

GILEAD SCIENCES INC
Form 10-Q
November 06, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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 | 94-3047598 |
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification No.) |

333 Lakeside Drive, Foster City, California 94404
(Address of principal executive offices) (Zip Code)
650-574-3000

Registrant's Telephone Number, Including Area Code

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

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Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ý

Number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of October 30, 2018:

1,293,619,612

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®, AMBISOME®, ATRIPLA®, AXI-CEL™, BIKTARVY®,

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CAYSTON[®], COMPLERA[®], DESCOVY[®], EMTRIVA[®], EPCLUSA[®], EVIPLERA[®], GENVOYA[®], GILEAD COMPASS INITIATIVE[™], HARVON[®], HEPSERA[®], LETAIRIS[®], ODEFSEY[®], RANEXA[®], SOVALDI[®], STRIBILD[®], SYNNOTCH[™], THROTTLE[™], TRUVADA[®], TAYBOST[®], VEMLIDY[®], VIREAD[®], VOLIBRIS[®], VOSEVI[®], YESCARTA[®] and ZYDELIG[®]. LEXISCAN[®] is a registered trademark of Astellas U.S. LLC. MACUGEN[®] is a registered trademark of Eyetech, Inc. SYMTUZA[®] is a registered trademark of Janssen Sciences Ireland UC (Janssen). TAMIFLU[®] is a registered trademark of Hoffmann-La Roche Inc. This report also includes other trademarks, service marks and trade names of other companies.

PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

GILEAD SCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions, except per share amounts)

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,569 | \$ 7,588 |
| Short-term marketable securities | 13,897 | 17,922 |
| Accounts receivable, net of allowances of \$514 and \$455, respectively | 3,465 | 3,851 |
| Inventories | 816 | 801 |
| Prepaid and other current assets | 2,171 | 1,661 |
| Total current assets | 34,918 | 31,823 |
| Property, plant and equipment, net | 3,791 | 3,295 |
| Long-term marketable securities | 2,378 | 11,184 |
| Intangible assets, net | 16,314 | 17,100 |
| Goodwill | 4,117 | 4,159 |
| Other long-term assets | 2,787 | 2,722 |
| Total assets | \$ 64,305 | \$ 70,283 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 580 | \$ 814 |
| Accrued government and other rebates | 4,456 | 4,704 |
| Other accrued liabilities | 2,333 | 3,370 |
| Current portion of long-term debt and other obligations, net | 2,747 | 2,747 |
| Total current liabilities | 10,116 | 11,635 |
| Long-term debt, net | 24,570 | 30,795 |
| Long-term income taxes payable | 6,018 | 6,794 |
| Other long-term obligations | 594 | 558 |
| Commitments and contingencies (Note 10) | | |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.001 per share; 5 shares authorized; none outstanding | — | — |
| Common stock, par value \$0.001 per share; 5,600 shares authorized; 1,294 and 1,308 shares issued and outstanding, respectively | 1 | 1 |
| Additional paid-in capital | 2,118 | 1,264 |
| Accumulated other comprehensive income | 36 | 165 |
| Retained earnings | 20,706 | 19,012 |
| Total Gilead stockholders' equity | 22,861 | 20,442 |
| Noncontrolling interest | 146 | 59 |
| Total stockholders' equity | 23,007 | 20,501 |
| Total liabilities and stockholders' equity | \$ 64,305 | \$ 70,283 |

