

GILEAD SCIENCES INC  
Form 10-Q  
August 01, 2012

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 June 30, 2012

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)

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 July 20, 2012: 756,568,507

GILEAD SCIENCES, INC.

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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®, TRUVADA®, VIREAD®, HEPSERA®, AMBISOME®, EMTRIVA®, COMPLERA®, EVIPLERA®, VISTIDE®, LETAIRIS®, VOLIBRIS®, RANEXA®, CAYSTON® and RAPISCAN®. ATRIPLA® is a registered trademark belonging to Bristol-Myers Squibb & Gilead Sciences, LLC. LEXISCAN® is a

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registered trademark belonging to Astellas U.S. LLC. MACUGEN® is a registered trademark belonging to Valeant Pharmaceuticals International, 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 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## GILEAD SCIENCES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

|  | June 30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|--|---------------------------------|----------------------|
| Assets   |                                 |                      |
| Current assets:  |                                 |                      |
| Cash and cash equivalents  | \$1,625,500                     | \$9,883,777          |
| Short-term marketable securities   | 82,044                          | 16,491               |
| Accounts receivable, net   | 1,702,818                       | 1,951,167            |
| Inventories  | 1,603,401                       | 1,389,983            |
| Deferred tax assets  | 213,448                         | 208,155              |
| Prepaid taxes  | 306,256                         | 246,444              |
| Prepaid expenses   | 83,732                          | 95,922               |
| Other current assets   | 226,903                         | 126,846              |
| Total current assets   | 5,844,102                       | 13,918,785           |
| Property, plant and equipment, net   | 811,799                         | 774,406              |
| Noncurrent portion of prepaid royalties  | 164,263                         | 174,584              |
| Noncurrent deferred tax assets   | 116,263                         | 144,015              |
| Long-term marketable securities  | 564,130                         | 63,704               |
| Intangible assets, net   | 11,751,191                      | 1,062,864            |
| Goodwill   | 1,078,919                       | 1,004,102            |
| Other noncurrent assets  | 171,283                         | 160,674              |
| Total assets   | \$20,501,950                    | \$17,303,134         |
| Liabilities and Stockholders' Equity   |                                 |                      |
| Current liabilities:   |                                 |                      |
| Accounts payable   | \$1,367,353                     | \$1,206,052          |
| Accrued government rebates   | 771,827                         | 547,473              |
| Accrued compensation and employee benefits   | 144,834                         | 173,316              |
| Income taxes payable   | 11,847                          | 40,583               |
| Other accrued liabilities  | 624,337                         | 471,129              |
| Deferred revenues  | 93,660                          | 74,665               |
| Current portion of long-term debt and other obligations, net   | 1,972,816                       | 1,572                |
| Total current liabilities  | 4,986,674                       | 2,514,790            |
| Long-term deferred revenues  | 23,662                          | 31,870               |
| Long-term debt, net  | 7,126,377                       | 7,605,734            |
| Long-term income taxes payable   | 126,655                         | 135,655              |
| Other long-term obligations  | 155,195                         | 147,736              |
| Commitments and contingencies (Note 10)  |                                 |                      |
| Stockholders' equity:  |                                 |                      |
| Preferred stock, par value \$0.001 per share; 5,000 shares authorized; none outstanding  | —                               | —                    |
| Common stock, par value \$0.001 per share; 2,800,000 shares authorized; 756,153 and 753,106 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | 756                             | 753                  |
| Additional paid-in capital   | 5,213,910                       | 4,903,143            |

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|  |              |              |
|--|--------------|--------------|
| Accumulated other comprehensive income     | 124,377      | 58,200       |
| Retained earnings                          | 2,663,077    | 1,776,760    |
| Total Gilead stockholders' equity          | 8,002,120    | 6,738,856    |
| Noncontrolling interest                    | 81,267       | 128,493      |
| Total stockholders' equity                 | 8,083,387    | 6,867,349    |
| Total liabilities and stockholders' equity | \$20,501,950 | \$17,303,134 |
| See accompanying notes.                    |              |              |

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

|   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2012                           | 2011        | 2012                         | 2011        |
| Revenues:   |                                |             |                              |             |
| Product sales   | \$2,321,240                    | \$2,039,588 | \$4,529,582                  | \$3,903,166 |
| Royalty revenues  | 81,106                         | 94,321      | 152,211                      | 152,986     |
| Contract and other revenues   | 2,840                          | 3,344       | 5,842                        | 7,195       |
| Total revenues  | 2,405,186                      | 2,137,253   | 4,687,635                    | 4,063,347   |
| Costs and expenses:   |                                |             |                              |             |
| Cost of goods sold  | 617,345                        | 533,863     | 1,198,276                    | 1,007,974   |
| Research and development  | 396,244                        | 282,403     | 854,455                      | 536,849     |
| Selling, general and administrative                                     | 332,505                        | 304,269     | 775,626                      | 599,837     |
| Total costs and expenses  | 1,346,094                      | 1,120,535   | 2,828,357                    | 2,144,660   |
| Income from operations  | 1,059,092                      | 1,016,718   | 1,859,278                    | 1,918,687   |
| Interest expense  | (88,418 )                      | (46,107 )   | (185,688 )                   | (87,323 )   |
| Other income (expense), net   | (1,075 )                       | 11,978      | (35,160 )                    | 25,810      |
| Income before provision for income taxes                                | 969,599                        | 982,589     | 1,638,430                    | 1,857,174   |
| Provision for income taxes  | 263,525                        | 240,130     | 494,825                      | 467,412     |
| Net income  | 706,074                        | 742,459     | 1,143,605                    | 1,389,762   |
| Net loss attributable to noncontrolling interest                        | 5,490                          | 3,768       | 9,915                        | 7,606       |
| Net income attributable to Gilead                                       | \$711,564                      | \$746,227   | \$1,153,520                  | \$1,397,368 |
| Net income per share attributable to Gilead common stockholders—basic   | \$0.94                         | \$0.95      | \$1.52                       | \$1.77      |
| Shares used in per share calculation—basic                              | 756,951                        | 784,807     | 756,619                      | 790,430     |
| Net income per share attributable to Gilead common stockholders—diluted | \$0.91                         | \$0.93      | \$1.48                       | \$1.73      |
| Shares used in per share calculation—diluted                            | 780,506                        | 800,800     | 779,246                      | 806,462     |

See accompanying notes.

## GILEAD SCIENCES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in thousands)

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-----------|------------------------------|-------------|
|   | 2012                           | 2011      | 2012                         | 2011        |
| Net income  | \$706,074                      | \$742,459 | \$1,143,605                  | \$1,389,762 |
| Other comprehensive income:   |                                |           |                              |             |
| Net foreign currency translation gain (loss)  | (2,642 )                       | (4,358 )  | 2,256                        | 2,836       |
| Available-for-sale securities:  |                                |           |                              |             |
| Net unrealized gain (loss), net of tax impact of \$(79) and \$(5,945) for the three months ended June 30, 2012 and 2011, and \$188 and \$(6,254) for the six months ended June 30, 2012 and 2011, respectively        | 134                            | 2,346     | (329 )                       | 723         |
| Reclassifications to net income, net of tax impact of \$(29) and \$(1,774) for the three months ended June 30, 2012 and 2011, and \$(547) and \$(2,611) for the six months ended June 30, 2012 and 2011, respectively | (50 )                          | (3,068 )  | 30,549                       | (4,565 )    |
| Net change  | 84                             | (722 )    | 30,220                       | (3,842 )    |
| Cash flow hedges:   |                                |           |                              |             |
| Net unrealized gain (loss), net of tax impact of \$(4,074) and \$2,609 for the three months ended June 30, 2012 and 2011, and \$(2,318) and \$101 for the six months ended June 30, 2012 and 2011, respectively       | 107,855                        | (46,857 ) | 58,993                       | (174,194 )  |
| Reclassification to net income, net of tax impact of \$(548) and \$1,105 for the three months ended June 30, 2012 and 2011, and \$(994) and \$6 for the six months ended June 30, 2012 and 2011, respectively         | (14,511 )                      | 19,840    | (25,292 )                    | 11,010      |
| Net change  | 93,344                         | (27,017 ) | 33,701                       | (163,184 )  |
| Other comprehensive income (loss)   | 90,786                         | (32,097 ) | 66,177                       | (164,190 )  |
| Comprehensive income  | 796,860                        | 710,362   | 1,209,782                    | 1,225,572   |
| Comprehensive loss attributable to noncontrolling interest  | 5,490                          | 3,768     | 9,915                        | 7,606       |
| Comprehensive income attributable to Gilead   | \$802,350                      | \$714,130 | \$1,219,697                  | \$1,233,178 |

See accompanying notes.





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

|   | Six Months Ended |             |
|---|------------------|-------------|
|   | June 30,         |             |
|   | 2012             | 2011        |
| Operating Activities:   |                  |             |
| Net income  | \$1,143,605      | \$1,389,762 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |             |
| Depreciation expense  | 39,937           | 36,030      |
| Amortization expense  | 93,642           | 119,776     |
| Stock-based compensation expense  | 97,134           | 99,595      |
| Excess tax benefits from stock-based compensation                                 | (35,439)         | (20,298)    |
| Tax benefits from employee stock plans  | 30,804           | 17,796      |
| Deferred income taxes   | 21,966           | 40,008      |
| Other   | 1,064            | 6,150       |
| Changes in operating assets and liabilities:                                      |                  |             |
| Accounts receivable, net  | 180,167          | (221,966)   |
| Inventories   | (213,190)        | (114,644)   |
| Prepaid expenses and other assets   | (32,329)         | 10,884      |
| Accounts payable  | 230,614          | 295,648     |
| Income taxes payable  | (102,093)        | 51,585      |
| Accrued liabilities   | 276,944          | 98,541      |
| Deferred revenues   | 10,794           | (45,070)    |
| Net cash provided by operating activities   | 1,743,620        | 1,763,797   |
| Investing Activities:   |                  |             |
| Purchases of marketable securities  | (607,078)        | (2,714,090) |
| Proceeds from sales of marketable securities                                      | 63,274           | 2,225,064   |
| Proceeds from maturities of marketable securities                                 | 2,951            | 348,968     |
| Acquisitions, net of cash acquired  | (10,751,636)     | (588,608)   |
| Purchases of other investments  | (25,000)         | —           |
| Capital expenditures  | (60,591)         | (41,505)    |
| Net cash used in investing activities   | (11,378,080)     | (770,171)   |
| Financing Activities:   |                  |             |
| Proceeds from issuances of senior notes, net of issuance costs                    | —                | 987,370     |
| Proceeds from issuances of common stock   | 201,791          | 115,912     |
| Proceeds from credit facilities, net of issuance costs                            | 1,146,844        | —           |
| Proceeds from term loan, net of issuance costs                                    | 997,889          | —           |
| Repayments of term loan   | (700,000)        | —           |
| Repurchases of common stock   | (261,791)        | (1,272,862) |
| Repayments of convertible senior notes  | —                | (649,987)   |
| Repayments of other long-term obligations   | (2,151)          | (1,567)     |
| Excess tax benefits from stock-based compensation                                 | 35,439           | 20,298      |
| Distributions to noncontrolling interest  | (37,310)         | (86,016)    |
| Net cash provided by (used in) financing activities                               | 1,380,711        | (886,852)   |
| Effect of exchange rate changes on cash   | (4,528)          | (108,874)   |
| Net change in cash and cash equivalents   | (8,258,277)      | (2,100)     |

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|  |             |           |
|--|-------------|-----------|
| Cash and cash equivalents at beginning of period | 9,883,777   | 907,879   |
| Cash and cash equivalents at end of period       | \$1,625,500 | \$905,779 |

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 preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an ongoing basis, we evaluate our estimates, including critical accounting policies or estimates related to revenue recognition, intangible assets, allowance for doubtful accounts, prepaid royalties, clinical trial accruals, our tax provision and stock-based compensation. We base our estimates on historical experience and on various other 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.

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

The accompanying Condensed Consolidated Financial Statements and related financial information should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2011, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC). Certain amounts within our Condensed Consolidated Financial Statements have been reclassified to conform to the current presentation.

### Net Income Per Share Attributable to Gilead Common Stockholders

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

Because the principal amount of the Convertible Notes will be settled in cash, only the conversion spread relating to the Convertible Notes is included in our calculation of diluted net income per share attributable to Gilead common stockholders. Our common stock resulting from the assumed settlement of the conversion spread of the Convertible Notes has a dilutive effect when the average market price of our common stock during the period exceeds the conversion prices of \$38.10, \$45.08 and \$45.41 for the May 2013 Notes, May 2014 Notes and May 2016 Notes, respectively.

In 2011, our convertible senior notes due in May 2011 (May 2011 Notes) matured and the related warrants expired. As a result, we have only considered their impact for the period they were outstanding on our net income per share calculations. Our common stock resulting from the assumed settlement of the conversion spread of the May 2011 Notes had a dilutive effect when the average market price of our common stock during the period exceeded the

conversion price of \$38.75. During the three and six months ended June 30, 2011, the average market price of our common stock exceeded the conversion price of the May 2011 Notes and the dilutive effect is included in the accompanying table. Warrants related to the May 2011 Notes had a dilutive effect when the average market price of our common stock during the period exceeded the warrants' exercise price of \$50.80. The average market price of our common stock during the three and six months ended June 30, 2011 did not exceed the exercise price of the warrants related to the May 2011 Notes; therefore, these warrants did not have a dilutive effect on our net income per share for those periods.

During the three and six months ended June 30, 2012, the average market price of our common stock exceeded the conversion prices of the May 2013 Notes, May 2014 Notes and May 2016 Notes and the dilutive effects are included in the accompanying table. During the three and six months ended June 30, 2011, the average market price of our common stock exceeded the conversion price of the May 2013 Notes and the dilutive effect is included in the accompanying table. During the three and six months ended June 30, 2011, the average market price of our common stock did not exceed the conversion prices of the May 2014 Notes and May 2016 Notes and therefore, these notes did not have a dilutive effect on our net income per share for those periods.

Warrants relating to the May 2013 Notes, May 2014 Notes and May 2016 Notes have a dilutive effect when the average market price of our common stock during the period exceeds the warrants' exercise prices of \$53.90, \$56.76 and \$60.10, respectively. The average market prices of our common stock during each of the three and six months ended June 30, 2012 and 2011 did not exceed the warrants' exercise prices relating to any of the Convertible Notes; therefore, these warrants did not have a dilutive effect on our net income per share for those periods.

Stock options to purchase approximately 9.2 million weighted-average shares of our common stock were outstanding during both the three and six months ended June 30, 2012, but were not included in the computation of diluted net income per share attributable to Gilead common stockholders because their effect was antidilutive. Stock options to purchase approximately 21.6 million and 21.8 million weighted-average shares of our common stock were outstanding during the three and six months ended June 30, 2011, respectively, but were not included in the computation of diluted net income per share attributable to Gilead common stockholders because their effect was antidilutive.

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

|  | Three Months Ended |           | Six Months Ended |             |
|--|--------------------|-----------|------------------|-------------|
|  | June 30,           | 2011      | June 30,         | 2011        |
|  | 2012               |           | 2012             | 2011        |
| Numerator:   |                    |           |                  |             |
| Net income attributable to Gilead  | \$711,564          | \$746,227 | \$1,153,520      | \$1,397,368 |
| Denominator:   |                    |           |                  |             |
| Weighted-average shares of common stock outstanding used in the calculation of basic net income per share attributable to Gilead common stockholders   | 756,951            | 784,807   | 756,619          | 790,430     |
| Effect of dilutive securities:   |                    |           |                  |             |
| Stock options and equivalents  | 14,386             | 14,461    | 14,882           | 14,817      |
| Conversion spread related to the May 2011 Notes  | —                  | 432       | —                | 402         |
| Conversion spread related to the May 2013 Notes  | 4,029              | 1,100     | 3,735            | 813         |
| Conversion spread related to the May 2014 Notes  | 2,672              | —         | 2,107            | —           |
| Conversion spread related to the May 2016 Notes  | 2,468              | —         | 1,903            | —           |
| Weighted-average shares of common stock outstanding used in the calculation of diluted net income per share attributable to Gilead common stockholders | 780,506            | 800,800   | 779,246          | 806,462     |

#### 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 June 30, 2012, our accounts receivable in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled approximately \$791.8 million, of which \$291.4 million were greater than 120 days past due and \$114.6 million were greater than 365 days past due. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. We believe that our allowance for doubtful accounts was adequate at June 30, 2012. In June 2012, we received payment on \$460.6 million in past due accounts receivable from customers based in Spain. Included in this amount were proceeds from a one-time factoring arrangement where we sold receivables with a carrying value of \$319.8 million, net of the allowance for doubtful accounts. We received proceeds of \$349.7 million and recorded a gain of \$29.9 million, resulting primarily from the reversal of the related allowance for doubtful accounts. This gain was recorded as an offset to selling, general and administrative (SG&A) expenses in our Condensed Consolidated Statement of Income. As of June 30, 2012, we had no continuing involvement with the transferred receivables, which were derecognized at the time of the sale.

#### Recent Accounting Pronouncements

During the three months ended June 30, 2012, there were no new accounting pronouncements issued that are expected to significantly impact our consolidated financial statements or results of operations.

#### 2. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Our financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, foreign currency exchange forward and option 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 product sales are reported at their respective fair values on our Condensed Consolidated Balance Sheets. The carrying value and fair value of the Convertible Notes were \$2.96 billion and \$4.06 billion, respectively, as of June 30, 2012. The carrying value and fair value of the Convertible Notes were \$2.92 billion and \$3.53 billion, respectively, as of December 31, 2011.

In March 2011, we issued senior unsecured notes due in April 2021 (April 2021 Notes) in a registered offering for an aggregate principal amount of \$1.00 billion. The carrying value and fair value of the April 2021 Notes were \$992.5 million and \$1.11 billion, respectively, as of June 30, 2012. The carrying value and fair value of the April 2021 Notes were \$992.1 million and \$1.06 billion, respectively, as of December 31, 2011. In December 2011, we issued senior unsecured notes due in December 2014 (December 2014 Notes), December 2016 (December 2016 Notes), December 2021 (December 2021 Notes) and December 2041 (December 2041 Notes) in a registered offering for an aggregate principal amount of \$3.70 billion. The carrying value and fair value of these notes were \$3.69 billion and \$4.09 billion, respectively, as of June 30, 2012. The carrying value and fair value of these notes were \$3.69 billion and \$3.93 billion, respectively, as of December 31, 2011. The fair values of the Convertible Notes and senior unsecured notes were determined using Level 2 inputs based on their quoted market values.

The remaining financial instruments are reported on our Condensed Consolidated Balance Sheets at amounts that approximate current fair values.





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

|   | June 30, 2012 |           |           |             | December 31, 2011 |             |           |             |
|---|---------------|-----------|-----------|-------------|-------------------|-------------|-----------|-------------|
|   | Level 1       | Level 2   | Level 3   | Total       | Level 1           | Level 2     | Level 3   | Total       |
| Assets:   |               |           |           |             |                   |             |           |             |
| Debt securities:  |               |           |           |             |                   |             |           |             |
| U.S. treasury securities                                | \$168,679     | \$—       | \$—       | \$168,679   | \$—               | \$—         | \$—       | \$—         |
| Money market funds                                      | 1,252,482     | —         | —         | 1,252,482   | 7,455,982         | —           | —         | 7,455,982   |
| Certificates of deposit                                 | —             | —         | —         | —           | —                 | 1,139,982   | —         | 1,139,982   |
| U.S. government agencies and FDIC guaranteed securities | —             | 203,568   | —         | 203,568     | —                 | —           | —         | —           |
| Non-U.S. government securities                          | —             | —         | —         | —           | —                 | —           | 24,741    | 24,741      |
| Municipal debt securities                               | —             | 8,074     | —         | 8,074       | —                 | —           | —         | —           |
| Corporate debt securities                               | —             | 193,886   | —         | 193,886     | —                 | 404,989     | —         | 404,989     |
| Residential mortgage and asset-backed securities        | —             | 33,295    | —         | 33,295      | —                 | —           | —         | —           |
| Student loan-backed securities                          | —             | —         | 43,872    | 43,872      | —                 | —           | 46,952    | 46,952      |
| Total debt securities                                   | 1,421,161     | 438,823   | 43,872    | 1,903,856   | 7,455,982         | 1,544,971   | 71,693    | 9,072,646   |
| Equity securities                                       | —             | —         | —         | —           | 8,503             | —           | —         | 8,503       |
| Derivatives   | —             | 134,464   | —         | 134,464     | —                 | 100,475     | —         | 100,475     |
|   | \$1,421,161   | \$573,287 | \$43,872  | \$2,038,320 | \$7,464,485       | \$1,645,446 | \$71,693  | \$9,181,624 |
| Liabilities:  |               |           |           |             |                   |             |           |             |
| Contingent consideration                                | \$—           | \$—       | \$140,897 | \$140,897   | \$—               | \$—         | \$135,591 | \$135,591   |
| Derivatives   | —             | 4,090     | —         | 4,090       | —                 | 5,710       | —         | 5,710       |
|   | \$—           | \$4,090   | \$140,897 | \$144,987   | \$—               | \$5,710     | \$135,591 | \$141,301   |

Level 2 Inputs

We estimate the fair values of our government related debt, corporate debt, residential mortgage and asset-backed securities by taking into consideration valuations obtained from third-party pricing services. The pricing services

utilize industry standard valuation models, including both income- and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of and broker/dealer quotes on the same or similar securities; issuer credit spreads; benchmark securities; prepayment/default projections based on historical data; and other observable inputs.

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

#### Level 3 Inputs

Assets measured at fair value using Level 3 inputs at June 30, 2012 were comprised of auction rate securities within our available-for-sale investment portfolio. The following table provides a rollforward of assets measured using Level 3 inputs (in thousands):

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,<br>2012   | 2011      | June 30,<br>2012 | 2011      |
| Balance, beginning of period                              | \$48,168           | \$116,823 | \$71,693         | \$80,365  |
| Total realized and unrealized gains (losses) included in: |                    |           |                  |           |
| Other income (expense), net                               | 83                 | 1,625     | (40,013 )        | 2,871     |
| Other comprehensive income, net                           | 1,155              | (7,854 )  | 34,249           | (5,694 )  |
| Sales of marketable securities                            | (5,534 )           | (6,450 )  | (22,057 )        | (27,280 ) |
| Transfers into Level 3                                    | —                  | 1         | —                | 53,883    |
| Balance, end of period                                    | \$43,872           | \$104,145 | \$43,872         | \$104,145 |

Our policy is to recognize transfers into or out of Level 3 classification as of the actual date of the event or change in circumstances that caused the transfer. The underlying assets of our auction rate securities consist of student loans. Although auction rate securities would typically be measured using Level 2 inputs, the failure of auctions and the lack of market activity and liquidity experienced since the beginning of 2008 required that these securities be measured using Level 3 inputs. The fair value of our auction rate securities was determined using a discounted cash flow model that considered projected cash flows for the issuing trusts, underlying collateral and expected yields. Projected cash flows were estimated based on the underlying loan principal, bonds outstanding and payout formulas. The weighted-average life over which the cash flows were projected considered the collateral composition of the securities and related historical and projected prepayments. The underlying student loans have a weighted-average expected life of two to six years. The discount rates used in our discounted cash flow model were based on market conditions for comparable or similar term asset-backed and other fixed income securities, adjusted for an illiquidity discount. This resulted in an annual discount rate of 1.97%. Our auction rate securities reset every seven to 14 days with maturity dates ranging from 2025 through 2040 and have annual interest rates ranging from 0.28% to 0.98%. As of June 30, 2012, our auction rate securities continued to earn interest. Although there continued to be failed auctions as well as lack of market activity and liquidity, we believe we had no other-than-temporary impairments on these securities as of June 30, 2012. We have the ability to hold these securities until the recovery of their amortized cost basis.

In 2010, the Greek government agreed to settle the majority of its aged outstanding accounts receivable with zero-coupon bonds, which were expected to trade at a discount to face value. We estimated the fair value of the Greek zero-coupon bonds using Level 3 inputs due to the then current lack of market activity and liquidity. The discount rates used in our fair value model for these bonds were based on credit default swap rates. In March 2012, the Greek government restructured its sovereign debt which impacted all holders of Greek bonds. As a result, we recorded a \$40.1 million loss related to the debt restructuring as part of other income (expense), net on our Condensed Consolidated Statement of Income and exchanged the Greek government-issued bonds for new securities, which we liquidated during the first quarter of 2012.

