	201
Net income	$13,488	$18
Other comprehensive income (loss):		
Net foreign currency translation gain (loss), net of tax	177	9
Available-for-sale securities:		
Net unrealized gain (loss), net of tax impact of $19, $(17) and $0, respectively	7	(29
Reclassifications to net income, net of tax impact of $0, $1 and $0, respectively	(7)	1
Net change	—	(28
Cash flow hedges:		
Net unrealized gain, net of tax impact of $0, $21 and $16, respectively	5	389
Reclassification to net income, net of tax impact of $(8), $(19) and $(4), respectively	8	(58
Net change	13	(194
Other comprehensive income (loss)	190	(21
Comprehensive income	13,678	17,8
Comprehensive loss attributable to noncontrolling interest	(13)	(2
Comprehensive income attributable to Gilead	$13,691	$17

See accompanying notes.

GILEAD SCIENCES, INC.
Consolidated Statements of Stockholders' Equity
(in millions)

	Gilead Stockholders' Equity					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncon Interest
	Shares	Amount				
Balance at December 31, 2013	1,534	$ 2	$ 5,386	$ (124)	$ 6,106	$ 375
Change in noncontrolling interest	—	—	—	—	—	60
Net income (loss)	—	—	—	—	12,101	(42
Other comprehensive income, net of tax	—	—	—	425	—	—
Issuances under employee stock purchase plan	3	—	72	—	—	—
Issuances under equity incentive plans	24	—	260	—	—	—
Tax benefits from employee stock plans	—	—	484	—	—	—
Stock-based compensation	—	—	362	—	—	—
Repurchases of common stock	(62)	—	(133)	—	(5,475)	—
Warrants settlement	—	—	(4,093)	—	—	—
Convertible notes settlement	—	—	(2,513)	—	—	—
Convertible note hedges settlement	—	—	2,543	—	—	—
Purchases of convertible note hedges	—	—	(26)	—	—	—
Reclassification to equity component of currently redeemable convertible notes	—	—	49	—	—	—
Balance at December 31, 2014	1,499	2	2,391	301	12,732	393
Change in noncontrolling interest	—	—	—	—	—	188
Net income (loss)	—	—	—	—	18,108	(2
Other comprehensive loss, net of tax	—	—	—	(213)	—	—
Issuances under employee stock purchase plan	1	—	86	—	—	—
Issuances under equity incentive plans	21	—	235	—	—	—
Tax benefits from employee stock plans	—	—	586	—	—	—
Stock-based compensation	—	—	384	—	—	—
Repurchases of common stock	(99)	(1)	(222)	—	(10,115)	—
Warrants settlement	—	—	(3,031)	—	(834)	—
Convertible notes settlement	—	—	(782)	—	—	—
Convertible note hedges settlement	—	—	784	—	—	—
Dividends declared	—	—	—	—	(1,890)	—

Reclassification to equity component of currently redeemable convertible notes	—	—	13	—	—	—
Balance at December 31, 2015	1,422	1	444	88	18,001	579
Change in noncontrolling interest	—	—	—	—	—	(90
Net income (loss)	—	—	—	—	13,501	(13
Other comprehensive income, net of tax	—	—	—	190	—	—
Issuances under employee stock purchase plan	1	—	84	—	—	—
Issuances under equity incentive plans	13	—	128	—	—	—
Tax benefits from employee stock plans	—	—	186	—	—	—
Stock-based compensation	—	—	381	—	—	—
Repurchases of common stock	(126)	—	(302)	—	(10,883)	—
Warrants settlement	—	—	(469)	—	—	—
Convertible notes settlement	—	—	(95)	—	—	—
Convertible note hedges settlement	—	—	95	—	—	—
Dividends declared	—	—	—	—	(2,465)	—
Reclassification of conversion spread of convertible notes	—	—	(733)	—	—	—
Reclassification of convertible note hedges	—	—	733	—	—	—
Reclassification to equity component of currently redeemable convertible notes	—	—	2	—	—	—
Balance at December 31, 2016	1,310	$ 1	$ 454	$ 278	$ 18,154	$ 476

See accompanying notes.

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

	Year Ended D	
	2016	201
Operating Activities:		
Net income	$13,488	$18
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	177	161
Amortization expense	981	937
Stock-based compensation expense	380	382
Excess tax benefits from stock-based compensation	(194)	(58
Tax benefits from exercise and vesting of stock-based awards	186	586
Deferred income taxes	(119)	(39
In-process research and development impairment	432	—
Other	(24)	(24
Changes in operating assets and liabilities:		
Accounts receivable, net	1,192	(1,3
Inventories	(488)	(85
Prepaid expenses and other	(520)	(90
Accounts payable	47	226
Income taxes payable	1,010	269
Accrued liabilities	425	2,63
Deferred revenues	(304)	374
Net cash provided by operating activities	16,669	20,3
Investing Activities:		
Purchases of marketable securities	(25,619)	(17,
Proceeds from sales of marketable securities	13,039	4,79
Proceeds from maturities of marketable securities	1,700	719
Other investments	(357)	—
Capital expenditures	(748)	(74
Net cash used in investing activities	(11,985)	(12,
Financing Activities:		
Proceeds from debt financing, net of issuance costs	5,293	9,90
Proceeds from convertible note hedges	956	784
Purchases of convertible note hedges	—	—
Proceeds from issuances of common stock	208	319
Repurchases of common stock	(11,001)	(10,
Repayments of debt and other obligations	(1,981)	(99
Payments to settle warrants	(469)	(3,8
Excess tax benefits from stock-based compensation	194	585
Payment of contingent consideration	(2)	(3
Payment of dividends	(2,455)	(1,8
Contributions from (distribution to) noncontrolling interest	(90)	188
Net cash used in financing activities	(9,347)	(4,9
Effect of exchange rate changes on cash and cash equivalents	41	(67

Net change in cash and cash equivalents	(4,622	) 2,82
Cash and cash equivalents at beginning of period	12,851	10,0
Cash and cash equivalents at end of period	$8,229	$12
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	$885	$52
Income taxes paid	$2,436	$3,

See accompanying notes.

GILEAD SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Overview
Gilead Sciences, Inc. (Gilead, we or us), incorporated in Delaware on June 22, 1987, is a res
biopharmaceutical company that discovers, develops and commercializes innovative medici
unmet medical need. With each new discovery and investigational drug candidate, we strive
and simplify care for people with life-threatening illnesses around the world. We have opera
than 30 countries worldwide, with headquarters in Foster City, California. Gilead's primary
include human immunodeficiency virus (HIV), liver diseases such as chronic hepatitis C vir
infection and chronic hepatitis B virus (HBV) infection, hematology/oncology, cardiovascu
inflammation/respiratory diseases. We seek to add to our existing portfolio of products throu
discovery and clinical development programs and through product acquisition and in-licens
Our portfolio of marketed products includes AmBisome®, Atripla®, Cayston®, Complera®/E
Descovy®, Emtriva®, Epclusa®, Genvoya®, Harvoni®, Hepsera®, Letairis®, Odefsey®, Rane
Stribild®, Truvada®, Tybost®, Vemlidy®, Viread®, Vitekta®, and Zydelig®. We have U.S. a
commercial sales operations, with marketing subsidiaries in over 30 countries. We also sell
certain products through our corporate partners under royalty-paying collaborative agreeme
Basis of Presentation
The accompanying Consolidated Financial Statements include the accounts of Gilead, our w
subsidiaries and certain variable interest entities for which we are the primary beneficiary. A
intercompany transactions have been eliminated. For consolidated entities where we own or
less than 100% of the economics, we record net income (loss) attributable to noncontrolling
Consolidated Statements of Income equal to the percentage of the economic or ownership in
in such entities by the respective noncontrolling parties.
We assess whether we are the primary beneficiary of a variable interest entity (VIE) at the i
arrangement and at each reporting date. This assessment is based on our power to direct the
VIE that most significantly impact the VIE's economic performance and our obligation to a
the right to receive benefits from the VIE that could potentially be significant to the VIE. As
31, 2016, the only material VIE was our joint venture with Bristol-Myers Squibb (BMS) wh
in Note 10, Collaborative Arrangements.
Significant Accounting Policies, Estimates and Judgments
The preparation of these Consolidated Financial Statements requires us to make estimates a
that affect the reported amounts of assets, liabilities, revenues and expenses, and related disc
ongoing basis, we evaluate our significant accounting policies and estimates. We base our e
historical experience and on various market specific and other relevant assumptions that we
reasonable under the circumstances, the results of which form the basis for making judgmen
carrying values of assets and liabilities that are not readily apparent from other sources. Act
differ significantly from these estimates.
Revenue Recognition
Product Sales
We recognize revenue from product sales when there is persuasive evidence that an arrange
delivery has occurred, the price is fixed or determinable and collectability is reasonably assu
recognition of revenue from product sales, provisions are made for government and other re
Medicaid reimbursements, customer incentives such as cash discounts for prompt payment,
and expected returns of expired products, as appropriate.

Items Deducted from Gross Product Sales

Rebates and Chargebacks

We estimate reductions to our revenues for amounts paid to payers and healthcare providers States, including Medicaid rebates, AIDS Drug Assistance Programs, Veterans Administrat Health Service discounts, and other rebates, as well as foreign government rebates. Rebates chargebacks are based on contractual arrangements or statutory requirements which may va by payer and individual payer plans. Our estimates are based on products sold, historical uti and as available, pertinent third-party industry information, estimated patient population, kn events or trends, and for our U.S. product sales, channel inventory data obtained from our m wholesalers in accordance with our inventory management agreements. We also take into co available, new information regarding changes in programs' regulations and guidelines that v amount of the actual rebates and/or our expectations regarding future utilization rates for the Government and other chargebacks that are payable to our direct customers are classified as accounts receivable on our Consolidated Balance Sheets. Government and other rebates tha directly to us are recorded in Accrued government and other rebates on our Consolidated Ba

Cash Discounts

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

Distributor Fees

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

Product Returns

We do not provide our customers with a general right of product return, but typically permit product is damaged or defective when received by the customer, or in the case of product so States and certain countries outside the United States, if the product has expired. We will ac product that will expire within six months or that have expired up to one year after their exp Our estimates for expected returns of expired products are based primarily on an ongoing an historical return patterns, historical industry information reporting the return rates for simila contractual agreements intended to limit the amount of inventory maintained by our wholes

Royalty, Contract and Other Revenues

Royalty revenue from sales of our other products is generally recognized when received, wh in the quarter following the quarter in which the corresponding sales occur or in the month f month in which the corresponding sales occur.

Revenue from non-refundable up-front license fees and milestone payments, such as under a collaboration or an obligation to supply product, is recognized as performance occurs and o are completed. In accordance with the specific terms of our obligations under these arranger is recognized as the obligation is fulfilled or ratably over the development or manufacturing Revenue associated with substantive at-risk milestones is recognized based upon the achiev milestones set forth in the respective agreements. Advance payments received in excess of a are classified as deferred revenue on our Consolidated Balance Sheets.

Research and Development Expenses

Research and development (R&D) expenses consist primarily of personnel costs, including benefits and stock-based compensation, clinical studies performed by contract research orga (CROs), materials and supplies, licenses and fees, up-front and milestone payments under c arrangements and overhead allocations consisting of various support and facility-related cos We charge R&D costs, including clinical study costs, to expense when incurred. Clinical stu significant component of R&D expenses. Most of our clinical studies are performed by third

We monitor levels of performance under each significant contract including the extent of pa
and other activities through communications with our CROs. We accrue costs for clinical st
by CROs over the service periods specified in the contracts and adjust our estimates, if requ
upon our ongoing review of the level of effort and costs actually incurred by the CROs. All

material CRO contracts are terminable by us upon written notice and we are generally only
services completed by the CRO and certain non-cancelable expenses incurred at any point c

Advertising Expenses

We expense the costs of advertising, including promotional expenses, as incurred. Advertisi
were $618 million in 2016, $601 million in 2015 and $393 million in 2014.

Cash and Cash Equivalents

We consider highly liquid investments with insignificant interest rate risk and an original m
three months or less on the purchase date to be cash equivalents. Eligible instruments under
policy that are included in cash equivalents primarily include commercial paper, money ma
overnight repurchase agreements (repos) with major banks and authorized dealers and other
obligations.

Marketable and Nonmarketable Securities

We determine the appropriate classification of our marketable securities, which consist prim
securities, at the time of purchase and reevaluate such designation at each balance sheet date
marketable securities are considered available-for-sale and carried at estimated fair values a
cash equivalents, short-term marketable securities or long-term marketable securities. Unrea
losses on available-for-sale securities are excluded from net income and reported in accumu
comprehensive income (loss) (AOCI) as a separate component of stockholders' equity. Othe
(expense), net, includes interest, dividends, amortization of purchase premiums and discoun
gains and losses on sales of securities and other-than-temporary declines in the fair value of
any. The cost of securities sold is based on the specific identification method. We regularly
our investments for other-than-temporary declines in fair value. Our review includes the con
the cause of the impairment, including the creditworthiness of the security issuers, the numb
in an unrealized loss position, the severity and duration of the unrealized losses, whether we
to sell the securities and whether it is more likely than not that we will be required to sell the
before the recovery of their amortized cost basis. When we determine that the decline in fair
investment is below our accounting basis and the decline is other-than-temporary, we reduc
value of the security we hold and record a loss for the amount of such decline.

As a result of entering into collaborations, from time to time, we may hold investments in p
non-public companies. We record investments in public companies as available-for-sale sec
market value and record investments in non-public companies at cost, less any amounts for
other-than-temporary impairment, in other assets on our Consolidated Balance Sheets. Unre
losses on the available-for-sale securities are excluded from net income and reported in AO
regularly review our securities for indicators of impairment. Investments in non-public com
material for the periods presented.

Concentrations of Risk

We are subject to credit risk from our portfolio of cash equivalents and marketable securitie
investment policy, we limit amounts invested in such securities by credit rating, maturity, in
investment type and issuer, except for securities issued by the U.S. government. We are not
significant concentrations of credit risk from these financial instruments. The goals of our in
policy, in order of priority, are as follows: safety and preservation of principal and diversifi
liquidity of investments sufficient to meet cash flow requirements; and a competitive after-t
return.

We are also subject to credit risk from our accounts receivable related to our product sales.
our trade accounts receivable arises from product sales in the United States, Europe and Jap
December 31, 2016, our accounts receivable, net in Southern Europe, specifically Greece, It
and Spain, totaled approximately $317 million, of which $110 million were greater than 120
including $45 million greater than 365 days past due. To date, we have not experienced sign
with respect to the collection of our accounts receivable. We believe that our allowance for

accounts was adequate at December 31, 2016.

Certain of the raw materials and components that we utilize in our operations are obtained t
suppliers. Certain of the raw materials that we utilize in our operations are made at only one
the suppliers of key components and raw materials must be named in a new drug applicatio
with U.S. Food and Drug Administration (FDA) for a product, significant delays can occur
qualification of a new supplier is required. If delivery of material from our suppliers was int
reason, we may be unable to ship our commercial products or to supply our product candida
trials.

Accounts Receivable

Trade accounts receivable are recorded net of allowances for wholesaler chargebacks relate and other programs, cash discounts for prompt payment and doubtful accounts. Estimates fo chargebacks for government and other programs and cash discounts are based on contractua historical trends and our expectations regarding the utilization rates for these programs. Esti allowance for doubtful accounts are determined based on existing contractual payment term payment patterns of our customers and individual customer circumstances, an analysis of da outstanding by geographic region and a review of the local economic environment and its p on government funding and reimbursement practices. Historically, the amounts of uncollect receivable that have been written off have been insignificant.

Inventories

Inventories are recorded at the lower of cost or market, with cost determined on a first-in, fi We periodically review the composition of our inventories in order to identify obsolete, slo otherwise unsaleable items. If unsaleable items are observed and there are no alternate uses inventory, we will record a write-down to net realizable value in the period that the impairm recognized.

When future commercialization is considered probable and the future economic benefit is e realized, based on management's judgment, we capitalize pre-launch inventory costs prior t approval. A number of factors are taken into consideration, including the current status in th approval process, potential impediments to the approval process such as safety or efficacy, a R&D initiatives that could impact the indication in which the compound will be used, viabil commercialization and marketplace trends. As of December 31, 2016 and 2015, the amount inventory on our Consolidated Balance Sheets was not significant.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and amortizati Depreciation and amortization are recognized using the straight-line method. Repairs and m costs are expensed as incurred. Estimated useful lives in years are generally as follows:

Description	Estimated Useful Life
Buildings and improvements	20-35
Laboratory and manufacturing equipment	4-10
Office and computer equipment	3-7
Leasehold improvements	Shorter of useful life or lease term

Office and computer equipment includes capitalized software. We had unamortized capitali costs on our Consolidated Balance Sheets of $141 million as of December 31, 2016 and $1 December 31, 2015. Capitalized interest on construction in-progress is included in property equipment. Interest capitalized in 2016, 2015 and 2014 was not significant.

