

GILEAD SCIENCES INC  
Form 10-Q  
May 08, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-19731

GILEAD SCIENCES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

94-3047598

(IRS Employer  
Identification No.)

333 Lakeside Drive, Foster City, California

(Address of principal executive offices)

650-574-3000

94404

(Zip Code)

Registrant's Telephone Number, Including Area Code

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of April 30, 2015:  
1,469,605,980

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We own or have rights to various trademarks, copyrights and trade names used in our business, including the following: GILEAD®, GILEAD SCIENCES®, HARVONI®, SOVALDI®, TRUVADA®, STRIBILD®, COMPLERA®, EVIPLERA®, VIREAD®, LETAIRIS®, RANEXA®, AMBISOME®, ZYDELIG®, EMTRIVA®, TYBOST®, HEPSERA®, VITEKTA®, CAYSTON®, VOLIBRIS® and RAPISCAN®. ATRIPLA® is a registered

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

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

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$10,635	\$10,027
Short-term marketable securities	659	101
Accounts receivable, net	4,835	4,635
Inventories	1,908	1,386
Deferred tax assets	655	508
Prepaid taxes	373	391
Prepaid expenses	236	194
Other current assets	761	472
Total current assets	20,062	17,714
Property, plant and equipment, net	1,765	1,674
Long-term portion of prepaid royalties	447	466
Long-term deferred tax assets	205	236
Long-term marketable securities	3,220	1,598
Intangible assets, net	10,867	11,073
Goodwill	1,172	1,172
Other long-term assets	583	731
Total assets	\$38,321	\$34,664
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$1,011	\$955
Accrued government and other rebates	4,020	2,316
Accrued compensation and employee benefits	226	316
Income taxes payable	98	105
Other accrued liabilities	1,440	1,452
Deferred revenues	191	134
Current portion of long-term debt and other obligations, net	442	483
Total current liabilities	7,428	5,761
Long-term debt, net	11,921	11,921
Long-term income taxes payable	713	562
Long-term deferred tax liabilities	41	51
Other long-term obligations	619	535
Commitments and contingencies (Note 9)		
Equity component of currently redeemable convertible notes	11	15
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 March 31, 2015 and December 31, 2014; shares issued and outstanding of 1,477 at March 31, 2015 and 1,499 at December 31, 2014	1	2
Additional paid-in capital	2,724	2,391

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Accumulated other comprehensive income	539	301
Retained earnings	13,916	12,732
Total Gilead stockholders' equity	17,180	15,426
Noncontrolling interest	408	393
Total stockholders' equity	17,588	15,819
Total liabilities and stockholders' equity	\$38,321	\$34,664
See accompanying notes.		

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

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Product sales	\$7,405	\$4,871
Royalty, contract and other revenues	189	128
Total revenues	7,594	4,999
Costs and expenses:		
Cost of goods sold	882	813
Research and development expenses	696	595
Selling, general and administrative expenses	645	548
Total costs and expenses	2,223	1,956
Income from operations	5,371	3,043
Interest expense	(153)	(76)
Other income (expense), net	21	(18)
Income before provision for income taxes	5,239	2,949
Provision for income taxes	907	726
Net income	4,332	2,223
Net loss attributable to noncontrolling interest	1	4
Net income attributable to Gilead	\$4,333	\$2,227
Net income per share attributable to Gilead common stockholders—basic	\$2.91	\$1.45
Shares used in per share calculation—basic	1,488	1,537
Net income per share attributable to Gilead common stockholders—diluted	\$2.76	\$1.33
Shares used in per share calculation—diluted	1,569	1,680

See accompanying notes.

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

	Three Months Ended March 31,	
	2015	2014
Net income	\$4,332	\$2,223
Other comprehensive income:		
Net foreign currency translation gain (loss), net of tax	(10	) 6
Available-for-sale securities:		
Net unrealized gains, net of tax impact of \$3 and \$0	6	—
Net change	6	—
Cash flow hedges:		
Net unrealized gains, net of tax impact of \$6 and \$2	383	1
Reclassifications to net income, net of tax impact of \$(4) and \$(1)	(141	) 22
Net change	242	23
Other comprehensive income	238	29
Comprehensive income	4,570	2,252
Comprehensive loss attributable to noncontrolling interest	1	4
Comprehensive income attributable to Gilead	\$4,571	\$2,256

See accompanying notes.



