GILEAD SCIENCES INC
Form 10-Q
August 05, 2016

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
o 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 ý 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 ý 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 ý 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 ý

Number of shares outstanding of the issuer's common stock, par value $0.001 per share, as of July 31, 2016: 1,319,658,489

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®, CAYSTON®, COMPLERA®, DESCOVY®, EMTRIVA®, EPCLUSA®, EVIPLERA®, GENVOYA®, HARVONI®, HEPSERA®, LETAIRIS®, ODEFSEY®, RANEXA®, RAPISCAN®, SOVALDI®, STRIBILD®, TRUVADA®, TYBOST®, VIREAD®, VITEKTA®, VOLIBRIS® and ZYDELIG®. ATRIPLA® is a registered trademark belonging to Bristol-Myers Squibb & Gilead

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

PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

GILEAD SCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions, except per share amounts)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$6,485	$ 12,851
Short-term marketable securities	2,267	1,756
Accounts receivable, net of allowances of $1,435 at June 30, 2016 and $1,032 at December 31, 2015	5,752	5,854
Inventories	1,862	1,955
Deferred tax assets	835	828
Prepaid and other current assets	1,152	1,518
Total current assets	18,353	24,762
Property, plant and equipment, net	2,599	2,276
Long-term portion of prepaid royalties	365	400
Long-term deferred tax assets	433	324
Long-term marketable securities	15,864	11,601
Intangible assets, net	9,713	10,247
Goodwill	1,172	1,172
Other long-term assets	1,481	934
Total assets	$49,980	$ 51,716
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,122	$ 1,178
Accrued government and other rebates	5,447	4,118
Other accrued liabilities	2,830	3,172
Deferred revenues	345	440
Current portion of long-term debt and other obligations, net	700	982
Total current liabilities	10,444	9,890
Long-term debt, net	21,427	21,073
Long-term income taxes payable	1,527	1,243
Other long-term obligations	467	395
Commitments and contingencies (Note 10)		
Equity component of currently redeemable convertible notes	—	2
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 5 shares authorized; none outstanding	—	—
Common stock, par value $0.001 per share; shares authorized of 5,600 at June 30, 2016 and December 31, 2015; shares issued and outstanding of 1,331 at June 30, 2016 and 1,422 at December 31, 2015	1	1
Additional paid-in capital	632	444
Accumulated other comprehensive income (loss)	(46)	88
Retained earnings	14,949	18,001
Total Gilead stockholders' equity	15,536	18,534
Noncontrolling interest	579	579
Total stockholders' equity	16,115	19,113

Total liabilities and stockholders' equity	$49,980	$ 51,716

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues:				
Product sales	$7,651	$8,126	$15,332	$15,531
Royalty, contract and other revenues	125	118	238	307
Total revenues	7,776	8,244	15,570	15,838
Costs and expenses:				
Cost of goods sold	864	998	2,057	1,880
Research and development expenses	1,484	818	2,749	1,514
Selling, general and administrative expenses	890	812	1,575	1,457
Total costs and expenses	3,238	2,628	6,381	4,851
Income from operations	4,538	5,616	9,189	10,987
Interest expense	(227)	(140)	(457)	(293)
Other income (expense), net	88	35	169	56
Income before provision for income taxes	4,399	5,511	8,901	10,750
Provision for income taxes	902	1,014	1,837	1,921
Net income	3,497	4,497	7,064	8,829
Net income attributable to noncontrolling interest	—	5	1	4
Net income attributable to Gilead	$3,497	$4,492	$7,063	$8,825
Net income per share attributable to Gilead common stockholders - basic	$2.62	$3.05	$5.20	$5.96
Shares used in per share calculation - basic	1,335	1,472	1,359	1,480
Net income per share attributable to Gilead common stockholders - diluted	$2.58	$2.92	$5.11	$5.68
Shares used in per share calculation - diluted	1,355	1,540	1,383	1,555
Cash dividends declared per share	$0.47	$0.43	$0.90	$0.43

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$3,497	$4,497	$7,064	$8,829
Other comprehensive income (loss):				
Net foreign currency translation gains (losses), net of tax	9	3	11	(7)
Available-for-sale securities:				
Net unrealized gains (losses), net of tax impact of $(12), $(1), $18 and $2, respectively	154	(3)	130	3
Reclassifications to net income, net of tax	(2)	—	(2)	—
Net change	152	(3)	128	3
Cash flow hedges:				
Net unrealized gains (losses), net of tax impact of $(1), $(3), $(11) and $3, respectively	(54)	(110)	(204)	273
Reclassifications to net income, net of tax impact of $(1), $(5), $(7), and $(9), respectively	11	(182)	(69)	(323)
Net change	(43)	(292)	(273)	(50)
Other comprehensive income (loss)	118	(292)	(134)	(54)
Comprehensive income	3,615	4,205	6,930	8,775
Comprehensive income attributable to noncontrolling interest	—	5	1	4
Comprehensive income attributable to Gilead	$3,615	$4,200	$6,929	$8,771

See accompanying notes.