Goodwill and Intangible Assets

Goodwill represents the excess of the consideration transferred over the estimated fair value acquired and liabilities assumed in a business combination. Intangible assets with indefinite related to purchased in-process research and development (IPR&D) projects and are measu respective fair values as of the acquisition date. We do not amortize goodwill and intangible indefinite useful lives. Intangible assets related to IPR&D projects are considered to be inde until the completion or abandonment of the associated R&D efforts. If and when developme which generally occurs if and when regulatory approval to market a product is obtained, the assets are deemed finite-lived and are amortized based on their respective estimated useful l point in time. We test goodwill and other indefinite-lived intangible assets for impairment o basis and in between annual tests if we become aware of any events or changes that would i values of the assets are below their carrying amounts.

Intangible assets with finite useful lives are amortized over their estimated useful lives, prin
straight-line basis, and are reviewed for impairment when facts or circumstances suggest tha
value of these assets may not be recoverable.

Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment and finite-lived intangible assets for impairment whenever facts or circumstances either internally or externally may suggest carrying value of an asset or asset group may not be recoverable. Should there be an indicat impairment, we test for recoverability by comparing the estimated undiscounted future cash to result from the use of the asset or asset group and its eventual disposition to the carrying asset or asset group. Any excess of the carrying value of the asset or asset group over its est value is recognized as an impairment loss.

Foreign Currency Translation, Transaction Gains and Losses, and Hedging Contracts

Non-U.S. entity operations are recorded in the functional currency of each entity. Results of non-U.S. dollar functional currency entities are translated into U.S. dollars using average cu Assets and liabilities are translated using currency rates at period end. Foreign currency tran adjustments are recorded as a component of AOCI within stockholders' equity. Foreign curr gains and losses are recorded in Other income (expense), net on our Consolidated Statement Net foreign currency transaction gains and losses were immaterial for the years ended Dece 2015 and 2014.

We hedge a portion of our foreign currency exposures related to outstanding monetary asset as well as forecasted product sales using foreign currency exchange forward and option con general, the market risk related to these contracts is offset by corresponding gains and losse transactions. The credit risk associated with these contracts is driven by changes in interest exchange rates and, as a result, varies over time. By working only with major banks and clo current market conditions, we seek to limit the risk that counterparties to these contracts ma perform. We also seek to limit our risk of loss by entering into contracts that permit net settl maturity. Therefore, our overall risk of loss in the event of a counterparty default is limited any unrecognized gains on outstanding contracts (i.e., those contracts that have a positive fa date of default. We do not enter into derivative contracts for trading purposes, nor do we he investment in any of our foreign subsidiaries.

Fair Value of Financial Instruments

We apply fair value accounting for all financial assets and liabilities and non-financial asset that are recognized or disclosed at fair value in the financial statements on a recurring basis. value as the price that would be received from selling an asset or paid to transfer a liability i transaction between market participants at the measurement date. When determining the fai measurements for assets and liabilities which are required to be recorded at fair value, we co principal or most advantageous market in which we would transact and the market-based ris measurements or assumptions that market participants would use in pricing the asset or liab risks inherent in valuation techniques, transfer restrictions and credit risks.

Derivative Financial Instruments

We recognize all derivative instruments as either assets or liabilities at fair value on our Con Balance Sheets. Changes in the fair value of derivatives are recorded each period in current AOCI, depending on whether a derivative is designated as part of a hedge transaction and, i of hedge transaction. We classify the cash flows from these instruments in the same categor flows from the hedged items. We do not hold or issue derivative instruments for trading or s purposes.

We assess, both at inception and on an ongoing basis, whether the derivatives that are used transactions are highly effective in offsetting the changes in cash flows or fair values of the We also assess hedge ineffectiveness on a quarterly basis and record the gain or loss related ineffective portion to current earnings to the extent significant. If we determine that a foreca is probable of not occurring, we discontinue hedge accounting for the affected portion of the instrument, and any related unrealized gain or loss on the contract is recognized in Other inc

net on our Consolidated Statements of Income.

Income Taxes

Our income tax provision is computed under the liability method. Deferred tax assets and li
determined based on the difference between the financial statement and tax basis of assets a
using enacted tax rates in effect for the year in which the differences are expected to reverse
estimates are required in determining our provision for income taxes. Some of these estimat
interpretations of existing tax laws or regulations.

We record liabilities related to uncertain tax positions in accordance with the guidance that
accounting for uncertainty in income taxes recognized in an enterprise's financial statement
a minimum recognition threshold and measurement attribute for the financial statement reco
measurement of a tax position taken or expected to be taken

in a tax return. An adverse resolution of one or more of these uncertain tax positions in any
have a material impact on the results of operations for that period.

Branded Prescription Drug (BPD) Fee

We, along with other pharmaceutical manufacturers of branded drug products, are required
of the BPD fee, which is estimated based on select government sales during each calendar y
percentage of total industry government sales and is trued-up upon receipt of invoices from
Revenue Service (IRS). In 2014, the IRS issued final regulations related to the BPD fee whi
the expense recognition criteria for the fee obligation from the year in which the fee is paid,
which the related sales and market share used to allocate the fee is determined. Our BPD fe
$270 million in 2016, $414 million in 2015 and $590 million in 2014 and are recorded as Se
and administrative (SG&A) expense on our Consolidated Statements of Income. Our BPD f
totaled $536 million as of December 31, 2016 and $780 million as of December 31, 2015 or
Consolidated Balance Sheets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standa
2014-09 (ASU 2014-09) “Revenue from Contracts with Customers.” The standard’s core pr
reporting entity will recognize revenue when it transfers promised goods or services to custo
amount that reflects the consideration to which the entity expects to be entitled in exchange
or services. The standard will become effective for us beginning in the first quarter of 2018.
is permitted in 2017. Entities have the option of using either a full retrospective or a modifie
approach to adopt this new guidance. The FASB issued supplemental adoption guidance an
ASU 2014-09 in March 2016, April 2016, May 2016, and December 2016 within ASU 201
from Contracts with Customers: Principal vs. Agent Considerations,” ASU 2016-10 “Reven
with Customers: Identifying Performance Obligations and Licensing,” ASU 2016-12 “Reve
Contracts with Customers: Narrow-Scope Improvements and Practical Expedients,” and AS
“Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Cust
respectively. We expect to adopt the accounting standard update using the modified retrospe
The cumulative effect of adopting the accounting standard update will be recorded to retaine
January 1, 2018. We have completed our initial assessment of the effect of adoption. Based
assessment, we expect changes in our revenue recognition policy relating to royalty revenue
other revenues that are currently recognized on a cash basis or sell through method. Upon ad
accounting standard updates, these revenues will be recognized in the periods in which the s
subject to the constraint on variable consideration. We currently do not expect that these acc
standard updates will have a material impact on our Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standard Update No. 2015-17 (ASU 2015
Sheet Classification of Deferred Taxes.” ASU 2015-17 requires that deferred tax liabilities a
classified as noncurrent on the balance sheet. Previous guidance required deferred tax liabil
to be separated into current and noncurrent amounts on the balance sheet. We plan to adopt
the first quarter of 2017 on a retrospective basis and will reclassify current deferred tax amo
Consolidated Balance Sheets as noncurrent.

In January 2016, the FASB issued Accounting Standard Update No. 2016-01(ASU 2016-01
and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 changes acc
equity investments, financial liabilities under the fair value option and the presentation and
requirements for financial instruments. In addition, it clarified guidance related to the valuat
assessment when recognizing deferred tax assets resulting from unrealized losses on availab
securities. The guidance will become effective for us beginning in the first quarter of 2018 a
adopted using a modified retrospective approach, with certain exceptions. Early adoption is
certain provisions. We are evaluating the impact of the adoption of this standard on our Con
Financial Statements.

In February 2016, the FASB issued Accounting Standard Update No. 2016-02 (ASU 2016-0
ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees t
almost all leases with a term greater than one year as a right-of-use asset and corresponding
measured at the present value of the lease payments. The guidance will become effective fo
in the first quarter of 2019 and is required to be adopted using a modified retrospective appr
adoption is permitted. We are evaluating the impact of the adoption of this standard on our C
Financial Statements, however, we anticipate recognition of additional assets and correspon
related to leases on our Consolidated Balance Sheets.

In March 2016, the FASB issued Accounting Standard Update No. 2016-09 (ASU 2016-09)
to Employee Share-Based Payment Accounting." The new guidance requires that excess tax
deficiencies that arise upon vesting or exercise of share-based payments be recognized in th
statement, whereas under the current guidance the tax effects are recorded to additional paid
guidance also amends the presentation of certain share-based payment items in the statemen
We will adopt the guidance in the first quarter of 2017. We will adopt the aspects of the new
affecting the cash flow presentation retrospectively. We have elected to continue to estimate
forfeitures. We anticipate that the adoption of the guidance will result in an increase in the s
the calculation of diluted earnings per share

depending primarily on the timing of when employees exercise stock options and our stock
time. We do not anticipate a cumulative-effect adjustment to be recorded in retained earning
adoption related to any of the amendments that require modified retrospective transition. W
not expect that adopting this guidance will have a material impact on our Consolidated Fina
Statements.

In June 2016, the FASB issued Accounting Standard Update No. 2016-13 (ASU 2016-13) "
Credit Losses on Financial Instruments." ASU 2016-13 requires measurement and recogniti
credit losses for financial assets. This guidance will become effective for us beginning in th
2020 and must be adopted using a modified retrospective approach, with certain exceptions
is permitted beginning in the first quarter of 2019. We are evaluating the impact of the adop
standard on our Consolidated Financial Statements.

In January 2017, FASB issued Accounting Standards Update No. 2017-01 (ASU 2017-01) "
Definition of a Business." The new guidance clarifies the definition of a business when eval
transactions should be accounted for as acquisitions or disposals of assets or businesses. Thi
become effective for us beginning in the first quarter of 2018. Early adoption is permitted. W
evaluating the impact of the adoption of this standard on our Consolidated Financial Statem

2. FAIR VALUE MEASUREMENTS

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

- Level 1 inputs which include quoted prices in active markets for identical assets or liabilitie
- Level 2 inputs which include observable inputs other than Level 1 inputs, such as quoted pr
assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that
or other inputs that are observable or can be corroborated by observable market data for sub
full term of the asset or liability. For our marketable securities, we review trading activity a
- the measurement date. When sufficient quoted pricing for identical securities is not availabl
market pricing and other observable market inputs for similar securities obtained from vario
data providers. These inputs either represent quoted prices for similar assets in active marke
derived from observable market data; and
- Level 3 inputs which include unobservable inputs that are supported by little or no market a
are significant to the fair value of the underlying asset or liability. Our Level 3 assets and lia
those whose fair value measurements are determined using pricing models, discounted cash
methodologies or similar valuation techniques and significant management judgment or est

Our financial instruments consist primarily of cash and cash equivalents, marketable securit
receivable, foreign currency exchange contracts, equity securities, accounts payable and sho
long-term debt. Cash and cash equivalents, marketable securities, foreign currency exchang
equity securities are reported at their respective fair values on our Consolidated Balance She
and long-term debt are reported at their amortized costs on our Consolidated Balance Sheets
remaining financial instruments are reported on our Consolidated Balance Sheets at amount
approximate current fair values. There were no transfers between Level 1, Level 2 and Leve
periods presented.

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

	December 31, 2016				December 31, 2	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2
Assets:						
Corporate debt securities	$—	$12,603	$ —	$12,603	$—	$5,773
U.S. treasury securities	5,529	—	—	5,529	4,389	—
Money market funds	5,464	—	—	5,464	10,161	—
Residential mortgage and asset-backed securities	—	3,602	—	3,602	—	1,695
U.S. government agencies securities	—	975	—	975	—	707
Certificates of deposit	—	943	—	943	—	448
Non-U.S. government securities	—	720	—	720	—	313
Foreign currency derivative contracts	—	336	—	336	—	210
Deferred compensation plan	84	—	—	84	66	—
Municipal debt securities	—	27	—	27	—	34
Equity securities	428	—	—	428	—	—
Total	$11,505	$19,206	$ —	$30,711	$14,616	$9,180
Liabilities:						
Deferred compensation plan	$84	$—	$ —	$84	$66	$—
Foreign currency derivative contracts	—	37	—	37	—	41
Contingent consideration	—	—	25	25	—	—
Total	$84	$37	$ 25	$146	$66	$41

Level 2 Inputs

We estimate the fair values of Level 2 instruments by taking into consideration valuations o third-party pricing services. The pricing services utilize industry standard valuation models, income- and market-based approaches, for which all significant inputs are observable, eithe indirectly, to estimate fair value. These inputs include reported trades of and broker/dealer q same or similar securities; issuer credit spreads; benchmark securities; prepayment/default p based on historical data; and other observable inputs.

Substantially all of our foreign currency derivative contracts have maturities within an 18 m horizon and all are with counterparties that have a minimum credit rating of A- or equivalen Poor's Ratings Services, Moody's Investors Service, Inc. or Fitch, Inc. We estimate the fair contracts by taking into consideration valuations obtained from a third-party valuation servi an income-based industry standard valuation model for which all significant inputs are obse directly or indirectly. These inputs include foreign currency exchange rates, London Interba Rates (LIBOR) and swap rates. These inputs, where applicable, are at commonly quoted int

The total estimated fair values of our short-term and long-term debt, determined using Leve on their quoted market values, were approximately $27.0 billion at December 31, 2016 and December 31, 2015, and the carrying values were $26.3 billion at December 31, 2016 and $ December 31, 2015.

Level 3 Inputs

As of December 31, 2016 and 2015, the only assets or liabilities that were measured using L on a recurring basis were our contingent consideration liabilities, which were immaterial. O nonrecurring basis, we measure certain assets including intangible assets at fair value when value of the asset exceeds its fair value. During 2016, the estimated fair value of our IPR&D momelotinib and simtuzumab was written down to zero due to termination of clinical devel

programs, and as a result, we recorded impairment charges of $432 million. See Note 7, Inta
for additional information.

Our policy is to recognize transfers into or out of Level 3 classification as of the actual date
change in circumstances that caused the transfer.

3. AVAILABLE-FOR-SALE SECURITIES

Estimated fair values of available-for-sale securities are generally based on prices obtained f
commercial pricing services. The following table is a summary of available-for-sale securiti

	December 31, 2016				December 31, 2015		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gr Unrealized Lo
Corporate debt securities	$12,657	$ 7	$ (61)	$ 12,603	$5,795	$ 1	$ (
U.S. treasury securities	5,558	1	(30)	5,529	4,407	—	(18
Money market funds	5,464	—	—	5,464	10,161	—	—
Residential mortgage and asset-backed securities	3,613	2	(13)	3,602	1,701	—	(6
U.S. government agencies securities	981	—	(6)	975	709	—	(2
Certificates of deposit	943	—	—	943	448	—	—
Non-U.S. government securities	725	—	(5)	720	315	—	(2
Municipal debt securities	27	—	—	27	34	—	—
Equity securities	357	71	—	428	—	—	—
Total	$30,325	$ 81	$ (115)	$ 30,291	$23,570	$ 1	$ (

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

	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 5,712	$ 10,163
Short-term marketable securities	3,666	1,756
Long-term marketable securities	20,485	11,601
Other long-term assets	428	—
Total	$ 30,291	$ 23,520

Cash and cash equivalents in the table above excludes cash of $2.5 billion as of December 3
$2.7 billion as of December 31, 2015.