See accompanying notes.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|---------|---------------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Product sales | \$5,455 | \$6,402 | \$15,996 | \$19,825 |
| Royalty, contract and other revenues | 141 | 110 | 336 | 333 |
| Total revenues | 5,596 | 6,512 | 16,332 | 20,158 |
| Costs and expenses: | | | | |
| Cost of goods sold | 1,086 | 1,032 | 3,283 | 3,115 |
| Research and development expenses | 939 | 789 | 3,068 | 2,584 |
| Selling, general and administrative expenses | 948 | 879 | 2,925 | 2,626 |
| Total costs and expenses | 2,973 | 2,700 | 9,276 | 8,325 |
| Income from operations | 2,623 | 3,812 | 7,056 | 11,833 |
| Interest expense | (264) | (291) | (820) | (821) |
| Other income (expense), net | 305 | 150 | 547 | 391 |
| Income before provision for income taxes | 2,664 | 3,671 | 6,783 | 11,403 |
| Provision for income taxes | 565 | 959 | 1,326 | 2,923 |
| Net income | 2,099 | 2,712 | 5,457 | 8,480 |
| Net income (loss) attributable to noncontrolling interest | 2 | (6) | 5 | (13) |
| Net income attributable to Gilead | \$2,097 | \$2,718 | \$5,452 | \$8,493 |
| Net income per share attributable to Gilead common stockholders - basic | \$1.62 | \$2.08 | \$4.19 | \$6.50 |
| Shares used in per share calculation - basic | 1,296 | 1,306 | 1,302 | 1,307 |
| Net income per share attributable to Gilead common stockholders - diluted | \$1.60 | \$2.06 | \$4.15 | \$6.44 |
| Shares used in per share calculation - diluted | 1,307 | 1,319 | 1,313 | 1,319 |
| Cash dividends declared per share | \$0.57 | \$0.52 | \$1.71 | \$1.56 |

See accompanying notes.

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GILEAD SCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in millions)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|---------|---------------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$2,099 | \$2,712 | \$5,457 | \$8,480 |
| Other comprehensive income (loss): | | | | |
| Net foreign currency translation gain (loss), net of tax | 1 | (4) | (17) | (51) |
| Available-for-sale securities: | | | | |
| Net unrealized gain, net of tax impact of \$0, \$1, \$0 and \$4, respectively | 31 | 185 | 25 | 311 |
| Reclassifications to net income, net of tax impact of \$0, \$0, \$0 and \$(8), respectively | — | (1) | 4 | (7) |
| Net change | 31 | 184 | 29 | 304 |
| Cash flow hedges: | | | | |
| Net unrealized gain (loss), net of tax impact of \$0, \$(2), \$1 and \$(11), respectively | (6) | (76) | 51 | (278) |
| Reclassifications to net income, net of tax impact of \$0, \$1, \$0 and \$0, respectively | 8 | 25 | 101 | (4) |
| Net change | 2 | (51) | 152 | (282) |
| Other comprehensive income (loss) | 34 | 129 | 164 | (29) |
| Comprehensive income | 2,133 | 2,841 | 5,621 | 8,451 |
| Comprehensive income (loss) attributable to noncontrolling interest | 2 | (6) | 5 | (13) |
| Comprehensive income attributable to Gilead | \$2,131 | \$2,847 | \$5,616 | \$8,464 |

See accompanying notes.

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

| | Nine Months Ended September 30, | |
|---|---------------------------------------|----------|
| | 2018 | 2017 |
| Operating Activities: | | |
| Net income | \$5,457 | \$8,480 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation expense | 169 | 155 |
| Amortization expense | 902 | 734 |
| Stock-based compensation expense | 670 | 304 |
| Deferred income taxes | 10 | 127 |
| Other | 14 | 227 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 367 | 473 |
| Inventories | (191) | (79) |
| Prepaid expenses and other | 749 | 311 |
| Accounts payable | (217) | (515) |
| Income taxes payable | (1,551) | (48) |
| Accrued liabilities | (324) | (1,024) |
| Net cash provided by operating activities | 6,055 | 9,145 |
| Investing Activities: | | |
| Purchases of marketable securities | (5,786) | (18,813) |
| Proceeds from sales of marketable securities | 1,201 | 8,966 |
| Proceeds from maturities of marketable securities | 17,021 | 4,164 |
| Capital expenditures | (676) | (370) |
| Other | (140) | — |
| Net cash provided by (used in) investing activities | 11,620 | (6,053) |
| Financing Activities: | | |
| Proceeds from issuances of common stock | 239 | 183 |
| Proceeds from debt financing, net of issuance costs | — | 2,991 |
| Repurchases of common stock | (1,938) | (848) |
| Repayments of debt and other obligations | (6,250) | (90) |
| Payments of dividends | (2,235) | (2,049) |
| Other | (464) | (141) |
| Net cash provided by (used in) financing activities | (10,648) | 46 |
| Effect of exchange rate changes on cash and cash equivalents | (46) | 141 |
| Net change in cash and cash equivalents | 6,981 | 3,279 |
| Cash and cash equivalents at beginning of period | 7,588 | 8,229 |
| Cash and cash equivalents at end of period | \$14,569 | \$11,508 |

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 of normal recurring adjustments that the management of Gilead Sciences, Inc. (Gilead, we, our or us) believes are necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.