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities:		
Net income	$7,064	$8,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	85	75
Amortization expense	482	467
Stock-based compensation expense	183	188
Excess tax benefits from stock-based compensation	(127)	(326)
Tax benefits from exercise and vesting of stock-based awards	125	326
Deferred income taxes	(116)	(260)
In-process research and development impairment	114	—
Other	(7)	27
Changes in operating assets and liabilities:		
Accounts receivable, net	190	(810)
Inventories	(97)	(634)
Prepaid expenses and other	(335)	(127)
Accounts payable	(67)	620
Income taxes payable	645	574
Accrued liabilities	876	2,045
Deferred revenues	(162)	365
Net cash provided by operating activities	8,853	11,359
Investing Activities:		
Purchases of marketable securities	(12,022)	(6,847)
Proceeds from sales of marketable securities	6,583	1,143
Proceeds from maturities of marketable securities	784	148
Other investments	(357)	—
Capital expenditures	(381)	(295)
Net cash used in investing activities	(5,393)	(5,851)
Financing Activities:		
Proceeds from debt financing, net of issuance costs	349	—
Proceeds from convertible note hedges	956	508
Proceeds from issuances of common stock	120	202
Repurchases of common stock	(9,001)	(3,901)
Repayments of debt and other obligations	(1,246)	(650)
Payments to settle warrants	—	(3,865)
Payments of dividends	(1,213)	(633)
Excess tax benefits from stock-based compensation	127	326
Payment of contingent consideration	(3)	—
Contributions from noncontrolling interest	(1)	(50)
Net cash used in financing activities	(9,912)	(8,063)

Effect of exchange rate changes on cash and cash equivalents	86	(55)
Net change in cash and cash equivalents	(6,366)	(2,610)
Cash and cash equivalents at beginning of period	12,851	10,027
Cash and cash equivalents at end of period	$6,485	$7,417

See accompanying notes.

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 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 June 30, 2016, the only material VIE was our joint venture with Bristol-Myers Squibb Company (BMS) which is described in Note 8, Collaborative Arrangements.

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, 2015, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Significant Accounting Policies, Estimates and Judgments

The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an ongoing basis, 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, 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, Europe and Japan.

As of June 30, 2016, our accounts receivable in Southern Europe, specifically Greece, Italy, Portugal and Spain, totaled approximately $630 million, of which $171 million were greater than 120 days past due, including $36 million 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, 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." The standard’s core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will become effective for us beginning in the first quarter of 2018. Early adoption is permitted in 2017. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. The FASB issued supplemental adoption guidance and clarification to ASU 2014-09 in March 2016, April 2016 and May 2016

within ASU 2016-08 (ASU 2016-08) "Revenue From Contracts With Customers: Principal vs. Agent Considerations," ASU 2016-10 (ASU 2016-10) "Revenue From Contracts with Customers: Identifying Performance Obligations and Licensing," and ASU 2016-12 (ASU 2016-12) "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients," respectively. We are evaluating the impact of the adoption of these standards on our Condensed Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standard Update No. 2015-17 (ASU 2015-17) "Balance Sheet Classification of Deferred Taxes." ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. Previous guidance required deferred tax liabilities and assets to be separated into current and noncurrent amounts on the balance sheet. The guidance will become effective for us beginning in the first quarter of 2017 and may be applied either prospectively or retrospectively. Early adoption is permitted. At the time of adoption, we will reclassify current deferred tax amounts on our Consolidated Balance Sheets as noncurrent. We are evaluating the impact of the method of adoption of this standard on our Condensed Consolidated Financial Statements.

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

In February 2016, the FASB issued Accounting Standard Update No. 2016-02 (ASU 2016-02) "Leases." ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize almost all 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. The guidance will become effective for us beginning in the first quarter of 2019 and is required to be adopted using a modified retrospective approach. Early adoption is permitted. We are evaluating the impact of the adoption of this standard on our Condensed Consolidated Financial Statements, however, we anticipate recognition of additional assets and corresponding liabilities related to leases on our Condensed Consolidated Balance Sheets.