The following table summarizes our portfolio of available-for-sale debt securities by contra
(in millions):

	December 31, 2016	
	Amortized Cost	Fair Value
Less than one year	$9,379	$9,378
Greater than one year but less than five years	19,853	19,757
Greater than five years but less than ten years	610	603
Greater than ten years	126	125
Total	$29,968	$29,863

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

	Less Than 12 Months		12 Months or Greater		Tota
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gro Unr Loss
December 31, 2016					
Corporate debt securities	$(60)	$ 8,685	$(1)	$ 155	$(6
U.S. treasury securities	(30)	5,081	—	—	(30
Residential mortgage and asset-backed securities	(13)	2,180	—	42	(13
U.S. government agencies securities	(6)	897	—	—	(6
Non-U.S. government securities	(5)	714	—	5	(5
Certificates of deposit	—	15	—	—	—
Municipal debt securities	—	11	—	—	—
Total	$(114)	$ 17,583	$(1)	$ 202	$(1
December 31, 2015					
Corporate debt securities	$(23)	$ 4,891	$—	$ 43	$(2
U.S. treasury securities	(18)	4,342	—	—	(18
Residential mortgage and asset-backed securities	(6)	1,626	—	20	(6
U.S. government agencies securities	(2)	707	—	—	(2
Non-U.S. government securities	(2)	313	—	—	(2
Municipal debt securities	—	21	—	—	—
Total	$(51)	$ 11,900	$—	$ 63	$(5

We held a total of 2,709 positions as of December 31, 2016 and 2,742 positions as of Decem
related to our debt securities that were in an unrealized loss position.

Based on our review of our available-for-sale securities, we believe we had no other-than-te
impairments on these securities as of December 31, 2016 and 2015, because we do not inten
securities nor do we believe that we will be required to sell these securities before the recov
amortized cost basis. Gross realized gains and gross realized losses were immaterial for the
December 31, 2016, 2015 and 2014.

4. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign Currency Exposure

Our operations in foreign countries expose us to market risk associated with foreign currenc
fluctuations between the U.S. dollar and various foreign currencies, the most significant of v
Euro and Yen. In order to manage this risk, we may hedge a portion of our foreign currency
related to outstanding monetary assets and liabilities as well as forecasted product sales usin
currency exchange forward or option contracts. In general, the market risk related to these c
offset by corresponding gains and losses on the hedged transactions. The credit risk associat
contracts is driven by changes in interest and currency exchange rates and, as a result, varies
working only with major banks and closely monitoring current market conditions, we seek t
that counterparties to these contracts may be unable to perform. We also seek to limit our ris
entering into contracts that permit net settlement at maturity. Therefore, our overall risk of l
of a counterparty default is limited to the amount of any unrecognized gains on outstanding
those contracts that have a positive fair value) at the date of default. We do not enter into de
contracts for trading purposes.

We hedge our exposure to foreign currency exchange rate fluctuations for certain monetary
liabilities of our entities that are denominated in a non-functional currency. The derivative i

use to hedge this exposure are not designated as hedges, and as a result, changes in their fair
recorded in Other income (expense), net on our Consolidated Statements of Income.

We hedge our exposure to foreign currency exchange rate fluctuations for forecasted produc
denominated in a non-functional currency. The derivative instruments we use to hedge this
designated as cash flow hedges and have maturity dates of 18 months or less. Upon executi
contract and quarterly thereafter, we assess prospective hedge effectiveness using a regressi
which calculates the change in cash flow as a result of the hedge instrument. On a quarterly
retrospective hedge effectiveness using a dollar offset approach. We exclude time value fro
effectiveness testing and recognize changes in the time value of the hedge in Other income
The effective component of our hedge is recorded as an unrealized gain or loss on the hedgi
in AOCI within Stockholders' equity and the gains or losses are reclassified into product sa
hedged transactions affect earnings. The majority of gains and losses related to the hedged f
transactions reported in AOCI at December 31, 2016 are expected to be reclassified to prod
12 months.
The cash flow effects of our derivative contracts for the three years ended December 31, 20
2014 are included within net cash provided by operating activities on the Consolidated State
Flows.
We had notional amounts on foreign currency exchange contracts outstanding of $6.2 billio
31, 2016 and $9.1 billion at December 31, 2015.
While all of our derivative contracts allow us the right to offset assets or liabilities, we have
amounts on a gross basis. Under the International Swap Dealers Association, Inc. master ag
the respective counterparties of the foreign currency exchange contracts, subject to applicab
we are allowed to net settle transactions of the same currency with a single net amount paya
party to the other. The following table summarizes the classification and fair values of deriv
instruments on our Consolidated Balance Sheets (in millions):

	December 31, 2016		
	Asset Derivatives		Liability Derivativ
	Classification	Fair Value	Classification
Derivatives designated as hedges:			
Foreign currency exchange contracts	Other current assets	$ 225	Other accrued liabi
Foreign currency exchange contracts	Other long-term assets	20	Other long-term ob
Total derivatives designated as hedges		245	
Derivatives not designated as hedges:			
Foreign currency exchange contracts	Other current assets	81	Other accrued liabi
Foreign currency exchange contracts	Other long-term assets	10	Other long-term ob
Total derivatives not designated as hedges		91	
Total derivatives		$ 336	

	December 31, 2015		
	Asset Derivatives		Liability Derivativ
	Classification	Fair Value	Classification
Derivatives designated as hedges:			
Foreign currency exchange contracts	Other current assets	$ 200	Other accrued liabi
Foreign currency exchange contracts	Other long-term assets	9	Other long-term ob
Total derivatives designated as hedges		209	
Derivatives not designated as hedges:			
Foreign currency exchange contracts	Other current assets	1	Other accrued liabi
		1	

Total derivatives not designated as hedges	
Total derivatives	$ 210

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

	Year Ende 2016
Derivatives designated as hedges:	
Gains recognized in AOCI (effective portion)	$ 5
Gains reclassified from AOCI into product sales (effective portion)	$ 73
Gains (losses) recognized in Other income (expense), net (ineffective portion and amounts excluded from effectiveness testing)	$ (32)
Derivatives not designated as hedges:	
Gains recognized in Other income (expense), net	$ 206

From time to time, we may discontinue cash flow hedges and as a result, record related amo
income (expense), net on our Consolidated Statements of Income. There were no material a
recorded in Other income (expense), net for the years ended December 31, 2016, 2015 and
of the discontinuance of cash flow hedges.

As of December 31, 2016 and 2015, we held one type of financial instrument, derivative co
to foreign currency exchange contracts. The following table summarizes the potential effect
derivatives by type of financial instrument on our Consolidated Balance Sheets (in millions)

As of December 31, 2016
Offsetting of Derivative Assets/Liabilities

				Gross Amounts Not O on the Consolidated Balance Sheets	
Description	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset on the Consolidated Balance Sheets	Amounts of Assets/Liabilities Presented on the Consolidated Balance Sheets	Derivative Financial Instruments	Cash Colla Received/
Derivative assets	$ 336	$ —	$ 336	$ (37)	$
Derivative liabilities	(37)	—	(37)	37	—

As of December 31, 2015
Offsetting of Derivative Assets/Liabilities

				Gross Amounts Not O on the Consolidated Balance Sheets	
Description	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset on the Consolidated Balance Sheets	Amounts of Assets/Liabilities Presented on the Consolidated Balance Sheets	Derivative Financial Instruments	Cash Colla Received/
Derivative assets	$ 210	$ —	$ 210	$ (38)	$
Derivative liabilities	(41)	—	(41)	38	—

May 2016 Convertible Senior Notes and Convertible Note Hedges

In March 2016, we exercised our option to elect cash for the settlement of the conversion va
the principal amount (the conversion spread) of our remaining convertible senior notes due
(the Convertible Notes) and for the related convertible note hedges. Until our cash settlemer
conversion spread of the Convertible Notes and the convertible note hedges met the applica
equity classification and were therefore recorded in Stockholders' equity on our Consolidate
Sheets. Upon our cash settlement election, we reclassified $733 million of the fair value of t
spread from Stockholders' equity to Current portion of long-term debt and other obligations
reclassified $733 million of the fair value of the convertible note hedges from Stockholders'
Prepaid and other current assets on our Consolidated Balance Sheets. Upon maturity of the
Notes in 2016, we settled the conversion spread and the convertible note hedges in cash at $
respectively, and recorded a loss of $128 million on the conversion spread and a gain of $12
the convertible note hedges on our Consolidated Statements of Income.

5. INVENTORIES

Inventories are summarized as follows (in millions):

	December 31,	
	2016	2015
Raw materials	$1,610	$1,332
Work in process	626	542
Finished goods	928	852
Total	$3,164	$2,726
Reported as:		
Inventories	$1,587	$1,955
Other long-term assets	1,577	771
Total	$3,164	$2,726

Amounts reported as other long-term assets primarily consisted of raw materials as of Dece
and December 31, 2015.

The joint ventures formed by Gilead Sciences, LLC and BMS (See Note 10, Collaborative A
which are included on our Consolidated Financial Statements, held efavirenz active pharma
ingredient in inventory. This efavirenz inventory was purchased from BMS at BMS's estim
price of efavirenz and totaled $1.1 billion as of December 31, 2016 and $1.3 billion as of De
2015.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows (in millions):

	December 31,	
	2016	2015
Land	$394	$393
Buildings and improvements (including leasehold improvements)	1,713	1,320
Laboratory and manufacturing equipment	469	377
Office and computer equipment	466	395
Construction in progress	641	554
Subtotal	3,683	3,039
Less accumulated depreciation and amortization	(818)	(763)
Total	$2,865	$2,276

7. INTANGIBLE ASSETS

The following table summarizes the carrying amount of our Intangible assets, net (in millio

	December 31,	
	2016	2015
Finite-lived intangible assets	$8,971	$9,815
Indefinite-lived intangible assets	—	432
Total	$8,971	$10,247

Finite-Lived Intangible Assets

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

	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible asset - sofosbuvir	$10,720	$ 2,156	$ 8,564	$10,720	$ 1,456	$ 9
Intangible asset - Ranexa	688	467	221	688	363	325
Other	455	269	186	455	229	226
Total	$11,863	$ 2,892	$ 8,971	$11,863	$ 2,048	$ 9

Amortization expense related to finite-lived intangible assets, included primarily in Cost of our Consolidated Statements of Income, totaled $844 million in 2016, $826 million in 2015 million in 2014. As of December 31, 2016, the estimated future amortization expense assoc finite-lived intangible assets for each of the five succeeding fiscal years is as follows (in mil

Fiscal Year	Amount
2017	$ 839
2018	850
2019	739
2020	713
2021	713
Thereafter	5,117
Total	$ 8,971

Indefinite-Lived Intangible Assets

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

	December 31, 2016	2015
Indefinite-lived intangible asset - momelotinib	$ —	$ 315
Indefinite-lived intangible asset - simtuzumab	—	117
Total	$ —	$ 432

In 2016, the estimated fair value of our IPR&D related to momelotinib and simtuzumab was to zero due to termination of clinical developments of such programs, and as a result, we rec impairment charges of $432 million within Research and development expenses on our Con Statements of Income.

8. OTHER FINANCIAL INFORMATION

Prepaid and other current assets

The components of Prepaid and other current assets are summarized as follows (in millions)

	December 31,	
	2016	2015
Prepaid taxes	$299	$773
Prepaid expenses	231	240
Other current assets	1,062	505
Total	$1,592	$1,518

Other accrued liabilities

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

	December 31,	
	2016	2015
BPD fee	$481	$649
Compensation and employee benefits	398	380
Accrued interest	290	232
Other accrued expenses	1,621	1,911
Total	$2,790	$3,172

9. ACQUISITION

In May 2016, we acquired Nimbus Apollo, Inc., a privately held company, and its Acetyl-C inhibitor program, which is being evaluated for the potential treatment of non-alcoholic stea hepatocellular carcinoma and other diseases. The consideration included a payment of $400 contingent development and regulatory milestone-based payments of up to $800 million. Th did not meet the requirements to be accounted for as a business combination under ASC 80 Combinations and therefore was accounted for as an asset acquisition. As a result, the paym million was recorded within Research and development expenses on our Consolidated State Income. During 2016, based on the achievement of certain clinical development milestones $200 million expense within Research and development expenses on our Consolidated State Income.

10. COLLABORATIVE ARRANGEMENTS

We enter into collaborative arrangements with third parties for the development and comme certain products. Both parties are active participants in the operating activities of the collabo exposed to significant risks and rewards depending on the commercial success of the activit following are our significant collaborative arrangements.

Bristol-Myers Squibb Company

North America

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

We and BMS shared marketing and sales efforts. Starting in the second quarter of 2011, exc limited number of activities that are jointly managed, the parties no longer coordinate detail promotional activities in the United States, and the parties reduced their joint promotional e launched Complera in August 2011 and Stribild in August 2012. The parties continue to col activities such as manufacturing, regulatory, compliance and pharmacovigilance. The daily the joint venture are governed by several joint committees formed by both BMS and Gilead responsible for accounting, financial reporting, tax reporting, manufacturing and product dis the joint venture. Both parties provide their respective bulk active pharmaceutical ingredien venture at their approximate market values. The agreement will continue until terminated by

agreement of the parties. In addition, either party may terminate the other party's participati
collaboration within 30 days after the launch of at least one generic version of such other pa
agent products (or the double agent products). The terminating party then has the right to co
Atripla and become the continuing party, but will be obligated to pay the terminated party c
for a three-year period following the effective date of the termination. The loss of exclusivit
States for Sustiva is expected in December 2017.

As of December 31, 2016 and 2015, the joint venture held efavirenz active pharmaceutical i
which it purchased from BMS at BMS's estimated net selling price of efavirenz in the U.S.
amounts were primarily included in Inventories on our Consolidated Balance Sheets.

Selected financial information for the joint venture was as follows (in millions):

	December 31,	
	2016	2015
Total assets	$1,918	$2,464
Cash and cash equivalents	92	166
Accounts receivable, net	229	269
Inventories	1,579	2,027
Total liabilities	772	1,055
Accounts payable	434	606
Other accrued liabilities	338	449

These asset and liability amounts do not reflect the impact of intercompany eliminations tha
on our Consolidated Balance Sheets. Although we consolidate the joint venture, the legal st
joint venture limits the recourse that its creditors will have over our general credit or assets.
assets held in the joint venture can be used only to settle obligations of the joint venture.

Europe

In 2007, Gilead Sciences Ireland UC, our wholly-owned subsidiary, and BMS entered into a
agreement which sets forth the terms and conditions under which we and BMS commerciali
distribute Atripla in the European Union, Iceland, Liechtenstein, Norway and Switzerland (
European Territory). The parties formed a limited liability company which we consolidate,
Atripla for distribution in the European Territory using efavirenz that it purchases from BM
estimated net selling price of efavirenz in the European Territory. We are responsible for ma
product distribution, inventory management and warehousing. Through our local subsidiarie
primary responsibility for order fulfillment, collection of receivables, customer relations and
sales returns in all the territories where we and BMS promote Atripla. In general, the parties
and out-of-pocket expenses in proportion to the net selling prices of the components of Atri
and efavirenz.

Starting in 2012, except for a limited number of activities that are jointly managed, the parti
coordinate detailing and promotional activities in the European Territory. We are responsibl
accounting, financial reporting and tax reporting for the collaboration. As of December 31,
efavirenz purchased from BMS at BMS's estimated net selling price of efavirenz in the Eur
is included in Inventories on our Consolidated Balance Sheets.

The parties also formed a limited liability company to hold the marketing authorization for
European Territory. We have primary responsibility for regulatory activities. In the major m
both parties have agreed to independently continue to use commercially reasonable efforts t
Atripla.

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

Japan Tobacco Inc.

In 2005, Japan Tobacco Inc. (Japan Tobacco) granted us exclusive rights to develop and co
elvitegravir, a novel HIV integrase inhibitor, in all countries of the world, excluding Japan,
Tobacco retained such rights. Under the agreement, we are responsible for seeking regulato
our territories and are required to use diligent efforts to commercialize elvitegravir for the tr
infection. We bear all costs and expenses associated with such commercialization efforts.

We received approval of Stribild (an elvitegravir-containing product) from FDA in August 2
the European Commission in May 2013. We received approval of Genvoya (an elvitegravir-
product) from FDA and the European Commission in November 2015.

The agreement and our obligation to pay royalties to Japan Tobacco will terminate on a pro basis as patents providing exclusivity for the product expire or, if later, on the tenth annivers commercial launch for such product. We may terminate the agreement for any reason in wh license granted by Japan Tobacco to us would terminate. Either party may terminate the agr response to a material breach by the other party.

Janssen

In 2009, we entered into a license and collaboration agreement with Janssen Sciences Irelan formerly Tibotec Pharmaceuticals, to develop and commercialize a fixed-dose combination and Janssen's non-nucleoside reverse transcriptase inhibitor rilpivirine. This combination w the United States and European Union in 2011 and is sold under the brand name Complera i States and Eviplera in the European Union. Under this original agreement, Janssen granted license to Complera/Eviplera worldwide excluding certain middle income and developing w and Japan.