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

We assess whether we are the primary beneficiary of a variable interest entity (VIE) at the inception of the arrangement and at each reporting date. This assessment is based on our power to direct the activities of the VIE that most significantly impact the VIE's economic performance and our obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. As of September 30, 2018, we did not have any material VIEs.

The accompanying Condensed Consolidated Financial Statements and related Notes to Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC).

Significant Accounting Policies, Estimates and Judgments

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

Concentrations of Risk

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

We are also subject to credit risk from our accounts receivable related to our product sales. The majority of our trade accounts receivable arises from product sales in the United States and Europe. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. We believe that our allowance for doubtful accounts was adequate as of September 30, 2018.

Recently Adopted Accounting Pronouncements

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

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

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

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

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

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

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

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

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

Recently Issued Accounting Pronouncements Not Yet Adopted

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

“Codification Improvements to Topic 842, Leases” and ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance will become effective for us beginning in the first quarter of 2019 and early adoption is permitted. We plan to adopt these standards on the effective date by recording a cumulative effect adjustment to the opening balance of retained earnings on January 1, 2019.

As we continue to evaluate the impact of the adoption of these standards, we anticipate recognition of additional assets and corresponding liabilities related to leases on our Condensed Consolidated Balance Sheets with no material impact to our Condensed Consolidated Statements of Income. We plan to elect the practical expedients upon transition that will retain the lease classification

and initial direct costs for any leases that existed prior to the adoption of these standards. We will not reassess whether any contracts entered into prior to the adoption are leases. We are in the process of implementing a new lease accounting system and updating our controls and procedures for maintaining and accounting for our lease portfolio under the new guidance.

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

2. REVENUES

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

Product Sales

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

Royalty, Contract and Other Revenues

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

Policy Elections and Practical Expedients Taken

We account for shipping and handling activities that are performed after a customer has obtained control of a good as fulfillment costs rather than as separate performance obligations; and

If we expect, at contract inception, that the period between the transfer of control and corresponding payment from the customer will be one year or less, we do not adjust the amount of consideration for the effects of a significant financing component.

Variable Consideration

Rebates and Chargebacks

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

Cash Discounts

We estimate cash discounts based on contractual terms, historical customer payment patterns and our expectations regarding future customer payment patterns.

Distributor Fees

Under our inventory management agreements with our significant U.S. wholesalers, we pay the wholesalers a fee primarily for compliance with certain contractually determined covenants such as the maintenance of agreed upon

inventory levels. These distributor fees are based on a contractually determined fixed percentage of sales.

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Product Returns

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

Revenues Recognized from Performance Obligations Satisfied in Prior Periods

During the three and nine months ended September 30, 2018, revenues recognized from performance obligations satisfied in prior years related to royalties for licenses of our intellectual property were \$167 million and \$395 million, respectively. Changes in estimates for variable consideration related to sales made in prior years were not material during the three and nine months ended September 30, 2018.

Contract Assets

Our contract assets, which consist of unbilled amounts primarily from arrangements where the licensing of intellectual property is the only or predominant performance obligation, totaled \$117 million and \$132 million as of September 30, 2018 and January 1, 2018, respectively.