In March 2016, the FASB issued Accounting Standard Update No. 2016-09 (ASU 2016-09) "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies several aspects of employee share-based payment accounting, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance will become effective for us beginning in the first quarter of 2017. Early adoption is permitted. We are evaluating the impact of the adoption of this standard on our Condensed Consolidated Financial Statements.

In June 2016, the FASB issued Accounting Standard Update No. 2016-13 (ASU 2016-13) "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires measurement and recognition of expected credit losses for financial assets held. 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. FAIR VALUE MEASUREMENTS

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

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

For our marketable securities, we review trading activity and pricing as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for

similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data; and

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

Our financial instruments consist 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 securities, foreign currency exchange contracts and equity securities are reported at their respective fair values in our Condensed Consolidated Balance Sheets. Short-term and long-term debt are reported at their amortized cost in 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):

	June 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds	$4,486	$—	$ —	$4,486	$10,161	$—	$ —	$10,161
Corporate debt securities	—	8,700	—	8,700	—	5,773	—	5,773
U.S. treasury securities	5,169	—	—	5,169	4,389	—	—	4,389
Residential mortgage and asset-backed securities	—	2,566	—	2,566	—	1,695	—	1,695
U.S. government agencies securities	—	924	—	924	—	707	—	707
Non-U.S. government securities	—	507	—	507	—	313	—	313
Certificates of deposit	—	231	—	231	—	448	—	448
Municipal debt securities	—	34	—	34	—	34	—	34
Equity securities	370	—	—	370	—	—	—	—
Foreign currency derivative contracts	—	91	—	91	—	210	—	210
Deferred compensation plan	76	—	—	76	66	—	—	66
	$10,101	$13,053	$ —	$23,154	$14,616	$9,180	$ —	$23,796
Liabilities:								
Contingent consideration	$—	$—	$ 31	$31	$—	$—	$ 59	$59
Deferred compensation plan	76	—	—	76	66	—	—	66
Foreign currency derivative contracts	—	193	—	193	—	41	—	41
	$76	$193	$ 31	$300	$66	$41	$ 59	$166

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- 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 months 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.

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 $24.4 billion at June 30, 2016 and $23.7 billion at December 31, 2015, and the carrying values were $22.1 billion at June 30, 2016 and $22.1 billion at December 31, 2015.

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Level 3 Inputs

As of June 30, 2016 and December 31, 2015, the only assets or liabilities that were measured using Level 3 inputs were our contingent consideration liabilities, which were immaterial. 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.

3. AVAILABLE-FOR-SALE SECURITIES

Estimated fair values of available-for-sale securities are generally based on prices obtained from commercial pricing services. The following table is a summary of our available-for-sale securities (in millions):

	June 30, 2016				December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	$4,486	$ —	$ —	$4,486	$10,161	$ —	$ —	$10,161
Corporate debt securities	8,651	51	(2)	8,700	5,795	1	(23)	5,773
U.S. treasury securities	5,146	23	—	5,169	4,407	—	(18)	4,389
Residential mortgage and asset-backed securities	2,559	8	(1)	2,566	1,701	—	(6)	1,695
U.S. government agencies securities	921	3	—	924	709	—	(2)	707
Non-U.S. government securities	505	2	—	507	315	—	(2)	313
Certificates of deposit	231	—	—	231	448	—	—	448
Municipal debt securities	34	—	—	34	34	—	—	34
Equity securities	357	13	—	370	—	—	—	—
Total	$22,890	$ 100	$ (3)	$22,987	$23,570	$ 1	$ (51)	$23,520

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

	June 30, 2016	December 31, 2015
Cash and cash equivalents	$4,486	$ 10,163
Short-term marketable securities	2,267	1,756
Long-term marketable securities	15,864	11,601
Other long-term assets	370	—
Total	$22,987	$ 23,520

Cash and cash equivalents in the table above exclude cash of $2.0 billion as of June 30, 2016 and $2.7 billion as of December 31, 2015.