In 2011 and 2013, we amended the agreement to include distribution of Complera/Eviplera world. In 2014, we amended the agreement to expand the collaboration to include another p containing Janssen's rilpivirine and our emtricitabine and tenofovir alafenamide (Odefsey). amended agreement, Janssen granted us an exclusive license to Complera/Eviplera and Ode but retained rights to distribute both combination products in 18 countries including Mexico Japan. Neither party is restricted from combining its drugs with any other drug products exc are similar to the components of Complera/Eviplera and Odefsey.

We are responsible for manufacturing Complera/Eviplera and Odefsey and have the lead ro registration, distribution and commercialization of both products except in the countries wh distributes. Janssen has exercised a right to co-detail the combination product in some of the where Gilead is the selling party.

Under the initial agreement, the price of Complera/Eviplera was expected to be the sum of t Truvada and the price of rilpivirine purchased separately. The cost of rilpivirine purchased b Janssen for Complera/Eviplera was approximately the market price of rilpivirine, less a spec percentage of up to 30% in major markets. The 2014 amendment, effective in 2015, enables party to set the price of the combined products and the parties share revenues based on the r selling prices of the party's component(s), subject to certain restrictions and adjustments. W to retain a specified percentage of Janssen's share of revenues, up to 30% in major markets.

Either party may terminate the collaboration agreement with respect to a product and a coun product is withdrawn from the market in such country or with respect to a product in all cou other party materially breaches the agreement with respect to a product. The agreement and obligation to share revenues will expire on a product-by-product and country-by-country ba patents providing exclusivity for the product expire or, if later, on the tenth anniversary of c launch for such product. We may terminate the agreement without cause with respect to the where we sell the products in which case Janssen has the right to become the selling party fo if the product has launched but has been on the market for fewer than 10 years.

Galapagos NV

In 2016, we closed on a license and collaboration agreement with Galapagos NV (Galapago clinical-stage biotechnology company based in Belgium, for the development and commerc filgotinib, a JAK1-selective inhibitor being evaluated for inflammatory disease indications.

Upon closing of the license and collaboration agreement, we made an up-front license fee p million and a $425 million equity investment in Galapagos by subscribing for new shares at per share, including issuance premium. As a result, we received 6.8 million new shares of G representing 14.75% of their outstanding share capital. The license fee payment of $300 mil issuance premium on the equity investment of $68 million were recorded within Research a expenses on our Consolidated Statements of Income. The equity investment, net of issuance

$357 million was recorded as an available-for-sale security in Other long-term assets on our Balance Sheets. Galapagos is eligible to receive development and regulatory milestone-base up to $755 million, sales-based milestone payments of up to $600 million, plus tiered royalt sales starting at 20%, with the exception of certain co-promotion territories where profits we equally. During 2016, based on the achievement of certain clinical development milestones, $60 million expense within Research and development expenses on our Consolidated Staten Income.

Under the terms of the agreement, we have an exclusive, worldwide, royalty-bearing, sublic for filgotinib and products containing filgotinib. We are primarily responsible for developm regulatory approval related to filgotinib. We are responsible for 80% and Galapagos is respo of the development costs incurred. We are also responsible for the manufacturing and comm activities. Galapagos has the option to co-promote filgotinib in certain territories, in which c Galapagos will share profits equally.

11. DEBT AND CREDIT FACILITY

Financing Arrangements

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

				December 3	
Type of Borrowing	Issue Date	Due Date	Interest Rate	2016	201
Convertible Notes	July 2010	May 2016	1.625%	$—	$28
Senior Unsecured	December 2011	December 2016	3.05%	—	699
Senior Unsecured	September 2015	September 2018	1.85%	998	997
Senior Unsecured	March 2014	April 2019	2.05%	499	498
Senior Unsecured	November 2014	February 2020	2.35%	498	497
Senior Unsecured	September 2015	September 2020	2.55%	1,991	1,9
Senior Unsecured	March 2011	April 2021	4.50%	994	992
Senior Unsecured	December 2011	December 2021	4.40%	1,245	1,2
Senior Unsecured	September 2016	March 2022	1.95%	497	—
Senior Unsecured	September 2015	September 2022	3.25%	995	995
Senior Unsecured	September 2016	September 2023	2.50%	744	—
Senior Unsecured	March 2014	April 2024	3.70%	1,741	1,7
Senior Unsecured	November 2014	February 2025	3.50%	1,743	1,7
Senior Unsecured	September 2015	March 2026	3.65%	2,726	2,7
Senior Unsecured	September 2016	March 2027	2.95%	1,243	—
Senior Unsecured	September 2015	September 2035	4.60%	989	988
Senior Unsecured	September 2016	September 2036	4.00%	739	—
Senior Unsecured	December 2011	December 2041	5.65%	995	995
Senior Unsecured	March 2014	April 2044	4.80%	1,732	1,7
Senior Unsecured	November 2014	February 2045	4.50%	1,729	1,7
Senior Unsecured	September 2015	March 2046	4.75%	2,214	2,2
Senior Unsecured	September 2016	March 2047	4.15%	1,723	—
Floating-rate Borrowings	May 2016	May 2019	Variable	311	—
Total debt, net				26,346	22,
Less current portion				—	982
Total long-term debt, net				$26,346	$2

Note:

(1) In connection with our adoption of the Accounting Standard Update relating to the prese issuance costs during the first quarter of 2016, debt balances at December 31, 2015 have retrospectively adjusted by $123 million to include unamortized debt issuance costs. Prio adoption of the ASU, these unamortized debt issuance costs were included in Prepaid an assets and Other long-term assets on our Consolidated Balance Sheets.

Senior Unsecured Notes

In 2016, we issued $5.0 billion aggregate principal amount of senior unsecured notes (the 2 registered offering. In 2015, we issued $10.0 billion aggregate principal amount of senior u (the 2015 Notes) in a registered offering. The 2016 Notes and 2015 Notes were issued for g purposes, which may include the repayment of debt, working capital, payment of dividends our outstanding common stock pursuant to our authorized share repurchase programs and fu acquisitions.

We collectively refer to the 2016 Notes, the 2015 Notes and our senior unsecured notes issu and November 2014 (the 2014 Notes) and in March and December 2011 (the 2011 Notes) a Notes. Our Senior Notes may be redeemed at our option at a redemption price equal to the g

100% of the principal amount of the notes to be redeemed and (ii) the sum, as determined b
independent investment banker, of the present value of the remaining scheduled payments o
interest on the notes to be redeemed (exclusive of interest accrued to the date of redemption
the redemption date on a semiannual basis at the Treasury Rate plus a make-whole premium
the indenture. Our Senior Notes maturing

after 2020 also have a call feature, exercisable at our option, to redeem the notes at par in w
one to six months immediately preceding maturity. In each case, accrued and unpaid interes
required to be redeemed to the date of redemption. In 2016, we repaid at maturity $700 mill
balance related to the 2011 Notes.

In the event of the occurrence of a change in control and a downgrade in the rating of our Se
below investment grade by Standard & Poor's Ratings Services and Moody's Investors Serv
holders may require us to purchase all or a portion of the Senior Notes at a price equal to 10
aggregate principal amount of the notes repurchased, plus accrued and unpaid interest to the
repurchase. We are required to comply with certain covenants under our Senior Notes and a
31, 2016 and 2015, we were not in violation of any covenants.

We recognized $907 million in 2016, $605 million in 2015, and $350 million in 2014 of int
our Senior Notes related to the contractual coupon rates and amortization of the debt discou
costs.

Convertible Notes

In July 2010, we issued $1.3 billion of Convertible Notes due in May 2016 in a private plac
to Rule 144A of the Securities Act of 1933, as amended. In 2016 and 2015, portions of the C
Notes were converted and on May 1, 2016, the remainder matured. We repaid an aggregate
balance of $285 million and $213 million during 2016 and 2015, respectively. We also paid
million and $784 million during 2016 and 2015, respectively, related to the conversion spre
Convertible Notes, which represents the conversion value in excess of the principal amount
$956 million and $784 million in cash during 2016 and 2015, respectively, from our conver
hedges related to the Convertible Notes. During 2015, a portion of the warrants related to th
Notes was modified and settled, and in August 2016, the remainder expired. We paid $469 m
billion during 2016 and 2015, respectively, to settle the warrants as the average market price
common stock exceeded the warrants' exercise price.

The Convertible Notes were issued at par and bore an annual interest rate of 1.625%. The in
rate for the Convertible Notes was 44.0428 shares per $1,000 principal amount (which repre
initial conversion price of approximately $22.71 per share). The conversion rates were subje
anti-dilution adjustments, including quarterly dividend distributions. Upon conversion or ma
received an amount in cash equal to the lesser of (i) the principal amount of the note or (ii) t
value for such note, as measured under the indenture governing the relevant notes. If the con
exceeded the principal amount, we delivered, at our option, cash or common stock or a com
and common stock for the conversion value in excess of the principal amount.

Concurrent with the issuance of the Convertible Notes, we purchased convertible note hedg
warrants in private transactions. The convertible note hedges covered, subject to customary
adjustments, 55 million shares of our common stock at strike price that initially correspond
conversion price of the Convertible Notes and were subject to adjustments similar to those a
conversion price of the related notes, including quarterly dividend distributions. If the marke
share of our common stock at the time of conversion of the Convertible Notes were above th
of the applicable convertible note hedges, we would have been entitled to receive from the c
the transactions shares of our common stock or, to the extent we have made a corresponding
respect to the related convertible notes, cash or a combination of cash and shares of our com
our option, for the excess of the market value of the common stock over the strike price of t
note hedges. The convertible note hedges would have terminated upon the maturity of the C
Notes or when none of the Convertible Notes remained outstanding due to conversion or oth

There were 55 million shares of our common stock underlying the warrants associated with
Notes. The warrants had an original exercise price of $30.05 per share, subject to customary
adjustments including quarterly dividend distributions. In 2015, we entered into modified ag
our warrant counterparties which changed the timing of the expiration for 46 million of the

modified agreements allowed us to settle the 46 million warrants at our option, in cash or sh
to the terms of the modified agreements, these warrants expired during a 32 trading-day per
commenced on May 11, 2015 and ended on June 24, 2015. We exercised our option to settl
cash. In 2016, the remaining 9 million warrants expired during a 40 trading-day period com
August 1, 2016 and ending on September 26, 2016. We exercised our option to settle the re
warrants in cash. Because these warrants could have been settled at our option, in cash or sh
common stock, under both the original and the modified agreements and these contracts me
applicable criteria for equity classification, the settlement payments were recorded as a redu
Stockholders' equity on our Consolidated Balance Sheets.

In March 2016, we exercised our option to elect cash for the settlement of the conversion sp
remaining Convertible Notes and for the related convertible note hedges. As a result, the Co
and the related convertible note hedges were accounted for as derivative instruments with fa
classified as liability or asset on our Consolidated Balance Sheets (see Note 4, Derivative Fi
Instruments).

Until our cash settlement election, we bifurcated the conversion option of the Convertible N
debt instrument, classified the conversion option in equity and accreted the resulting debt di
interest expense over the contractual terms of the Convertible Notes. The following table su
information about the equity and liability components of the Convertible Notes (in millions)

	Carrying Value of Equity Component		Net Carrying Amount of Liability Component		Unamortized Discount of Liability Component	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
Convertible Notes	$ —	$ 35	$ —	$ 283	$ —	$ (2)

We recognized interest expense of $3 million in 2016, $16 million in 2015 and $35 million
to the contractual coupon rate and amortization of the debt discount and issuance cost for th
Notes. The effective interest rate on the liability components of Convertible Notes was 4.00

Credit Facilities

In 2016, we terminated our five-year $1.3 billion revolving credit facility and entered into a
billion five-year revolving credit facility agreement maturing in May 2021 (the Five-Year R
Agreement). The new revolving credit facility can be used for working capital requirements
corporate purposes, including, without limitation, acquisitions. As of December 31, 2016 an
were no amounts outstanding under these credit facilities.

The Five-Year Revolving Credit Agreement contains customary representations, warranties
and negative covenants and events of default. At December 31, 2016 we were not in violati
covenants. Loans under the new credit facility bear interest at either (i) the Eurodollar Rate
Applicable Percentage, or (ii) the Base Rate plus the Applicable Percentage, each as defined
Five-Year Revolving Credit Agreement. We may terminate or reduce the commitments, and
any loans under the new credit facility in whole or in part at any time without premium or p

Contractual Maturities of Financing Obligations

As of December 31, 2016, the aggregate future principal maturities of financing obligations
next five years, based on contractual due dates, are as follows (in millions):

	2017	2018	2019	2020	2021
Contractual Maturities	$ —	$1,000	$812	$2,500	$2,250

12. COMMITMENTS AND CONTINGENCIES

Lease Arrangements

We lease facilities and equipment related primarily to administrative, R&D, sales and marke
under various long-term non-cancelable operating leases in the United States and internation
leases expire on various dates between 2017 and 2068, with many of our leases containing o
renew. Lease expense under our operating leases was approximately $81 million in 2016, $1
2015 and $66 million in 2014.

Aggregate non-cancelable future minimum rental payments under operating leases are as fo
millions):

2017	$75
2018	67
2019	53
2020	38
2021	34
Thereafter	102
Total	$369

Legal Proceedings

We are a party to various legal actions. The most significant of these are described below. W
accruals for such actions to the extent that we conclude that a loss is both probable and reas
estimable. We accrue for the best estimate of a loss within a range; however, if no estimate
better than any other, then we accrue the minimum amount in the range. If we determine tha
reasonably possible and the loss or range of loss can be estimated, we disclose the possible

Unless otherwise noted, it is not possible to determine the outcome of these matters, and we
reasonably estimate the maximum potential exposure or the range of possible loss.
We did not recognize any accruals for litigation on our Consolidated Balance Sheets as of D
2016 and 2015 as we did not believe losses were probable.
Litigation Related to Sofosbuvir
In January 2012, we acquired Pharmasset, Inc. (Pharmasset). Through the acquisition, we ac
sofosbuvir, a nucleotide analog that acts to inhibit the replication of the hepatitis C virus (H
December 2013, we received FDA approval of sofosbuvir, now known commercially as So
October 2014, we also received approval of the fixed-dose combination of ledipasvir and so
known commercially as Harvoni. In June 2016, we received approval of the fixed-dose com
sofosbuvir and velpatasvir, now known commercially as Epclusa. We have received a numb
contractual and intellectual property claims regarding sofosbuvir. While we have carefully c
claims both prior to and following the acquisition and believe they are without merit, we ca
ultimate outcome of such claims or range of loss, except where stated otherwise herein.
We own patents and patent applications that claim sofosbuvir (Sovaldi) as a chemical entity
metabolites and the fixed-dose combinations of ledipasvir and sofosbuvir (Harvoni) and sof
velpatasvir (Epclusa). Third parties may have, or may obtain rights to, patents that allegedly
to prevent or attempt to prevent us from commercializing Epclusa, Harvoni or Sovaldi. For
aware of patents and patent applications owned by other parties that have been or may in the
alleged by such parties to cover the use of Epclusa, Harvoni and Sovaldi. We cannot predict
outcome of intellectual property claims related to Epclusa, Harvoni or Sovaldi. We have spe
continue to spend, significant resources defending against these claims.
If third parties successfully obtain valid and enforceable patents, and successfully prove infr
those patents by Epclusa, Harvoni and/or Sovaldi, we could be prevented from selling these
we were able to obtain a license under such patents. Such a license may not be available on
reasonable terms or at all.
Interference Proceedings and Litigation with Idenix Pharmaceuticals, Inc. (Idenix), Univers
di Cagliari (UDSG), Centre National de la Recherche Scientifique and L'Universite Montpe
In February 2012, we received notice that the U.S. Patent and Trademark Office (USPTO) h
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 to determine who was the firs
certain nucleoside compounds. In January 2014, the USPTO Patent Trial and Appeal Board
determined that Pharmasset and not Idenix was the first to invent the compounds. Idenix has
PTAB's decisions to the U.S. District Court for the District of Delaware, which has stayed t
pending the outcome of the appeal of the interference involving Idenix's U.S. Patent No. 7,6
patent) as described below.
In December 2013, after receiving our request to do so, the USPTO declared Interference N
(Second Idenix Interference) between our pending U.S. Patent Application No. 11/854,218
U.S. Patent No. 7,608,600 (the '600 patent). The '600 patent includes claims directed to me
HCV with nucleoside compounds. In March 2015, the PTAB determined that Pharmasset ar
was the first to invent the claimed methods of treating HCV. Idenix appealed this decision i
District Court for the District of Delaware and the U.S. Court of Appeal for the Federal Circ
The CAFC heard oral arguments in September 2016, and we are awaiting its decision. We f
dismiss the appeal in Delaware, and the court has stayed the appeal relating to the Second Id
Interference.
We believe that the Idenix claims involved in the First and Second Idenix Interferences, and
and foreign patents claiming the same compounds, metabolites and uses thereof, are invalid
filed an Impeachment Action in the Federal Court of Canada to invalidate Idenix Canadian
2,490,191 (the '191 patent), which is the Canadian patent that corresponds to the '600 paten

that the commercialization of Sovaldi in Canada will infringe its ’191 patent and that our Ca
No. 2,527,657, corresponding to our ’572 patent, is invalid. In November 2015, the Canadia
Idenix’s patent is invalid and that our patent is valid. Idenix appealed the decision to the Ca
Court of Appeal in November 2015. The appeal hearing was held in January 2017 and we a
decision.