As of June 30, 2012 and December 31, 2011, our auction rate securities were recorded in long-term marketable securities on our Condensed Consolidated Balance Sheets. As of December 31, 2011, our Greek government-issued bonds were recorded in short-term and long-term marketable securities on our Condensed Consolidated Balance Sheets.



The following table provides a rollforward of our contingent consideration liabilities (in thousands):

|                              | Three Months Ended |            | Six Months Ended |            |
|------------------------------|--------------------|------------|------------------|------------|
|                              | June 30,<br>2012   | 2011       | June 30,<br>2012 | 2011       |
| Balance, beginning of period | \$ 138,328         | \$ 11,100  | \$ 135,591       | \$ 11,100  |
| Additions                    | —                  | 116,008    | —                | 116,008    |
| Changes in valuation         | 2,569              | (418 )     | 5,306            | (418 )     |
| Balance, end of period       | \$ 140,897         | \$ 126,690 | \$ 140,897       | \$ 126,690 |

The estimated fair value of the contingent consideration liabilities for our acquisitions was based on the present value of the total earnout amount giving consideration to significant inputs such as the probability of technical and regulatory success, the discount rate used and the timeline to achieve each of the milestone events. Significant increases in the probability of success in isolation would result in a significantly higher fair value measurement while significant decreases in the probability of success in isolation would result in a significantly lower fair value measurement. Similarly, significant increases in the discount rate or timeline in isolation would result in a significantly lower fair value measurement while significant decreases in the discount rate or timeline in isolation would result in a significantly higher fair value measurement. We evaluate changes in each of the assumptions used to calculate fair values of our contingent consideration liabilities at the end of each period.

## 3. AVAILABLE-FOR-SALE SECURITIES

The following table is a summary of available-for-sale debt and equity securities included in cash and cash equivalents or marketable securities in our Condensed Consolidated Balance Sheets. During the first quarter of 2012, we liquidated a portion of our investment portfolio to partially fund the acquisition of Pharmasset, Inc. (Pharmasset) which was completed in January 2012. Estimated fair values of available-for-sale securities are generally based on prices obtained from commercial pricing services (in thousands):

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| June 30, 2012   |                   |                              |                               |                         |
| Debt securities:  |                   |                              |                               |                         |
| U.S. treasury securities                                | \$ 168,598        | \$ 89                        | \$(8 )                        | \$ 168,679              |
| Money market funds                                      | 1,252,482         | —                            | —                             | 1,252,482               |
| Certificates of deposit                                 | —                 | —                            | —                             | —                       |
| U.S. government agencies securities                     | 203,583           | 98                           | (113 )                        | 203,568                 |
| Non-U.S. government securities                          | —                 | —                            | —                             | —                       |
| Municipal debt securities                               | 8,089             | —                            | (15 )                         | 8,074                   |
| Corporate debt securities                               | 193,944           | 142                          | (200 )                        | 193,886                 |
| Residential mortgage-backed and asset-backed securities | 33,303            | 18                           | (26 )                         | 33,295                  |
| Student loan-backed securities                          | 46,050            | —                            | (2,178 )                      | 43,872                  |
| Total debt securities                                   | 1,906,049         | 347                          | (2,540 )                      | 1,903,856               |
| Equity securities                                       | —                 | —                            | —                             | —                       |
| Total   | \$ 1,906,049      | \$ 347                       | \$(2,540 )                    | \$ 1,903,856            |
| December 31, 2011                                       |                   |                              |                               |                         |
| Debt securities:  |                   |                              |                               |                         |
| U.S. treasury securities                                | \$—               | \$—                          | \$—                           | \$—                     |
| Money market funds                                      | 7,455,982         | —                            | —                             | \$7,455,982             |
| Certificates of deposit                                 | 1,140,000         | —                            | (18 )                         | 1,139,982               |
| U.S. government agencies securities                     | —                 | —                            | —                             | —                       |
| Non-U.S. government securities                          | 55,246            | —                            | (30,505 )                     | 24,741                  |
| Municipal debt securities                               | —                 | —                            | —                             | —                       |
| Corporate debt securities                               | 404,994           | —                            | (5 )                          | 404,989                 |
| Residential mortgage-backed and asset-backed securities | —                 | —                            | —                             | —                       |
| Student loan-backed securities                          | 51,500            | —                            | (4,548 )                      | 46,952                  |
| Total debt securities                                   | 9,107,722         | —                            | (35,076 )                     | 9,072,646               |
| Equity securities                                       | 1,451             | 7,052                        | —                             | 8,503                   |
| Total   | \$9,109,173       | \$7,052                      | \$(35,076 )                   | \$9,081,149             |

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

|                                  | June 30,<br>2012 | December 31,<br>2011 |
|----------------------------------|------------------|----------------------|
| Cash and cash equivalents        | \$1,258,457      | \$ 9,000,954         |
| Short-term marketable securities | 81,269           | 16,491               |
| Long-term marketable securities  | 564,130          | 63,704               |
| Total                            | \$1,903,856      | \$ 9,081,149         |

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

|   | June 30, 2012  |             |
|---|----------------|-------------|
|   | Amortized Cost | Fair Value  |
| Less than one year                              | \$1,329,324    | \$1,329,311 |
| Greater than one year but less than five years  | 521,927        | 521,921     |
| Greater than five years but less than ten years | 8,748          | 8,752       |
| Greater than ten years                          | 46,050         | 43,872      |
| Total   | \$1,906,049    | \$1,903,856 |

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

|                                | Three Months Ended |          | Six Months Ended |            |
|--------------------------------|--------------------|----------|------------------|------------|
|                                | June 30,           |          | June 30,         |            |
|                                | 2012               | 2011     | 2012             | 2011       |
| Gross realized gains on sales  | \$84               | \$5,257  | \$10,099         | \$8,954    |
| Gross realized losses on sales | \$(5 )             | \$(415 ) | \$(40,101 )      | \$(1,777 ) |

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

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

|   | Less Than 12 Months     |                      | 12 Months or Greater    |                      | Total                   |                      |
|---|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|   | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value |
| June 30, 2012   |                         |                      |                         |                      |                         |                      |
| Debt securities:  |                         |                      |                         |                      |                         |                      |
| U.S. treasury securities                                | \$(8 )                  | \$67,658             | \$—                     | \$—                  | \$(8 )                  | \$67,658             |
| Certificates of deposit                                 | —                       | —                    | —                       | —                    | —                       | —                    |
| U.S. government agencies securities                     | (113 )                  | 127,056              | —                       | —                    | (113 )                  | 127,056              |
| Non-U.S. government securities                          | —                       | —                    | —                       | —                    | —                       | —                    |
| Municipal debt securities                               | (15 )                   | 8,074                | —                       | —                    | (15 )                   | 8,074                |
| Corporate debt securities                               | (200 )                  | 124,410              | —                       | —                    | (200 )                  | 124,410              |
| Residential mortgage-backed and asset-backed securities | (26 )                   | 19,516               | —                       | —                    | (26 )                   | 19,516               |
| Student loan-backed securities                          | —                       | —                    | (2,178 )                | 43,872               | (2,178 )                | 43,872               |
| Total   | \$(362 )                | \$346,714            | \$(2,178 )              | \$43,872             | \$(2,540 )              | \$390,586            |
| December 31, 2011                                       |                         |                      |                         |                      |                         |                      |
| Debt securities:  |                         |                      |                         |                      |                         |                      |
| U.S. treasury securities                                | \$—                     | \$—                  | \$—                     | \$—                  | \$—                     | \$—                  |
| Certificates of deposit                                 | (18 )                   | 1,019,982            | —                       | —                    | (18 )                   | 1,019,982            |
| U.S. government agencies securities                     | —                       | —                    | —                       | —                    | —                       | —                    |
| Non-U.S. government securities                          | (30,505 )               | 24,741               | —                       | —                    | (30,505 )               | 24,741               |
| Municipal debt securities                               | —                       | —                    | —                       | —                    | —                       | —                    |
| Corporate debt securities                               | (5 )                    | 224,989              | —                       | —                    | (5 )                    | 224,989              |
| Residential mortgage-backed and asset-backed securities | —                       | —                    | —                       | —                    | —                       | —                    |
| Student loan-backed securities                          | —                       | —                    | (4,548 )                | 46,952               | (4,548 )                | 46,952               |
| Total   | \$(30,528 )             | \$1,269,712          | \$(4,548 )              | \$46,952             | \$(35,076 )             | \$1,316,664          |





As of June 30, 2012 and December 31, 2011, we held a total of 144 and 42 securities, respectively, that were in an unrealized loss position.

#### 4. DERIVATIVE FINANCIAL INSTRUMENTS

We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, the most significant of which is the Euro. In order to manage this risk, we hedge a portion of our foreign currency exposures related to outstanding monetary assets and liabilities as well as forecasted product sales using foreign currency exchange forward and option contracts. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. The credit risk associated with these contracts is driven by changes in interest and currency exchange rates and, as a result, varies over time. We work only with major banks and closely monitor current market conditions, which limits the risk that counterparties to our contracts may be unable to perform. We also limit our risk of loss by entering into contracts that permit net settlement at maturity. Therefore, our overall risk of loss in the event of a counterparty default is limited to the amount of any unrecognized gains on outstanding contracts (i.e., those contracts that have a positive fair value) at the date of default. We do not enter into derivative contracts for trading purposes, nor do we hedge our net investment in any of our foreign subsidiaries.

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

We hedge our exposure to foreign currency exchange rate fluctuations for forecasted product sales that are denominated in a non-functional currency. The derivative instruments we use to hedge this exposure are designated as cash flow hedges and have maturity dates of 18 months or less. Upon executing a hedging contract and quarterly thereafter, we assess prospective hedge effectiveness using a regression analysis which calculates the change in cash flow as a result of the hedge instrument. On a monthly basis, we assess retrospective hedge effectiveness using a dollar offset approach. We exclude time value from our effectiveness testing and recognize changes in the time value of the hedge in other income (expense), net. The effective component of our hedge is recorded as an unrealized gain or loss on the hedging instrument in accumulated other comprehensive income (OCI) within stockholders' equity. When the hedged forecasted transaction occurs, the hedge is de-designated and the unrealized gains or losses are reclassified into product sales. The majority of gains and losses related to the hedged forecasted transactions reported in accumulated OCI at June 30, 2012 will be reclassified to product sales within 12 months.

We had notional amounts on foreign currency exchange contracts outstanding of \$3.32 billion and \$4.03 billion at June 30, 2012 and December 31, 2011, respectively.

The following table summarizes information about the fair values of derivative instruments on our Condensed Consolidated Balance Sheets (in thousands):

|  |                         | June 30, 2012     |            |                             |            |
|--|-------------------------|-------------------|------------|-----------------------------|------------|
|  |                         | Asset Derivatives |            | Liability Derivatives       |            |
|  |                         | Classification    | Fair Value | Classification              | Fair Value |
| Derivatives designated as hedges:          |                         |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets    |                   | \$121,257  | Other accrued liabilities   | \$3,632    |
| Foreign currency exchange contracts        | Other noncurrent assets |                   | 13,174     | Other long-term obligations | 432        |
| Total derivatives designated as hedges     |                         |                   | 134,431    |                             | 4,064      |
| Derivatives not designated as hedges:      |                         |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets    |                   | 33         | Other accrued liabilities   | 26         |
| Total derivatives not designated as hedges |                         |                   | 33         |                             | 26         |
| Total derivatives                          |                         |                   | \$134,464  |                             | \$4,090    |

|  |                         | December 31, 2011 |            |                             |            |
|--|-------------------------|-------------------|------------|-----------------------------|------------|
|  |                         | Asset Derivatives |            | Liability Derivatives       |            |
|  |                         | Classification    | Fair Value | Classification              | Fair Value |
| Derivatives designated as hedges:          |                         |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets    |                   | \$77,066   | Other accrued liabilities   | \$5,052    |
| Foreign currency exchange contracts        | Other noncurrent assets |                   | 23,169     | Other long-term obligations | 620        |
| Total derivatives designated as hedges     |                         |                   | 100,235    |                             | 5,672      |
| Derivatives not designated as hedges:      |                         |                   |            |                             |            |
| Foreign currency exchange contracts        | Other current assets    |                   | 240        | Other accrued liabilities   | 38         |
| Total derivatives not designated as hedges |                         |                   | 240        |                             | 38         |
| Total derivatives                          |                         |                   | \$100,475  |                             | \$5,710    |

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

|  | Three Months Ended |             | Six Months Ended |              |
|--|--------------------|-------------|------------------|--------------|
|  | June 30, 2012      | 2011        | June 30, 2012    | 2011         |
| Derivatives designated as hedges:  |                    |             |                  |              |
| Net gains (losses) recognized in OCI (effective portion)   | \$112,011          | \$(46,608 ) | \$63,125         | \$(174,107 ) |
| Net gains (losses) reclassified from accumulated OCI into product sales (effective portion)  | \$15,059           | \$(20,945 ) | \$26,286         | \$(11,016 )  |
| Net gains (losses) recognized in other income (expense), net (ineffective portion and amounts excluded from effectiveness testing) | \$(3,544 )         | \$(4,061 )  | \$(6,756 )       | \$(3,066 )   |
| Derivatives not designated as hedges:  |                    |             |                  |              |
| Net gains (losses) recognized in other income (expense), net   | \$93,592           | \$(34,344 ) | \$66,418         | \$(120,190 ) |

There were no material amounts recorded in other income (expense), net, for the three or six months ended June 30, 2012 and 2011 as a result of the discontinuance of cash flow hedges.



## 5. ACQUISITION OF PHARMASSET, INC.

On January 17, 2012, we completed the acquisition of Pharmasset, a publicly-held clinical-stage pharmaceutical company committed to discovering, developing and commercializing novel drugs to treat viral infections.

Pharmasset's primary focus was the development of oral therapeutics for the treatment of HCV infection. Pharmasset's lead compound, now known as GS-7977, is a nucleotide analog being evaluated in Phase 2 and Phase 3 clinical studies for the treatment of HCV infection across genotypes. We believe the acquisition of Pharmasset provides us with an opportunity to complement our existing HCV portfolio and helps advance our effort to develop all-oral regimens for the treatment of HCV.

We acquired all of the outstanding shares of common stock of Pharmasset for \$137 per share in cash through a tender offer and subsequent merger under the terms of an agreement and plan of merger entered into in November 2011. The aggregate cash payment to acquire all of the outstanding shares of common stock was \$11.1 billion. We financed the transaction with approximately \$5.2 billion in cash on hand, \$3.7 billion in senior unsecured notes issued in December 2011 and \$2.2 billion in bank debt issued in January 2012.

The Pharmasset acquisition was accounted for as a business combination. The results of operations of Pharmasset have been included in our Condensed Consolidated Statement of Income since January 13, 2012, the date on which we acquired approximately 88% of the outstanding shares of common stock of Pharmasset, cash consideration was transferred, and as a result, we obtained effective control of Pharmasset. The acquisition was completed on January 17, 2012, at which time Pharmasset became a wholly-owned subsidiary of Gilead and was integrated into our operations. As we do not track earnings results by product candidate or therapeutic area, we do not maintain separate earnings results for the acquired Pharmasset business.

The following table summarizes the components of the cash paid to acquire Pharmasset (in thousands):

|                                  |               |
|----------------------------------|---------------|
| Total consideration transferred  | \$ 10,858,372 |
| Stock-based compensation expense | 193,937       |
| Total cash paid                  | \$ 11,052,309 |

The \$11.1 billion cash payment consisted of a \$10.38 billion cash payment to the outstanding common stockholders as well as a \$668.3 million cash payment to option holders under the Pharmasset stock option plans. The \$10.38 billion cash payment to the outstanding common stockholders and \$474.3 million of the cash payment to the option holders under the Pharmasset stock option plans were accounted for as consideration transferred. The remaining \$193.9 million of cash payment was accounted for as stock-based compensation expense resulting from the accelerated vesting of Pharmasset employee options immediately prior to the acquisition.

The following table summarizes the allocation of the consideration transferred to the acquisition date fair values of assets acquired and liabilities assumed (in thousands):

|   |               |
|---|---------------|
| Intangible assets - in-process research and development | \$ 10,720,000 |
| Cash and cash equivalents                               | 106,737       |
| Other assets acquired (liabilities assumed), net        | (43,182 )     |
| Total identifiable net assets                           | 10,783,555    |
| Goodwill  | 74,817        |
| Total consideration transferred                         | \$ 10,858,372 |

**In-Process Research and Development (IPR&D)**

The estimated fair value of the acquired IPR&D related to GS-7977 was \$10.72 billion, which was determined using a probability-weighted income approach that discounts expected future cash flows to present value. The estimated net cash flows were discounted using a discount rate of 12%, which is based on the estimated weighted-average cost of capital for companies with profiles similar to that of Pharmasset. This rate is comparable to the estimated internal rate of return for the acquisition and represents the rate that market participants would use to value the intangible asset. The projected cash flows from GS-7977 were based on key assumptions such as: the time and resources needed to complete its development considering its stage of development on the acquisition date, the probability of obtaining approval from the U.S. Food and Drug Administration (FDA) and other regulatory agencies, estimates of revenues and operating profits, the life of the potential commercialized product and other associated risks related to the viability of and potential alternative treatments in future target markets. Intangible assets related to IPR&D projects are considered to be indefinite-lived assets until the completion or abandonment of the associated research and development (R&D) efforts.

**Goodwill**

The \$74.8 million of goodwill represents the excess of the consideration transferred over the fair values of assets acquired and liabilities assumed and is attributable to the synergies expected from combining our R&D operations with Pharmasset's. None of the goodwill is expected to be deductible for income tax purposes.

**Stock-Based Compensation Expense**

The stock-based compensation expense recognized for the accelerated vesting of employee options immediately prior to the acquisition was reported in our Condensed Consolidated Statement of Income as follows (in thousands):

|   | Six Months<br>Ended<br>June 30, 2012 |
|---|--------------------------------------|
| Research and development expense            | \$ 100,149                           |
| Selling, general and administrative expense | 93,788                               |
| Total stock-based compensation expense      | \$ 193,937                           |

**Other Costs**

Other costs incurred in connection with the acquisition include (in thousands):

|   | Six Months<br>Ended<br>June 30, 2012 | Three Months<br>Ended<br>December 31,<br>2011 |
|---|--------------------------------------|---|
| Transaction costs (e.g. investment advisory, legal and accounting fees) | \$ 10,166                            | \$ 28,461                                     |
| Bridge financing costs  | 7,333                                | 23,817  |
| Restructuring costs   | 11,512                               | —   |
| Total other costs   | \$ 29,011                            | \$ 52,278                                     |

The following table summarizes these costs by the line item in the Condensed Consolidated Statement of Income in which these costs were recognized (in thousands).

|   | Six Months<br>Ended<br>June 30, 2012 | Three Months<br>Ended<br>December 31,<br>2011 |
|---|--------------------------------------|---|
| Research and development expense            | \$ 7,478                             | \$ —  |
| Selling, general and administrative expense | 14,200                               | 28,461  |
| Interest expense                            | 7,333                                | 23,817  |
| Total other costs                           | \$ 29,011                            | \$ 52,278                                     |

## Pro Forma Information

The following unaudited pro forma information presents the combined results of operations of Gilead and Pharmasset as if the acquisition of Pharmasset had been completed on January 1, 2011, with adjustments to give effect to pro forma events that are directly attributable to the acquisition. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of Gilead and Pharmasset. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisition had occurred at the beginning of the period presented, nor are they indicative of future results of operations (in thousands):

|                                   | Three Months Ended |             | Six Months Ended |             |
|-----------------------------------|--------------------|-------------|------------------|-------------|
|                                   | June 30,           |             | June 30,         |             |
|                                   | 2012               | 2011        | 2012             | 2011        |
| Total revenues                    | \$2,405,186        | \$2,137,253 | \$4,687,635      | \$4,063,347 |
| Net income attributable to Gilead | \$716,432          | \$685,262   | \$1,300,983      | \$1,079,362 |

The unaudited pro forma consolidated results include non-recurring pro forma adjustments that assume the acquisition occurred on January 1, 2011. Stock-based compensation expenses of \$193.9 million incurred during the six months ended June 30, 2012 were included in the net income attributable to Gilead for the six months ended June 30, 2011. Other costs of \$17.5 million incurred during the six months ended June 30, 2012 were included in the net income attributable to Gilead for the six months ended June 30, 2011. Of the \$17.5 million, \$1.1 million was incurred during the three months ended June 30, 2012. Other costs of \$52.3 million incurred during the three months ended December 31, 2011 were included in net income attributable to Gilead for the six months ended June 30, 2011.

## 6. INVENTORIES

Inventories are summarized as follows (in thousands):

|                 | June 30,<br>2012 | December 31,<br>2011 |
|-----------------|------------------|----------------------|
| Raw materials   | \$903,036        | \$697,621            |
| Work in process | 292,215          | 466,499              |
| Finished goods  | 408,150          | 225,863              |
| Total           | \$1,603,401      | \$1,389,983          |

As of June 30, 2012 and December 31, 2011, we held \$1.18 billion and \$995.7 million of efavirenz in inventory, respectively, which was purchased from BMS at BMS's estimated net selling price of efavirenz.

## 7. INTANGIBLE ASSETS AND GOODWILL

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

|                                      | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------------------|------------------|----------------------|
| Indefinite-lived intangible assets   | \$10,986,200     | \$266,200            |
| Finite-lived intangible assets       | 764,991          | 796,664              |
| Total intangible assets              | 11,751,191       | 1,062,864            |
| Goodwill                             | 1,078,919        | 1,004,102            |
| Total intangible assets and goodwill | \$12,830,110     | \$2,066,966          |

## Indefinite-Lived Intangible Assets

In January 2012, we acquired \$10.72 billion of purchased IPR&D as part of our acquisition of Pharmasset that we have classified as indefinite-lived intangible assets (See Note 5).

As of December 31, 2011, we had indefinite-lived intangible assets of \$266.2 million, which consisted of \$117.0 million and \$149.2 million of purchased IPR&D from our acquisitions of Arresto Biosciences, Inc. and Calistoga Pharmaceuticals, Inc., respectively.

## Finite-Lived Intangible Assets

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

|                             | June 30, 2012         |                          | December 31, 2011     |                          |
|-----------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                             | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Intangible asset - Ranexa   | \$688,400             | \$115,109                | \$688,400             | \$97,099                 |
| Intangible asset - Lexiscan | 262,800               | 82,594                   | 262,800               | 69,723                   |
| Other                       | 24,995                | 13,501                   | 24,995                | 12,709                   |
| Total                       | \$976,195             | \$211,204                | \$976,195             | \$179,531                |

Amortization expense related to intangible assets was included in cost of goods sold in our Condensed Consolidated Statements of Income and totaled \$15.8 million and \$31.7 million for the three and six months ended June 30, 2012, respectively, and \$17.4 million and \$34.8 million for the three and six months ended June 30, 2011, respectively.

As of June 30, 2012, the estimated future amortization expense associated with our intangible assets for the remaining six months of 2012 and each of the five succeeding fiscal years are as follows (in thousands):

| Fiscal Year                 | Amount    |
|-----------------------------|-----------|
| 2012 (remaining six months) | \$31,673  |
| 2013                        | 64,283    |
| 2014                        | 66,735    |
| 2015                        | 73,261    |
| 2016                        | 100,048   |
| 2017                        | 132,786   |
| Total                       | \$468,786 |

## Goodwill

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

|   |             |
|---|-------------|
| Balance at December 31, 2011                          | \$1,004,102 |
| Goodwill resulting from the acquisition of Pharmasset | 74,817      |
| Balance at June 30, 2012                              | \$1,078,919 |

## 8. COLLABORATIVE ARRANGEMENTS

From time to time, as a result of entering into strategic collaborations, we may hold investments in non-public companies. We review our interests in investee companies for consolidation and/or appropriate disclosure based on applicable guidance. For variable interest entities (VIEs), we may be required to consolidate an entity if the contractual terms of the arrangement essentially provide us with control over the entity, even if we do not have a majority voting interest. We assess whether we are the primary beneficiary of a VIE based on our power to direct the activities of the VIE that most significantly impact the VIE's economic performance and our obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. As of June 30, 2012, we determined that certain of our investee companies are VIEs; however, other than with respect to our joint ventures with BMS, we are not the primary beneficiary and therefore do not consolidate these investees.