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

	June 30, 2016	
	Amortized Cost	Fair Value
Less than one year	$6,751	$6,753
Greater than one year but less than five years	15,442	15,524
Greater than five years but less than ten years	213	212
Greater than ten years	127	128
Total	$22,533	$22,617

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

	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, 2016						
Corporate debt securities	$(2)	$ 833	$ —	$ 124	$(2)	$ 957
U.S. treasury securities	—	16	—	—	—	16
Residential mortgage and asset-backed securities	(1)	478	—	12	(1)	490
U.S. government agencies securities	—	90	—	—	—	90
Non-U.S. government securities	—	31	—	7	—	38
Total	$(3)	$ 1,448	$ —	$ 143	$(3)	$ 1,591
December 31, 2015						
Corporate debt securities	$(23)	$ 4,891	$ —	$ 43	$(23)	$ 4,934
U.S. treasury securities	(18)	4,342	—	—	(18)	4,342
Residential mortgage and asset-backed securities	(6)	1,626	—	20	(6)	1,646
U.S. government agencies securities	(2)	707	—	—	(2)	707
Non-U.S. government securities	(2)	313	—	—	(2)	313
Municipal debt securities	—	21	—	—	—	21
Total	$(51)	$ 11,900	$ —	$ 63	$(51)	$ 11,963

We held a total of 513 positions as of June 30, 2016 and 2,742 positions as of December 31, 2015 related to our debt securities that were in an unrealized loss position.

Based on our review of our available-for-sale securities, we believe we had no other-than-temporary impairments on these securities as of June 30, 2016 and December 31, 2015, because we do not intend to sell these securities nor do we believe that we will be required to sell these securities before the recovery of their amortized cost basis. Gross realized gains and gross realized losses were immaterial for the three and six months ended June 30, 2016 and 2015.

4. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign Currency Exposure

Our operations in foreign countries expose 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 are the Euro and Yen. In order to manage this risk, we may hedge a portion of our foreign currency exposures related to outstanding monetary assets and liabilities as well as forecasted product sales using foreign currency exchange forward or option contracts. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. The credit risk associated with these contracts is driven by changes in interest and currency exchange rates and, as a result, varies over time. By working only with major banks and closely monitoring current market conditions, we seek to limit the risk that counterparties to these contracts may be unable to perform. We also seek to limit our risk of loss by entering into contracts that permit net settlement at maturity. Therefore, our overall risk of loss in the event of a counterparty default is limited to the amount of any unrecognized gains on outstanding contracts (i.e., those contracts that have a positive fair value) at the date of default. We do not enter into derivative contracts for trading purposes.

We hedge our exposure to foreign currency exchange rate fluctuations for certain monetary assets and liabilities of our entities 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, in 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 regression analysis which calculates the change in cash flow as a result of the hedge instrument. On a quarterly basis, we assess retrospective hedge effectiveness using a dollar offset approach. We exclude time value from our effectiveness testing and recognize changes in the time value of the hedge in Other income (expense), net. The effective component of our hedge is recorded as an unrealized gain or loss on the hedging instrument in Accumulated other comprehensive income (loss) (AOCI) 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 AOCI at June 30, 2016 are expected to be reclassified to product sales within 12 months.

The cash flow effects of our derivative contracts for the six months ended June 30, 2016 and 2015 are included within Net cash provided by operating activities in our Condensed Consolidated Statements of Cash Flows.

We had notional amounts on foreign currency exchange contracts outstanding of $9.7 billion at June 30, 2016 and $9.1 billion at December 31, 2015.

While all of our derivative contracts allow us the right to offset assets or liabilities, we have presented amounts on a gross basis. Under the International Swap Dealers Association, Inc. master agreements with the respective counterparties of the foreign currency exchange contracts, subject to applicable requirements, we are allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. The following table summarizes the classification and fair values of derivative instruments in our Condensed Consolidated Balance Sheets (in millions):

	June 30, 2016			
	Asset Derivatives		Liability Derivatives	
	Classification	Fair Value	Classification	Fair Value
Derivatives designated as hedges:				
Foreign currency exchange contracts	Other current assets	$ 76	Other accrued liabilities	$(181)
Foreign currency exchange contracts	Other long-term assets	14	Other long-term obligations	(12)
Total derivatives designated as hedges		90		(193)
Derivatives not designated as hedges:				
Foreign currency exchange contracts	Other current assets	1	Other accrued liabilities	—
Total derivatives not designated as hedges		1		—
Total derivatives		$ 91		$(193)