Disaggregation of Revenues

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

| (In millions) | Three Months Ended September 30, 2018 | | | | Three Months Ended September 30, 2017 | | | |
|--|---------------------------------------|--------|---------------------|-------|---------------------------------------|--------|---------------------|-------|
| | U.S. | Europe | Other International | Total | U.S. | Europe | Other International | Total |
| Product sales: | | | | | | | | |
| Atripla | \$221 | \$ 29 | \$ 8 | \$258 | \$324 | \$79 | \$ 36 | \$439 |
| Biktarvy | 375 | 11 | — | 386 | — | — | — | — |
| Complera/Eviplera | 61 | 67 | 11 | 139 | 91 | 133 | 13 | 237 |
| Descovy | 310 | 81 | 15 | 406 | 241 | 65 | 10 | 316 |
| Genvoya | 921 | 203 | 52 | 1,176 | 810 | 146 | 32 | 988 |
| Odefsey | 323 | 95 | 5 | 423 | 255 | 37 | 4 | 296 |
| Stribild | 111 | 20 | 15 | 146 | 181 | 40 | 8 | 229 |
| Truvada | 665 | 62 | 30 | 757 | 604 | 154 | 53 | 811 |
| Other HIV ⁽¹⁾ | 10 | 2 | 2 | 14 | 13 | 2 | — | 15 |
| Revenue share - Symtuza⁽²⁾ | | | | | | | | |
| AmBisome | 9 | 59 | 34 | 102 | 9 | 51 | 32 | 92 |
| Epclusa | 225 | 136 | 116 | 477 | 543 | 263 | 76 | 882 |
| Harvoni | 185 | 38 | 88 | 311 | 718 | 110 | 145 | 973 |
| Letairis | 241 | — | — | 241 | 213 | — | — | 213 |
| Ranexa | 178 | — | — | 178 | 164 | — | — | 164 |
| Vemlidy | 66 | 2 | 19 | 87 | 34 | 2 | 1 | 37 |
| Viread | 17 | 10 | 43 | 70 | 137 | 55 | 82 | 274 |
| Vosevi | 78 | 21 | 4 | 103 | 117 | 5 | 1 | 123 |
| Yescarta | 75 | — | — | 75 | — | — | — | — |
| Zydelig | 15 | 4 | 1 | 20 | 18 | 22 | — | 40 |
| Other ⁽³⁾ | 37 | 19 | 8 | 64 | 70 | 33 | 170 | 273 |

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| | | | | | | | | |
|--------------------------------------|---------|--------|--------|---------|---------|---------|--------|---------|
| Total product sales | 4,131 | 873 | 451 | 5,455 | 4,542 | 1,197 | 663 | 6,402 |
| Royalty, contract and other revenues | 20 | 102 | 19 | 141 | 21 | 74 | 15 | 110 |
| Total revenues | \$4,151 | \$ 975 | \$ 470 | \$5,596 | \$4,563 | \$1,271 | \$ 678 | \$6,512 |

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| (In millions) | Nine Months Ended September 30, 2018 | | | | Nine Months Ended September 30, 2017 | | | |
|--|--------------------------------------|---------|---------------------|----------|--------------------------------------|---------|---------------------|----------|
| | U.S. | Europe | Other International | Total | U.S. | Europe | Other International | Total |
| Product Sales: | | | | | | | | |
| Atripla | \$723 | \$119 | \$ 79 | \$921 | \$974 | \$259 | \$ 133 | \$1,366 |
| Biktarvy | 593 | 13 | — | 606 | — | — | — | — |
| Complera/Eviplera | 210 | 279 | 39 | 528 | 315 | 385 | 44 | 744 |
| Descovy | 895 | 234 | 41 | 1,170 | 682 | 149 | 22 | 853 |
| Genvoya | 2,678 | 596 | 144 | 3,418 | 2,189 | 358 | 67 | 2,614 |
| Odefsey | 905 | 230 | 15 | 1,150 | 688 | 87 | 6 | 781 |
| Stribild | 388 | 83 | 36 | 507 | 632 | 161 | 38 | 831 |
| Truvada | 1,821 | 245 | 108 | 2,174 | 1,635 | 527 | 175 | 2,337 |
| Other HIV ⁽¹⁾ | 30 | 6 | 10 | 46 | 34 | 5 | 2 | 41 |
| Revenue share - Symtuza ⁽²⁾ | 8 | 34 | — | 42 | — | — | — | — |
| AmBisome | 40 | 170 | 102 | 312 | 26 | 153 | 97 | 276 |
| Epclusa | 733 | 502 | 278 | 1,513 | 2,142 | 649 | 154 | 2,945 |
| Harvoni | 649 | 116 | 225 | 990 | 2,628 | 583 | 515 | 3,726 |
| Letairis | 689 | — | — | 689 | 654 | — | — | 654 |
| Ranexa | 581 | — | — | 581 | 517 | — | — | 517 |
| Vemlidy | 172 | 8 | 41 | 221 | 66 | 3 | 1 | 70 |
| Viread | 40 | 72 | 137 | 249 | 395 | 202 | 237 | 834 |
| Vosevi | 250 | 57 | 12 | 319 | 117 | 5 | 1 | 123 |
| Yescarta | 183 | — | — | 183 | — | — | — | — |
| Zydelig | 46 | 44 | 2 | 92 | 52 | 57 | 1 | 110 |
| Other ⁽³⁾ | 93 | 75 | 117 | 285 | 228 | 279 | 496 | 1,003 |
| Total product sales | 11,727 | 2,883 | 1,386 | 15,996 | 13,974 | 3,862 | 1,989 | 19,825 |
| Royalty, contract and other revenues | 54 | 233 | 49 | 336 | 62 | 226 | 45 | 333 |
| Total revenues | \$11,781 | \$3,116 | \$ 1,435 | \$16,332 | \$14,036 | \$4,088 | \$ 2,034 | \$20,158 |