## Bristol-Myers Squibb Company

## North America

In 2004, we entered into a collaboration arrangement with BMS in the United States to develop and commercialize a single tablet regimen containing our Truvada and BMS's Sustiva (efavirenz), which we sell as Atripla. The collaboration is structured as a joint venture and operates as a limited liability company named Bristol-Myers Squibb & Gilead Sciences, LLC, which we consolidate. The ownership interests of the joint venture and thus the sharing of product revenue and costs reflect the respective economic interests of BMS and Gilead and are based on the proportions of the net selling price of Atripla attributable to efavirenz and Truvada. Since the net selling price for Truvada may change over time relative to the net selling price of efavirenz, both BMS's and our respective economic interests in the joint venture may vary annually.





We and BMS share marketing and sales efforts, with both parties providing equivalent sales force efforts at levels agreed to annually by BMS and Gilead. Since the second quarter of 2011, except for a limited number of activities that will be jointly managed, the parties no longer coordinate detailing and promotional activities in the United States and the parties have begun to reduce their joint promotional efforts in Canada as we launched Complera and anticipate the launch of Quad. The parties will continue to collaborate on activities such as manufacturing, regulatory, compliance and pharmacovigilance. We are responsible for accounting, financial reporting, tax reporting, manufacturing and product distribution for the joint venture. Both parties provide their respective bulk active pharmaceutical ingredients to the joint venture at their approximate market values. In 2006, we and BMS amended the joint venture's collaboration agreement to allow the joint venture to sell Atripla into Canada. As of June 30, 2012 and December 31, 2011, the joint venture held efavirenz active pharmaceutical ingredient which it purchased from BMS at BMS's estimated net selling price of efavirenz in the U.S. market. These amounts are included in inventories on our Condensed Consolidated Balance Sheets. As of June 30, 2012, total assets held by the joint venture were \$1.74 billion and consisted primarily of cash and cash equivalents of \$196.4 million, accounts receivable of \$248.1 million and inventories of \$1.26 billion; total liabilities were \$1.52 billion and consisted primarily of accounts payable of \$615.6 million and other accrued expenses of \$338.8 million. As of December 31, 2011, total assets held by the joint venture were \$1.62 billion and consisted primarily of cash and cash equivalents of \$156.9 million, accounts receivable of \$235.6 million and inventories of \$1.19 billion; total liabilities were \$1.27 billion and consisted primarily of accounts payable of \$561.1 million and other accrued expenses of \$232.9 million. These asset and liability amounts do not reflect the impact of intercompany eliminations that are included in our Condensed Consolidated Balance Sheets. Although we consolidate the joint venture, the legal structure of the joint venture limits the recourse that its creditors will have over our general credit or assets.

#### Europe

In 2007, Gilead Sciences Limited, a wholly-owned subsidiary in Ireland, and BMS entered into a collaboration arrangement to commercialize and distribute Atripla in the European Union, Iceland, Liechtenstein, Norway and Switzerland (collectively, the European Territory). The parties formed a limited liability company, which we consolidate, to manufacture Atripla for distribution in the European Territory using efavirenz that it purchases from BMS at BMS's estimated net selling price of efavirenz in the European Territory. We are responsible for product distribution, inventory management and warehousing. Through our local subsidiaries, we have primary responsibility for order fulfillment, collection of receivables, customer relations and handling of sales returns in all the territories where we and BMS promote Atripla. Revenue and cost sharing is based on the relative ratio of the respective net selling prices of the components of Atripla, Truvada and efavirenz.

Starting in 2012, except for a limited number of activities that will be jointly managed, the parties no longer coordinate detailing and promotional activities in the region. We are also responsible for accounting, financial reporting and tax reporting for the collaboration. As of June 30, 2012 and December 31, 2011, efavirenz purchased from BMS at BMS's estimated net selling price of efavirenz in the European Territory is included in inventories on our Condensed Consolidated Balance Sheets.

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

## 9. LONG-TERM OBLIGATIONS

## Financing Arrangements

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

| Type of Borrowing         | Description         | Issue Date    | Due Date      | Interest Rate | Carrying Value as of |                   |
|---------------------------|---------------------|---------------|---------------|---------------|----------------------|-------------------|
|                           |                     |               |               |               | June 30, 2012        | December 31, 2011 |
| Convertible Senior        | May 2013 Notes      | April 2006    | May 2013      | 0.625%        | \$ 622,763           | \$ 607,036        |
| Convertible Senior        | May 2014 Notes      | July 2010     | May 2014      | 1.00%         | 1,195,745            | 1,181,525         |
| Convertible Senior        | May 2016 Notes      | July 2010     | May 2016      | 1.625%        | 1,144,866            | 1,132,293         |
| Senior Unsecured          | April 2021 Notes    | March 2011    | April 2021    | 4.50%         | 992,495              | 992,066           |
| Senior Unsecured          | December 2014 Notes | December 2011 | December 2014 | 2.40%         | 749,236              | 749,078           |
| Senior Unsecured          | December 2016 Notes | December 2011 | December 2016 | 3.05%         | 698,979              | 698,864           |
| Senior Unsecured          | December 2021 Notes | December 2011 | December 2021 | 4.40%         | 1,247,284            | 1,247,138         |
| Senior Unsecured          | December 2041 Notes | December 2011 | December 2041 | 5.65%         | 997,772              | 997,734           |
| Term Loan Facility        | Term Loan           | January 2012  | January 2015  | Variable      | 300,000              | —                 |
| Credit Facility           | Short-Term Revolver | January 2012  | January 2013  | Variable      | 400,000              | —                 |
| Credit Facility           | Five-Year Revolver  | January 2012  | January 2017  | Variable      | 750,000              | —                 |
| Total debt, net           |                     |               |               |               | \$ 9,099,140         | \$ 7,605,734      |
| Less current portion      |                     |               |               |               | 1,972,763            | —                 |
| Total long-term debt, net |                     |               |               |               | \$ 7,126,377         | \$ 7,605,734      |

## Credit Facilities

We were eligible to borrow up to an aggregate of \$1.25 billion in revolving credit loans under an amended and restated credit agreement that we entered into in 2007. The credit agreement also included a sub-facility for swing-line loans and letters of credit. As of December 31, 2011, we had \$4.0 million in letters of credit outstanding under the credit agreement. In January 2012, we fully repaid the outstanding obligations under this credit agreement and terminated the credit agreement.

In January 2012, in conjunction with our acquisition of Pharmasset, we entered into a five-year \$1.25 billion revolving credit facility credit agreement (the Five-Year Revolving Credit Agreement), a \$750.0 million short-term revolving credit facility credit agreement (the Short-Term Revolving Credit Agreement) and a \$1.00 billion term loan facility (the Term Loan Credit Agreement). We borrowed \$750.0 million under the Five-Year Revolving Credit Agreement, \$400.0 million under the Short-Term Revolving Credit Agreement and \$1.00 billion under the Term Loan Credit Agreement, upon the close of the acquisition. In March 2012, we repaid \$350.0 million of the outstanding debt under the Term Loan Credit Agreement. In June 2012, we repaid an additional \$350.0 million of the outstanding debt under the Term Loan Credit Agreement.

All three credit agreements contain customary representations, warranties, affirmative, negative and financial maintenance covenants and events of default. The loans bear interest at either (i) the Eurodollar Rate plus the Applicable Margin or (ii) the Base Rate plus the Applicable Margin, each as defined in the applicable credit agreement. We may reduce the commitments and may prepay loans under any of these agreements in whole or in part at any time without premium or penalty. We are required to comply with certain covenants under the credit

agreements and notes indentures and as of June 30, 2012, we were in compliance with all such covenants. The Five-Year Revolving Credit Agreement was inclusive of a \$30.0 million swing line loan sub-facility and a \$25.0 million letter of credit sub-facility. As of June 30, 2012, we had \$4.0 million in letters of credit outstanding under the Five-Year Revolving Credit Agreement. The Five-Year Revolving Credit Agreement will terminate and all unpaid borrowings thereunder shall be due and payable in January 2017. The Short-Term Revolving Credit Agreement will terminate and all unpaid borrowings thereunder shall be due and payable in January 2013; however, at our request, the maturity date may be extended until January 2014. All principal repayment installments under the Term Loan Credit Agreement will be due and payable as specified in the Term Loan Credit Agreement, with the final principal installment payment due and payable in January 2015.

## 10. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

In June 2011, we received a subpoena from the United States Attorney's Office for the Northern District of California requesting documents related to the manufacture, and related quality and distribution practices, of Atripla, Emtriva, Hepsara, Letairis, Truvada, Viread and Complera. We have been cooperating and will continue to cooperate with this governmental inquiry. An estimate of a possible loss or range of losses cannot be determined given we are at the early stage of the inquiry.

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

## 11. STOCK-BASED COMPENSATION EXPENSE

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

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,           |           | June 30,         |           |
|   | 2012               | 2011      | 2012             | 2011      |
| Cost of goods sold  | \$2,119            | \$2,887   | \$4,220          | \$5,531   |
| Research and development expenses                                     | 20,355             | 19,420    | 138,977          | 36,140    |
| Selling, general and administrative expenses                          | 25,929             | 27,818    | 147,874          | 57,924    |
| Stock-based compensation expense included in total costs and expenses | 48,403             | 50,125    | 291,071          | 99,595    |
| Income tax effect   | (13,167 )          | (12,210 ) | (26,231 )        | (25,066 ) |
| Stock-based compensation expense, net of tax                          | \$35,236           | \$37,915  | \$264,840        | \$74,529  |

Total stock-based compensation for the six months ended June 30, 2012 included \$100.1 million and \$93.8 million in R&D and SG&A expenses, respectively, related to the acceleration of unvested stock options in connection with the acquisition of Pharmasset, which closed during the first quarter of 2012.

## 12. STOCKHOLDERS' EQUITY

### Stock Repurchase Program

During the three months ended June 30, 2012, we repurchased a total of \$240.9 million or 4.8 million shares of common stock under our January 2011, three-year, \$5.00 billion stock repurchase program. During the six months ended June 30, 2012, we repurchased a total of \$261.7 million or 5.2 million shares of common stock under our January 2011 stock repurchase program.

## 13. SEGMENT INFORMATION

We operate in one business segment, which primarily focuses on the development and commercialization of human therapeutics for life threatening diseases. All products are included in one segment, because the majority of our products have similar economic and other characteristics, including the nature of the products and production processes, type of customers, distribution methods and regulatory environment.

Product sales consisted of the following (in thousands):

|                          | Three Months Ended |             | Six Months Ended |             |
|--------------------------|--------------------|-------------|------------------|-------------|
|                          | June 30,<br>2012   | 2011        | June 30,<br>2012 | 2011        |
| Antiviral products:      |                    |             |                  |             |
| Atripla                  | \$904,023          | \$821,992   | \$1,791,619      | \$1,566,504 |
| Truvada                  | 785,933            | 711,301     | 1,544,196        | 1,384,412   |
| Viread                   | 215,414            | 185,717     | 407,107          | 354,112     |
| Complera/Eviplera        | 72,909             | —           | 125,089          | —           |
| Hepsera                  | 26,191             | 38,656      | 55,488           | 76,752      |
| Emtriva                  | 7,813              | 6,732       | 14,590           | 13,308      |
| Total antiviral products | 2,012,283          | 1,764,398   | 3,938,089        | 3,395,088   |
| Letairis                 | 101,634            | 73,637      | 188,922          | 135,811     |
| Ranexa                   | 95,555             | 86,077      | 178,756          | 154,370     |
| AmBisome                 | 83,653             | 88,625      | 168,417          | 167,131     |
| Other products           | 28,115             | 26,851      | 55,398           | 50,766      |
| Total product sales      | \$2,321,240        | \$2,039,588 | \$4,529,582      | \$3,903,166 |

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

|                         | Three Months Ended |      | Six Months Ended |      |
|-------------------------|--------------------|------|------------------|------|
|                         | June 30,<br>2012   | 2011 | June 30,<br>2012 | 2011 |
| Cardinal Health, Inc.   | 19                 | % 17 | % 19             | % 17 |
| McKesson Corp.          | 15                 | % 15 | % 15             | % 15 |
| AmerisourceBergen Corp. | 11                 | % 12 | % 11             | % 13 |

#### 14. INCOME TAXES

Our income tax rate of 27.2% and 30.2% for the three and six months ended June 30, 2012, respectively, differed from the U.S. federal statutory rate of 35% due primarily to tax credits and certain operating earnings from non-U.S. subsidiaries that are considered indefinitely invested outside of the United States, partially offset by state taxes and the stock-based compensation expense related to the Pharmasset acquisition for which we received no tax benefit. We do not provide for U.S. income taxes on undistributed earnings of our foreign operations that are intended to be permanently reinvested.

We file federal, state and foreign income tax returns in many jurisdictions in the United States and abroad. For federal income tax purposes, the statute of limitations is open for 2008 and onwards. For certain acquired entities, the statute of limitations is open for all years from inception due to our utilization of their net operating losses and credits carried over from prior years. For California income tax purposes, the statute of limitations is open for 2002 and onwards.

Our income tax returns are audited by federal, state and foreign tax authorities. We are currently under examination by the Internal Revenue Service (IRS) for the 2008 and 2009 tax years and by various state and foreign jurisdictions.

There are differing interpretations of tax laws and regulations, and as a result, significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions. We periodically evaluate our exposures associated with our tax filing positions.

As of June 30, 2012, we believe that it is reasonably possible that our unrecognized tax benefits will not significantly change in the next 12 months as we do not expect to have clarification from the IRS and other tax authorities around any of our uncertain tax positions.

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

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

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15. SUBSEQUENT EVENTS

In July 2012, we signed a purchase and sale agreement to acquire an office building totaling approximately 294,000 square feet located in Foster City, California, for an aggregate purchase price of approximately \$180.0 million. The purchase is still subject to our satisfactory due diligence review of the property as well as certain other closing conditions. We made an initial refundable deposit of \$5.0 million into escrow in July 2012. Upon closing the transaction, which may not extend beyond January 2013 without the agreement of all parties, the remaining balance of \$175.0 million will be paid into escrow.

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

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

You should read the following management's discussion and analysis of our financial condition and results of operations in conjunction with our audited Consolidated Financial Statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2011 and our unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2012 and other disclosures (including the disclosures under "Part II, Item 1A, Risk Factors") included in this Quarterly Report on Form 10-Q. Our Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and are presented in U.S. dollars.

### Management Overview

Gilead Sciences, Inc. (Gilead, we or us) is a research-based biopharmaceutical company that discovers, develops and commercializes innovative medicines in areas of unmet medical need. With each new discovery and experimental drug candidate, we seek to improve the care of patients suffering from life-threatening diseases around the world. Our primary areas of focus include human immunodeficiency virus (HIV)/AIDS, liver diseases such as hepatitis B virus (HBV) and hepatitis C virus (HCV), serious cardiovascular/metabolic and respiratory conditions and various oncologic disease areas. We continue to seek to add to our existing portfolio of products through our internal discovery and clinical development programs and through a product acquisition and in-licensing strategy. Our product portfolio is comprised of Atripla<sup>®</sup>, Truvada<sup>®</sup>, Viread<sup>®</sup>, Emtriva<sup>®</sup>, Complera<sup>®</sup>/Eviplera<sup>®</sup>, Hepsera<sup>®</sup>, AmBisome<sup>®</sup>, Letairis<sup>®</sup>, Ranexa<sup>®</sup>, Cayston<sup>®</sup> and Vistide<sup>®</sup>. In addition, we also sell and distribute certain products through our corporate partners under royalty-paying collaborative agreements. For example, F. Hoffmann-La Roche Ltd (together with Hoffmann-La Roche Inc., Roche) markets Tamiflu<sup>®</sup>; GlaxoSmithKline Inc. (GSK) markets Hepsera and Viread in certain territories outside of the United States; GSK also markets Volibris<sup>®</sup> outside of the United States; Astellas Pharma US, Inc. markets AmBisome in the United States and Canada; Astellas US LLC markets Lexiscan<sup>®</sup> injection in the United States; RapiScan Pharma Solutions, Inc. markets RapiScan in certain territories outside of the United States; Menarini International Operations Luxembourg SA markets Ranexa in certain territories outside of the United States; and Japan Tobacco Inc. (Japan Tobacco) markets Truvada, Viread and Emtriva



in Japan.

**Business Highlights**

During the second quarter of 2012, our product sales increased 14% over the same quarter in 2011 and we continued to advance our product pipeline across all therapeutic areas. We believe the combination of our existing internal research programs and our recent partnerships and acquisitions will drive research and development efforts and accelerate our product pipeline so that we can continue to bring innovative therapies to individuals who are living with unmet medical needs.

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## HIV

In May 2012, we announced that the Antiviral Drugs Advisory Committee of the U.S. Food and Drug Administration (FDA) voted to support approval of Truvada for pre-exposure prophylaxis (PrEP) to reduce the risk of HIV-1 infection among uninfected adults. In July 2012, the FDA approved Truvada for PrEP.

Additionally in May 2012, we announced that the Antiviral Drugs Advisory Committee of the FDA voted 13 to one in support of approval of Quad, a complete single tablet regimen of elvitegravir, cobicistat, emtricitabine and tenofovir disoproxil fumarate, for the treatment of HIV-1 infection in treatment-naïve adults. We submitted a New Drug Application (NDA) in October 2011 and the FDA has set a target review date under the Prescription Drug User Fee Act (PDUFA) of August 27, 2012. The recommendations of the Advisory Committee are not binding, but will be considered in the FDA's review of the Quad NDA.

In May 2012, we also announced that our Marketing Authorisation Application (MAA) for cobicistat was validated by the European Medicines Agency (EMA). Cobicistat is our pharmacoenhancing or "boosting" agent that increases blood levels of certain commercially available protease inhibitors, including atazanavir and darunavir, in order to enable once-daily dosing. Review of the MAA will be conducted under the centralized licensing procedure, which, when finalized, provides one marketing authorization in all 27 member states of the European Union (EU). In June 2012, we announced our NDA submission to the FDA for marketing approval of cobicistat. The NDA is supported by 48-week data from a pivotal Phase 3 study (Study 114) and pharmacokinetic data demonstrating that cobicistat boosts blood levels of atazanavir and darunavir similar to ritonavir.

In June 2012, we announced that our MAA for elvitegravir, an integrase inhibitor for the treatment of HIV-1 infection in treatment-experienced patients, was validated by the EMA. Review of the MAA will be conducted under the centralized licensing procedure, which, when finalized, provides one marketing authorization in all 27 member states of the EU. We also announced our NDA submission to the FDA for marketing approval of elvitegravir. The NDA is supported by 96-week data from a pivotal Phase 3 study (Study 145).

## HCV

In April 2012, we announced data from our ELECTRON and QUANTUM studies. These studies found that 88% and 53% of genotype 1 patients and treatment-naïve patients, respectively, taking a 12-week all-oral regimen of GS-7977 and ribavirin achieved a sustained viral response four weeks after the completion of a 12-week course of therapy. We also announced data from our ATOMIC study, which found that 90% of genotype 1 HCV patients achieved a sustained viral response 12 weeks after a 12-week course of therapy with GS-7977 plus ribavirin and interferon.

In July 2012, we announced data from two Phase 2 studies evaluating a 24-week course of therapy with GS-7977 and ribavirin in treatment-naïve genotype 1 patients. In the QUANTUM study, 53 percent of the patients achieved SVR-4 after the completion of a 24-week course of therapy. The second study was conducted by the National Institute of Allergy and Infectious Diseases in a cohort of predominantly African American patients, a population which has historically been more difficult to treat for HCV. One hundred percent of the patients in this cohort who completed a 24-week course of therapy achieved SVR-4 after completion of therapy. These data indicate that the treatment of genotype 1 patients with GS-7977 plus ribavirin for 12 or 24 weeks is sufficient to cure the majority, but not all genotype 1 patients, of their disease.

In April 2012, Bristol-Myers Squibb Company (BMS) announced data from its Phase 2 study evaluating GS-7977 in combination with daclatasvir with and without ribavirin in genotype 1 and genotype 2 and 3 treatment-naïve infected patients. The data showed that 100% of genotype 1 and 91% of genotype 2 and 3 patients achieved a sustained viral response four weeks after the completion of a 24-week course of treatment.

## Oncology

In May 2012, we announced the initiation of our first Phase 3 study in oncology evaluating the efficacy and safety of GS-1101 (Study 116). GS-1101 is an investigational, first-in-class specific inhibitor of the phosphoinositide-3 kinase (PI3K) delta isoform and is being evaluated in combination with rituximab in previously treated chronic lymphocytic leukemia patients. A second Phase 3 study (Study 115) in previously treated chronic lymphocytic leukemia patients began screening patients in July and is evaluating GS-1101 in combination with bendamustine and rituximab. GS-1101 is also in Phase 2 evaluation as a potential treatment for indolent non-Hodgkin's lymphoma.



### Financial Highlights

During the second quarter of 2012, total product sales were \$2.32 billion, an increase of 14% over the same period in 2011. The growth in product sales was driven primarily by growth in our antiviral franchise, where sales increased 14% to \$2.01 billion when compared to the same period last year. Total revenues in the second quarter of 2012 grew 13% to \$2.41 billion compared to \$2.14 billion in the second quarter of 2011. Product gross margin remained consistent at 74% for the second quarters of 2012 and 2011.

Research and development (R&D) expenses were \$396.2 million for the second quarter of 2012 and \$282.4 million for the same period in 2011, an increase of \$113.8 million, or 40%. The increase was due primarily to the continued advancement of our product pipeline, particularly in the liver disease and oncology franchises.

Selling, general and administrative (SG&A) expenses were \$332.5 million for the second quarter of 2012 and \$304.3 million for the same period in 2011, an increase of \$28.2 million, or 9%. The increase was due primarily to increased expenses to support the ongoing growth of our business.

Net income for the second quarter of 2012 was \$711.6 million, a 5% decrease from \$746.2 million for the same period in 2011 due primarily to the investments we made in our existing clinical programs and increased interest expense related to the additional debt we issued in connection with the Pharmasset acquisition. Our diluted earnings per share decreased by 2% to \$0.91 in the second quarter of 2012 from \$0.93 in the same period in 2011.

### Liquidity and Financing Activity

Cash, cash equivalents and marketable securities were \$2.27 billion at June 30, 2012, a decrease of \$7.69 billion from December 31, 2011. The primary uses of cash during the first six months of 2012 were \$11.1 billion for the acquisition of Pharmasset and \$700.0 million for the repayment of bank debt. The primary sources of cash during the first six months of 2012 were \$1.74 billion of operating cash flows and \$2.14 billion in net proceeds from the issuance of bank debt in conjunction with our acquisition of Pharmasset.

In the second quarter of 2012, we repurchased a total of \$240.9 million or 4.8 million shares of common stock under our January 2011, three-year, \$5.00 billion stock repurchase program. As of June 30, 2012, we had repurchased \$664.8 million of our common stock under this program.

### Acquisition

On January 17, 2012, we completed the acquisition of Pharmasset, a publicly-held clinical-stage pharmaceutical company committed to discovering, developing and commercializing novel drugs to treat viral infections.

Pharmasset's primary focus was the development of oral therapeutics for the treatment of HCV infection. Pharmasset's lead compound, now known as GS-7977, is a nucleotide analog being evaluated in Phase 2 and Phase 3 clinical studies for the treatment of HCV-infection across genotypes. We believe the acquisition of Pharmasset provides us with an opportunity to complement our existing HCV portfolio and helps advance our effort to develop all-oral regimens for the treatment of HCV.

We acquired all of the outstanding shares of common stock of Pharmasset for \$137 per share in cash through a tender offer and subsequent merger under the terms of an agreement and plan of merger entered into in November 2011. The aggregate cash payment to acquire all of the outstanding shares of common stock was \$11.1 billion. We financed the transaction with approximately \$5.2 billion in cash on hand, \$3.7 billion in senior unsecured notes issued in December 2011 and \$2.2 billion in bank debt issued in January 2012.