We filed a similar legal action in Norway in the Oslo District Court seeking to invalidate Id
Norwegian patent corresponding to the ’600 patent. In September 2013, Idenix filed an inva
in the Norwegian proceedings against our Norwegian Patent No. 333700, which correspond
patent. In March 2014, the Norwegian court found all claims in the Idenix Norwegian paten
and upheld the validity of all claims in our patent. Idenix appealed the decision to the Norw
Appeal. In April 2016, the Court of Appeal issued its decision invalidating the Idenix patent
our patent. Idenix has not filed a further appeal.

In January 2013, we filed a legal action in the Federal Court of Australia seeking to invalida
Australian patent corresponding to the ’600 patent. In April 2013, Idenix asserted that the co
of Sovaldi in Australia infringes its

Australian patent corresponding to the ’600 patent. In March 2016, the Australian court revo
Australian patent. Idenix has appealed this decision. The appeal hearing was held in Novem
we are awaiting the decision.
In March 2014, the European Patent Office (EPO) granted Idenix European Patent No. 1 52
patent), which corresponds to the ’600 patent. The same day that the ’489 patent was grante
opposition with the EPO seeking to revoke the ’489 patent. An opposition hearing was held
2016, and the EPO ruled in our favor and revoked the ’489 patent. Idenix has appealed. In M
Idenix also initiated infringement proceedings against us in the United Kingdom (UK), Ger
France alleging that the commercialization of Sovaldi would infringe the UK, German and
counterparts of the ’489 patent. A trial was held in the UK in October 2014. In December 20
Court of Justice of England and Wales (UK Court) invalidated all challenged claims of the
multiple grounds. Idenix appealed. In November 2016, the appeals court affirmed the UK C
invalidating Idenix’s patent. In March 2015, the German court in Düsseldorf determined tha
patent was highly likely to be invalid and stayed the infringement proceedings pending the
opposition hearing held by the EPO in February 2016. Idenix has not appealed this decision
court staying the proceedings. Upon Idenix’s request, the French proceedings have been sta
not been awarded patents corresponding to the ’600 patent in Japan or China.
In December 2013, Idenix, Universita Degli Studi di Cagliari (UDSG), Centre National de l
Scientifique and L’Université Montpellier II sued us in U.S. District Court for the District o
alleging that the commercialization of sofosbuvir will infringe the ’600 patent and that an in
between the ’600 patent and our U.S. Patent No. 8,415,322. Also in December 2013, Idenix
us in the U.S. District Court for the District of Massachusetts alleging that the commercializ
sofosbuvir will infringe U.S. Patent Nos. 6,914,054 (the ‘054 patent) and 7,608,597 (the ‘59
2014, the court transferred the Massachusetts litigation to the U.S. District Court for the Dis
Delaware. Idenix was acquired by Merck & Co. Inc. (Merck) in August 2014.
Prior to trial in December 2016, Idenix committed to give us a covenant not to sue with resp
claims arising out of the ‘054 patent related to sofosbuvir and withdrew that patent from the
addition, Idenix declined to litigate the ‘600 patent infringement action at trial in light of the
currently pending at the CAFC. In January 2017, the District Court stayed Idenix’s infringe
the ‘600 patent pending the outcome of the appeal of the interference decision on that paten
above. A jury trial was held in December 2016 on the remaining ‘597 patent. In December 2
found that we willfully infringed the asserted claims of the ‘597 patent and awarded Idenix
past damages. The parties will file post-trial motions and briefings during the first quarter o
expect the judge to rule in the third or fourth quarter of 2017. Once the judge has issued thes
case will move to the CAFC.
Although we cannot predict with certainty the ultimate outcome of this litigation, we believ
verdict to be in error, and also believe that errors were also made by the court with respect t
made before and during trial. We are confident in the merits of our case and will vigorously
position in post-trial motions and on appeal. We expect that our arguments in the forthcomi
motions and on appeal will focus on one or more of the arguments that we made to the judg
those being (i) when properly construed, Gilead does not infringe the claims of the ’597 pat
patent is invalid for failure to properly describe the claimed invention and (iii) the patent is
it does not enable one of skill in the art to practice the claimed invention.
In assessing whether we should accrue a liability for this litigation on our consolidated finan
we considered various factors, including the legal and factual circumstances of the case, the
invalidation of an Idenix patent similar to the ‘597 patent in dispute in this case, the jury’s v
post-trial orders, the current status of the proceedings, applicable law, the views of legal cou
likelihood that the jury’s verdict will be upheld on appeal. As a result of this review, we hav
accordance with applicable accounting standards that it is not probable that we will incur a l

of this litigation, and therefore have not recorded a liability for this matter. While we believe probable, it is reasonably possible that a loss could occur. If the jury's verdict is not upheld loss will be zero. If the jury's verdict is upheld on appeal, our estimated potential loss as of 2016 would include (i) the $2.54 billion determined by the jury, which represents 10% of ou revenues from sofosbuvir containing products from launch through August 2016, (ii) approx million, which represents 10% of our adjusted revenues from sofosbuvir containing product September 2016 through December 31, 2016, (iii) pre-judgment interest, (iv) enhanced dam three times the sum of (i) and (ii) above as a result of the jury's finding of willfulness, and (Therefore, we estimate the range of possible loss through December 31, 2016 to be between billion. This sum excludes (i) an immaterial amount related to pre-judgment sales and intere 2017, and (ii) going forward royalties yet to be assessed by the court, which we have estima 10%, but which could be up to three times higher as a result of the jury's finding of willfuln would be payable based on adjusted revenues from sofosbuvir-containing products for the p January 26, 2017 through expiry of the Idenix patent in May 2021. We expect the judge to r amount of going forward royalties and any enhanced damages in the course of deciding the motions at a time to be determined by the judge in this case. The court's determination of en damages, if any, can also be appealed.

If the jury's verdict is upheld on appeal, the amount we could be required to pay could be m
timing and magnitude of the amount of any such payment could have a material adverse imp
results of operations and stock price.

Litigation with Merck

In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbu
license to U.S. Patent No. 7,105,499 (the '499 patent) and U.S. Patent No. 8,481,712 (the '7
it co-owns with Ionis Pharmaceuticals, Inc. The '499 and '712 patents cover compounds wh
include, but may relate to, sofosbuvir. We filed a lawsuit in August 2013 in the U.S. Distric
Northern District of California seeking a declaratory judgment that the Merck patents are in
infringed. During patent prosecution, Merck amended its patent application in an attempt to
compounds related to sofosbuvir. Initially, in March 2016, a jury determined that we had no
that Merck's patents are invalid for lack of written description or lack of enablement and aw
$200 million in damages. However, in June 2016, the court ruled in Gilead's favor on our d
unclean hands and determined that Merck may not recover any damages from us for the '49
patents. The judge has determined that Merck is required to pay our attorney's fees due to th
nature of this case. The amount of fees owed to us by Merck is yet to be determined by the c
Merck has filed a notice of appeal to the Court of Appeals for the Federal Circuit regarding
decision on our defense of unclean hands. We appealed the issue relating to the invalidity of
If the decision on our defense of unclean hands is reversed on appeal and Merck's patent is
be required to pay damages and a royalty on sales of sofosbuvir-containing products followi
In that event, the judge has indicated that she will determine the amount of the royalty, if ne
conclusion of any appeal in this case.

Litigation with the University of Minnesota

The University of Minnesota (the University) has obtained Patent No. 8,815,830 (the '830 p
purports to broadly cover nucleosides with antiviral and anticancer activity. In August 2016
filed a lawsuit against us in the U.S. District Court for the District of Minnesota, alleging th
commercialization of sofosbuvir-containing products infringes the '830 patent. We believe
patent is invalid and will not be infringed by the continued commercialization of sofosbuvir

European Patent Claims

In February 2015, several parties filed oppositions in the EPO requesting revocation of our g
European patent covering sofosbuvir that expires in 2028. In October 2016, the EPO upheld
certain claims of our sofosbuvir patent. We anticipate that the challengers will appeal this de
of our patent. The appeal process may take several years.

In January 2016, several parties filed oppositions in the EPO requesting revocation of our gr
patent covering TAF that expires in 2021.

In March 2016, three parties filed oppositions in the EPO requesting revocation of our grant
patent covering cobicistat that expires in 2027. While we are confident in the strength of our
cannot predict the ultimate outcome of these oppositions.

If we are unsuccessful in defending these oppositions, some or all of our patent claims may
revoked and the patent protection for sofosbuvir, TAF and cobicistat in Europe could be sub
shortened or eliminated entirely. If our patents are revoked, and no other European patents a
covering these compounds, our exclusivity may be based entirely on regulatory exclusivity
European Medicines Agency. Sovaldi has been granted regulatory exclusivity that will prev
sofosbuvir from entering the European Union for 10 years following approval of Sovaldi, or
If we lose exclusivity for Sovaldi prior to 2028, our expected revenues and results of operati
negatively impacted for the years including and succeeding the year in which such exclusivi
may cause our stock price to decline.

Litigation with Generic Manufacturers

As part of the approval process for some of our products, FDA granted us a New Chemical
exclusivity period during which other manufacturers' applications for approval of generic v
product will not be approved. Generic manufacturers may challenge the patents protecting p
have been granted NCE exclusivity one year prior to the end of the NCE exclusivity period.
manufacturers have sought and may continue to seek FDA approval for a similar or identica
an abbreviated new drug application (ANDA), the application form typically used by manuf
seeking approval of a generic drug. The sale of generic versions of our products earlier than
expiration would have a significant negative effect on our revenues and results of operations
approval for a generic version of a product having NCE status, a generic company may subm
FDA four years after the branded product's approval. For sofosbuvir, this date falls in Dece
Consequently, it is possible that one or more generics may file an ANDA for Sovaldi in Dec

Current legal proceedings of significance with generic manufacturers include:

HIV Products

In November 2011, December 2011 and August 2012, we received notices that Teva submit abbreviated new drug submission (ANDS) to the Canadian Minister of Health requesting pe manufacture and market generic versions of Truvada, Atripla and Viread. In the notices, Te the patents associated with Truvada, Atripla and Viread are invalid, unenforceable and/or w infringed by Teva's manufacture, use or sale of generic versions of those products. We filed Teva in the Federal Court of Canada seeking an order of prohibition against approval of the In December 2013, the court issued an order prohibiting the Canadian Minister of Health fr Teva's generic versions of our Viread, Truvada and Atripla products until expiry of our pate Teva has appealed that decision. The court's decision did not rule on the validity of the pate accordingly the only issue on appeal is whether the Canadian Minister of Health should be p approving Teva's products. In November 2016, we and Teva entered into a settlement agree the ongoing contested proceedings concerning Teva's ANDS for generic versions of Truvac Viread as well as Gilead's patents associated with Truvada, Atripla, and Viread.

In June 2014, we received notice that Apotex Inc. (Apotex) submitted an ANDS to the Cana of Health requesting permission to manufacture and market a generic version of Truvada an ANDS requesting permission to manufacture and market a generic version of Viread. In the alleges that three of the patents associated with Truvada and two of the patents associated w invalid, unenforceable and/or will not be infringed by Apotex's manufacture, use or sale of of Truvada or Viread. In August 2014, we filed lawsuits against Apotex in the Federal Cour seeking orders of prohibition against approval of these ANDS. A hearing in those cases was 2016. In July 2016, the court issued an order prohibiting the Canadian Minister of Health fr Apotex's generic version of our Viread product until the expiry of our patents in July 2017. declined to prohibit approval of Apotex's generic version of our Truvada product. The cour not rule on the validity of the patents. The launch of Apotex's generic version of our Truvac be at risk of infringement of our patents, including patents that we were unable to assert in t lawsuit, and liability for our damages. Apotex has appealed the court's decision.

In February 2016, we received notice that Mylan Pharmaceuticals, Inc. (Mylan) submitted a FDA requesting permission to manufacture and market a generic version of Tybost (cobicis notice, Mylan alleges that the patent covering cobicistat is invalid as obvious and that Mylan product cannot infringe an invalid claim. In March 2016, we filed lawsuits against Mylan in District Court for the District of Delaware and U.S. District Court for the Northern District Virginia. In January 2017, we received a letter from Mylan notifying us that it had submitte ANDA to FDA for this same product. We are currently evaluating Mylan's letter. The trial scheduled for January 2018. The patent in suit that covers Tybost is also listed in the Orange Stribild and Genvoya.

Letairis

In February 2015, we received notice that Watson Laboratories, Inc. (Watson) submitted an requesting permission to manufacture and market a generic version of Letairis. In the notice alleges that one of the patents associated with ambrisentan tablets is invalid, unenforceable be infringed by Watson's manufacture, use or sale of a generic version of Letairis. In April lawsuit against Watson in the U.S. District Court for the District of New Jersey for infringer patents. In January 2017, we reached an agreement with Watson to settle the litigation.

In June 2015, we received notice that SigmaPharm Laboratories, LLC (SigmaPharm) submi to FDA requesting permission to manufacture and market a generic version of Letairis. In th SigmaPharm alleges that one of the patents associated with ambrisentan tablets is invalid, u and/or will not be infringed by SigmaPharm's manufacture, use or sale of a generic version June 2015, we filed a lawsuit against SigmaPharm in the U.S. District Court for the District

for infringement of our patents. The date for trial against SigmaPharm is not yet set but esti
in the second quarter of 2017.

We cannot predict the ultimate outcome of these actions, and we may spend significant reso
and defending these patents. If we are unsuccessful in these lawsuits, some or all of our clai
patents may be narrowed or invalidated and the patent protection for our products could be s
shortened. Further, if all of the patents covering one or more products are invalidated, FDA
Minister of Health could approve the requests to manufacture a generic version of such proc
United States or Canada, respectively, prior to the expiration date of those patents. The sale
versions of these products earlier than their patent expiration could have a significant negati
revenues and results of operations.

TAF Litigation

In January 2016, AIDS Healthcare Foundation, Inc. (AHF) filed a complaint with the U.S. D for the Northern District of California against Gilead, Japan Tobacco, Inc. and Japan Tobac U.S.A. (together, JT), and Emory University (Emory). In April 2016, AHF amended its com Janssen and Johnson & Johnson Inc. (J&J) as defendants. AHF claims that U.S. Patent Nos. 7,800,788; 8,754,065; 8,148,374; and 8,633,219 are invalid. In addition, AHF claims that G independently and together with JT, Akros, Janssen and J&J, is violating federal and state a unfair competition laws in the market for sales of TAF by offering TAF as part of a fixed-do product with elvitegravir, cobicistat and emtricitabine (Genvoya), a fixed-dose combination elvitegravir and rilpivirine (Odefsey) and in a fixed-dosed combination product with elviteg (Descovy). AHF sought a declaratory judgment of invalidity against each of the patents as w damages. In May 2016, we, JT, Janssen, and J&J filed motions to dismiss all of AHF's cla opposed. In June 2016, a hearing was held on the motions to dismiss. In July 2016, the judg and the other defendants' motions and dismissed all of AHF's claims. AHF has appealed the dismissing the challenge to the validity of our TAF patents.