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

	Three Months Ended March 31,	
	2015	2014
Operating Activities:		
Net income	\$4,332	\$2,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	37	24
Amortization expense	232	217
Stock-based compensation expense	92	82
Excess tax benefits from stock-based compensation	(186)	(157)
Tax benefits from exercise and vesting of stock-based awards	186	158
Deferred income taxes	(121)	(3)
Change in fair value of contingent consideration	2	3
Other	(5)	3
Changes in operating assets and liabilities:		
Accounts receivable, net	(348)	(1,118)
Inventories	(370)	(85)
Prepaid expenses and other assets	52	(169)
Accounts payable	58	(20)
Income taxes payable	149	241
Accrued liabilities	1,530	166
Deferred revenues	61	3
Net cash provided by operating activities	5,701	1,568
Investing Activities:		
Purchases of marketable securities	(2,462)	(94)
Proceeds from sales of marketable securities	249	83
Proceeds from maturities of marketable securities	38	14
Capital expenditures	(124)	(164)
Net cash used in investing activities	(2,299)	(161)
Financing Activities:		
Proceeds from debt financing, net of issuance costs	—	3,968
Proceeds from convertible note hedges	154	601
Purchases of convertible note hedges	—	(26)
Proceeds from issuances of common stock	118	109
Repurchases of common stock	(3,001)	(450)
Repayments of debt and other long-term obligations	(199)	(1,419)
Excess tax benefits from stock-based compensation	186	157
Contributions from (distributions to) noncontrolling interest	20	(56)
Net cash provided by (used in) financing activities	(2,722)	2,884
Effect of exchange rate changes on cash and cash equivalents	(72)	—
Net change in cash and cash equivalents	608	4,291
Cash and cash equivalents at beginning of period	10,027	2,113
Cash and cash equivalents at end of period	\$ 10,635	\$ 6,404

See accompanying notes.

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GILEAD SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The accompanying Condensed Consolidated Financial Statements include the accounts of Gilead, our wholly-owned subsidiaries and certain variable interest entities for which we are the primary beneficiary. For consolidated entities where we own or are exposed to less than 100% of the economics, we record net income (loss) attributable to noncontrolling interests in our Condensed Consolidated Statements of Income equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties. All intercompany transactions have been eliminated. The Condensed Consolidated Financial Statements include the results of companies acquired by us from the date of each acquisition for the applicable reporting periods.

The accompanying Condensed Consolidated Financial Statements and related Notes to Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Significant Accounting Policies, Estimates and Judgments

The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an ongoing basis, management evaluates its significant accounting policies and estimates. We base our estimates on historical experience and on various market-specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates. Estimates are assessed each period and updated to reflect current information.

Concentrations of Risk

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

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

As of March 31, 2015, our accounts receivable in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled approximately \$765 million, of which \$132 million were greater than 120 days past due and \$42 million were greater than 365 days past due. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. We believe that our allowance for doubtful accounts was adequate at March 31, 2015.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board issued an accounting standard update which requires presentation of debt issuance costs as a direct deduction from the carrying amount of a recognized debt liability on the balance sheet. The update does not change current guidance on the recognition and measurement of debt issuance costs. This guidance will become effective for us for annual periods ending after December 15, 2015, and interim periods thereafter. At the time of adoption, we will reclassify debt issuance costs to a liability as a direct deduction from the carrying value of the debt, consistent



with the presentation of a debt discount. We do not expect that the adoption of this update will have a material impact on our Consolidated Financial Statements.

## 2. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

	March 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Money market funds	\$7,683	\$—	\$—	\$7,683	\$7,926	\$—	\$—	\$7,926
Corporate debt securities	—	1,888	—	1,888	—	938	—	938
U.S. treasury securities	1,342	—	—	1,342	363	—	—	363
Residential mortgage and asset-backed securities	—	516	—	516	—	269	—	269
U.S. government agencies securities	—	210	—	210	—	113	—	113
Certificates of deposit	—	71	—	71	—	—	—	—
Non-U.S. government securities	—	37	—	37	—	—	—	—
Municipal debt securities	—	27	—	27	—	16	—	16
Foreign currency derivative contracts	—	607	—	607	—	349	—	349
Deferred compensation plan	61	—	—	61	54	—	—	54
	\$9,086	\$3,356	\$—	\$12,442	\$8,343	\$1,685	\$—	\$10,028
<b>Liabilities:</b>								
Contingent consideration	\$—	\$—	\$135	\$135	\$—	\$—	\$133	\$133
Deferred compensation plan	61	—	—	61	54	—	—	54
Foreign currency derivative contracts	—	9	—	9	—	—	—	—
	\$61	\$9						