The Pharmasset acquisition was accounted for as a business combination. The results of operations of Pharmasset have been included in our Condensed Consolidated Statement of Income since January 13, 2012, the date on which we acquired approximately 88% of the outstanding shares of common stock of Pharmasset, cash consideration was transferred, and as a result, we obtained effective control of Pharmasset. The acquisition was completed on January 17, 2012, at which time Pharmasset became a wholly-owned subsidiary of Gilead and was integrated into our operations. As we do not track earnings results by product candidate or therapeutic area, we do not maintain separate earnings results for the acquired Pharmasset business.

The following table summarizes the components of the cash paid to acquire Pharmasset (in thousands):

|                                  |               |
|----------------------------------|---------------|
| Total consideration transferred  | \$ 10,858,372 |
| Stock-based compensation expense | 193,937       |
| Total cash paid                  | \$ 11,052,309 |



The \$11.1 billion cash payment consisted of a \$10.38 billion cash payment to the outstanding common stockholders as well as a \$668.3 million cash payment to option holders under the Pharmasset stock option plans. The \$10.38 billion cash payment to the outstanding common stockholders and \$474.3 million of the cash payment to the option holders under the Pharmasset stock option plans were accounted for as consideration transferred. The remaining \$193.9 million of cash payment was accounted for as stock-based compensation expense resulting from the accelerated vesting of Pharmasset employee options immediately prior to the acquisition.

The following table summarizes the allocation of the consideration transferred to the acquisition date fair values of assets acquired and liabilities assumed (in thousands):

|   |               |
|---|---------------|
| Intangible assets - in-process research and development | \$ 10,720,000 |
| Cash and cash equivalents                               | 106,737       |
| Other assets acquired (liabilities assumed), net        | (43,182 )     |
| Total identifiable net assets                           | 10,783,555    |
| Goodwill  | 74,817        |
| Total consideration transferred                         | \$ 10,858,372 |

**In-Process Research and Development (IPR&D)**

The estimated fair value of the acquired IPR&D related to GS-7977 was \$10.72 billion, which was determined using a probability-weighted income approach, that discounts expected future cash flows to present value. The estimated net cash flows were discounted using a discount rate of 12%, which is based on the estimated weighted-average cost of capital for companies with profiles similar to that of Pharmasset. This rate is comparable to the estimated internal rate of return for the acquisition and represents the rate that market participants would use to value the intangible asset. The projected cash flows from GS-7977 were based on key assumptions such as: the time and resources needed to complete its development considering its stage of development on the acquisition date, the probability of obtaining approval from the U.S. Food and Drug Administration (FDA) and other regulatory agencies, estimates of revenues and operating profits, the life of the potential commercialized product and other associated risks related to the viability of and potential alternative treatments in future target markets. Intangible assets related to IPR&D projects are considered to be indefinite-lived assets until the completion or abandonment of the associated R&D efforts.

**Goodwill**

The \$74.8 million of goodwill represents the excess of the consideration transferred over the fair values of assets acquired and liabilities assumed and is attributable to the synergies expected from combining our R&D operations with Pharmasset's. None of the goodwill is expected to be deductible for income tax purposes.

**Stock-Based Compensation Expense**

The stock-based compensation expense recognized for the accelerated vesting of employee options immediately prior to the acquisition was reported in our Condensed Consolidated Statement of Income as follows (in thousands):

|   |            |
|---|------------|
| Research and development expense            | \$ 100,149 |
| Selling, general and administrative expense | 93,788     |
| Total stock-based compensation expense      | \$ 193,937 |

**Other Costs**

Other costs incurred in connection with the acquisition include (in thousands):

|   | Six Months Ended | Three Months Ended |
|---|------------------|--------------------|
|   | June 30, 2012    | December 31, 2011  |
| Transaction costs (e.g. investment advisory, legal and accounting fees) | \$ 10,166        | \$ 28,461          |
| Bridge financing costs  | 7,333            | 23,817             |
| Restructuring costs   | 11,512           | —                  |
| Total other costs   | \$ 29,011        | \$ 52,278          |



The following table summarizes these costs by the line item in the Condensed Consolidated Statement of Income in which these costs were recognized (in thousands):

|   | Six Months Ended<br>June 30, 2012 | Three Months<br>Ended<br>December 31,<br>2011 |
|---|-----------------------------------|---|
| Research and development expense            | \$7,478                           | \$—   |
| Selling, general and administrative expense | 14,200                            | 28,461  |
| Interest expense                            | 7,333                             | 23,817  |
| Total other costs                           | \$29,011                          | \$52,278                                      |

#### Pro Forma Information

The following unaudited pro forma information presents the combined results of operations of Gilead and Pharmasset as if the acquisition of Pharmasset had been completed on January 1, 2011, with adjustments to give effect to pro forma events that are directly attributable to the acquisition. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of Gilead and Pharmasset. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisition had occurred at the beginning of the period presented, nor are they indicative of future results of operations (in thousands):

|                                   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|-----------------------------------|--------------------------------|-------------|------------------------------|-------------|
|                                   | 2012                           | 2011        | 2012                         | 2011        |
| Total revenues                    | \$2,405,186                    | \$2,137,253 | \$4,687,635                  | \$4,063,347 |
| Net income attributable to Gilead | \$716,432                      | \$685,262   | \$1,300,983                  | \$1,079,362 |

The unaudited pro forma consolidated results include non-recurring pro forma adjustments that assume the acquisition occurred on January 1, 2011. Stock-based compensation expenses of \$193.9 million incurred during the six months ended June 30, 2012 were included in the net income attributable to Gilead for the six months ended June 30, 2011. Other costs of \$17.5 million incurred during the six months ended June 30, 2012 were included in the net income attributable to Gilead for the six months ended June 30, 2011. Of the \$17.5 million, \$1.1 million was incurred during the three months ended June 30, 2012. Other costs of \$52.3 million incurred during the three months ended December 31, 2011 were included in net income attributable to Gilead for the six months ended June 30, 2011.

#### Critical Accounting Policies, Estimates and Judgments

There have been no material changes in our critical accounting policies, estimates and judgments during the six months ended June 30, 2012 compared to the disclosures in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011.

#### Results of Operations

##### Total Revenues

Total revenues for the three months ended June 30, 2012 were \$2.41 billion, up 13% compared to \$2.14 billion for the same period in 2011. For the six months ended June 30, 2012, total revenues were \$4.69 billion, up 15% compared to \$4.06 billion for the same period in 2011. Total revenues included product sales, royalty revenues and contract and other revenues. Increases in total revenues were driven by growth in product sales. A significant percentage of our product sales is denominated in foreign currencies and we face exposure to adverse movements in foreign currency exchange rates. We use foreign currency exchange forward and option contracts to hedge a percentage of our forecasted international sales, primarily those denominated in Euro. Foreign currency exchange, net of hedges, had an unfavorable impact of \$31.7 million on our second quarter 2012 product sales and an unfavorable impact of \$48.3 million on our product sales for the six months ended June 30, 2012 compared to the same periods in 2011.



## Product Sales

Total product sales were \$2.32 billion for the three months ended June 30, 2012, an increase of 14% over total product sales of \$2.04 billion for the same period in 2011. For the six months ended June 30, 2012, total product sales were \$4.53 billion, an increase of 16% over total product sales of \$3.90 billion for the same period in 2011. The increases for both the three and six months ended June 30, 2012 were driven primarily by our antiviral franchise, resulting from increased sales of Atripla, Truvada and Complera/Eviplera, which was launched in the second half of 2011.

Product sales in the United States increased by 21% and 23% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011, primarily driven by the continued sales growth in our antiviral franchise and the launch of Complera. Antiviral product sales results for the second quarter of 2012 reflect the benefit of robust purchases due to the early communication of Ryan White Federal Funds and the desire by states to reduce patient wait lists. As a result, purchasing patterns in future quarters may be impacted. The increase in U.S. product sales also reflected sales growth in our other franchises. Letairis sales contributed \$101.6 million and \$188.9 million to our three and six months ended June 30, 2012 product sales, respectively, an increase of 38% and 39% compared to the same periods in 2011. Ranexa sales contributed \$95.6 million and \$178.8 million to our three and six months ended June 30, 2012 product sales, respectively, an increase of 11% and 16% compared to the same periods in 2011. Product sales in Europe increased by 3% and 5% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011, primarily driven by sales growth in our antiviral franchise and the launch of Eviplera. Antiviral product sales in Europe for the second quarter of 2012 reflect the benefit of purchasing in advance of the European holidays, consistent with what we have observed in past years. As a result, purchasing patterns in future quarters may be impacted. Foreign currency exchange, net of hedges, had an unfavorable impact of \$32.9 million and \$54.5 million on our European product sales in the three and six months ended June 30, 2012, respectively, compared to the same periods last year.

The following table summarizes the period over period changes in our sales by product (in thousands):

|                          | Three Months Ended |             |        | Six Months Ended |             |        |    |  |
|--------------------------|--------------------|-------------|--------|------------------|-------------|--------|----|--|
|                          | June 30,<br>2012   | 2011        | Change | June 30,<br>2012 | 2011        | Change |    |  |
| Antiviral products:      |                    |             |        |                  |             |        |    |  |
| Atripla                  | \$904,023          | \$821,992   | 10     | % \$1,791,619    | \$1,566,504 | 14     | %  |  |
| Truvada                  | 785,933            | 711,301     | 10     | % 1,544,196      | 1,384,412   | 12     | %  |  |
| Viread                   | 215,414            | 185,717     | 16     | % 407,107        | 354,112     | 15     | %  |  |
| Complera/Eviplera        | 72,909             | —           | —      | 125,089          | —           | —      |    |  |
| Hepsera                  | 26,191             | 38,656      | (32    | )% 55,488        | 76,752      | (28    | )% |  |
| Emtriva                  | 7,813              | 6,732       | 16     | % 14,590         | 13,308      | 10     | %  |  |
| Total antiviral products | 2,012,283          | 1,764,398   | 14     | % 3,938,089      | 3,395,088   | 16     | %  |  |
| Letairis                 | 101,634            | 73,637      | 38     | % 188,922        | 135,811     | 39     | %  |  |
| Ranexa                   | 95,555             | 86,077      | 11     | % 178,756        | 154,370     | 16     | %  |  |
| AmBisome                 | 83,653             | 88,625      | (6     | )% 168,417       | 167,131     | 1      | %  |  |
| Other                    | 28,115             | 26,851      | 5      | % 55,398         | 50,766      | 9      | %  |  |
| Total product sales      | \$2,321,240        | \$2,039,588 | 14     | % \$4,529,582    | \$3,903,166 | 16     | %  |  |

### Antiviral Products

Antiviral product sales increased by 14% and 16% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011.

#### ▲Atripla

Atripla sales increased by 10% and 14% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011, driven primarily by sales growth in the United States, Europe and Latin America. Atripla sales include the efavirenz component which has a gross margin of zero. The efavirenz portion of our Atripla sales was approximately \$333.5 million and \$659.9 million for the three and six months ended June 30, 2012, respectively, and approximately \$298.4 million and \$572.3 million for the three and six months ended June 30, 2011, respectively. Atripla sales accounted for 45% of our total antiviral product sales for both the three and six months ended June 30,

2012.

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#### Truvada

Truvada sales increased by 10% and 12% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011, driven primarily by sales growth in the United States and Europe. Truvada sales accounted for 39% of our total antiviral product sales for both the three and six months ended June 30, 2012.

#### Complera/Eviplera

Sales of Complera/Eviplera were \$72.9 million and \$125.1 million for the three and six months ended June 30, 2012, respectively. Sequentially, sales of Complera/Eviplera in the second quarter of 2012 increased by \$20.7 million compared to the first quarter of 2012. Complera was approved in the United States in August 2011, and Eviplera was approved in the European Union in November 2011.

#### Other Product Sales

Other product sales consist primarily of Letairis, Ranexa and AmBisome. Sales of Letairis increased by 38% and 39% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011, driven primarily by sales growth. Sales of Ranexa increased by 11% and 16% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011, driven primarily by sales growth. Sales of AmBisome decreased by 6% and increased by 1% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011 due primarily to unfavorable foreign currency exchange impact. AmBisome product sales in the United States and Canada related solely to our sales of AmBisome to Astellas Pharma US, Inc., which were recorded at our manufacturing cost.

#### Royalty Revenues

| (In thousands, except percentages) | Three Months Ended<br>June 30, |          |        | Six Months Ended<br>June 30, |           |        |
|------------------------------------|--------------------------------|----------|--------|------------------------------|-----------|--------|
|                                    | 2012                           | 2011     | Change | 2012                         | 2011      | Change |
| Royalty revenues                   | \$81,106                       | \$94,321 | (14)%  | \$152,211                    | \$152,986 | (1)%   |

Royalty revenues decreased 14% and 1% for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011, due primarily to a decrease in Tamiflu royalties from Roche, partially offset by an increase in other royalty revenues.

#### Cost of Goods Sold and Product Gross Margin

| (In thousands, except percentages) | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|------------------------------------|--------------------------------|-------------|------------------------------|-------------|
|                                    | 2012                           | 2011        | 2012                         | 2011        |
| Total product sales                | \$2,321,240                    | \$2,039,588 | \$4,529,582                  | \$3,903,166 |
| Cost of goods sold                 | \$617,345                      | \$533,863   | \$1,198,276                  | \$1,007,974 |
| Product gross margin               | 74%                            | 74%         | 74%                          | 74%         |

Our product gross margin was 74% for the three and six months ended June 30, 2012 and 2011.

#### Research and Development Expenses

| (In thousands, except percentages) | Three Months Ended<br>June 30, |           |        | Six Months Ended<br>June 30, |           |        |
|------------------------------------|--------------------------------|-----------|--------|------------------------------|-----------|--------|
|                                    | 2012                           | 2011      | Change | 2012                         | 2011      | Change |
| Research and development           | \$396,244                      | \$282,403 | 40%    | \$854,455                    | \$536,849 | 59%    |

We manage our R&D expenses by identifying the R&D activities we anticipate will be performed during a given period and then prioritizing efforts based on scientific data, probability of successful development, market potential, available human and capital resources and other similar considerations. We continually review our R&D pipeline and the status of development and, as necessary, reallocate resources among the R&D portfolio that we believe will best support the future growth of our business.



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

R&D expenses for the three months ended June 30, 2012 increased by \$113.8 million, or 40%, compared to the same period in 2011, due primarily to a \$77.7 million increase in clinical studies and outside services mainly related to study progression in the liver disease and oncology therapeutic areas and a \$24.3 million increase in personnel expenses due to higher headcount and expenses to support the growth of our business.

R&D expenses for the six months ended June 30, 2012 increased by \$317.6 million, or 59%, compared to the same period in 2011, due primarily to a \$133.0 million increase in clinical studies and outside services mainly related to study progression in the liver disease and oncology therapeutic areas; stock-based compensation expense of \$100.1 million resulting from the Pharmasset acquisition in the first quarter of 2012; and a \$58.9 million increase in personnel expenses due to higher headcount and expenses to support the growth of our business.

#### Selling, General and Administrative Expenses

| (In thousands, except percentages)  | Three Months Ended<br>June 30, |           |        | Six Months Ended<br>June 30, |           |        |
|-------------------------------------|--------------------------------|-----------|--------|------------------------------|-----------|--------|
|                                     | 2012                           | 2011      | Change | 2012                         | 2011      | Change |
| Selling, general and administrative | \$332,505                      | \$304,269 | 9 %    | \$775,626                    | \$599,837 | 29 %   |

SG&A expenses are comprised primarily of compensation and benefits associated with sales and marketing, finance, human resources, legal and other administrative personnel; facilities and overhead costs; outside marketing, advertising and legal expenses; and other general and administrative costs.

SG&A expenses for the three months ended June 30, 2012 increased by \$28.2 million or 9%, compared to the same period in 2011, due primarily to \$20.9 million in increased headcount related and other expenses to support the growth of our business; an \$8.9 million increase in the pharmaceutical excise tax; and \$7.6 million in acquisition-related restructuring costs. These increases were partially offset by a net reduction in bad debt expense of \$15.2 million, which included a gain of \$29.9 million related to a one-time sale of our accounts receivable balances in Spain. Within Greece, Italy and Portugal the number of days our receivables are outstanding has continued to increase.

SG&A expenses for the six months ended June 30, 2012 increased by \$175.8 million or 29%, compared to the same period in 2011, due primarily to stock-based compensation expense of \$93.8 million resulting from the Pharmasset acquisition; a \$24.2 million increase in the pharmaceutical excise tax; a \$21.0 million increase in headcount related expenses to support the ongoing growth of our business; and a \$18.9 million increase in acquisition-related transaction and restructuring costs. These increases were partially offset by a net reduction in bad debt expense of \$12.3 million, which included a gain of \$29.9 million related to a one-time sale of our accounts receivable balances in Spain in the second quarter of 2012.

#### Interest Expense

Interest expense for the three and six months ended June 30, 2012 was \$88.4 million and \$185.7 million, respectively, and increased by \$42.3 million and \$98.4 million compared to the same periods in 2011, respectively. The increase for both the three and six months ended June 30, 2012 was due primarily to the additional debt we issued in connection with our acquisition of Pharmasset, which included \$3.70 billion in senior unsecured notes issued in December 2011 and \$2.15 billion in bank debt issued in January 2012. This increase was partially offset by a decrease of \$3.2 million and \$12.8 million in interest expense for the three and six months ended June 30, 2012, respectively, related to the maturity of our convertible senior notes due in May 2011 (May 2011 Notes).

#### Other Income (Expense), Net

Other income (expense), net, for the three and six months ended June 30, 2012 was a net expense of \$1.1 million and \$35.2 million, compared to net income of \$12.0 million and \$25.8 million for the three and six months ended June 30, 2011. The change for the three and six months ended June 30, 2012 was due primarily to a decrease in interest income of \$15.2 million and \$27.4 million, respectively, resulting from a lower cash balance after we funded the Pharmasset

acquisition and a lower average yield during the period. For the six months ended June 30, 2012, the change in other income (expense), net, also included a \$40.1 million loss on Greek bonds related to Greece's restructuring of its sovereign debt in the first quarter of 2012.

### Provision for Income Taxes

Our provision for income taxes was \$263.5 million and \$494.8 million for the three and six months ended June 30, 2012, respectively, compared to \$240.1 million and \$467.4 million for the same periods in 2011, respectively. Our effective tax rate was 27.2% and 30.2% for the three and six months ended June 30, 2012, respectively, compared to our effective tax rate of 24.4% and 25.2% for the same periods in 2011, respectively. The effective tax rates for the three and six months ended June 30, 2012 were higher than the effective tax rates for the same periods in 2011 as a result of the expiration of the federal research tax credit as of December 31, 2011, lower earnings from non-U.S. subsidiaries that are considered indefinitely invested outside the United States as a percentage of total earnings and the stock-based compensation expense related to the Pharmasset acquisition for which we receive no tax benefit. The effective tax rates for the three and six months ended June 30, 2012 differed from the U.S. federal statutory rate of 35% due primarily to tax credits and certain operating earnings from non-U.S. subsidiaries that are considered indefinitely invested outside the United States, partially offset by state taxes and the stock-based compensation expense related to the Pharmasset acquisition for which we receive no tax benefit. We do not provide for U.S. income taxes on undistributed earnings of our foreign operations that are intended to be permanently reinvested.

### Liquidity and Capital Resources

We believe that our existing capital resources, supplemented by our cash flows generated from operating activities, will be adequate to satisfy our capital needs for the foreseeable future. Our cash, cash equivalents and marketable securities decreased significantly in the first quarter of 2012 as we completed our acquisition of Pharmasset in January 2012. Below is additional information describing our cash, cash equivalents and marketable securities, working capital and primary sources and uses of cash.

The following table summarizes our cash, cash equivalents and marketable securities, our working capital and our cash flow activities as of the end of, and for each of, the periods presented (in thousands):

|  | June 30, 2012    | December 31,<br>2011 |
|--|------------------|----------------------|
| Cash, cash equivalents and marketable securities | \$2,271,674      | \$9,963,972          |
| Working capital                                  | \$857,428        | \$11,403,995         |
|  | Six Months Ended |                      |
|  | June 30,<br>2012 | 2011                 |
| Cash provided by (used in):                      |                  |                      |
| Operating activities                             | \$1,743,620      | \$1,763,797          |
| Investing activities                             | \$(11,378,080 )  | \$(770,171 )         |
| Financing activities                             | \$1,380,711      | \$(886,852 )         |

### Cash, Cash Equivalents and Marketable Securities

Cash, cash equivalents and marketable securities totaled \$2.27 billion at June 30, 2012, a decrease of \$7.69 billion or 77% from \$9.96 billion as of December 31, 2011 due primarily to our acquisition of Pharmasset for \$11.1 billion in January 2012. Also in January 2012, we raised an additional \$2.15 billion from the issuance of bank debt, of which, we repaid \$700.0 million during the six months ended June 30, 2012. The decrease in cash, cash equivalents and marketable securities was partially offset by \$1.74 billion in cash flows from operations during the six months ended June 30, 2012.

Of the total cash, cash equivalents and marketable securities at June 30, 2012, approximately \$1.43 billion was generated from operations in foreign jurisdictions and is intended for use in our foreign operations. We do not rely on unrepatriated earnings as a source of funds for our domestic business as we expect to have sufficient cash flow and borrowing capacity in the United States to fund our domestic operational and strategic needs.

#### Working Capital

Working capital was \$857.4 million at June 30, 2012. The decrease of \$10.55 billion from December 31, 2011 was primarily attributable to:

- a decrease of \$11.1 billion in cash used in the Pharmasset acquisition;
- an increase of \$1.35 billion related to the current portion of the bank debt issued to finance the Pharmasset acquisition; and
- an increase of \$622.8 million in the current portion of our convertible senior notes due in May 2013.

#### Cash Provided by Operating Activities

Cash provided by operating activities of \$1.74 billion for the six months ended June 30, 2012 primarily related to net income of \$1.14 billion, adjusted for non-cash items such as \$133.6 million of depreciation and amortization expenses, \$97.1 million of non-cash stock-based compensation expenses and \$350.9 million of net cash inflow related to changes in operating assets and liabilities. Cash provided by operations included the impact of the \$193.9 million stock-based compensation expense related to Pharmasset and \$349.7 million of proceeds from the sale of accounts receivable balances in Spain.

Cash provided by operating activities of \$1.76 billion for the six months ended June 30, 2011 primarily related to net income of \$1.39 billion, adjusted for non-cash items such as \$155.8 million of depreciation and amortization expenses, \$99.6 million of non-cash stock-based compensation expenses, \$40.0 million of deferred income taxes and \$75.0 million of net cash inflow related to changes in operating assets and liabilities.

#### Cash Used in Investing Activities

Cash used in investing activities for the six months ended June 30, 2012 was \$11.38 billion, consisting primarily of \$10.75 billion used in our acquisition of Pharmasset, net of the stock-based compensation expense and cash acquired. Cash used in investing activities for the six months ended June 30, 2011 was \$770.2 million, consisting of a net use of \$140.1 million in purchases of marketable securities, \$588.6 million used in our acquisitions of Arresto Biosciences, Inc. and Calistoga Pharmaceuticals, Inc. and \$41.5 million of capital expenditures.

Subsequent to the quarter ended June 30, 2012, we signed a purchase and sale agreement to acquire an office building for an aggregate purchase price of approximately \$180.0 million.

#### Cash Provided by (Used in) Financing Activities

Cash provided by financing activities for the six months ended June 30, 2012 was \$1.38 billion, driven primarily by net proceeds of \$2.14 billion from the issuance of bank debt in conjunction with the Pharmasset acquisition and proceeds of \$201.8 million from issuances of common stock under our employee stock plans. The cash proceeds were partially offset by the \$700.0 million used to repay bank debt during the period and \$261.8 million used to repurchase our common stock under our stock repurchase program, including commissions.

Cash used in financing activities for the six months ended June 30, 2011 was \$886.9 million, driven primarily by the \$1.27 billion used to repurchase our common stock under our stock repurchase program, including commissions, and \$650.0 million used to repay our May 2011 Notes, partially offset by the \$987.4 million of net proceeds from the issuance of our senior unsecured notes due in April 2021.