Department of Justice Investigations

In June 2011, we received a subpoena from the U.S. Attorney's Office for the Northern Dist California requesting documents related to the manufacture, and related quality and distribu of Complera, Atripla, Truvada, Viread, Emtriva, Hepsera and Letairis. We cooperated with government's inquiry. In April 2014, the United States Department of Justice informed us th investigation, it declined to intervene in a False Claims Act lawsuit filed by two former emp 2014, the former employees served a First Amended Complaint. In January 2015, the federa issued an order granting in its entirety, without prejudice, our motion to dismiss the First Am Complaint. In February 2015, the plaintiffs filed a Second Amended Complaint and in June federal district court issued an order granting our motion to dismiss the Second Amended C July 2015, the plaintiffs filed a notice of appeal in the U.S. Court of Appeals for Ninth Circu In February 2016, we received a subpoena from the U.S. Attorney's Office for the District o requesting documents related to our support of 501(c)(3) organizations that provide financia patients, and for our HCV products, documents concerning our provision of financial assista Other companies have disclosed similar inquiries. We are cooperating with this inquiry.

Other Matters

We are a party to various legal actions that arose in the ordinary course of our business. We that these other legal actions will have a material adverse impact on our consolidated busine position or results of operations.

Other Commitments

In the normal course of business, we enter into various firm purchase commitments primaril active pharmaceutical ingredients and certain inventory related items. As of December 31, 2 commitments for the next five years were approximately $1.1 billion in 2017, $345 million million in 2019, $20 million in 2020 and $20 million in 2021. The amounts related to active ingredients represent minimum purchase commitments. Actual payments for the purchases pharmaceutical ingredients were $2.0 billion in 2016, $2.2 billion in 2015 and $1.8 billion i

13. STOCKHOLDERS' EQUITY

Stock Repurchase Programs

In February 2016, our Board of Directors authorized a $12.0 billion stock repurchase progra Program). Purchases under the 2016 Program may be made in the open market or in private transactions. The 2016 Program commenced after the $15.0 billion stock repurchase progra our Board of Directors in January 2015 was completed in the second quarter of 2016. The $ repurchase program authorized by our Board of Directors in May 2014 (2014 Program) was the first quarter of 2015. The $5.0 billion repurchase program authorized by our Board of D

January 2011 (2011 Program) was completed in 2014. As of December 31, 2016, the remain
repurchase amount under the 2016 Program was $9.0 billion.

In February 2016, we entered into an accelerated stock repurchase program (ASR) to repurc
billion of our common stock under the 2015 Program. We made an upfront payment of $5.0
received 46 million shares of our common stock. The 46 million shares represented approxi
the total shares calculated based on our common stock closing price of $86.68 per share on
entered into the ASR. In April 2016, the ASR settled, and we received an additional 8 millio
common stock based on the average price of our common stock during the ASR purchase pe
predetermined discount. As a result, the average purchase price of our common stock from t
$92.09 per share.

We accounted for the ASR as two separate transactions: (a) as shares of common stock acqu
treasury stock transaction recorded on the transaction date and (b) as a forward contract inde
common stock. As such, the up-front payment of $5.0 billion was accounted for as a reducti
Stockholders' equity on our Consolidated Balance Sheets in the period the payment was ma
met all of the applicable criteria for equity classification and therefore was not accounted fo
instrument. The shares received under the ASR were retired in the periods they were receive
The following table summarizes our stock repurchases under the above-described programs
except per share data):

	Year ended December 31,		
	2016 [1]	2015 [2]	2014 [3]
Shares repurchased and retired	123	95	59
Amount	$11,001	$10,002	$5,349
Average price per share	$89.15	$104.91	$90.29

Notes:

(1) Includes 36 million shares repurchased for $3.0 billion under the 2016 Program and 87 m
repurchased for $8.0 billion under the 2015 Program.

(2) Includes 65 million shares repurchased for $7.0 billion under the 2015 Program and 30 m
repurchased for $3.0 billion under the 2014 Program.

(3) Includes 19 million shares repurchased for $2.0 billion under the 2014 Program and 40 m
repurchased for $3.3 billion under the 2011 Program.

In addition to repurchases from our stock repurchase programs, we repurchased shares of co
withheld by us from employee restricted stock awards to satisfy our applicable tax withhold
which are immaterial and excluded from the table above.

We use the par value method of accounting for our stock repurchases. Under the par value m
common stock is first charged with the par value of the shares involved. The excess of the c
acquired over the par value is allocated to additional paid-in capital (APIC) based on an esti
sales price per issued share with the excess amounts charged to retained earnings.

The following table summarizes the reduction of common stock and APIC and the charge to
earnings as a result of our stock repurchases (in millions):

	Year ended December 31,		
	2016	2015	2014
Reduction of common stock and APIC	$302	$223	$133
Charge to retained earnings	$10,883	$10,115	$5,475

Dividends

The following table summarizes cash dividends declared on our common stock (in millions,
share data):

	2016		2015	
	Dividend Per Share	Amount	Dividend Per Share	Amount
First quarter	$0.43	$587	$—	$—
Second quarter	0.47	631	0.43	639
Third quarter	0.47	625	0.43	631
Fourth quarter	0.47	622	0.43	620
Total	$1.84	$2,465	$1.29	$1,890

Our restricted stock and performance-based stock units have dividend equivalent rights enti
dividend equivalents to be paid upon vesting for each share of the underlying units.

On February 7, 2017, we announced that our Board of Directors declared a quarterly cash d
per share of our common stock, with a payment date of March 30, 2017 to all stockholders
the close of business on March 16, 2017. Future dividends are subject to declaration by the
Directors.

Preferred Stock

We have 5 million shares of authorized preferred stock issuable in series. Our Board is auth
determine the designation, powers, preferences and rights of any such series. There was no
outstanding as of December 31, 2016 and 2015.

Accumulated Other Comprehensive Income

The following table summarizes the changes in AOCI by component, net of tax (in millions

	Foreign Currency Translation	Unrealized Gains and Losses on Available-for-Sale Securities	U C L C F H
Balance at December 31, 2014	$ (54)	$ 12	$
Other comprehensive income (loss) before reclassifications	9	(29)	3
Amounts reclassified from accumulated other comprehensive income	—	1	(
Net current period other comprehensive income (loss)	9	(28)	(
Balance at December 31, 2015	(45)	(16)	1
Other comprehensive income before reclassifications	177	7	5
Amounts reclassified from accumulated other comprehensive income	—	(7)	8
Net current period other comprehensive income	177	—	1
Balance at December 31, 2016	$ 132	$ (16)	$

The amounts reclassified for gains (losses) on cash flow hedges were recorded as part of Pr
our Consolidated Statements of Income. See Note 4, Derivative Financial Instruments for a
information. Amounts reclassified for gains (losses) on available-for-sale securities were re
Other income (expense), net on our Consolidated Statements of Income.

14. EMPLOYEE BENEFITS

We utilize share based compensation in the form of various types of equity-based awards, i
restricted stock units (RSUs), performance-based restricted stock units (PSUs) and stock op
Compensation expense is recognized on the Consolidated Statements of Income based on th
value of the award on the grant date. The estimated fair value of RSUs is based on the closi
common stock. For PSUs, estimated fair value is based on either the Monte Carlo valuation
the stock price on the date of grant. For stock option awards, estimated fair value is based o
Black-Scholes option valuation model.

2004 Equity Incentive Plan

In May 2004, our stockholders approved and we adopted the Gilead Sciences, Inc. 2004 Eq
Plan (as amended, the 2004 Plan). The 2004 Plan is a broad based incentive plan that provi
of equity-based awards, including stock options, restricted stock units, restricted stock awar
performance awards, to employees, directors and consultants. The 2004 Plan authorizes the
total of 243 million shares of common stock. As of December 31, 2016, a total of 60 millio
available for future grant under the 2004 Plan.

Stock Options

The 2004 Plan provides for option grants designated as either non-qualified or incentive sto
Prior to January 1, 2006, we granted both non-qualified and incentive stock options, but all
granted after January 1, 2006 have been non-qualified stock options. Under the 2004 Plan, e
options granted prior to 2011 generally vest over five years and stock options granted startin
generally vest over four years. All options are exercisable over a period not to exceed the co
of ten years from the date the stock options are issued and are granted at prices not less than

value of our common stock on the grant date. Stock option exercises are settled with commo
the 2004 Plan's previously authorized and available pool of shares.

The following table summarizes activity and related information under our stock option plan grants presented in the table had exercise prices not less than the fair value of the underlying on the grant date:

	Shares (in thousands)	Weighted-Average Exercise Price (in dollars)	Weighted-Average Remainin Contractual Term (Years)
Outstanding at December 31, 2015	27,413	$ 28.56	
Granted	2,927	$ 82.78	
Forfeited	(244)	$ 87.86	
Expired	(42)	$ 92.39	
Exercised	(6,897)	$ 18.46	
Outstanding at December 31, 2016	23,157	$ 37.69	4.05
Exercisable at December 31, 2016	19,264	$ 28.16	3.07
Expected to vest, net of estimated forfeitures at December 31, 2016	3,660	$ 84.88	8.85

Aggregate intrinsic value represents the value of our closing stock price on the last trading d in excess of the weighted-average exercise price multiplied by the number of options outsta exercisable. Total intrinsic value of options exercised was $452 million for 2016, $1.1 billio $1.2 billion for 2014.

The weighted-average grant date fair value of the stock options granted was $20.04 per shar $29.73 per share for 2015 and $27.63 per share for 2014.

As of December 31, 2016, there was $72 million of unrecognized compensation cost related options, which is expected to be recognized over an estimated weighted-average period of 2

Performance-Based Restricted Stock Units

Under the 2004 Plan, we grant PSUs which vest upon the achievement of specified market c goals, which could include achieving a total shareholder return compared to a pre-determine achieving revenue targets. The actual number of common shares ultimately issued is calcula multiplying the number of PSUs by a payout percentage ranging from 0% to 200% and thes generally vest only when a committee (or subcommittee) of our Board has determined that t market and performance goals have been achieved. The fair value of each PSU is estimated grant or when performance objectives are defined for the grants. Depending on the terms of value on the date of grant is determined based on either the Monte Carlo valuation methodo closing stock price on the date of grant.

In addition, we have also granted other PSUs to certain of our employees under the 2004 Pl of these awards is subject to the achievement of specified individual performance goals, typ one year period. The fair value of such an award is equal to the closing price of our common grant date.

The following table summarizes activity and related information for all of our PSUs:

	Shares [1] (in thousands)	Weighted-Average Grant-Date Fair Value Per Share [1] (in dollars)
Outstanding at December 31, 2015	487	$ 85.83
Granted	606	$ 71.60

Vested	(527)	$ 62.13
Forfeited	(57)	$ 95.67
Outstanding at December 31, 2016	509	$ 92.32

Note:

(1) Weighted-average grant-date fair value per share excludes shares related to grants that cu grant-date fair value as the performance objectives have not yet been defined.

The weighted-average grant date fair value of our PSUs granted was $71.60 per share for 20 share for 2015 and $56.38 per share for 2014. The total grant date fair value of our vested P million for 2016, $76 million for 2015 and $46 million for 2014, and total fair value as of th vesting dates was $45 million for 2016, $160 million for 2015 and $145 million for 2014.

We recognized stock-based compensation expenses of $20 million in 2016, $40 million in 2
million in 2014 related to these PSUs. As of December 31, 2016, there was $19 million of u
compensation costs related to these PSUs, which is expected to be recognized over an estim
weighted-average period of 1.3 years.

Restricted Stock Units

We grant time-based RSUs to certain employees as part of our annual employee equity com
review program as well as to new hire employees and to non-employee members of our Boa
share awards that entitle the holder to receive freely tradable shares of our common stock up
RSUs vest over four years from the date of grant.

The fair value of an RSU is equal to the closing price of our common stock on the grant dat
table summarizes our RSU activities and related information:

	Shares (in thousands)	Weighted-Average Grant-Date Fair Value Per Share (in dollars)
Outstanding at December 31, 2015	11,028	$ 73.93
Granted	4,897	$ 84.51
Vested	(4,826)	$ 58.77
Forfeited	(1,054)	$ 83.02
Outstanding at December 31, 2016	10,045	$ 85.41

The weighted-average grant date fair value of RSUs granted was $84.51 per share for 2016,
share for 2015, $86.75 per share for 2014. The total grant date fair value of our vested RSU
million for 2016, $249 million for 2015 and $182 million for 2014, and total fair value as of
vesting dates was $408 million for 2016, $666 million for 2015 and $535 million for 2014.

As of December 31, 2016, there was $577 million of unrecognized compensation cost relate
RSUs which is expected to be recognized over a weighted-average period of 2.4 years.

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan and the International Employee Stock Purchase P
as amended, the ESPP), employees can purchase shares of our common stock based on a pe
their compensation subject to certain limits. The purchase price per share is equal to the low
the fair market value of our common stock on the offering date or the purchase date. Prior to
ESPP offered a two-year look-back feature as well as an automatic reset feature that provide
offering period to be reset to a new lower-priced offering if the offering price of the new off
less than that of the current offering period. Beginning in the first quarter of 2016, the look-
ESPP offering periods became six-months. ESPP purchases are settled with common stock
previously authorized and available pool of shares. During 2016, 1 million shares were issu
ESPP for $84 million. A total of 79 million shares of common stock have been authorized fo
under the ESPP, and there were 13 million shares available for issuance under the ESPP as o
31, 2016.

As of December 31, 2016, there was $5 million of unrecognized compensation cost related
which is expected to be recognized over an estimated weighted-average period of 0.1 years.

Stock-Based Compensation

The following table summarizes the stock-based compensation expenses included on our Co
Statements of Income (in millions):

	Year Ended December 31,		
	2016	2015	20
Cost of goods sold	$14	$11	$1
Research and development expenses	176	173	15
Selling, general and administrative expenses	190	198	19
Stock-based compensation expense included in total costs and expenses	380	382	36
Income tax effect	(104)	(131)	(6
Stock-based compensation expense, net of tax	$276	$251	$2

We capitalized stock-based compensation costs to inventory totaling $15 million in 2016, $
2015 and $12 million in 2014. The capitalized stock-based compensation costs remaining in
$9 million as of December 31, 2016, $8 million as of December 31, 2015 and $6 million as
December 31, 2014.

Stock-based compensation is recognized as expense over the requisite service periods on ou
Statements of Income using the straight-line expense attribution approach, reduced for estim
forfeitures. We estimate forfeitures based on our historical experience.

Valuation Assumptions

Fair value of options granted under our 2004 Plan and purchases under our ESPP were estim
purchase dates using a Black-Scholes option valuation model. The Black-Scholes option va
was developed for use in estimating the fair value of traded options, which have no vesting
are fully transferable. In addition, option valuation models require the input of highly subjec
assumptions, including expected stock price volatility and expected award life. We used the
assumptions to calculate the estimated fair value of the awards:

	Year Ended December 31,		
	2016	2015	2014
Expected volatility:			
Stock options	30 %	35 %	34 %
ESPP	30 %	32 %	32 %
Expected term in years:			
Stock options	5.5	5.7	5.5
ESPP	0.5	1.2	1.2
Risk-free interest rate:			
Stock options	1.4 %	1.4 %	1.8 %
ESPP	1.1 %	1.4 %	1.5 %
Expected dividend yield	1.9 %	1.7 %	— %

The fair value of stock options granted was calculated using the single option approach. We
historical volatility along with implied volatility for traded options on our common stock to
expected volatility. The expected term of stock-based awards represents the weighted-avera
awards are expected to remain outstanding. We estimate the weighted-average expected ter
historical cancellation and historical exercise data related to our stock options as well as the
term and vesting terms of the awards. The risk-free interest rate is based upon observed inte
appropriate for the term of the stock-based awards. The dividend yield is based on our histo
expectation of dividend payouts.

Deferred Compensation

We maintain a retirement saving plan under which eligible U.S. employees may defer comp
income tax purposes under Section 401(k) of the Internal Revenue Code (the Gilead Scienc
In certain foreign subsidiaries, we maintain defined benefit plans as required by local regula
requirements. Our total matching contribution expense under the Gilead Sciences 401k Plan
defined benefit plans was $69 million during 2016, $47 million during 2015 and $40 millio
We maintain a deferred compensation plan under which our directors and key employees m
compensation. Amounts deferred by participants are deposited into a rabbi trust. The total a
liabilities associated with the deferred compensation plan were $84 million as of December
$66 million as of December 31, 2015.