⁽¹⁾ Includes Emtriva and Tybost

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

⁽³⁾ Includes Cayston, Hepsera and Sovaldi

3. FAIR VALUE MEASUREMENTS

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

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

Level 2 inputs include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability. For our marketable securities, we review trading activity and pricing as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data; and

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

techniques and significant management judgment or estimation.

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

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

| | September 30, 2018 | | | | December 31, 2017 | | | |
|--|--------------------|----------|---------|-----------|-------------------|----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | | | | |
| Available-for-sale debt securities: | | | | | | | | |
| U.S. treasury securities | \$3,075 | \$— | \$— | \$—3,075 | \$4,061 | \$— | \$— | \$—4,061 |
| Certificates of deposit | — | 4,392 | — | 4,392 | — | 5,131 | — | 5,131 |
| U.S. government agencies securities | — | 932 | — | 932 | — | 926 | — | 926 |
| Non-U.S. government securities | — | 260 | — | 260 | — | 664 | — | 664 |
| Corporate debt securities | — | 12,757 | — | 12,757 | — | 14,747 | — | 14,747 |
| Residential mortgage and asset-backed securities | — | 2,037 | — | 2,037 | — | 4,058 | — | 4,058 |
| Marketable equity securities: | | | | | | | | |
| Money market funds | 5,138 | — | — | 5,138 | 4,714 | — | — | 4,714 |
| Equity securities | 825 | — | — | 825 | 635 | — | — | 635 |
| Deferred compensation plan | 139 | — | — | 139 | 116 | — | — | 116 |
| Foreign currency derivative contracts | — | 42 | — | 42 | — | 13 | — | 13 |
| Total | \$9,177 | \$20,420 | \$— | \$—29,597 | \$9,526 | \$25,539 | \$— | \$—35,065 |
| Liabilities: | | | | | | | | |
| Deferred compensation plan | \$139 | \$— | \$— | \$—139 | \$116 | \$— | \$— | \$—116 |
| Foreign currency derivative contracts | — | 6 | — | 6 | — | 93 | — | 93 |
| Total | \$139 | \$6 | \$— | \$—145 | \$116 | \$93 | \$— | \$—209 |

For the three and nine months ended September 30, 2018, changes in the fair value of marketable equity securities resulted in unrealized gains of \$168 million and \$149 million, respectively, which were included in Other income (expense), net, on our Condensed Consolidated Statements of Income.

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

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

| | September 30, 2018 | December 31, 2017 |
|----------------------------------|--------------------|-------------------|
| Cash and cash equivalents | \$ 5,138 | \$ 4,714 |
| Prepaid and other current assets | 829 | 637 |
| Other long-term assets | 135 | 114 |
| Total | \$ 6,102 | \$ 5,465 |

Level 2 Inputs

We estimate the fair values of Level 2 instruments by taking into consideration valuations obtained from third-party pricing services. The pricing services utilize industry standard valuation models, including both income-based and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include

reported trades of and broker/dealer quotes on the same or similar securities, issuer credit spreads, benchmark securities, prepayment/default projections based on historical data and other observable inputs.

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

The total estimated fair values of our short-term and long-term debt, determined using Level 2 inputs based on their quoted market values, were approximately \$27.5 billion and \$35.5 billion as of September 30, 2018 and December 31, 2017, respectively, and the carrying values were