As of June 30, 2012, the remaining authorized amount of stock repurchases that may be made under our January 2011, three-year, \$5.00 billion stock repurchase program was \$4.34 billion.



## Long-Term Debt

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

| Type of Borrowing         | Description         | Issue Date    | Due Date      | Interest Rate | Carrying Value as of |                   |
|---------------------------|---------------------|---------------|---------------|---------------|----------------------|-------------------|
|                           |                     |               |               |               | June 30, 2012        | December 31, 2011 |
| Convertible Senior        | May 2013 Notes      | April 2006    | May 2013      | 0.625%        | \$622,763            | \$607,036         |
| Convertible Senior        | May 2014 Notes      | July 2010     | May 2014      | 1.00%         | 1,195,745            | 1,181,525         |
| Convertible Senior        | May 2016 Notes      | July 2010     | May 2016      | 1.625%        | 1,144,866            | 1,132,293         |
| Senior Unsecured          | April 2021 Notes    | March 2011    | April 2021    | 4.50%         | 992,495              | 992,066           |
| Senior Unsecured          | December 2014 Notes | December 2011 | December 2014 | 2.40%         | 749,236              | 749,078           |
| Senior Unsecured          | December 2016 Notes | December 2011 | December 2016 | 3.05%         | 698,979              | 698,864           |
| Senior Unsecured          | December 2021 Notes | December 2011 | December 2021 | 4.40%         | 1,247,284            | 1,247,138         |
| Senior Unsecured          | December 2041 Notes | December 2011 | December 2041 | 5.65%         | 997,772              | 997,734           |
| Term Loan Facility        | Term Loan           | January 2012  | January 2015  | Variable      | 300,000              | —                 |
| Credit Facility           | Short-Term Revolver | January 2012  | January 2013  | Variable      | 400,000              | —                 |
| Credit Facility           | Five-Year Revolver  | January 2012  | January 2017  | Variable      | 750,000              | —                 |
| Total debt, net           |                     |               |               |               | \$9,099,140          | \$7,605,734       |
| Less current portion      |                     |               |               |               | 1,972,763            | —                 |
| Total long-term debt, net |                     |               |               |               | \$7,126,377          | \$7,605,734       |

We were eligible to borrow up to an aggregate of \$1.25 billion in revolving credit loans under an amended and restated credit agreement that we entered into in 2007. The credit agreement also included a sub-facility for swing-line loans and letters of credit. As of December 31, 2011, we had \$4.0 million in letters of credit outstanding under the credit agreement. In January 2012, we fully repaid the outstanding obligations under this credit agreement and terminated the credit agreement.

In January 2012, in conjunction with our acquisition of Pharmasset, we entered into a five-year \$1.25 billion revolving credit facility credit agreement (the Five-Year Revolving Credit Agreement), a \$750.0 million short-term revolving credit facility credit agreement (the Short-Term Revolving Credit Agreement) and a \$1.00 billion term loan facility (the Term Loan Credit Agreement). We borrowed \$750.0 million under the Five-Year Revolving Credit Agreement, \$400.0 million under the Short-Term Revolving Credit Agreement and \$1.00 billion under the Term Loan Credit Agreement, upon the close of the acquisition. In March 2012, we repaid \$350.0 million of the outstanding debt under the Term Loan Credit Agreement. In June 2012, we repaid an additional \$350.0 million of the outstanding debt under the Term Loan Credit Agreement.

All three credit agreements contain customary representations, warranties, affirmative, negative and financial maintenance covenants and events of default. The loans bear interest at either (i) the Eurodollar Rate plus the Applicable Margin or (ii) the Base Rate plus the Applicable Margin, each as defined in the applicable credit agreement. We may reduce the commitments and may prepay loans under any of these agreements in whole or in part at any time without premium or penalty. We are required to comply with certain covenants under the credit agreements and notes indentures as of June 30, 2012, we were in compliance with all such covenants.

The Five-Year Revolving Credit Agreement was inclusive of a \$30.0 million swing line loan sub-facility and a \$25.0 million letter of credit sub-facility. As of June 30, 2012, we had \$4.0 million in letters of credit outstanding under the

Five-Year Revolving Credit Agreement. The Five-Year Revolving Credit Agreement will terminate and all unpaid borrowings thereunder shall be due and payable in January 2017. The Short-Term Revolving Credit Agreement will terminate and all unpaid borrowings thereunder shall be due and payable in January 2013; however, at our request, the maturity date may be extended until January 2014. All principal repayment installments under the Term Loan Credit Agreement will be due and payable as specified in the Term Loan Credit Agreement, with the final principal installment payment due and payable in January 2015.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Recent Accounting Pronouncements

During the three months ended June 30, 2012, there were no new accounting pronouncements issued that are expected to significantly impact our consolidated financial statements or results of operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the six months ended June 30, 2012 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011.

In January 2012, we entered into credit agreements in connection with our acquisition of Pharmasset, that are subject to variable interest rates that create an exposure to interest rate risk similar to that disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

In March 2012, the Greek government restructured its sovereign debt which impacted all holders of Greek bonds. As a result, we recorded a \$40.1 million loss related to the debt restructuring as part of other income (expense), net on our Condensed Consolidated Statement of Income and exchanged the Greek government-issued bonds for new securities, which we liquidated during the first quarter of 2012.

As of June 30, 2012, our accounts receivable in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled approximately \$791.8 million, of which \$291.4 million were greater than 120 days past due and \$114.6 million were greater than 365 days past due. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. We believe that our allowance for doubtful accounts was adequate at June 30, 2012.

In June 2012, we received payment on \$460.6 million in past due accounts receivable from customers based in Spain. Included in this amount were proceeds from a one-time factoring arrangement, where we sold Spanish receivables with a carrying value of \$319.8 million, net of the allowance for doubtful accounts. We received proceeds of \$349.7 million and recorded a gain of \$29.9 million, resulting primarily from the reversal of the related allowance for doubtful accounts. This gain was recorded as an offset to selling, general and administrative (SG&A) expenses in our Condensed Consolidated Statement of Income. As of June 30, 2012, we had no continuing involvement with the transferred receivables, which were derecognized at the time of the sale.

Within Greece, Italy, and Portugal the number of days our receivables are outstanding has continued to increase. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. However, we will continue to monitor the European economic environment for any collectability issues related to our outstanding receivables.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

An evaluation as of June 30, 2012 was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our “disclosure controls and procedures,” which are defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at June 30, 2012.

#### Changes in Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2012, and has concluded that there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our

disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### Litigation with Generic Manufacturers

In November 2008, we received notice that Teva Pharmaceuticals (Teva) submitted an abbreviated new drug application (ANDA) to the U.S. Food and Drug Administration (FDA) requesting permission to manufacture and market a generic version of Truvada. In the notice, Teva alleges that two of the patents associated with emtricitabine, owned by Emory University and licensed exclusively to us, are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of a generic fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate. In December 2008, we filed a lawsuit in U.S. District Court in New York against Teva for infringement of the two emtricitabine patents. In March 2009, we received notice that Teva submitted an ANDA to the FDA requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine, tenofovir disoproxil fumarate and efavirenz. In the notice, Teva challenged the same two emtricitabine patents. In May 2009, we filed another lawsuit in U.S. District Court in New York against Teva for infringement of the two emtricitabine patents, and this lawsuit was consolidated with the lawsuit filed in December 2008. In January 2010, we received notice that Teva submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Viread. In the notice, Teva challenged four of the tenofovir disoproxil fumarate patents protecting Viread. In January 2010, we also received notices from Teva amending its ANDAs related to generic versions of our Atripla and Truvada products. In the notice related to Teva's ANDA for a generic version of Atripla, Teva challenged four patents related to tenofovir disoproxil fumarate, two additional patents related to emtricitabine and two patents related to efavirenz. In the notice related to Teva's ANDA for a generic version of Truvada, Teva challenged four patents related to tenofovir disoproxil fumarate and two additional patents related to emtricitabine. In March 2010, we filed lawsuits against Teva for infringement of the four Viread patents and two additional emtricitabine patents. In March 2010, Bristol-Myers Squibb Company and Merck & Co., Inc. filed a lawsuit against Teva for infringement of the patents related to efavirenz. Because we filed our lawsuits within the requisite 45 day period provided in the Hatch Waxman Act, there are stays preventing FDA approval of Teva's ANDAs for 30 months or until a district court decision adverse to the patents. The 30-month stay for all three Teva ANDAs expired in July 2012. However, as a result of the court's scheduling orders, Teva is prohibited from launching at risk upon expiration of that 30-month stay. In June 2010, we received notice that Lupin Limited (Lupin) submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of sustained release ranolazine. In the notice, Lupin alleges that ten of the patents associated with Ranexa are invalid, unenforceable and/or will not be infringed by Lupin's manufacture, use or sale of a generic version of Ranexa. In July 2010, we filed a lawsuit in U.S. District Court in New Jersey against Lupin for infringement of our patents for Ranexa. In August 2010, we received notice that Sigmapharm Labs (Sigmapharm) submitted an ANDA to the FDA requesting permission to manufacture and market a generic adefovir dipivoxil. In the notice, Sigmapharm alleges that both of the patents associated with Hepsera are invalid, unenforceable and/or will not be infringed by Sigmapharm's manufacture, use or sale of a generic version of Hepsera. In September 2010, we filed a lawsuit in U.S. District Court in New Jersey against Sigmapharm for infringement of our patents. One of the patents challenged by Sigmapharm has also been challenged by Ranbaxy, Inc. (Ranbaxy) pursuant to a notice received in October 2010. The patent challenged by Ranbaxy expires in July 2018. We have the option of filing a lawsuit at any time if we believe that Ranbaxy is infringing our patent. In February 2011, we received notice that Natco Pharma Ltd. (Natco) submitted an ANDA to the FDA requesting permission to manufacture and market a generic oseltamivir phosphate. In the notice, Natco alleges that one of the patents associated with Tamiflu is invalid, unenforceable and/or will not be infringed by Natco's manufacture, use or sale of a generic version of Tamiflu. In March 2011, we and F. Hoffmann-La Roche Ltd. filed a lawsuit in U.S. District Court in New Jersey against Natco for infringement of one of the patents associated with Tamiflu. In November 2011, we received notice that Teva submitted an Abbreviated New Drug Submission (ANDS) to the Canadian Ministry of Health requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine and tenofovir disoproxil fumarate. In the notice, Teva alleges that three of the patents associated with

Truvada are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of a generic version of Truvada. In January 2012, we filed a lawsuit in Canadian Federal Court against Teva seeking an order of prohibition against approval of this ANDS.

In December 2011, we received notice that Teva submitted an ANDS to the Canadian Ministry of Health requesting permission to manufacture and market a generic fixed-dose combination of emtricitabine, tenofovir disoproxil fumarate and efavirenz. In the notice, Teva alleges that three of our patents associated with the efavirenz component of Atripla and two of Merck's patents associated with Atripla are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of a generic fixed-dose combination of emtricitabine, tenofovir disoproxil fumarate and efavirenz.

In February 2012, we filed a lawsuit in Canadian Federal Court against Teva seeking an order of prohibition against approval of this ANDS.

In July 2012, we received notice that Lupin submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Truvada. In the notice, Lupin alleges that four patents associated with emtricitabine and four patents associated with tenofovir disoproxil fumarate are invalid, unenforceable and/or will not be infringed by Lupin's manufacture, use or sale of a generic version of a fixed dose combination of emtricitabine and tenofovir disoproxil fumarate. We are currently reviewing the notice letter.

In July 2012, we received notice that Cipla Ltd. submitted an ANDA to the FDA requesting permission to manufacture and market a generic version of Emtriva. In the notice, Cipla alleges that two patents associated with emtricitabine are invalid, unenforceable and/or will not be infringed by Cipla's manufacture, use or sale of a generic version of emtricitabine. We are currently reviewing the notice letter.

We cannot predict the ultimate outcome of these actions, and we may spend significant resources enforcing and defending these patents. If we are unsuccessful in these lawsuits, some or all of our original claims in the patents may be narrowed or invalidated and the patent protection for Atripla, Truvada, Viread, Hepsera, Ranexa and Tamiflu in the United States and Atripla and Truvada in Canada could be substantially shortened. Further, if all of the patents covering those products are invalidated, the FDA or Canadian Ministry of Health could approve the requests to manufacture a generic version of such products in the US or Canada, respectively, prior to the expiration date of those patents.

#### Department of Justice Investigation

In June 2011, we received a subpoena from the United States Attorney's Office for the Northern District of California requesting documents related to the manufacture, and related quality and distribution practices, of Atripla, Emtriva, Hepsera, Letairis, Truvada, Viread and Complera. We have been cooperating and will continue to cooperate with this governmental inquiry.

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

In February 2012, we received notice that the United States Patent and Trademark Office (PTO) had declared an Interference between our U.S. Patent No. 7,429,572 and Idenix Pharmaceuticals, Inc.'s (Idenix) pending patent application no. 12/131868. An Interference is an administrative proceeding before the PTO designed to determine who was the first to invent the subject matter being claimed by both parties. Our patent covers metabolites of GS-7977 and RG7128. Idenix is attempting to claim a class of compounds, including these metabolites, in their pending patent application. In the course of this proceeding, both parties will be called upon to submit evidence of the date they conceived of their respective inventions. The Interference will determine who was first to invent these compounds and therefore who is entitled to the patent claiming these compounds. If the administrative law judge determines Idenix is entitled to these patent claims and it is determined that we have infringed those claims, we may be required to obtain a license from, and pay royalties to, Idenix to commercialize GS-7977 and RG7128. Any determination by the PTO can be challenged by either party in U.S. Federal Court.

In June 2012, we met with Idenix in mandatory settlement discussions. The parties were unable to settle the Interference due to our widely divergent views on the strength of our respective positions, on whether we need a license to Idenix's patents and on whether Idenix needs a license to Gilead patents to develop and manufacture its pipeline products. We believe the Idenix patent involved in the Interference and similar U.S. and foreign patents claiming the same compounds and metabolites are invalid. As a result, we filed an Impeachment Action in Canadian Federal Court to invalidate the Idenix CA2490191 patent, which is the Canadian patent that corresponds to the Idenix U.S. Patent No. 7608600 and the Idenix patent application that is the subject of the Interference. Idenix has not been awarded patents on these compounds and metabolites in many territories, including Europe, Japan, and China. In the

event such patents issue, we expect to challenge them in proceedings similar to the one we invoked in Canada.

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#### Contract Arbitration

In March 2012, Jeremy Clark, a former employee of Pharmasset, Inc. (Pharmasset), which we acquired in January 2012, and inventor of U.S. Patent No. 7,429,572, filed a demand for arbitration in his lawsuit against Pharmasset and Dr. Raymond Schinazi. Mr. Clark initially filed the lawsuit against Pharmasset and Dr. Schinazi in Alabama District Court in February 2008 seeking to void the assignment provision in his employment agreement and assert ownership of U.S. Patent No. 7,429,572, which claims metabolites of GS-7977 and RG7128. In December 2008, the court ordered a stay of the litigation pending the outcome of an arbitration proceeding required by Mr. Clark's employment agreement. Instead of proceeding with arbitration, Mr. Clark filed two additional lawsuits in September 2009 and June 2010, both of which were subsequently dismissed by the court. In September 2010, Mr. Clark filed a motion seeking reconsideration of the court's December 2008 order which was denied by the court. In December 2011, Mr. Clark filed a motion to appoint a special prosecutor. In February 2012, the Alabama Court issued an order requiring Mr. Clark to enter arbitration or risk dismissal of his case. Mr. Clark filed a demand for arbitration in March 2012. We cannot predict the outcome of the arbitration. If Mr. Clark's prior assignment of this patent to Pharmasset is voided by the arbitration panel, and he is ultimately found to be the owner of the 7,429,572 patent and it is determined that we have infringed the patent, we may be required to obtain a license from and pay royalties to Mr. Clark to commercialize GS-7977 and RG7128.

#### Other Matters

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

#### ITEM 1A. RISK FACTORS

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

The public announcement of data from clinical studies evaluating GS-7977 in HCV-infected patients is likely to cause significant volatility in our stock price. If the development of GS-7977 alone or in combination with GS-5885 is delayed or discontinued, our stock price could decline significantly.

During 2012, we expect to receive a significant amount of data from clinical trials evaluating GS-7977, an investigational nucleotide analog we acquired through our purchase of Pharmasset Inc. (Pharmasset), alone or in combination with other direct acting antivirals in HCV-infected individuals across genotypes. In February 2012, we announced that the majority of HCV genotype 1 patients with a prior "null" response to an interferon-containing regimen enrolled in an arm of our ongoing ELECTRON study experienced viral relapse within four weeks of completing 12 weeks of treatment with GS-7977 plus ribavirin. In April 2012, we announced data from our ELECTRON and QUANTUM studies. These studies found that 88 and 53 percent of genotype 1 patients and treatment-naïve patients, respectively, taking a 12-week all-oral regimen of GS-7977 and ribavirin achieved a sustained viral response four weeks (SVR-4) after the completion of a 12-week course of therapy. In July 2012, we announced data from two Phase 2 studies evaluating a 24-week course of therapy with GS-7977 and ribavirin in treatment-naïve genotype 1 patients. In the QUANTUM study, 53 percent of the patients achieved SVR-4 after the completion of a 24-week course of therapy. The second study was conducted by the National Institute of Allergy and Infectious Diseases in a cohort of predominantly African American patients, a population which has historically been more difficult to treat for HCV. One hundred percent of the patients in this cohort who completed a 24-week course of therapy achieved SVR-4 after completion of therapy. These data indicate that the treatment of genotype 1 patients with GS-7977 plus ribavirin for 12 or 24 weeks is sufficient to cure the majority, but not all genotype 1 patients, of their disease.

In April 2012, we also announced data from our ATOMIC study, which found that 90 percent of genotype 1 HCV patients achieved a sustained viral response 12 weeks after a 12-week course of therapy with GS-7977 plus ribavirin

and interferon. Also in April 2012, Bristol-Myers Squibb Company (BMS) announced data from its Phase 2 study evaluating GS-7977 in combination with daclatasvir, an investigational NS5A inhibitor, with and without ribavirin in genotype 1 and genotype 2 and 3 treatment-naïve HCV infected patients. The data showed that 100% of genotype 1 and 91% of genotype 2 and 3 patients achieved SVR-4 after the completion of a 24-week course of this treatment regimen.

Based on the data described above, we have worked with the U.S. Food and Drug Administration (FDA) and European regulators to agree upon a Phase 3 program for GS-7977 and our investigational NS5A inhibitor, GS-5885. Our new drug application (NDA) for GS-7977 will be supported by four Phase 3 studies named Fission, Positron, Fusion and Neutrino. Fission is the first study in 500 genotype 2 and 3 naïve patients comparing 12 weeks of treatment with GS-7977 and ribavirin to the current standard of care of 24 weeks of treatment with interferon and ribavirin. The second study, Positron, is also comparing 12 weeks of treatment

with GS-7977 and ribavirin in 240 genotype 2 and 3 interferon intolerant/ineligible patients to placebo. The Fusion study will include 200 genotype 2 and 3 treatment experienced patients exploring 12 or 16 weeks duration of treatment with GS-7977 and ribavirin. All three studies (Fission, Positron and Fusion) are fully enrolled, and all patients have started therapy. Neutrino, the fourth Phase 3 study, is a single arm study evaluating a 12 week course of GS-7977, interferon and ribavirin in 300 genotype 1, 4, 5 and 6 infected-patients. Screening in the Neutrino study is complete and the last patient should receive the drug treatment by mid-August 2012. With these four Phase 3 studies under way, assuming data from the studies are positive, we anticipate being able to file for regulatory approvals for GS-7977 by mid-2013. If successful, we expect the initial indication to be for 12 weeks of treatment with GS-7977 and ribavirin in genotype 2 and 3 patients and for 12 weeks of treatment with GS-7977, interferon and ribavirin in genotype 1, 4, 5 and 6 patients.

In parallel, we are also advancing GS-7977 in combination with GS-5885 for the treatment of genotype 1 patients. We have developed two formulations of GS-7977 and GS-5885 co-formulated into a single fixed-dose combination tablet. The investigational new drug application on the first fixed-dose combination was filed in June 2012, and a Phase 1 study evaluating the bioavailability of the active drugs was initiated in mid-July 2012. If the Phase 1 data are positive, we expect to initiate a Phase 3 study with this fixed dose combination in the fourth quarter of 2012. This Phase 3 study is planned as a four arm randomized study in 800 patients evaluating the fixed-dose combination with and without ribavirin for either 12 or 24 weeks in treatment-naïve genotype-1 infected patients. These data will allow us to decide on the design of the second confirmatory study supporting the NDA of the GS-7977 and GS-5885 fixed-dose combination. If treatment of genotype 1-infected patients with the GS-7977 and GS-5885 fixed-dose combination for 12 weeks results in acceptably high SVR4 rates, then the second confirmatory study could be initiated in the first half of 2013. If the data from the second study is also positive, we anticipate being able to file for regulatory approval of the fixed-dose combination by mid-2014.

Development programs, including the development programs described above, are subject to numerous risks that could result in developmental and regulatory delays or in a decision to discontinue further development of GS-7977 and/or GS-5885. As a result, we may not complete our clinical studies of GS-7977 and GS-5885 or any regulatory filings in the currently anticipated timelines or at all. For example, we may obtain negative Phase 1 data which may delay the development of GS-7977 in combination with GS-5885. In addition, regulatory authorities require that patients have a sustained viral response for 12 weeks after the cessation of therapy to be considered “cured” of HCV. If data from any of the clinical studies indicate that a smaller than anticipated number of patients achieved a sustained viral response at 4, 12 or 24 weeks post-treatment, our development programs for the treatment of HCV may be delayed or discontinued and our stock price may decline significantly. Further, developing drugs for the treatment of HCV is an extremely competitive field and a significant number of drugs are under development. Depending on the length of any delay we may experience in our development of GS-7977 and GS-5885, other companies who are developing competitive compounds in HCV may be able to progress their development timelines and potentially bring compounds to market before GS-7977 and/or GS-5885 or shortly thereafter.

A substantial portion of our revenues is derived from sales of our HIV products, particularly Atripla and Truvada. If we are unable to maintain or continue increasing sales of these products, our results of operations may be adversely affected.

We are currently dependent on sales of our products for the treatment of HIV infection, particularly Atripla and Truvada, to support our existing operations. Our HIV products contain tenofovir disoproxil fumarate and/or emtricitabine, which belong to the nucleoside class of antiviral therapeutics. Were the treatment paradigm for HIV to change, causing nucleoside-based therapeutics to fall out of favor, or if we were unable to maintain or continue increasing our HIV product sales, our results of operations would likely suffer and we would likely need to scale back our operations, including our spending on research and development (R&D) efforts. For the quarter ended June 30, 2012, Atripla and Truvada product sales together were \$1.69 billion, or 70% of our total revenues. We may not be able to sustain or increase the growth rate of sales of our HIV products, especially Atripla and Truvada, for any number of reasons including, but not limited to, the following:

As our HIV products are used over a longer period of time in many patients and in combination with other products, and additional studies are conducted, new issues with respect to safety, resistance and interactions with other drugs

may arise, which could cause us to provide additional warnings or contraindications on our labels, narrow our approved indications or halt sales of a product, each of which could reduce our revenues.

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

A large part of the market for our HIV products consists of patients who are already taking other HIV drugs. If we are not successful in encouraging physicians to change patients' regimens to include our HIV products, the sales of our HIV products will be limited.

As generic HIV products are introduced into major markets, our ability to maintain pricing and market share may be affected.

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

If we do not introduce new products to market or increase sales of our existing products, we will not be able to increase or maintain our total revenues and continue to expand our R&D efforts. Drug development is inherently risky and many product candidates fail during the drug development process. For example, in January 2011, we announced our decision to terminate our Phase 3 clinical trial of ambrisentan in patients with idiopathic pulmonary fibrosis (IPF). In April 2011, we announced our decision to terminate our Phase 3 clinical trial of aztreonam for inhalation solution for the treatment of cystic fibrosis (CF) in patients with *Burkholderia* spp. In addition, our marketing applications for our single tablet “Quad” regimen of elvitegravir, cobicistat, tenofovir disoproxil fumarate and emtricitabine, for the treatment of HIV in treatment-naïve patients; elvitegravir for the treatment of HIV in treatment-experienced patients; and cobicistat, a pharmacoenhancing or “boosting” agent, may not be approved by the FDA or other regulatory authorities. Further, even if marketing approval is granted for any of these products, there may be significant limitations on their use. Further, we may be unable to file our marketing applications for new products, including GS-7977 and GS-5885 in the currently anticipated timelines and marketing approval for the products may not be granted.