15. NET INCOME PER SHARE ATTRIBUTABLE TO GILEAD COMMON STOCKHOL

Basic net income per share attributable to Gilead common stockholders is calculated based
weighted-average number of shares of our common stock outstanding during the period. Di
income per share attributable to Gilead common stockholders is calculated based on the wei
number of shares of our common stock outstanding and other dilutive securities outstanding
period. The potential dilutive shares of our common stock resulting from the assumed exerc
outstanding stock options and equivalents, the assumed conversion of our outstanding Conv
and the assumed exercise of the 2016 Warrants were determined under the treasury stock m
In March 2016, we exercised our option to elect cash settlement for the conversion spread o
Convertible Notes. Prior to our cash settlement election, our common stock resulting from t
settlement of the conversion spread of the Convertible Notes had a dilutive effect when the
price of our common stock during the period exceeded the conversion price for the Convert
result, we included their dilutive impact in our net income per share calculations. Additiona
third quarter of 2016, our 2016 Warrants expired, and we exercised our option to settle the w
Prior to the settlement, our common stock resulting from the assumed settlement of the 201
a dilutive effect when the average market price of our common stock during the period exce
warrants' exercise price. As a result, we included their dilutive impact in our net income pe
calculations. See Note 11, Debt and Credit Facility for additional information.

Our ASR was reflected as repurchases of our common stock upon the receipt of shares and
contracts indexed to our common stock. We excluded the forward contracts from the compu
diluted net income per share attributable to Gilead common stockholders because their effec
antidilutive.

We excluded stock options to purchase approximately 3 million, 1 million and 1 million we
shares of our common stock that were outstanding during 2016, 2015 and 2014, respectively
computation of diluted net income per share attributable to Gilead common stockholders be
effect was antidilutive.

The following table shows the calculation of basic and diluted net income per share attributa
common stockholders (in millions except per share amounts):

	Year Ended D	
	2016	201
Net income attributable to Gilead	$13,501	$18
Shares used in per share calculation - basic	1,339	1,46
Effect of dilutive securities:		
Stock options and equivalents	13	23
Conversion spread related to the Convertible Notes	2	14
Warrants related to the Convertible Notes	4	20
Shares used in per share calculation - diluted	1,358	1,52
Net income per share attributable to Gilead common stockholders - basic	$10.08	$12
Net income per share attributable to Gilead common stockholders - diluted	$9.94	$11

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16. SEGMENT INFORMATION

We have one operating segment, which primarily focuses on the discovery, development an commercialization of innovative medicines in areas of unmet medical need. Therefore, our operations are reported on a consolidated basis consistent with internal management reporti our chief operating decision maker, our chief executive officer. Enterprise-wide disclosures sales, revenues and long-lived assets by geographic area, and revenues from major custome below.

Product Sales

Our product sales consist of the following (in millions):

	Year Ended December 31,		
	2016	2015	2014
Antiviral products:			
Harvoni	$9,081	$13,864	$2,127
Sovaldi	4,001	5,276	10,283
Truvada	3,566	3,459	3,340
Atripla	2,605	3,134	3,470
Stribild	1,914	1,825	1,197
Epclusa	1,752	—	—
Genvoya	1,484	45	—
Complera/Eviplera	1,457	1,427	1,228
Viread	1,186	1,108	1,058
Odefsey	329	—	—
Descovy	298	—	—
Other antiviral	72	69	88
Total antiviral products	27,745	30,207	22,791
Other products:			
Letairis	819	700	595
Ranexa	677	588	510
AmBisome	356	350	388
Zydelig	168	132	23
Other products	188	174	167
Total product sales	$29,953	$32,151	$24,474

Revenues by Geographic Region

The following table summarizes total revenues from external customers and collaboration p geographic region (in millions). Product sales and product-related contract revenue are attri based on ship-to location. Royalty and non-product related contract revenue are attributed t on the location of the collaboration partner.

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
United States	$19,354	$21,234	$18,182
Europe	6,365	7,528	5,442
Japan	2,527	1,935	53
Other countries	2,144	1,942	1,213
Total revenues	$30,390	$32,639	$24,890

Long-lived Assets

The net book value of our property, plant and equipment (less office and computer equipme United States was $2.2 billion as of December 31, 2016, $1.8 billion as of December 31, 20 billion as of December 31, 2014. The corresponding

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amount in international locations was $430 million as of December 31, 2016, $334 million a
December 31, 2015 and $275 million as of December 31, 2014. All individual international
accounted for less than ten percent of the total balances.

Revenues from Major Customers

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

	Year Ended December 31,		
	2016	2015	2014
McKesson Corp.	22 %	24 %	24 %
AmerisourceBergen Corp.	18 %	19 %	25 %
Cardinal Health, Inc.	16 %	15 %	14 %

17. INCOME TAXES

Income before provision for income taxes consists of the following (in millions):

	Year Ended December 31,		
	2016	2015	2014
Domestic	$7,646	$7,953	$6,678
Foreign	9,451	13,706	8,178
Total income before provision for income taxes	$17,097	$21,659	$14,856

The provision for income taxes consists of the following (in millions):

	Year Ended December 31,		
	2016	2015	2014
Federal:			
Current	$3,351	$3,568	$2,810
Deferred	(85)	(313)	(190)
	3,266	3,255	2,620
State:			
Current	131	158	152
Deferred	28	(21)	(30)
	159	137	122
Foreign:			
Current	261	212	85
Deferred	(77)	(51)	(30)
	184	161	55
Provision for income taxes	$3,609	$3,553	$2,797

The cumulative unremitted foreign earnings that are considered indefinitely reinvested in ou
subsidiaries and for which no U.S. taxes have been provided, were approximately $37.6 bill
December 31, 2016 and $28.5 billion as of December 31, 2015. The residual U.S. tax liabili
amounts were remitted, would be approximately $13.1 billion as of December 31, 2016 and
of December 31, 2015.

The reconciliation between the federal statutory tax rate applied to income before taxes and tax rate is summarized as follows:

	Year Ended December 31,		
	2016	2015	2014
Federal statutory rate	35.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	0.7 %	0.5 %	0.6 %
Foreign earnings at different rates	(15.3)%	(18.5)%	(16.9)%
Research and other credits	(0.7)%	(0.7)%	(0.9)%
Net unbenefitted stock compensation	0.2 %	0.1 %	0.2 %
Other	1.2 %	— %	0.8 %
Effective tax rate	21.1 %	16.4 %	18.8 %

Deferred income taxes reflect the net tax effects of temporary differences between the carry assets and liabilities for financial reporting purposes and the amounts used for income tax p Significant components of our deferred tax assets and liabilities are as follows (in millions):

	December 31,	
	2016	2015
Deferred tax assets:		
Net operating loss carryforwards	$175	$199
Stock-based compensation	212	222
Reserves and accruals not currently deductible	617	676
Deferred revenue	56	55
Depreciation related	88	63
Research and other credit carryforwards	147	135
Other, net	221	118
Total deferred tax assets before valuation allowance	1,516	1,468
Valuation allowance	(126)	(6)
Total deferred tax assets	1,390	1,462
Deferred tax liabilities:		
Intangibles	(104)	(280)
Unremitted foreign earnings	—	—
Other	(31)	(50)
Total deferred tax liabilities	(135)	(330)
Net deferred tax assets	$1,255	$1,132

The valuation allowance was $126 million as of December 31, 2016, $6 million as of Decer and $9 million as of December 31, 2014. The increase of our valuation allowance from Dec to December 31, 2016 was primarily due to write down of the IPR&D value of momelotinib At December 31, 2016, we had U.S. federal net operating loss carryforwards of approximat million. The federal net operating loss carryforwards will start to expire in 2021, if not utiliz had federal tax credit carryforwards of approximately $7 million which will start to expire i utilized. In addition, we had state net operating loss and tax credit carryforwards of approxi million and $306 million, respectively. The state net operating loss and tax credit carryforw expire in 2017 if not utilized.

Utilization of net operating losses and tax credits may be subject to an annual limitation due change limitations provided in the Internal Revenue Code of 1986, as amended, and similar provisions. This annual limitation may result in the expiration of the net operating losses an utilization.

We file federal, state and foreign income tax returns in the United States and in many jurisd For federal income tax purposes, the statute of limitations is open for 2010 and onwards. Fo acquired entities, the statute of limitations is open

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for all years from inception due to our utilization of their net operating losses and credits ca
prior years. For California income tax purposes, the statute of limitations is open for 2010 a
Our income tax returns are subject to audit by federal, state and foreign tax authorities. We
under examination by the IRS for the 2010, 2011, 2012, 2013 and 2014 tax years and by va
foreign jurisdictions. There are differing interpretations of tax laws and regulations, and as
significant disputes may arise with these tax authorities involving issues of the timing and a
deductions and allocations of income among various tax jurisdictions. We periodically evalu
exposures associated with our tax filing positions.
We have total federal, state and foreign unrecognized tax benefits of $1.9 billion as of Dece
and $1.4 billion as of December 31, 2015. Of the total unrecognized tax benefits, $1.8 billio
billion at December 31, 2016 and 2015, respectively, if recognized, would reduce our effect
the period of recognition. We have continued to classify interest and penalties related to unr
benefits as part of our income tax provision on our Consolidated Statements of Income. We
interest and penalties related to unrecognized tax benefits of $50 million as of December 31
million as of December 31, 2015.
As of December 31, 2016, we do not believe our unrecognized tax benefits will significantly
next 12 months. Due to the high degree of uncertainly on the timing of clarification from th
tax authorities regarding our uncertain tax positions, we are unable to reasonably estimate th
cash settlement, if any, with the respective tax authorities.
The following is a rollforward of our total gross unrecognized tax benefit liabilities (in milli

	December 31,		
	2016	2015	2014
Balance, beginning of period	$1,350	$661	$237
Tax positions related to current year:			
Additions	522	675	430
Reductions	—	—	—
Tax positions related to prior years:			
Additions	33	45	21
Reductions	(3)	—	(20)
Settlements	(49)	(24)	(5)
Lapse of statute of limitations	(1)	(7)	(2)
Balance, end of period	$1,852	$1,350	$661

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following amounts are in millions, except per share amounts:

	1st Quarter	2nd Quarter	3rd Q
2016			
Total revenues	$ 7,794	$ 7,776	$ 7,50
Gross profit on product sales	$ 6,488	$ 6,787	$ 6,27
Net income	$ 3,567	$ 3,497	$ 3,32
Net income attributable to Gilead	$ 3,566	$ 3,497	$ 3,33
Net income per share attributable to Gilead common stockholders-basic	$ 2.58	$ 2.62	$ 2.52
Net income per share attributable to Gilead common stockholders-diluted	$ 2.53	$ 2.58	$ 2.49
2015			
Total revenues	$ 7,594	$ 8,244	$ 8,29
Gross profit on product sales	$ 6,523	$ 7,128	$ 7,14
Net income	$ 4,332	$ 4,497	$ 4,59
Net income attributable to Gilead	$ 4,333	$ 4,492	$ 4,60
Net income per share attributable to Gilead common stockholders-basic	$ 2.91	$ 3.05	$ 3.14
Net income per share attributable to Gilead common stockholders-diluted	$ 2.76	$ 2.92	$ 3.06

GILEAD SCIENCES, INC.
Schedule II: Valuation and Qualifying Accounts
(in millions)

	Balance at Beginning of Period	Additions/Charged to Expense	Deduction
Year ended December 31, 2016:			
Accounts receivable allowances [1]	$ 1,032	$ 9,287	$ 9,556
Sales return allowance	$ 371	$ (141)	$ 35
Valuation allowances for deferred tax assets [2]	$ 6	$ 120	$ —
Year ended December 31, 2015:			
Accounts receivable allowances [1]	$ 356	$ 6,934	$ 6,258
Sales return allowance	$ 171	$ 219	$ 19
Valuation allowances for deferred tax assets [2]	$ 9	$ —	$ 3
Year ended December 31, 2014:			
Accounts receivable allowances [1]	$ 252	$ 2,867	$ 2,763
Sales return allowance	$ 82	$ 104	$ 15
Valuation allowances for deferred tax assets [2]	$ 9	$ —	$ —

Notes:

[1] Allowances are for doubtful accounts, cash discounts and chargebacks.

[2] Valuation allowance for deferred tax assets includes $4 million, $4 million and $6 millio
December 31, 2016, 2015 and 2014, respectively, related to our acquisitions.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

An evaluation as of December 31, 2016 was carried out under the supervision and with the p our management, including our Chief Executive Officer and Chief Financial Officer, of the our "disclosure controls and procedures," which are defined in Rule 13a-15(e) under the Sec Act of 1934, as amended (the Exchange Act), as controls and other procedures of a compan designed to ensure that the information required to be disclosed by a company in the reports submits under the Exchange Act is recorded, processed, summarized and reported, within th specified in the Securities and Exchange Commission's rules and forms, and that such infor accumulated and communicated to the company's management, including its Chief Executi Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclos that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our controls and procedures were effective at December 31, 2016.

(b) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control o reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Our internal contr designed to provide reasonable assurance regarding the preparation and fair presentation of statements for external purposes in accordance with generally accepted accounting principle control systems, no matter how well designed, have inherent limitations and can provide on assurance that the objectives of the internal control system are met.

Under the supervision and with the participation of our management, including our Chief E and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal financial reporting, based on criteria established by the Committee of Sponsoring Organizat Treadway Commission (COSO) in its 2013 Internal Control-Integrated Framework. Based o evaluation, we concluded that our internal control over financial reporting was effective as o 2016.

Our independent registered public accounting firm, Ernst & Young LLP, has audited our Co Financial Statements included in Item 8 of this Annual Report on Form 10-K and have issue our internal control over financial reporting as of December 31, 2016. Their report on the au control over financial reporting appears below.

(c) Changes in Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has ev changes in our internal control over financial reporting that occurred during the quarter ende 31, 2016, and has concluded that there was no change during such quarter that has materiall reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Gilead Sciences, Inc.

We have audited Gilead Sciences, Inc.'s internal control over financial reporting as of Dece
based on criteria established in Internal Control-Integrated Framework issued by the Comm
Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO crite
Sciences, Inc.'s management is responsible for maintaining effective internal control over fi
reporting, and for its assessment of the effectiveness of internal control over financial report
the accompanying Management's Report on Internal Control Over Financial Reporting. Ou
to express an opinion on the company's internal control over financial reporting based on ou
We conducted our audit in accordance with the standards of the Public Company Accountin
Board (United States). Those standards require that we plan and perform the audit to obtain
assurance about whether effective internal control over financial reporting was maintained i
respects. Our audit included obtaining an understanding of internal control over financial re
assessing the risk that a material weakness exists, testing and evaluating the design and oper
effectiveness of internal control based on the assessed risk, and performing such other proce
considered necessary in the circumstances. We believe that our audit provides a reasonable
opinion.

A company's internal control over financial reporting is a process designed to provide reasc
regarding the reliability of financial reporting and the preparation of financial statements for
purposes in accordance with generally accepted accounting principles. A company's interna
financial reporting includes those policies and procedures that (1) pertain to the maintenanc
that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of th
company; (2) provide reasonable assurance that transactions are recorded as necessary to pe
preparation of financial statements in accordance with generally accepted accounting princi
receipts and expenditures of the company are being made only in accordance with authoriza
management and directors of the company; and (3) provide reasonable assurance regarding
timely detection of unauthorized acquisition, use, or disposition of the company's assets tha
material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent
misstatements. Also, projections of any evaluation of effectiveness to future periods are sub
that controls may become inadequate because of changes in conditions, or that the degree of
with the policies or procedures may deteriorate.

In our opinion, Gilead Sciences, Inc. maintained, in all material respects, effective internal c
financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting
Board (United States), the 2016 consolidated financial statements of Gilead Sciences, Inc. a
dated February 27, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California

February 27, 2017

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item concerning our directors and executive officers is inc
reference to the sections of our Definitive Proxy Statement to be filed with the Securities an
Commission pursuant to Regulation 14A in connection with our 2017 Annual Meeting of S
Proxy Statement) under the headings “Nominees,” “Board Committees and Meetings,” “Ex
“Section 16(a) Beneficial Ownership Reporting Compliance.”

Our written Code of Ethics applies to all of our directors and employees, including our exec
including without limitation our principal executive officer, principal financial officer, princ
officer or controller or persons performing similar functions. The Code of Ethics is availabl
at http://www.gilead.com in the Investors section under “Corporate Governance.” Changes
the Code of Ethics will be disclosed on the same website. We intend to satisfy the disclosur
under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of th
Ethics by disclosing such information on the same website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of the Pro
under the headings “Executive Compensation,” “Compensation Committee Interlocks and I
Participation,” “Compensation Committee Report,” and “Compensation of Non-Employee

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AN
MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the sections of the Pro
under the headings “Security Ownership of Certain Beneficial Owners and Management” a
Authorized for Issuance under Equity Compensation Plans.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRE
INDEPENDENCE

The information required by this Item is incorporated by reference to the sections of the Pro
under the headings “Nominees,” and “Certain Relationships and Related Party Transactions

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the section of the Prox
under the heading “Principal Accountant Fees and Services.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Index list to Consolidated Financial Statements:

(2) Schedule II is included on page 106 of this report. All other schedules are omitted becau
required or the required information is included in the financial statements or notes thereto.