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

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

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

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

- we, along with other pharmaceutical manufacturers of branded drug products, are required to pay a portion of a new industry fee (also known as the pharmaceutical excise tax) of \$2.5 billion for 2011, calculated based on select government sales during the 2009 calendar year as a percentage of total industry government sales.

The amount of the industry fee imposed on the pharmaceutical industry as a whole will increase to \$2.8 billion in 2012, with additional increases over the next several years to a peak of \$4.1 billion per year in 2018, and then decrease to \$2.8 billion in 2019 and thereafter. As the amount of the industry fee increases, our product sales increase and drug patents expire on major drugs, such as Lipitor, we expect our portion of the excise tax to increase as well. We estimate the pharmaceutical excise tax to be \$80-\$100 million in 2012, compared to \$50 million in 2011. The excise tax is not tax deductible.

Further, even though not addressed in the healthcare reform legislation, discussions continue at the federal level on legislation that would either allow or require the federal government to directly negotiate price concessions from pharmaceutical manufacturers or set minimum requirements for Medicare Part D pricing.

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

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

Successful commercialization of our products depends, in part, on the availability of governmental and third-party payer reimbursement for the cost of such products and related treatments. Government health administration

authorities, private health insurers and other organizations generally provide reimbursement. In the United States, the European Union and other significant or potentially significant markets for our products and product candidates, government authorities and third-party payers are increasingly attempting to limit or regulate the price of medical products and services, particularly for new and innovative products and therapies, which has resulted in lower average selling prices.

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A significant portion of our sales of the majority of our products are subject to significant discounts from list price and rebate obligations. In the United States, state ADAPs, which purchase a significant portion of our HIV products, rely on federal, supplemental federal and state funding to help fund purchases of our products. Given the current economic downturn, we have experienced a shift in our payer mix as patients previously covered by private insurance move to public reimbursement programs that require rebates or discounts from us or as patients previously covered by one public reimbursement program move to another public reimbursement program that requires greater rebates or discounts from us. As a result of this shift, revenue growth may be lower than prescription growth. If federal and state funds are not available in amounts sufficient to support the number of patients that rely on ADAPs, sales of our HIV products could be negatively impacted which would reduce our revenues. For example, during the first quarter of 2011, the state budget crisis in Florida led to a temporary movement of patients who were previously covered by Florida's ADAP into industry-supported patient assistance programs. Due to the insufficiency of federal and state funds and as many states have reduced eligibility criteria, we have also seen and may continue to see an increase in the number of patients on state ADAP wait lists. Until these patients are enrolled in ADAP, they generally receive product from industry-supported patient assistance programs or are unable to access treatment. The increased emphasis on managed healthcare in the United States and on country and regional pricing and reimbursement controls in the European Union will put additional pressure on product pricing, reimbursement and usage, which may adversely affect our product sales and profitability. These pressures can arise from rules and practices of managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and healthcare reform, pharmaceutical reimbursement policies and pricing in general.

In Europe, the success of our commercialized products, and any other product candidates we may develop, will depend largely on obtaining and maintaining government reimbursement, because in many European countries patients are unlikely to use prescription drugs that are not reimbursed by their governments. In addition, negotiating prices with governmental authorities can delay commercialization by 12 months or more. Reimbursement policies may adversely affect our ability to sell our products on a profitable basis. In many international markets, governments control the prices of prescription pharmaceuticals, including through the implementation of reference pricing, price cuts, rebates, revenue-related taxes and profit control, and they expect prices of prescription pharmaceuticals to decline over the life of the product or as volumes increase.

Recently, many countries in the European Union have increased the amount of discounts required on our products, and these efforts could continue as countries attempt to manage healthcare expenditures, especially in light of the severe fiscal and debt crises experienced by many countries in the European Union. For example, in June 2010, Spain imposed an incremental discount on all branded drugs and in August 2010, Germany increased the rebate on prescription pharmaceuticals. As generic drugs come to market, we may face price decreases for our products in some countries in the European Union.

Approximately 41% of our product sales occur outside the United States, and currency fluctuations and hedging expenses may cause our earnings to fluctuate, which could adversely affect our stock price.

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

We use foreign currency exchange forward and option contracts to hedge a percentage of our forecasted international sales, primarily those denominated in the Euro. We also hedge certain monetary assets and liabilities denominated in foreign currencies, which reduces but does not eliminate our exposure to currency fluctuations between the date a transaction is recorded and the date that cash is collected or paid. We cannot predict future fluctuations in the foreign currency exchange rate of the U.S. dollar. If the U.S. dollar appreciates significantly against certain currencies and our hedging program does not sufficiently offset the effects of such appreciation, our results of operations will be adversely affected and our stock price may decline.

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



Our inability to accurately estimate demand for our products, as well as sales fluctuations as a result of inventory levels held by wholesalers, pharmacies and non-retail customers make it difficult for us to accurately forecast sales and may cause our earnings to fluctuate, which could adversely affect our financial results and our stock price. In the quarter ended June 30, 2012, approximately 79% of our product sales in the United States were to three wholesalers, Cardinal Health, Inc., McKesson Corp. and AmerisourceBergen Corp. The U.S. wholesalers with whom we have entered into inventory management agreements make estimates to determine end user demand and may not be completely effective in matching their inventory levels to actual end user demand. As a result, changes in inventory levels held by those wholesalers can cause our operating results to fluctuate unexpectedly if our sales to these wholesalers do not match end user demand. In addition, inventory is held at retail pharmacies and other non-wholesale locations with whom we have no inventory management agreements and no control over buying patterns. Adverse changes in economic conditions or other factors may cause retail pharmacies to reduce their inventories of our products, which would reduce their orders from wholesalers and, consequently, the wholesalers' orders from us, even if end user demand has not changed. For example, during the fourth quarter of 2010, our wholesalers increased their inventory levels for our antiviral products. In the first quarter of 2011, our wholesalers drew down on their inventory such that inventory levels for our antiviral products moved to the lower end of the contractual boundaries set by our inventory management agreements. As inventory in the distribution channel fluctuates from quarter to quarter, we may continue to see fluctuations in our earnings and a mismatch between prescription demand for our products and our revenues.

In addition, the non-retail sector in the United States, which includes government institutions, including state ADAPs, correctional facilities and large health maintenance organizations, tends to be even less consistent in terms of buying patterns and often causes quarter over quarter fluctuations that do not necessarily mirror patient demand. Federal and state budget pressures, as well as the annual grant cycles for federal and state ADAP funds, may cause ADAP purchasing patterns to not reflect patient demand. For example, in the first and second quarters of 2012, we observed large non-retail purchases by a number of state ADAPs which exceeded patient demand. We believe such purchases were driven by the grant cycle for federal ADAP funds, the early communication of Ryan White Federal Funds and the desire by state ADAPs to reduce patient wait lists, and therefore purchasing patterns may be impacted in future quarters. As a result, we expect to continue to experience fluctuations in the purchasing patterns of our non-retail customers which may result in fluctuations in our product sales, revenues and earnings in the future.

In light of the global economic downturn and budget crises faced by many European countries, we have observed variations in purchasing patterns induced by cost containment measures in Europe. We believe these measures have caused some purchasers to reduce inventory of our products in the distribution channels, and in some cases, even at the patient level, which has decreased our revenues and caused fluctuations in our product sales and earnings. We may continue to see this trend in the future.

We face significant competition.

We face significant competition from large pharmaceutical and biotechnology companies, most of whom have substantially greater resources than we do. In addition, our competitors have more products and have operated in the fields in which we compete for longer than we have. Our HIV products compete primarily with products from the joint venture established by GlaxoSmithKline Inc. (GSK) and Pfizer Inc. (Pfizer) which markets fixed-dose combination products that compete with Atripla, Truvada and Complera/Eviplera. For example, lamivudine, marketed by this joint venture, is competitive with emtricitabine, the active pharmaceutical ingredient of Emtriva and a component of Atripla, Truvada and Complera/Eviplera.

We also face competition from generic HIV products. In May 2010, the compound patent covering Epivir (lamivudine) itself expired in the United States, and generic lamivudine is now available in the United States, Spain and Portugal, and received pricing approval in Italy. We expect that generic versions of lamivudine will be launched in other countries within the European Union. In May 2011, a generic version of Combivir (lamivudine and zidovudine) was approved and was recently launched in the United States. In addition, in late 2011, generic tenofovir also became available in Turkey, which resulted in an increase in the rebate for Viread in Turkey.

For Viread and Hepsera for treatment of chronic hepatitis B, we compete primarily with products produced by GSK, BMS and Novartis Pharmaceuticals Corporation (Novartis) in the United States, the European Union and China. For

AmBisome, we compete primarily with products produced by Merck & Co., Inc. (Merck) and Pfizer. In addition, we are aware of at least three lipid formulations that claim similarity to AmBisome becoming available outside of the United States, including the possible entry of such formulations in Greece and Taiwan. These formulations may reduce market demand for AmBisome. Furthermore, the manufacture of lipid formulations of amphotericin B is very complex and if any of these formulations are found to be unsafe, sales of AmBisome may be negatively impacted by association. Letairis competes directly with a product produced by Actelion Pharmaceuticals US, Inc. and indirectly with pulmonary arterial hypertension products

from United Therapeutics Corporation and Pfizer. Ranexa competes predominantly with generic compounds from three distinct classes of drugs, beta-blockers, calcium channel blockers and long-acting nitrates for the treatment of chronic angina in the United States. Cayston competes with a product marketed by Novartis. Tamiflu competes with products sold by GSK and generic competitors.

In addition, a number of companies are pursuing the development of technologies which are competitive with our existing products or research programs. These competing companies include specialized pharmaceutical firms and large pharmaceutical companies acting either independently or together with other pharmaceutical companies. Furthermore, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection and may establish collaborative arrangements for competitive products or programs.

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

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

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

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

Further, if serious safety, resistance or drug interaction issues arise with our marketed products, sales of these products could be limited or halted by us or by regulatory authorities and our results of operations would be adversely affected. Our operations depend on compliance with complex FDA and comparable international regulations. Failure to obtain broad approvals on a timely basis or to maintain compliance could delay or halt commercialization of our products. The products we develop must be approved for marketing and sale by regulatory authorities and, once approved, are subject to extensive regulation by the FDA, the European Medicines Agency and comparable regulatory agencies in other countries. We are continuing clinical trials for Atripla, Truvada, Viread, Hepsera, Complera/Eviplera, Emtriva, AmBisome, Letairis, Ranexa and Cayston for currently approved and additional uses. We anticipate that we will file for marketing approval in additional countries and for additional indications and products over the next several years. These products may fail to receive such marketing approvals on a timely basis, or at all.

Further, our marketed products and how we manufacture and sell these products are subject to extensive regulation and review. Discovery of previously unknown problems with our marketed products or problems with our manufacturing or promotional activities may result in restrictions on our products, including withdrawal of the products from the market. If we fail to comply with applicable regulatory requirements, including those related to promotion and manufacturing, we could be subject to penalties including fines, suspensions of regulatory approvals, product recalls, seizure of products and criminal prosecution.

For example, under FDA rules, we are often required to conduct post-approval clinical studies to assess a known serious risk, signals of serious risk or to identify an unexpected serious risk and implement a Risk Evaluation and Mitigation Strategy for our products, which could include a medication guide, patient package insert, a

communication plan to healthcare providers or other elements as the FDA deems are necessary to assure safe use of the drug, which could include imposing certain restrictions on the distribution or use of a product. Failure to comply with these or other requirements, if imposed on a sponsor by the FDA, could result in significant civil monetary penalties and our operating results may be adversely affected.

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

We are required to demonstrate the safety and efficacy of products that we develop for each intended use through extensive preclinical studies and clinical trials. The results from preclinical and early clinical studies do not always accurately predict results in later, large-scale clinical trials. Even successfully completed large-scale clinical trials may not result in marketable products. If any of our product candidates fails to achieve its primary endpoint in clinical trials, if safety issues arise or if the results from our clinical trials are otherwise inadequate to support regulatory approval of our product candidates, commercialization of that product candidate could be delayed or halted. For example, in January 2011, we announced our decision to terminate our Phase 3 clinical trial of ambrisentan in patients with IPF and, in April 2011, we announced our decision to terminate our Phase 3 clinical trial of aztreonam for inhalation solution for the treatment of CF in patients with *Burkholderia* spp. In addition, we may also face challenges in clinical trial protocol design. If the clinical trials for any of the product candidates in our pipeline are delayed or terminated, our prospects for future revenue growth would be adversely impacted. For example, we face numerous risks and uncertainties with our product candidates, including GS-7977 and GS-5885 for the treatment of hepatitis C; aztreonam for inhalation solution for the treatment of bronchiectasis; ranolazine for the treatment of incomplete revascularization post-percutaneous coronary intervention and type II diabetes; and GS-1101 for the treatment of chronic lymphocytic leukemia, each currently in Phase 3 clinical trials, that could prevent completion of development of these product candidates. These risks include our ability to enroll patients in clinical trials, the possibility of unfavorable results of our clinical trials, the need to modify or delay our clinical trials or to perform additional trials and the risk of failing to obtain FDA and other regulatory body approvals. As a result, our product candidates may never be successfully commercialized. Further, we may make a strategic decision to discontinue development of our product candidates if, for example, we believe commercialization will be difficult relative to other opportunities in our pipeline. If these programs and others in our pipeline cannot be completed on a timely basis or at all, then our prospects for future revenue growth may be adversely impacted. In addition, clinical trials involving our commercial products could raise new safety issues for our existing products, which could in turn decrease our revenues and harm our business.

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

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

Expenses associated with clinical trials may cause our earnings to fluctuate, which could adversely affect our stock price.

The clinical trials required for regulatory approval of our products, as well as clinical trials we are required to conduct after approval, are very expensive. It is difficult to accurately predict or control the amount or timing of these expenses from quarter to quarter, and the FDA and/or other regulatory agencies may require more clinical testing than we originally anticipated. Uneven and unexpected spending on these programs, including on the clinical trials that will be necessary to advance GS-7977, GS-5885 and our other product candidates for the treatment of HCV, may cause our operating results to fluctuate from quarter to quarter, and our stock price may decline.

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

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

- we are unable to control the resources our corporate partners devote to our programs or products;
- disputes may arise with respect to the ownership of rights to technology developed with our corporate partners;

- disagreements with our corporate partners could cause delays in, or termination of, the research, development or commercialization of product candidates or result in litigation or arbitration;
- contracts with our corporate partners may fail to provide significant protection or may fail to be effectively enforced if one of these partners fails to perform;
- our corporate partners have considerable discretion in electing whether to pursue the development of any additional products and may pursue alternative technologies or products either on their own or in collaboration with our competitors;
- our corporate partners with marketing rights may choose to pursue competing technologies or to devote fewer resources to the marketing of our products than they do to products of their own development; and
- our distributors and our corporate partners may be unable to pay us, particularly in light of current economic conditions.

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

We also rely on collaborative relationships with major pharmaceutical companies for development and commercialization of certain product candidates. Gilead (as successor to Pharmasset) is a party to a collaboration agreement with Roche to develop PSI-6130 and its prodrugs for the treatment of chronic HCV infection. The collaborative research efforts under this agreement ended on December 31, 2006. Roche later asked Pharmasset to consider whether Roche may have contributed to the inventorship of GS-7977 and whether Pharmasset has complied with the confidentiality provisions of the collaboration agreement. Pharmasset advised us that it carefully considered the issues raised by Roche and that it believed any such issues are without merit. We have also considered these issues and reached the same conclusion. However, if Roche were to successfully assert that it contributed to the inventorship of GS-7977 and either independently develop GS-7977 or file an abbreviated new drug application (ANDA) to market GS-7977, Roche could at some point in the future market that product and begin competing against us prior to the expiration of our patents for GS-7977. Such marketing activity by Roche could materially reduce the revenues we expect to receive from the sale of GS-7977, which could adversely affect our results of operations.

Under our April 2002 licensing agreement with GSK, we gave GSK the right to control clinical and regulatory development and commercialization of Hepsera in territories in Asia, Africa and Latin America. These include major markets for Hepsera, such as China, Japan, Taiwan and South Korea. In November 2009, we entered into an agreement with GSK that provided GSK with exclusive commercialization rights and registration responsibilities for Viread for the treatment of chronic hepatitis B in China. In October 2010, we granted similar rights to GSK in Japan and Saudi Arabia. The success of Hepsera and Viread for the treatment of chronic hepatitis B in these territories depends almost entirely on the efforts of GSK. In this regard, GSK promotes Epivir-HBV/Zeffix, a product that competes with Hepsera and Viread for the treatment of chronic hepatitis B. Consequently, GSK's marketing strategy for Hepsera and Viread for the treatment of chronic hepatitis B may be influenced by its promotion of Epivir-HBV/Zeffix. We receive royalties from GSK equal to a percentage of GSK's net sales of Hepsera and Viread for the treatment of chronic hepatitis B as well as net sales of GSK's Epivir-HBV/Zeffix. If GSK fails to devote sufficient resources to, or does not succeed in developing or commercializing Hepsera or Viread for the treatment of chronic hepatitis B in its territories, our potential revenues in these territories may be substantially reduced.

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

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

cease operations.

We also rely on a third party to administer LEAP, the restricted distribution program designed to support Letairis. This third party provides information and education to prescribers and patients on the risks of Letairis, confirms insurance coverage and investigates alternative sources of reimbursement or assistance, ensures fulfillment of the risk management requirements mandated for Letairis by the FDA and coordinates and controls dispensing to patients through the

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third-party specialty pharmacies. Failure of this third party or the specialty pharmacies that distribute Letairis to perform as expected may result in regulatory action from the FDA or decreased Letairis sales, either of which would harm our business.

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

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

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

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

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

We have a number of U.S. and foreign patents, patent applications and rights to patents related to our compounds, products and technology, but we cannot be certain that issued patents will be enforceable or provide adequate protection or that pending patent applications will result in issued patents. Patent applications are confidential for a period of time before a patent is issued. As a result, we may not know if our competitors filed patent applications for technology covered by our pending applications or if we were the first to invent the technology that is the subject of our patent applications. Competitors may have filed patent applications or received patents and may obtain additional patents and proprietary rights that block or compete with our products. In addition, if competitors file patent applications covering our technology, we may have to participate in interference proceedings or litigation to determine the right to a patent. Litigation and interference proceedings are unpredictable and expensive, such that, even if we are ultimately successful, our results of operations may be adversely affected by such events.

From time to time, certain individuals or entities may challenge our patents. For example, in 2007, the Public Patent Foundation filed requests for re-examination with the United States Patent and Trademark Office (PTO) challenging four of our patents related to tenofovir disoproxil fumarate, which is an active ingredient in Atripla, Truvada and Viread. The PTO granted these requests and issued non-final rejections for the four patents, which is a step common in a proceeding to initiate the re-examination process. In 2008, the PTO confirmed the patentability of all four patents. From time to time, we may become involved in disputes with inventors on our patents. For example, in March 2012, Jeremy Clark, a former employee of Pharmasset, which we acquired in January 2012, and inventor of U.S. Patent No. 7,429,572, filed a demand for arbitration in his lawsuit against Pharmasset and Dr. Raymond Schinazi. Mr. Clark initially filed the lawsuit against Pharmasset and Dr. Schinazi in February 2008 seeking to void the assignment provision in his employment agreement and assert ownership of U.S. Patent No. 7,429,572, which claims metabolites of GS-7977 and RG7128. In December 2008, the court ordered a stay of the litigation pending the outcome of an

arbitration proceeding required by Mr. Clark's employment agreement. Instead of proceeding with arbitration, Mr. Clark filed two additional lawsuits in September 2009 and June 2010, both of which were subsequently dismissed by the court. In September 2010, Mr. Clark filed a motion seeking reconsideration of the court's December 2008 order which was denied by the court. In December 2011, Mr. Clark filed a motion to appoint a special prosecutor. In February 2012, the court issued an order requiring Mr. Clark to enter arbitration or risk dismissal of his case. Mr. Clark filed a demand for arbitration in March 2012. We cannot predict the outcome of the

arbitration. If Mr. Clark's prior assignment of this patent to Pharmasset is voided by the arbitration panel, and he is ultimately found to be the owner of the 7,429,572 patent and it is determined that we have infringed the patent, we may be required to obtain a license from and pay royalties to Mr. Clark to commercialize GS-7977 and RG7128. Patents do not cover the ranolazine compound, the active ingredient of Ranexa. Instead, when it was discovered that only a sustained release formulation of ranolazine would achieve therapeutic plasma levels, patents were obtained on those formulations and the characteristic plasma levels they achieve. Patents do not cover the active ingredients in AmBisome. In addition, we do not have patent filings in China or certain other Asian countries covering all forms of adefovir dipivoxil, the active ingredient in Hepsera. Asia is a major market for therapies for hepatitis B, the indication for which Hepsera has been developed.

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

Generic manufacturers have sought and may continue to seek FDA approval to market generic versions of our products through an ANDA, the application form typically used by manufacturers seeking approval of a generic drug. Please see a description of our ANDA litigation in "Legal Proceedings" beginning on page 38.

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

If we infringe the patents of others, we may be prevented from commercializing products or may be required to obtain licenses from these third parties. We may not be able to obtain alternative technologies or any required license on reasonable terms or at all. If we fail to obtain these licenses or alternative technologies, we may be unable to develop or commercialize some or all of our products. For example, we are aware of a body of patents that may relate to our operation of LEAP, our restricted distribution program designed to support Letairis.

We own patents that claim GS-7977 as a chemical entity and its metabolites. However, the existence of issued patents does not guarantee our right to practice the patented technology or commercialize the patented product. Third parties may have or obtain rights to patents which they may claim could be used to prevent or attempt to prevent us from commercializing the patented product candidates obtained from the Pharmasset acquisition. For example, we are aware of patents and patent applications owned by other parties that might be alleged to cover the use of GS-7977. If these other parties are successful in obtaining valid and enforceable patents, and establishing our infringement of those patents, we could be prevented from selling GS-7977 unless we were able to obtain a license under such patents. If any license is needed it may not be available on commercially reasonable terms or at all.

In some instances, we may be required to defend our right to a patent on an invention through an Interference proceeding before the PTO. An Interference is an administrative proceeding before the PTO designed to determine who was the first to invent the subject matter being claimed by both parties. In February 2012, we received notice that the PTO had declared an Interference between our U.S. Patent No. 7,429,572 and Idenix Pharmaceuticals, Inc.'s (Idenix) pending patent application no. 12/131868. An Interference is an administrative proceeding before the PTO designed to determine who was the first to invent the subject matter being claimed by both parties. Our patent covers metabolites of GS-7977 and RG7128. Idenix is attempting to claim a class of compounds, including these metabolites, in their pending patent application. In the course of this proceeding, both parties will be called upon to submit evidence of the date they conceived of their respective inventions. The Interference will determine who was first to invent these compounds and therefore who is entitled to the patent claiming these compounds. If the administrative law judge determines Idenix is entitled to these patent claims and it is determined that we have infringed those claims, we may be required to obtain a license from, and pay royalties to, Idenix to commercialize GS-7977 and RG7128. Any determination by the judge can be challenged by either party in U.S. Federal Court.

In June 2012, we met with Idenix in mandatory settlement discussions. The parties were unable to settle the Interference due to our widely divergent views on the strength of our respective positions, on whether we need a license to Idenix's patents and whether Idenix needs a license to Gilead patents to develop and manufacture its pipeline products. We believe the Idenix patents involved in the Interference and similar U.S. and foreign patents claiming the same compounds and metabolites are invalid. As a result, we filed an Impeachment Action in Canadian

Federal Court to invalidate the Idenix CA2490191 patent, which is the Canadian patent that corresponds to the Idenix U.S. Patent No. 7608600 and the Idenix patent application that is the subject of the Interference. Idenix has not been awarded patents on these compound and metabolites in many territories including Europe, Japan and China. In the event such patents issue, we expect to challenge them in proceedings similar to the one we invoked in Canada.

Furthermore, we use significant proprietary technology and rely on unpatented trade secrets and proprietary know-how to protect certain aspects of our production and other technologies. Our trade secrets may become known or independently discovered by our competitors.

Manufacturing problems, including at our third-party manufacturers and corporate partners, could cause inventory shortages and delay product shipments and regulatory approvals, which may adversely affect our results of operations. In order to generate revenue from our products, we must be able to produce sufficient quantities of our products to satisfy demand. Many of our products are the result of complex manufacturing processes. The manufacturing process for pharmaceutical products is also highly regulated and regulators may shut down manufacturing facilities that they believe do not comply with regulations.

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

Our third-party manufacturers and corporate partners are independent entities who are subject to their own unique operational and financial risks which are out of our control. If we or any of these third-party manufacturers or corporate partners fail to perform as required, this could impair our ability to deliver our products on a timely basis or receive royalties or cause delays in our clinical trials and applications for regulatory approval. To the extent these risks materialize and affect their performance obligations to us, our financial results may be adversely affected.

In addition, we, our third-party manufacturers and our corporate partners may only be able to produce some of our products at one or a limited number of facilities and, therefore, have limited manufacturing capacity for certain products. For example, due to unexpected delays both in qualifying two new external sites and with expanding Cayston manufacturing in San Dimas, we cannot supply enough Cayston to fulfill our projected demand. In February 2012, we suspended access for patients with new prescriptions for Cayston subject to certain exceptions where specific medical need exists. Patients may use other alternative treatment options until we are able to resolve the supply shortage. As a result of our inability to manufacture sufficient Cayston to meet demand, the amount of revenues we expect to receive from the sale of Cayston will be reduced.

Our manufacturing operations are subject to routine inspections by regulatory agencies. For example, in January and February 2010, the FDA conducted a routine inspection of our San Dimas manufacturing facility, where we exclusively manufacture Cayston and AmBisome and fill and finish Macugen. At the conclusion of that inspection, the FDA issued Form 483 Inspectional Observations stating concerns over: the maintenance of aseptic processing conditions in the manufacturing suite for our AmBisome product; environmental maintenance issues in the San Dimas warehousing facility; batch sampling; and the timeliness of completion of annual product quality reports. On September 24, 2010, our San Dimas manufacturing facility received a Warning Letter from the FDA further detailing the FDA's concerns over the AmBisome manufacturing environment, including control systems and monitoring, procedures to prevent microbiological contamination and preventative cleaning and equipment maintenance. Referencing certain Viread lots, the letter also stated concerns connected with quality procedures, controls and investigation procedures, and a generalized concern over the effectiveness of the San Dimas quality unit in carrying out its responsibilities. In November and December 2010, the FDA re-inspected the San Dimas facility. The re-inspection closed with no additional Form 483 observations. In August 2011, the FDA notified us that we resolved all issues raised by the FDA in its Warning Letter.

Our ability to successfully manufacture and commercialize Cayston will depend upon our ability to manufacture in a multi-product facility.

Aztreonam, the active pharmaceutical ingredient in Cayston, is a mono-bactam Gram-negative antibiotic. We manufacture Cayston by ourselves in San Dimas, California, or through third parties, in multi-product manufacturing facilities. Historically, the FDA has permitted the manufacture of mono-bactams in multi-product manufacturing facilities; however, there can be no assurance that the FDA will continue to allow this practice. We do not currently

have a single-product facility that can be dedicated to the manufacture of Cayston nor have we engaged a contract manufacturer with a single-product facility for Cayston. If the FDA prohibits the manufacture of mono-bactam antibiotics, like aztreonam, in multi-product manufacturing facilities in the future, we may not be able to procure a single-product manufacturing facility in a timely manner, which would adversely affect our commercial supplies of Cayston and our anticipated financial results attributable to such product.

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

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

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

Cayston is dependent on two different third-party single-source suppliers. First, aztreonam, the active pharmaceutical ingredient in aztreonam for inhalation solution, is manufactured by a single supplier at a single site. Second, it is administered to the lungs of patients through a device that is made by a single supplier at a single site. Disruptions or delays with any of these single suppliers could adversely affect our ability to supply Cayston, and we cannot be sure that alternative suppliers can be identified in a timely manner, or at all. See the Risk Factor entitled “Our ability to successfully manufacture and commercialize Cayston will depend upon our ability to manufacture in a multi-product facility.”

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

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

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





As of June 30, 2012, our accounts receivable in these countries totaled approximately \$791.8 million of which, \$291.4 million were past due greater than 120 days and \$114.6 million were past due greater than 365 days as follows (in thousands):

|          | June 30, 2012                        |                                      |
|----------|--------------------------------------|--------------------------------------|
|          | Greater than<br>120 days<br>past due | Greater than<br>365 days<br>past due |
| Portugal | \$ 139,276                           | \$ 60,815                            |
| Italy    | 103,312                              | 40,528                               |
| Spain    | 30,856                               | 10,769                               |
| Greece   | 17,958                               | 2,499                                |
| Total    | \$ 291,402                           | \$ 114,611                           |

As a result of the fiscal and debt crises in these countries, the number of days our invoices are past due has continued to increase in line with that being experienced by other pharmaceutical companies that are also selling directly to hospitals. Historically, receivable balances with certain publicly-owned hospitals accumulate over a period of time and are then subsequently settled as large lump sum payments. If significant changes were to occur in the reimbursement practices of these European governments or if government funding becomes unavailable, we may not be able to collect on amounts due to us from these customers and our results of operations would be adversely affected.

In 2011, the Greek government settled substantially all of its outstanding receivables subject to the bond settlement with zero-coupon bonds that traded at a discount to face value. In March 2012, the Greek government restructured its sovereign debt which impacted all holders of Greek bonds. As a result, we recorded a \$40.1 million loss. In June 2012, we received payment on \$460.6 million accounts receivable from customers in Spain that were past due six months or more.

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

Prices for our products are based on local market economics and competition and sometimes differ from country to country. Our sales in countries with relatively higher prices may be reduced if products can be imported into those or other countries from lower price markets. There have been cases in which other pharmaceutical products were sold at steeply discounted prices in the developing world and then re-exported to European countries where they could be re-sold at much higher prices. If this happens with our products, particularly Truvada and Viread, which we have agreed to make available at substantially reduced prices to 134 countries participating in our Gilead Access Program, or Atripla, which Merck distributes at substantially reduced prices to HIV infected patients in developing countries under our 2006 agreement, our revenues would be adversely affected. In addition, we have established partnerships with thirteen Indian generic manufacturers to distribute high-quality, low-cost generic versions of tenofovir disoproxil fumarate to 112 developing world countries, including India. If generic versions of our medications under these licenses are then re-exported to the United States, Europe or other markets outside of these 112 countries, our revenues would be adversely affected.

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

Expensive litigation and government investigations have reduced and may continue to reduce our earnings.

We are involved in a number of litigation, investigation and other dispute-related matters that require us to expend substantial internal and financial resources. We expect these matters will continue to require a high level of internal

and financial resources for the foreseeable future. These matters have reduced and will continue to reduce our earnings. Please see a description of our Department of Justice investigation; Interference and litigation proceedings with Idenix; ANDA litigation with generic manufacturers; and contract arbitration with Jeremy Clark in "Legal Proceedings" beginning on page 38.

The outcome of the lawsuits above, or any other lawsuits that may be brought against us, the investigation or any other investigations that may be initiated, are inherently uncertain, and adverse developments or outcomes can result in significant expenses, monetary damages, penalties or injunctive relief against us that could significantly reduce our earnings and cash flows and harm our business.

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

In a number of developing countries, government officials and other interested groups have suggested that pharmaceutical companies should make drugs for HIV infection available at low cost. Alternatively, governments in those developing countries could require that we grant compulsory licenses to allow competitors to manufacture and sell their own versions of our products, thereby reducing our product sales. For example, in the past, certain offices of the government of Brazil have expressed concern over the affordability of our HIV products and declared that they were considering issuing compulsory licenses to permit the manufacture of otherwise patented products for HIV infection, including Viread. In July 2009, the Brazilian patent authority rejected our patent application for tenofovir disoproxil fumarate, the active pharmaceutical ingredient in Viread. This was the highest level of appeal available to us within the Brazilian patent authority. Because we do not currently have a patent in Brazil, the Brazilian government now purchases its supply of tenofovir disoproxil fumarate from generic manufacturers.

In addition, concerns over the cost and availability of Tamiflu related to a potential avian flu pandemic and H1N1 influenza generated international discussions over compulsory licensing of our Tamiflu patents. For example, the Canadian government considered allowing Canadian manufacturers to manufacture and export the active ingredient in Tamiflu to eligible developing and least developed countries under Canada's Access to Medicines Regime.

Furthermore, Roche issued voluntary licenses to permit third-party manufacturing of Tamiflu. For example, Roche granted a sublicense to Shanghai Pharmaceutical (Group) Co., Ltd. for China and a sublicense to India's Hetero Drugs Limited for India and certain developing countries. Should one or more compulsory licenses be issued permitting generic manufacturing to override our Tamiflu patents, or should Roche issue additional voluntary licenses to permit third-party manufacturing of Tamiflu, those developments could reduce royalties we receive from Roche's sales of Tamiflu. Certain countries do not permit enforcement of our patents, and third-party manufacturers are able to sell generic versions of our products in those countries. Compulsory licenses or sales of generic versions of our products could significantly reduce our sales and adversely affect our results of operations, particularly if generic versions of our products are imported into territories where we have existing commercial sales.

Changes in royalty revenue disproportionately affect our pre-tax income, earnings per share and gross margins. A portion of our revenues is derived from royalty revenues recognized from collaboration agreements with third parties. Royalty revenues impact our pre-tax income, earnings per share and gross margins disproportionately more than their contributions to our revenues. Any increase or decrease to our royalty revenue could be material and could significantly impact our operating results. For example, we recognized \$75.5 million in royalty revenue for the year ended December 31, 2011 related to royalties received from sales of Tamiflu by F. Hoffmann-La Roche Ltd (together with Hoffmann-La Roche Inc., Roche). Although such royalty revenue represented approximately 1% of our total revenues in 2011, it represented approximately 2% of our pre-tax income during the period. Roche's Tamiflu sales have unpredictable variability due to their strong relationship with global pandemic planning efforts. Tamiflu royalties increased sharply in 2009 and the first quarter of 2010 primarily as a result of pandemic planning initiatives worldwide. Tamiflu royalties since the second quarter of 2010 have decreased due to declining pandemic planning initiatives worldwide.

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

The testing, manufacturing, marketing and use of our commercial products, as well as product candidates in development, involve substantial risk of product liability claims. These claims may be made directly by consumers, healthcare providers, pharmaceutical companies or others. In recent years, coverage and availability of cost-effective product liability insurance has decreased, so we may be unable to maintain sufficient coverage for product liabilities that may arise. In addition, the cost to defend lawsuits or pay damages for product liability claims may exceed our coverage. If we are unable to maintain adequate coverage or if claims exceed our coverage, our financial condition

and our ability to clinically test our product candidates and market our products will be adversely impacted. In addition, negative publicity associated with any claims, regardless of their merit, may decrease the future demand for our products and impair our financial condition.

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

Our worldwide operations could be subject to business interruptions stemming from natural or man-made disasters for which we may be self-insured. Our corporate headquarters and Fremont locations, which together house a majority of our

research and development activities, and our San Dimas and Oceanside manufacturing facilities are located in California, a seismically active region. As we do not carry earthquake insurance and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake.

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

Various factors may have favorable or unfavorable effects on our income tax rate. These factors include, but are not limited to, interpretations of existing tax laws, changes in tax laws and rates, our portion of the non-deductible pharmaceutical excise tax, the accounting for stock options and other share-based payments, mergers and acquisitions, future levels of R&D spending, changes in accounting standards, changes in the mix of earnings in the various tax jurisdictions in which we operate, changes in overall levels of pre-tax earnings and resolution of federal, state and foreign income tax audits. The impact on our income tax provision resulting from the above mentioned factors may be significant and could have a negative impact on our net income.

Our income tax returns are audited by federal, state and foreign tax authorities. We are currently under examination by the Internal Revenue Service for the 2008 and 2009 tax years and by various state and foreign jurisdictions. There are differing interpretations of tax laws and regulations, and as a result, significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions. Resolution of one or more of these exposures in any reporting period could have a material impact on the results of operations for that period.

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

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

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

During the second quarter of 2012, we made \$240.9 million in purchases under our January 2011, three-year, \$5.00 billion stock repurchase program. As of June 30, 2012, we had repurchased \$664.8 million of our common stock under the January 2011 stock repurchase program with a remaining authorized amount of \$4.34 billion available for repurchases under this program.

The table below summarizes our stock repurchase activity for the three months ended June 30, 2012 (in thousands, except per share amounts):

|                          | Total Number of<br>Shares Purchased | Average Price Paid<br>per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced<br>Programs | Maximum Fair<br>Value of Shares<br>that May Yet Be<br>Purchased Under<br>the Program |
|--------------------------|-------------------------------------|---------------------------------|---|--|
| April 1 – April 30, 2012 | 1,689                               | \$ 48.54                        | 1,680   | \$4,494,632  |
| May 1 – May 31, 2012     | 1,642                               | \$ 50.86                        | 1,605   | \$4,413,016  |
| June 1 – June 30, 2012   | 1,566                               | \$ 49.88                        | 1,559   | \$4,335,242  |
| Total                    | 4,897                               | (1) \$ 49.75                    | 4,844   | (1)  |

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

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

ITEM 6. EXHIBITS

| Footnote | Exhibit Number | Description of Document   |
|----------|----------------|---|
| √(1)     | 2.1            | Agreement and Plan of Merger among Registrant, Apex Merger Sub, Inc. and CV Therapeutics, Inc., dated as of March 12, 2009  |
| †(2)     | 2.5            | Agreement and Plan of Merger among Registrant, Merger Sub and Pharmasset, Inc., dated as of November 21, 2011   |
| (3)      | 3.1            | Restated Certificate of Incorporation of Registrant, as amended through May 12, 2011  |
| (4)      | 3.2            | Certificate of Designation of the Series A Junior Participating Preferred Stock of Registrant   |
| (5)      | 3.3            | Certificate of Amendment to Certificate of Designation of Series A Junior Participating Preferred Stock of Registrant   |
| (3)      | 3.4            | Amended and Restated Bylaws of Registrant, as amended and restated on May 12, 2011  |
|          | 4.1            | Reference is made to Exhibit 3.1, Exhibit 3.2, Exhibit 3.3 and Exhibit 3.4  |
| (6)      | 4.2            | Amended and Restated Rights Agreement between Registrant and ChaseMellon Shareholder Services, LLC, dated October 21, 1999  |
| (7)      | 4.3            | First Amendment to Amended and Restated Rights Agreement between Registrant and Mellon Investor Services, LLC (formerly known as ChaseMellon Shareholder Services, LLC), dated October 29, 2003                         |
| (8)      | 4.4            | Second Amendment to Amended and Restated Rights Agreement between Registrant and Mellon Investor Services, LLC (formerly known as ChaseMellon Shareholder Services, LLC), dated May 11, 2006                            |
| (9)      | 4.5            | Indenture related to the Convertible Senior Notes due 2013, between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 0.625% Convertible Senior Note due 2013), dated April 25, 2006 |
| (10)     | 4.6            | Indenture related to the Convertible Senior Notes due 2014, between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.00% Convertible Senior Note due 2014), dated July 30, 2010   |
| (10)     | 4.7            | Indenture related to the Convertible Senior Notes due 2016, between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.625% Convertible Senior Note due 2016), dated July 30, 2010  |
| (11)     | 4.8            | Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee   |
| (11)     | 4.9            | First Supplemental Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including form of Senior Notes)                                 |

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- (12) 4.10 Second Supplemental Indenture related to Senior Notes, dated as of December 13, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including Form of 2014 Note, Form of 2016 Note, Form of 2021 Note, Form of 2041 Note)
- (13) 10.1 Confirmation of OTC Convertible Note Hedge related to 2013 Notes, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A.
- (13) 10.2 Confirmation of OTC Warrant Transaction, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A. for warrants expiring in 2013
- (14) 10.3 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.
- (14) 10.4 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association
- (14) 10.5 Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.
- (14) 10.6 Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association



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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document  |
|---------------------|-------------------|--|
| (14)                | 10.7              | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014                                  |
| (14)                | 10.8              | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014             |
| (14)                | 10.9              | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016                                  |
| (14)                | 10.10             | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016             |
| (15)                | 10.11             | Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.                           |
| (15)                | 10.12             | Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association      |
| (15)                | 10.13             | Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.                           |
| (15)                | 10.14             | Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association      |
| (15)                | 10.15             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014                      |
| (15)                | 10.16             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014 |
| (15)                | 10.17             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016                      |
| (15)                | 10.18             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016 |
| (15)                | 10.19             | Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.                        |
| (15)                | 10.20             | Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association   |
| (15)                | 10.21             | Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.                        |
| (15)                | 10.22             | Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association   |

- (15) 10.23 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- (15) 10.24 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- (15) 10.25 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- (15) 10.26 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- (16) 10.27 5-Year Revolving Credit Facility Credit Agreement among Registrant and Gilead Biopharmaceutics Ireland Corporation, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document  |
|---------------------|-------------------|--|
| (16)                | 10.28             | Short-Term Revolving Credit Facility Credit Agreement, among Registrant and Gilead Biopharmaceutics Ireland Corporation, as Borrowers, Bank of America, N.A., as Administrative Agent, certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012 |
| (16)                | 10.29             | Term Loan Facility Credit Agreement, among Registrant, as Borrower, Bank of America, N.A., certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012   |
| (16)                | 10.30             | Parent Guaranty Agreement (5-Year Revolving Credit Facility), dated as of January 12, 2012, by Registrant  |
| (16)                | 10.31             | Parent Guaranty Agreement (Short-Term Revolving Credit Facility), dated as of January 12, 2012, by Registrant  |
| *(17)               | 10.32             | Gilead Sciences, Inc. 1991 Stock Option Plan, as amended through January 29, 2003  |
| *(18)               | 10.33             | Form of option agreements used under the 1991 Stock Option Plan  |
| *(17)               | 10.34             | Gilead Sciences, Inc. 1995 Non-Employee Directors' Stock Option Plan, as amended through January 30, 2002  |
| *(19)               | 10.35             | Form of option agreement used under the Gilead Sciences, Inc. 1995 Non-Employee Directors' Stock Option Plan   |
| *(20)               | 10.36             | Gilead Sciences, Inc. 2004 Equity Incentive Plan, as amended through May 6, 2009   |
| *(21)               | 10.37             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants prior to February 2008)  |
| *(22)               | 10.38             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants made February 2008 through April 2009)   |
| *(23)               | 10.39             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in May 2009)  |
| *(24)               | 10.40             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in February 2010)   |
| *(25)               | 10.41             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for 2011 and subsequent year grants)  |
| *(22)               | 10.42             | Form of non-employee director stock option agreement used under 2004 Equity Incentive Plan (for grants prior to 2008)  |

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- \* (22) 10.43 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for initial grants made in 2008)
- \* (22) 10.44 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2008)
- \* (23) 10.45 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants commencing in May 2009)
- \* 10.46 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2012)
- \* (23) 10.47 Form of restricted stock award agreement used under 2004 Equity Incentive Plan (for annual grants to certain non-employee directors prior to May 2012)
- \* (23) 10.48 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2009)
- \* (24) 10.49 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2010)

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document   |
|---------------------|-------------------|---|
| *(25)               | 10.50             | Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2011)                                   |
| *(26)               | 10.51             | Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2012)                                   |
| *(27)               | 10.52             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made prior to May 2009)                  |
| *(23)               | 10.53             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers commencing in May 2009)                  |
| *(28)               | 10.54             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in November 2009) |
| *(25)               | 10.55             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in 2011)          |
| *(24)               | 10.56             | Gilead Sciences, Inc. Employee Stock Purchase Plan, amended and restated on November 3, 2009  |
| *(29)               | 10.57             | Gilead Sciences, Inc. International Employee Stock Purchase Plan, adopted November 3, 2009  |
| *(30)               | 10.58             | Gilead Sciences, Inc. Deferred Compensation Plan-Basic Plan Document  |
| *(30)               | 10.59             | Gilead Sciences, Inc. Deferred Compensation Plan-Adoption Agreement   |
| *(30)               | 10.60             | Addendum to the Gilead Sciences, Inc. Deferred Compensation Plan  |
| *(31)               | 10.61             | Gilead Sciences, Inc. 2005 Deferred Compensation Plan, as amended and restated on October 23, 2008  |
| *(26)               | 10.62             | Gilead Sciences, Inc. Severance Plan, as amended on January 26, 2012  |
| *(21)               | 10.63             | Gilead Sciences, Inc. Corporate Bonus Plan  |
| *(3)                | 10.64             | Amended and Restated Gilead Sciences, Inc. Code Section 162(m) Bonus Plan   |
| *(32)               | 10.65             | 2012 Base Salaries for the Named Executive Officers   |
| *(33)               | 10.66             | Offer Letter dated April 16, 2008 between Registrant and Robin Washington   |
| *(18)               | 10.67             | Form of Indemnity Agreement entered into between Registrant and its directors and executive officers  |
| *(18)               | 10.68             | Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees                                |

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- \* (24) 10.69 Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees (revised in September 2006)
- + (34) 10.70 Amended and Restated Collaboration Agreement by and among Registrant, Gilead Holdings, LLC, Bristol-Myers Squibb Company, E.R. Squibb & Sons, L.L.C., and Bristol-Myers Squibb & Gilead Sciences, LLC, dated September 28, 2006
- (22) 10.71 Commercialization Agreement by and between Gilead Sciences Limited and Bristol-Myers Squibb Company, dated December 10, 2007
- + (35) 10.72 Amendment Agreement, dated October 25, 1993, between Registrant, the Institute of Organic Chemistry and Biochemistry (IOCB) and Rega Stichting v.z.w. (REGA), together with the following exhibits: the License Agreement, dated December 15, 1991, between Registrant, IOCB and REGA (the 1991 License Agreement), the License Agreement, dated October 15, 1992, between Registrant, IOCB and REGA (the October 1992 License Agreement) and the License Agreement, dated December 1, 1992, between Registrant, IOCB and REGA (the December 1992 License Agreement)
- (36) 10.73 Amendment Agreement between Registrant and IOCB/REGA, dated December 27, 2000 amending the 1991 License Agreement and the December 1992 License Agreement
- (34) 10.74 Sixth Amendment Agreement to the License Agreement, between IOCB/REGA and Registrant, dated August 18, 2006 amending the October 1992 License Agreement and the December 1992 License Agreement

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document  |
|---------------------|-------------------|--|
| +(34)               | 10.75             | Development and License Agreement among Registrant and F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc., dated September 27, 1996   |
| +(37)               | 10.76             | First Amendment and Supplement dated November 15, 2005 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996                  |
| +(38)               | 10.77             | Second Amendment dated December 22, 2011 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996                                |
| +(39)               | 10.78             | Exclusive License Agreement between Registrant (as successor to Triangle Pharmaceuticals, Inc.), Glaxo Group Limited, The Wellcome Foundation Limited, Glaxo Wellcome Inc. and Emory University, dated May 6, 1999 |
| +(40)               | 10.79             | Royalty Sale Agreement by and among Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 18, 2005              |
| +(40)               | 10.80             | Amended and Restated License Agreement between Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 21, 2005.  |
| +(41)               | 10.81             | License Agreement between Japan Tobacco Inc. and Registrant, dated March 22, 2005  |
| +(42)               | 10.82             | First Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 19, 2005   |
| +(42)               | 10.83             | Second Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 17, 2010  |
| +(42)               | 10.84             | Third Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011   |
| +(42)               | 10.85             | Fourth Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011  |
| +(43)               | 10.86             | License Agreement between Registrant (as successor to Myogen, Inc.) and Abbott Deutschland Holding GmbH dated October 8, 2001  |
| +(43)               | 10.87             | License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Syntex (U.S.A.) Inc., dated March 27, 1996  |
| +(44)               | 10.88             | First Amendment to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Syntex (U.S.A.) Inc., dated July 3, 1997   |
| (44)                | 10.89             |  |

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Amendment No. 2 to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Syntex (U.S.A.) Inc., dated November 30, 1999

- + (45) 10.90 Amendment No. 4 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated June 20, 2006
- + (38) 10.91 Amendment No. 5 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated December 22, 2011
- + (46) 10.92 License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Tibotec Pharmaceuticals, dated July 16, 2009
- + (42) 10.93 Second Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Tibotec Pharmaceuticals, dated July 1, 2011
- + (47) 10.94 Master Clinical and Commercial Supply Agreement between Gilead World Markets, Limited, Registrant and Patheon Inc., dated January 1, 2003
- + (40) 10.95 Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama), Ltd., dated July 17, 2003
- + (48) 10.96 Addendum to Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama) Ltd., dated May 10, 2007
- + (31) 10.97 Addendum to Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama) Ltd., dated December 5, 2008
- + (25) 10.98 Addendum to Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama) Ltd., dated February 3, 2011



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| ExhibitFootnote | ExhibitNumber | Description of Document  |
|-----------------|---------------|--|
| +(49)           | 10.99         | Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and Ampac Fine Chemicals LLC, dated November 3, 2010   |
| +(37)           | 10.100        | Restated and Amended Toll Manufacturing Agreement between Gilead Sciences Limited, Registrant and Nycomed GmbH (formerly ALTANA Pharma Oranienburg GmbH), dated November 7, 2005   |
| +(13)           | 10.101        | Emtricitabine Manufacturing Supply Agreement between Gilead Sciences Limited and Evonik Degussa GmbH (formerly known as Degussa AG), dated June 6, 2006  |
| +(14)           | 10.102        | Amendment No. 1 to Emtricitabine Manufacturing Supply Agreement between Gilead Sciences Limited and Evonik Degussa GmbH (formerly known as Degussa AG), dated April 30, 2010   |
| +(31)           | 10.103        | Purchase and Sale Agreement and Escrow Instructions between Electronics for Imaging, Inc. and Registrant, dated October 23, 2008   |
|                 | 31.1          | Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended   |
|                 | 31.2          | Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended   |
|                 | 32.1**        | Certifications of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)  |
|                 | 101***        | The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Other Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements. |

- (1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 12, 2009, and incorporated herein by reference.
- (2) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on November 25, 2011, and incorporated herein by reference.
- (3) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 17, 2011, and incorporated herein by reference.
- (4) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on November 22, 1994, and incorporated herein by reference.
- (5) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 11, 2006, and incorporated herein by reference.
- (6) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on October 22, 1999, and incorporated herein by reference.
- (7) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on October 31, 2003, and incorporated herein by reference.