(3) Exhibits.

The following exhibits are filed herewith or incorporated by reference:

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ITEM 15. EXHIBITS

Exhibit Footnote	Exhibit Number	Description of Document
(1)	1.1	Underwriting Agreement, dated September 15, 2016, among Registra Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securiti representatives of the several underwriters listed in Schedule 1 thereto
(2)	3.1	Restated Certificate of Incorporation of Registrant
(3)	3.2	Amended and Restated Bylaws of Registrant
	4.1	Reference is made to Exhibit 3.1 and Exhibit 3.2
(4)	4.2	Indenture related to Senior Notes, dated as of March 30, 2011, betwee and Wells Fargo, National Association, as Trustee
(4)	4.3	First Supplemental Indenture related to Senior Notes, dated as of Mar between Registrant and Wells Fargo, National Association, as Trustee form of Senior Notes)
(5)	4.4	Second Supplemental Indenture related to Senior Notes, dated as of D 2011, between Registrant and Wells Fargo, National Association, as T (including Form of 2014 Note, Form of 2016 Note, Form of 2021 Not Note)
(6)	4.5	Third Supplemental Indenture related to Senior Notes, dated as of Ma between Registrant and Wells Fargo, National Association, as Trustee Form of 2019 Note, Form of 2024 Note, Form of 2044 Note)
(7)	4.6	Fourth Supplemental Indenture related to Senior Notes, dated as of No 2014, between Registrant and Wells Fargo, National Association, as T (including Form of 2020 Note, Form of 2025 Note, Form of 2045 Not
(8)	4.7	Fifth Supplemental Indenture, dated as of September 14, 2015, betwee and Wells Fargo Bank, National Association, as Trustee (including Fo Note, Form of 2020 Note, Form of 2022 Note, Form of 2026 Note, Fo Note and Form of 2046 Note)
(1)	4.8	Sixth Supplemental Indenture, dated as of September 20, 2016, betwe and Wells Fargo Bank, National Association, as Trustee (including Fo Note, Form of 2023 Note, Form of 2027 Note, Form of 2036 Note and Note)
*(2)	10.1	Gilead Sciences, Inc. 2004 Equity Incentive Plan, as amended through
*(9)	10.2	Form of employee stock option agreement used under 2004 Equity Inc grants prior to February 2008)

*(10)	10.3	Form of employee stock option agreement used under 2004 Equity Inc grants made February 2008 through April 2009)
*(11)	10.4	Form of employee stock option agreement used under 2004 Equity Inc grants commencing in May 2009)
*(12)	10.5	Form of employee stock option agreement used under 2004 Equity Inc grants commencing in February 2010)
*(13)	10.6	Form of employee stock option agreement used under 2004 Equity Inc 2011 and subsequent year grants)
*(10)	10.7	Form of non-employee director stock option agreement used under 20 Incentive Plan (for grants prior to 2008)
*(10)	10.8	Form of non-employee director option agreement used under 2004 Eq Plan (for initial grants made in 2008)
*(10)	10.9	Form of non-employee director option agreement used under 2004 Eq Plan (for annual grants made in May 2008 and through May 2012)
*(11)	10.10	Form of non-employee director option agreement used under 2004 Eq Plan (for annual grants commencing in May 2009 and through May 2
*(14)	10.11	Form of non-employee director option agreement used under 2004 Eq Plan (for annual grants made in May 2013)
*(14)	10.12	Form of non-employee director option agreement (non-U.S.) used unc Incentive Plan (for annual grants made in May 2013)
*(15)	10.13	Form of non-employee director option agreement used under 2004 Eq Plan (for annual grants made in and after May 2014)
*(16)	10.14	Form of restricted stock unit issuance agreement used under 2004 Equ Plan (for annual grants to non-employee directors in May 2012)
*(11)	10.15	Form of restricted stock award agreement used under 2004 Equity Inc annual grants to certain non-employee directors prior to May 2012)
*(14)	10.16	Form of restricted stock unit issuance agreement used under 2004 Equ Plan (for annual grants to non-employee directors commencing in Ma
*(15)	10.17	Form of restricted stock unit issuance agreement used under 2004 Equ Plan (for annual grants to non-employee directors commencing in and 2014)
*(14)	10.18	Form of restricted stock unit issuance agreement (non-U.S.) used unde Incentive Plan (for annual grants to non-employee directors commenc 2013)
*(11)	10.19	

		Form of performance share award agreement used under the 2004 Equ Plan (for grants to certain executive officers made in 2009)
*(12)	10.20	Form of performance share award agreement used under the 2004 Equ Plan (for grants to certain executive officers made in 2010)

*(13)	10.21	Form of performance share award agreement used under the 2004 Equity Incen grants to certain executive officers made in 2011)
*(14)	10.22	Form of performance share award agreement used under the 2004 Equity Incen grants to certain executive officers made in 2012)
*(17)	10.23	Form of performance share award agreement used under the 2004 Equity Incen TSR Goals in 2013 and 2014)
*(18)	10.24	Form of performance share award agreement used under the 2004 Equity Incen TSR Goals (US) in 2016)
*(18)	10.25	Form of performance share award agreement used under the 2004 Equity Incen TSR Goals (US) with Director Retirement Provisions in 2016)
*(19)	10.26	Form of performance share award agreement used under the 2004 Equity Incen Revenue Goals in 2013 and 2014)
*(18)	10.27	Form of performance share award agreement used under the 2004 Equity Incen Revenue Goals (US) in 2016)
*(18)	10.28	Form of performance share award agreement used under the 2004 Equity Incen Revenue Goals (US) with Director Retirement Provisions in 2016)
*(20)	10.29	Form of performance share award agreement used under the 2004 Equity Incen TSR Goals - Non-US in 2015)
*(18)	10.30	Form of performance share award agreement used under the 2004 Equity Incen TSR Goals -Non-US in 2016)
*(20)	10.31	Form of performance share award agreement used under the 2004 Equity Incen Revenue Goals - Non-US in 2015)
*(18)	10.32	Form of performance share award agreement used under the 2004 Equity Incen Revenue Goals - Non-US in 2016)
*(21)	10.33	Form of restricted stock unit issuance agreement used under the 2004 Equity In (for grants to certain executive officers made prior to May 2009)
*(11)	10.34	Form of restricted stock unit issuance agreement used under the 2004 Equity In (for grants to certain executive officers commencing in May 2009)
*(22)	10.35	Form of restricted stock unit issuance agreement used under the 2004 Equity In (service-based vesting for certain executive officers commencing in November
*(13)	10.36	Form of restricted stock unit issuance agreement used under the 2004 Equity In (service-based vesting for certain executive officers commencing in 2011)
*(23)	10.37	Gilead Sciences, Inc. Employee Stock Purchase Plan, restated on January 22, 2

*(24)	10.38	Gilead Sciences, Inc. Deferred Compensation Plan-Basic Plan Document
*(22)	10.39	Gilead Sciences, Inc. Deferred Compensation Plan-Adoption Agreement
*(24)	10.40	Addendum to the Gilead Sciences, Inc. Deferred Compensation Plan
*(25)	10.41	Gilead Sciences, Inc. 2005 Deferred Compensation Plan, as amended and resta October 23, 2008
*(26)	10.42	Gilead Sciences, Inc. Severance Plan, as amended on March 8, 2016
*(27)	10.43	Gilead Sciences, Inc. Corporate Bonus Plan, amended on November 4, 2015
*(28)	10.44	Amended and Restated Gilead Sciences, Inc. Code Section 162(m) Bonus Plan
*(29)	10.45	2016 Base Salaries for the Named Executive Officers
*(30)	10.46	Offer Letter dated April 16, 2008 between Registrant and Robin Washington
*(31)	10.47	Offer Letter dated May 20, 2016 between Registrant and Kevin Young
*(32)	10.48	Form of Indemnity Agreement entered into between Registrant and its director officers
*(33)	10.49	Form of Employee Proprietary Information and Invention Agreement entered i Registrant and certain of its officers and key employees
*(12)	10.50	Form of Employee Proprietary Information and Invention Agreement entered i Registrant and certain of its officers and key employees (revised in September
+(34)	10.51	Amendment Agreement, dated October 25, 1993, between Registrant, the Insti Chemistry and Biochemistry (IOCB) and Rega Stichting v.z.w. (REGA), toget following exhibits: the License Agreement, dated December 15, 1991, betwee IOCB and REGA (the 1991 License Agreement), the License Agreement, date 1992, between Registrant, IOCB and REGA (the October 1992 License Agree License Agreement, dated December 1, 1992, between Registrant, IOCB and R December 1992 License Agreement)
+ (35)	10.52	Amendment Agreement between Registrant and IOCB/REGA, dated Decembe amending the 1991 License Agreement and the December 1992 License Agree
+(36)	10.53	Sixth Amendment Agreement to the License Agreement, between IOCB/REG Registrant, dated August 18, 2006 amending the October 1992 License Agreem December 1992 License Agreement
+(37)	10.54	Seventh Amendment Agreement to the License Agreement, between IOCB/RE Registrant dated July 1, 2013 amending the October 1992 License Agreement a December 1992 License Agreement

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+(38)	10.55	Exclusive License Agreement between Registrant (as successor to Triangle P Inc.), Glaxo Group Limited, The Wellcome Foundation Limited, Glaxo Wellc Emory University, dated May 6, 1999
+(39)	10.56	Royalty Sale Agreement by and among Registrant, Emory University and Inv Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Roya dated July 18, 2005
+(39)	10.57	Amended and Restated License Agreement between Registrant, Emory Unive Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity Royalty Pharma, dated July 21, 2005
+(40)	10.58	License Agreement between Japan Tobacco Inc. and Registrant, dated March
+(41)	10.59	First Amendment to License Agreement between Japan Tobacco Inc. and Reg May 19, 2005
+(41)	10.60	Second Amendment to License Agreement between Japan Tobacco Inc. and dated May 17, 2010
+(42)	10.61	Third Amendment (Revised) to License Agreement between Japan Tobacco I Registrant, dated June 10, 2015
+(41)	10.62	Fourth Amendment to License Agreement between Japan Tobacco Inc. and R July 5, 2011
+(43)	10.63	Amendment to License Agreement between Japan Tobacco Inc. and Registra October 10, 2013
+(44)	10.64	Fifth Amendment to License Agreement between Japan Tobacco Inc. and Re September 29, 2014
+(45)	10.65	Amended and Restated Collaboration Agreement by and among Registrant, G Ireland UC (formerly Gilead Sciences Limited) and Janssen R&D Ireland, da 23, 2014
+(46)	10.66	Restated and Amended Toll Manufacturing Agreement between Gilead Scien (formerly Gilead Sciences Limited), Registrant and Takeda GmbH (formerly GmbH and Altana Pharma Oranienburg GmbH), dated November 7, 2005
	21.1	Subsidiaries of Registrant
	23.1	Consent of Independent Registered Public Accounting Firm
	31.1	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Ru the Securities Exchange Act of 1934, as amended
	31.2	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rul the Securities Exchange Act of 1934, as amended

32.1**	Certifications of Chief Executive Officer and Chief Financial Officer, as requ 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of th Code (18 U.S.C. §1350)
101***	The following materials from Registrant's Annual Report on Form 10-K for t December 31, 2016, formatted in Extensible Business Reporting Language (X (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Notes to Consolidated Financial Statements.

(1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on September 20 incorporated herein by reference
(2) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 8, 2014, a herein by reference.
(3) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on December 23, incorporated herein by reference.
(4) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 1, 2011, incorporated herein by reference.
(5) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on December 13, incorporated herein by reference.
(6) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 7, 2014 incorporated herein by reference.
(7) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on November 17, incorporated herein by reference
(8) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on September 14, incorporated herein by reference
(9) Filed as an exhibit to Registrant's Current Report on Form 8-K/A filed on February 22 incorporated herein by reference.
(10) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en December 31, 2007, and incorporated herein by reference.
(11) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2009, and incorporated herein by reference.
(12) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en December 31, 2009, and incorporated herein by reference.
(13) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2011, and incorporated herein by reference.
(14) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2013, and incorporated herein by reference
(15) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2014, and incorporated herein by reference.
(16) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2012, and incorporated herein by reference.
(17) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2012, and incorporated herein by reference.
(18) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2016, and incorporated herein by reference.
(19) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2013, and incorporated herein by reference.
(20) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end 2015, and incorporated herein by reference.

(21) Filed as an exhibit to Registrant's Current Report on Form 8-K first filed on Decemb
incorporated herein by reference.
(22) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
2010, and incorporated herein by reference.
(23) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 8, 2015,
incorporated herein by reference.
(24) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
December 31, 2001, and incorporated herein by reference.
(25) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
December 31, 2008, and incorporated herein by reference.
(26) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 8, 201
incorporated herein by reference.

(27) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
31, 2015, and incorporated herein by reference.
(28) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 17, 201
incorporated herein by reference.
(29) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on February 3, 2
incorporated herein by reference.
(30) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
2008, and incorporated herein by reference.
(31) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
2016, and incorporated herein by reference.
(32) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-5568
and incorporated herein by reference.
(33) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-102
January 31, 2003, and incorporated herein by reference.
(34) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
1994, and incorporated herein by reference.
(35) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
December 31, 2000, and incorporated herein by reference.
(36) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
September 30, 2006, and incorporated herein by reference.
(37) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
30, 2013, and incorporated herein by reference.
(38) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-
November 3, 1999, and incorporated herein by reference.
(39) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
September 30, 2005, and incorporated herein by reference.
(40) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
2005, and incorporated herein by reference.
(41) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
September 30, 2011, and incorporated herein by reference.
(42) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
2015, and incorporated herein by reference.
(43) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
31, 2013, and incorporated herein by reference.
(44) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter end
September 30, 2014, and incorporated herein by reference.
(45) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
December 31, 2014, and incorporated herein by reference.
(46) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year en
December 31, 2005, and incorporated herein by reference.

* Management contract or compensatory plan or arrangement.
This certification accompanies the Form 10-K to which it relates, is not deemed filed wit
and Exchange Commission and is not to be incorporated by reference into any filing of R
** the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amen
made before or after the date of the Form 10-K), irrespective of any general incorporatio
contained in such filing.
*** XBRL information is filed herewith.
+

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

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934,
has duly caused this report to be signed on its behalf by the undersigned, thereunto duly aut

GILEAD SCIENCES, INC.

By: /S/ JOHN F. MILLIGAN
John F. Milligan, Ph.D.
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appear
constitutes and appoints John F. Milligan and Brett A. Pletcher, and each of them, as his tru
attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or he
her name, place, and stead, in any and all capacities, to sign any and all amendments to this
file the same, with all exhibits thereto, and other documents in connection therewith, with th
and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of the
and authority to do and perform each and every act and thing requisite and necessary to be d
connection therewith, as fully to all intents and purposes as he might or could do in person,
and confirming that all said attorneys-in-fact and agents, or any of them or their or his subst
substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Repo
signed below by the following persons on behalf of the registrant and in the capacities and d
indicated.

Signature	Title
/S/ JOHN F. MILLIGAN John F. Milligan, Ph.D.	President and Chief Executive Officer, Director (Principal Executive Officer)
/S/ ROBIN L. WASHINGTON Robin L. Washington	Executive Vice President and Chief Financial Office (Principal Financial and Accounting Officer)
/S/ JOHN C. MARTIN John C. Martin, Ph.D.	Executive Chairman
/S/ JOHN F. COGAN John F. Cogan	Director
/S/ KELLY A. KRAMER Kelly A. Kramer	Director
/S/ KEVIN E. LOFTON Kevin E. Lofton	Director
/S/ JOHN W. MADIGAN John W. Madigan	Director
/S/ NICHOLAS G. MOORE Nicholas G. Moore	Director
/S/ RICHARD J. WHITLEY Richard J. Whitley	Director
/S/ GAYLE E. WILSON Gayle E. Wilson	Director
/S/ PER WOLD-OLSEN Per Wold-Olsen	Director