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- (8) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-135412) filed on June 28, 2006, and incorporated herein by reference.
- (9) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 25, 2006, and incorporated herein by reference.
- (10) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on August 2, 2010, and incorporated herein by reference.
- (11) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 1, 2011, and incorporated herein by reference.
- (12) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on December 13, 2011, and incorporated herein by reference.
- (13) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (14) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, and incorporated

herein by reference.

- (15) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference.
- (16) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on January 17, 2012, and incorporated herein by reference.
- (17) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-102912) filed on January 31, 2003, and incorporated herein by reference.
- (18) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-55680), as amended, and incorporated herein by reference.
- (19) Filed as an exhibit to Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1998, and incorporated herein by reference.
- (20) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 11, 2009, and incorporated herein by reference.
- (21) Filed as an exhibit to Registrant's Current Report on Form 8-K/A filed on February 22, 2006, and incorporated herein by reference.
- (22) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and incorporated herein by reference.
- (23) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference.
- (24) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and incorporated herein by reference. [update reference to 10-Q]
- (25) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference.
- (26) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference.
- (27) Filed as an exhibit to Registrant's Current Report on Form 8-K first filed on December 19, 2007, and incorporated herein by reference.
- (28) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and incorporated herein by reference.
- (29) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-163871) filed on December 21, 2009, and incorporated herein by reference.
- (30) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and incorporated herein by reference.
- (31) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and incorporated herein by reference.
- (32) Information is included in Registrant's Current Report on Form 8-K filed on February 1, 2012, and incorporated herein by reference.
- (33) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, and incorporated herein by reference.
- (34) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, and incorporated herein by reference.
- (35) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1994, and incorporated herein by reference.
- (36) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, and incorporated herein by reference.
- (37) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporated herein by reference.
- (38) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and incorporated herein by reference.



- (39) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q/A filed on November 3, 1999, and incorporated herein by reference.
- (40) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and incorporated herein by reference.
- (41) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, and incorporated herein by reference.
- (42) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference.
- (43) Filed as an exhibit to Myogen, Inc.'s Registration Statement on Form S-1 (No. 333-108301), as amended, originally filed on August 28, 2003, and incorporated herein by reference.
- (44) Filed as an exhibit to CV Therapeutics, Inc.'s Registration Statement on Form S-3 (No. 333-59318), as amended, originally filed on April 20, 2001, and incorporated herein by reference.
- (45) Filed as an exhibit to CV Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (46) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and incorporated herein by reference.
- (47) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and incorporated herein by reference.
- (48) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on August 7, 2007, and incorporated herein by reference.
- (49) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and incorporated herein by reference.

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

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

\*Management contract or compensatory plan or arrangement.

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

\*\*\*XBRL information is filed herewith.

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



SIGNATURES

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

GILEAD SCIENCES, INC.  
(Registrant)

Date: August 1, 2012

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

Date: August 1, 2012

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

Exhibit Index

| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document   |
|---------------------|-------------------|---|
| √(1)                | 2.1               | Agreement and Plan of Merger among Registrant, Apex Merger Sub, Inc. and CV Therapeutics, Inc., dated as of March 12, 2009  |
| †(2)                | 2.5               | Agreement and Plan of Merger among Registrant, Merger Sub and Pharmasset, Inc., dated as of November 21, 2011   |
| (3)                 | 3.1               | Restated Certificate of Incorporation of Registrant, as amended through May 12, 2011  |
| (4)                 | 3.2               | Certificate of Designation of the Series A Junior Participating Preferred Stock of Registrant   |
| (5)                 | 3.3               | Certificate of Amendment to Certificate of Designation of Series A Junior Participating Preferred Stock of Registrant   |
| (3)                 | 3.4               | Amended and Restated Bylaws of Registrant, as amended and restated on May 12, 2011  |
|                     | 4.1               | Reference is made to Exhibit 3.1, Exhibit 3.2, Exhibit 3.3 and Exhibit 3.4  |
| (6)                 | 4.2               | Amended and Restated Rights Agreement between Registrant and ChaseMellon Shareholder Services, LLC, dated October 21, 1999  |
| (7)                 | 4.3               | First Amendment to Amended and Restated Rights Agreement between Registrant and Mellon Investor Services, LLC (formerly known as ChaseMellon Shareholder Services, LLC), dated October 29, 2003                         |
| (8)                 | 4.4               | Second Amendment to Amended and Restated Rights Agreement between Registrant and Mellon Investor Services, LLC (formerly known as ChaseMellon Shareholder Services, LLC), dated May 11, 2006                            |
| (9)                 | 4.5               | Indenture related to the Convertible Senior Notes due 2013, between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 0.625% Convertible Senior Note due 2013), dated April 25, 2006 |
| (10)                | 4.6               | Indenture related to the Convertible Senior Notes due 2014, between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.00% Convertible Senior Note due 2014), dated July 30, 2010   |
| (10)                | 4.7               | Indenture related to the Convertible Senior Notes due 2016, between Registrant and Wells Fargo Bank, National Association, as trustee (including form of 1.625% Convertible Senior Note due 2016), dated July 30, 2010  |
| (11)                | 4.8               | Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee   |
| (11)                | 4.9               | First Supplemental Indenture related to Senior Notes, dated as of March 30, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including form of Senior Notes)                                 |



- (12) 4.10 Second Supplemental Indenture related to Senior Notes, dated as of December 13, 2011, between Registrant and Wells Fargo, National Association, as Trustee (including Form of 2014 Note, Form of 2016 Note, Form of 2021 Note, Form of 2041 Note)
- (13) 10.1 Confirmation of OTC Convertible Note Hedge related to 2013 Notes, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A.
- (13) 10.2 Confirmation of OTC Warrant Transaction, dated April 19, 2006, as amended and restated as of April 24, 2006, between Registrant and Bank of America, N.A. for warrants expiring in 2013
- (14) 10.3 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.
- (14) 10.4 Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association
- (14) 10.5 Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and Goldman, Sachs & Co.

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document  |
|---------------------|-------------------|--|
| (14)                | 10.6              | Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association                  |
| (14)                | 10.7              | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014                                  |
| (14)                | 10.8              | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014             |
| (14)                | 10.9              | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016                                  |
| (14)                | 10.10             | Confirmation of OTC Warrant Transaction, dated July 26, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016             |
| (15)                | 10.11             | Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.                           |
| (15)                | 10.12             | Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association      |
| (15)                | 10.13             | Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and Goldman, Sachs & Co.                           |
| (15)                | 10.14             | Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association      |
| (15)                | 10.15             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2014                      |
| (15)                | 10.16             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2014 |
| (15)                | 10.17             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and Goldman, Sachs & Co. for warrants expiring in 2016                      |
| (15)                | 10.18             | Confirmation of OTC Additional Warrant Transaction, dated August 5, 2010, between Registrant and JPMorgan Chase Bank, National Association for warrants expiring in 2016 |
| (15)                | 10.19             | Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.                        |
| (15)                | 10.20             | Amendment to Confirmation of OTC Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association   |
| (15)                | 10.21             | Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.                        |

- (15) 10.22 Amendment to Confirmation of OTC Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- (15) 10.23 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- (15) 10.24 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2014 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- (15) 10.25 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and Goldman, Sachs & Co.
- (15) 10.26 Amendment to Confirmation of OTC Additional Convertible Note Hedge related to 2016 Notes, dated August 30, 2010, between Registrant and JPMorgan Chase Bank, National Association
- (16) 10.27 5-Year Revolving Credit Facility Credit Agreement among Registrant and Gilead Biopharmaceuticals Ireland Corporation, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document  |
|---------------------|-------------------|--|
| (16)                | 10.28             | Short-Term Revolving Credit Facility Credit Agreement, among Registrant and Gilead Biopharmaceuticals Ireland Corporation, as Borrowers, Bank of America, N.A., as Administrative Agent, certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012 |
| (16)                | 10.29             | Term Loan Facility Credit Agreement, among Registrant, as Borrower, Bank of America, N.A., certain other lenders parties thereto, Barclays Capital, as Syndication Agent, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Wells Fargo Bank, N.A., as Co-Documentation Agents, dated as of January 12, 2012   |
| (16)                | 10.30             | Parent Guaranty Agreement (5-Year Revolving Credit Facility), dated as of January 12, 2012, by Registrant  |
| (16)                | 10.31             | Parent Guaranty Agreement (Short-Term Revolving Credit Facility), dated as of January 12, 2012, by Registrant  |
| *(17)               | 10.32             | Gilead Sciences, Inc. 1991 Stock Option Plan, as amended through January 29, 2003  |
| *(18)               | 10.33             | Form of option agreements used under the 1991 Stock Option Plan  |
| *(17)               | 10.34             | Gilead Sciences, Inc. 1995 Non-Employee Directors' Stock Option Plan, as amended through January 30, 2002  |
| *(19)               | 10.35             | Form of option agreement used under the Gilead Sciences, Inc. 1995 Non-Employee Directors' Stock Option Plan   |
| *(20)               | 10.36             | Gilead Sciences, Inc. 2004 Equity Incentive Plan, as amended through May 6, 2009   |
| *(21)               | 10.37             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants prior to February 2008)  |
| *(22)               | 10.38             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants made February 2008 through April 2009)   |
| *(23)               | 10.39             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in May 2009)  |
| *(24)               | 10.40             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for grants commencing in February 2010)   |
| *(25)               | 10.41             | Form of employee stock option agreement used under 2004 Equity Incentive Plan (for 2011 and subsequent year grants)  |
| *(22)               | 10.42             | Form of non-employee director stock option agreement used under 2004 Equity Incentive Plan (for grants prior to 2008)  |

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- \* (22) 10.43 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for initial grants made in 2008)
- \* (22) 10.44 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants made in May 2008)
- \* (23) 10.45 Form of non-employee director option agreement used under 2004 Equity Incentive Plan (for annual grants commencing in May 2009)
- \* 10.46 Form of restricted stock unit issuance agreement used under 2004 Equity Incentive Plan (for annual grants to non-employee directors commencing in May 2012)
- \* (23) 10.47 Form of restricted stock award agreement used under 2004 Equity Incentive Plan (for annual grants to certain non-employee directors prior to May 2012)
- \* (23) 10.48 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2009)
- \* (24) 10.49 Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2010)

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document   |
|---------------------|-------------------|---|
| *(25)               | 10.50             | Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2011)                                   |
| *(26)               | 10.51             | Form of performance share award agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made in 2012)                                   |
| *(27)               | 10.52             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers made prior to May 2009)                  |
| *(23)               | 10.53             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (for grants to certain executive officers commencing in May 2009)                  |
| *(28)               | 10.54             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in November 2009) |
| *(25)               | 10.55             | Form of restricted stock unit issuance agreement used under the 2004 Equity Incentive Plan (service-based vesting for certain executive officers commencing in 2011)          |
| *(24)               | 10.56             | Gilead Sciences, Inc. Employee Stock Purchase Plan, amended and restated on November 3, 2009  |
| *(29)               | 10.57             | Gilead Sciences, Inc. International Employee Stock Purchase Plan, adopted November 3, 2009  |
| *(30)               | 10.58             | Gilead Sciences, Inc. Deferred Compensation Plan-Basic Plan Document  |
| *(30)               | 10.59             | Gilead Sciences, Inc. Deferred Compensation Plan-Adoption Agreement   |
| *(30)               | 10.60             | Addendum to the Gilead Sciences, Inc. Deferred Compensation Plan  |
| *(31)               | 10.61             | Gilead Sciences, Inc. 2005 Deferred Compensation Plan, as amended and restated on October 23, 2008  |
| *(26)               | 10.62             | Gilead Sciences, Inc. Severance Plan, as amended on January 26, 2012  |
| *(21)               | 10.63             | Gilead Sciences, Inc. Corporate Bonus Plan  |
| *(3)                | 10.64             | Amended and Restated Gilead Sciences, Inc. Code Section 162(m) Bonus Plan   |
| *(32)               | 10.65             | 2012 Base Salaries for the Named Executive Officers   |
| *(33)               | 10.66             | Offer Letter dated April 16, 2008 between Registrant and Robin Washington   |
| *(18)               | 10.67             | Form of Indemnity Agreement entered into between Registrant and its directors and executive officers  |
| *(18)               | 10.68             | Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees                                |

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- \* (24) 10.69 Form of Employee Proprietary Information and Invention Agreement entered into between Registrant and certain of its officers and key employees (revised in September 2006)
- + (34) 10.70 Amended and Restated Collaboration Agreement by and among Registrant, Gilead Holdings, LLC, Bristol-Myers Squibb Company, E.R. Squibb & Sons, L.L.C., and Bristol-Myers Squibb & Gilead Sciences, LLC, dated September 28, 2006
- (22) 10.71 Commercialization Agreement by and between Gilead Sciences Limited and Bristol-Myers Squibb Company, dated December 10, 2007
- + (35) 10.72 Amendment Agreement, dated October 25, 1993, between Registrant, the Institute of Organic Chemistry and Biochemistry (IOCB) and Rega Stichting v.z.w. (REGA), together with the following exhibits: the License Agreement, dated December 15, 1991, between Registrant, IOCB and REGA (the 1991 License Agreement), the License Agreement, dated October 15, 1992, between Registrant, IOCB and REGA (the October 1992 License Agreement) and the License Agreement, dated December 1, 1992, between Registrant, IOCB and REGA (the December 1992 License Agreement)
- (36) 10.73 Amendment Agreement between Registrant and IOCB/REGA, dated December 27, 2000 amending the 1991 License Agreement and the December 1992 License Agreement
- (34) 10.74 Sixth Amendment Agreement to the License Agreement, between IOCB/REGA and Registrant, dated August 18, 2006 amending the October 1992 License Agreement and the December 1992 License Agreement

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document  |
|---------------------|-------------------|--|
| +(34)               | 10.75             | Development and License Agreement among Registrant and F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc., dated September 27, 1996   |
| +(37)               | 10.76             | First Amendment and Supplement dated November 15, 2005 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996                  |
| +(38)               | 10.77             | Second Amendment dated December 22, 2011 to the Development and Licensing Agreement between Registrant, F. Hoffmann-La Roche Ltd and Hoffman-La Roche Inc. dated September 27, 1996                                |
| +(39)               | 10.78             | Exclusive License Agreement between Registrant (as successor to Triangle Pharmaceuticals, Inc.), Glaxo Group Limited, The Wellcome Foundation Limited, Glaxo Wellcome Inc. and Emory University, dated May 6, 1999 |
| +(40)               | 10.79             | Royalty Sale Agreement by and among Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 18, 2005              |
| +(40)               | 10.80             | Amended and Restated License Agreement between Registrant, Emory University and Investors Trust & Custodial Services (Ireland) Limited, solely in its capacity as Trustee of Royalty Pharma, dated July 21, 2005.  |
| +(41)               | 10.81             | License Agreement between Japan Tobacco Inc. and Registrant, dated March 22, 2005  |
| +(42)               | 10.82             | First Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 19, 2005   |
| +(42)               | 10.83             | Second Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated May 17, 2010  |
| +(42)               | 10.84             | Third Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011   |
| +(42)               | 10.85             | Fourth Amendment to License Agreement between Japan Tobacco Inc. and Registrant, dated July 5, 2011  |
| +(43)               | 10.86             | License Agreement between Registrant (as successor to Myogen, Inc.) and Abbott Deutschland Holding GmbH dated October 8, 2001  |
| +(43)               | 10.87             | License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Syntex (U.S.A.) Inc., dated March 27, 1996  |
| +(44)               | 10.88             | First Amendment to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Syntex (U.S.A.) Inc., dated July 3, 1997   |
| (44)                | 10.89             |  |



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Amendment No. 2 to License Agreement between Registrant (as successor to CV Therapeutics, Inc.) and Syntex (U.S.A.) Inc., dated November 30, 1999

- + (45) 10.90 Amendment No. 4 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated June 20, 2006
- + (38) 10.91 Amendment No. 5 to License Agreement with Registrant (as successor to CV Therapeutics, Inc.) and Roche Palo Alto LLC (successor in interest by merger to Syntex (U.S.A.) Inc.), dated December 22, 2011
- + (46) 10.92 License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Tibotec Pharmaceuticals, dated July 16, 2009
- + (42) 10.93 Second Amendment to License and Collaboration Agreement by and among Registrant, Gilead Sciences Limited and Tibotec Pharmaceuticals, dated July 1, 2011
- + (47) 10.94 Master Clinical and Commercial Supply Agreement between Gilead World Markets, Limited, Registrant and Patheon Inc., dated January 1, 2003
- + (40) 10.95 Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama), Ltd., dated July 17, 2003
- + (48) 10.96 Addendum to Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama) Ltd., dated May 10, 2007
- + (31) 10.97 Addendum to Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama) Ltd., dated December 5, 2008
- + (25) 10.98 Addendum to Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and PharmaChem Technologies (Grand Bahama) Ltd., dated February 3, 2011

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| Exhibit<br>Footnote | Exhibit<br>Number | Description of Document  |
|---------------------|-------------------|--|
| +(49)               | 10.99             | Tenofovir Disoproxil Fumarate Manufacturing Supply Agreement by and between Gilead Sciences Limited and Ampac Fine Chemicals LLC, dated November 3, 2010   |
| +(37)               | 10.100            | Restated and Amended Toll Manufacturing Agreement between Gilead Sciences Limited, Registrant and Nycomed GmbH (formerly ALTANA Pharma Oranienburg GmbH), dated November 7, 2005   |
| +(13)               | 10.101            | Emtricitabine Manufacturing Supply Agreement between Gilead Sciences Limited and Evonik Degussa GmbH (formerly known as Degussa AG), dated June 6, 2006  |
| +(14)               | 10.102            | Amendment No. 1 to Emtricitabine Manufacturing Supply Agreement between Gilead Sciences Limited and Evonik Degussa GmbH (formerly known as Degussa AG), dated April 30, 2010   |
| +(31)               | 10.103            | Purchase and Sale Agreement and Escrow Instructions between Electronics for Imaging, Inc. and Registrant, dated October 23, 2008   |
|                     | 31.1              | Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended   |
|                     | 31.2              | Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended   |
|                     | 32.1**            | Certifications of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)  |
|                     | 101***            | The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Other Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements. |

- (1) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on March 12, 2009, and incorporated herein by reference.
- (2) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on November 25, 2011, and incorporated herein by reference.
- (3) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 17, 2011, and incorporated herein by reference.
- (4) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on November 22, 1994, and incorporated herein by reference.
- (5) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 11, 2006, and incorporated herein by reference.
- (6) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on October 22, 1999, and incorporated herein by reference.
- (7) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on October 31, 2003, and incorporated herein by reference.

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- (8) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-135412) filed on June 28, 2006, and incorporated herein by reference.
- (9) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 25, 2006, and incorporated herein by reference.
- (10) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on August 2, 2010, and incorporated herein by reference.
- (11) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on April 1, 2011, and incorporated herein by reference.
- (12) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on December 13, 2011, and incorporated herein by reference.
- (13) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (14) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, and incorporated

herein by reference.

- (15) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference.
- (16) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on January 17, 2012, and incorporated herein by reference.
- (17) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-102912) filed on January 31, 2003, and incorporated herein by reference.
- (18) Filed as an exhibit to Registrant's Registration Statement on Form S-1 (No. 33-55680), as amended, and incorporated herein by reference.
- (19) Filed as an exhibit to Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1998, and incorporated herein by reference.
- (20) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on May 11, 2009, and incorporated herein by reference.
- (21) Filed as an exhibit to Registrant's Current Report on Form 8-K/A filed on February 22, 2006, and incorporated herein by reference.
- (22) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and incorporated herein by reference.
- (23) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference.
- (24) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and incorporated herein by reference. [update reference to 10-Q]
- (25) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and incorporated herein by reference.
- (26) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference.
- (27) Filed as an exhibit to Registrant's Current Report on Form 8-K first filed on December 19, 2007, and incorporated herein by reference.
- (28) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and incorporated herein by reference.
- (29) Filed as an exhibit to Registrant's Registration Statement on Form S-8 (No. 333-163871) filed on December 21, 2009, and incorporated herein by reference.
- (30) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and incorporated herein by reference.
- (31) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and incorporated herein by reference.
- (32) Information is included in Registrant's Current Report on Form 8-K filed on February 1, 2012, and incorporated herein by reference.
- (33) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, and incorporated herein by reference.
- (34) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, and incorporated herein by reference.
- (35) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1994, and incorporated herein by reference.
- (36) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, and incorporated herein by reference.
- (37) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporated herein by reference.
- (38) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and incorporated herein by reference.



- (39) Filed as an exhibit to Triangle Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q/A filed on November 3, 1999, and incorporated herein by reference.
- (40) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and incorporated herein by reference.
- (41) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, and incorporated herein by reference.
- (42) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, and incorporated herein by reference.
- (43) Filed as an exhibit to Myogen, Inc.'s Registration Statement on Form S-1 (No. 333-108301), as amended, originally filed on August 28, 2003, and incorporated herein by reference.
- (44) Filed as an exhibit to CV Therapeutics, Inc.'s Registration Statement on Form S-3 (No. 333-59318), as amended, originally filed on April 20, 2001, and incorporated herein by reference.
- (45) Filed as an exhibit to CV Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- (46) Filed as an exhibit to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and incorporated herein by reference.
- (47) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and incorporated herein by reference.
- (48) Filed as an exhibit to Registrant's Current Report on Form 8-K filed on August 7, 2007, and incorporated herein by reference.
- (49) Filed as an exhibit to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and incorporated herein by reference.

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

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

\*Management contract or compensatory plan or arrangement.

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

\*\*\*XBRL information is filed herewith.

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