	December 31, 2015			
	Asset Derivatives		Liability Derivatives	
	Classification	Fair Value	Classification	Fair Value
Derivatives designated as hedges:				
Foreign currency exchange contracts	Other current assets	$ 200	Other accrued liabilities	$(32)
Foreign currency exchange contracts	Other long-term assets	9	Other long-term obligations	(8)
Total derivatives designated as hedges		209		(40)
Derivatives not designated as hedges:				
Foreign currency exchange contracts	Other current assets	1	Other accrued liabilities	(1)
Total derivatives not designated as hedges		1		(1)
Total derivatives		$ 210		$(41)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Derivatives designated as hedges:				
Gains (losses) recognized in AOCI (effective portion)	$(55)	$(113)	$(215)	$276
Gains (losses) reclassified from AOCI into product sales (effective portion)	$(10)	$187	$76	$332
Gains (losses) recognized in Other income (expense), net (ineffective portion and amounts excluded from effectiveness testing)	$13	$6	$27	$7
Derivatives not designated as hedges:				
Gains (losses) recognized in Other income (expense), net	$(115)	$(40)	$(266)	$68

From time to time, we may discontinue cash flow hedges and as a result, record related amounts in Other income (expense), net in our Condensed Consolidated Statements of Income. There were no material amounts recorded in Other income (expense), net for the three and six months ended June 30, 2016 and 2015 as a result of the discontinuance of cash flow hedges.

As of June 30, 2016 and December 31, 2015, we held one type of financial instrument, derivative contracts related to foreign currency exchange contracts. The following table summarizes the potential effect of offsetting derivatives by type of financial instrument in our Condensed Consolidated Balance Sheets (in millions):

				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
Description	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheet	Derivative Financial Instruments	Cash Collateral Received/Pledged	Net Amount (Legal Offset)
As of June 30, 2016						
Derivative assets	$ 91	$ —	$ 91	$ (87)	$ —	$ 4
Derivative liabilities	(193)	—	(193)	87	—	(106)
As of December 31, 2015						
Derivative assets	$ 210	$ —	$ 210	$ (38)	$ —	$ 172
Derivative liabilities	(41)	—	(41)	38	—	(3)

May 2016 Convertible Senior Notes and Convertible Note Hedges

In March 2016, we exercised our option to elect cash for the settlement of the conversion value in excess of the principal amount (the conversion spread) of our remaining convertible senior notes due in May 2016 (the Convertible Notes) and for the related convertible note hedges. Until our cash settlement election, the conversion spread of the Convertible Notes and the convertible note hedges met the applicable criteria for equity classification and were therefore recorded in stockholders' equity in our Condensed Consolidated Balance Sheets. Upon our cash settlement election, we reclassified $733 million of the fair value of the conversion spread from Stockholders' equity to Current portion of long-term debt and other obligations, net, and reclassified $733 million of the fair value of the convertible note hedges from Stockholders' equity to Prepaid and other current assets in our Condensed Consolidated Balance Sheets. At March 31, 2016, we revalued both the conversion spread and the convertible note hedges at $792 million, respectively, and recorded a loss of $59 million on the conversion spread and a gain of $59 million on the convertible note hedges in our Condensed Consolidated Statements of Income.

During the second quarter of 2016, we settled both the conversion spread and the convertible note hedges associated with the Convertible Notes. Upon settlement, we revalued both the conversion spread and the convertible note hedges at $861 million, respectively, and recorded a loss of $69 million on the conversion spread and a gain of $69 million on the convertible note hedges in our Condensed Consolidated Statements of Income.

5. OTHER FINANCIAL INFORMATION

Inventories

Inventories are summarized as follows (in millions):

	June 30, 2016	December 31, 2015
Raw materials	$ 1,277	$ 1,332
Work in process	530	542
Finished goods	996	852
Total	$ 2,803	$ 2,726

Reported as:		
Inventories	$ 1,862	$ 1,955
Other long-term assets	941	771
Total	$ 2,803	$ 2,726

Amounts reported as Other long-term assets primarily consisted of raw materials as of June 30, 2016 and December 31, 2015.

The joint ventures formed by Gilead Sciences, LLC and BMS, which are included in our Condensed Consolidated Financial Statements, held efavirenz active pharmaceutical ingredient in inventory. This efavirenz inventory was purchased from BMS at BMS's estimated net selling price of efavirenz and totaled $1.2 billion as of June 30, 2016 and $1.3 billion as of December 31, 2015. See Note 8, Collaborative Arrangements for further information.

Prepaid and other current assets

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

	June 30, 2016	December 31, 2015
Prepaid taxes	$ 330	$ 773
Other prepaid expenses	305	240
Other current assets	517	505
Total prepaid and other current assets	$ 1,152	$ 1,518

Other accrued liabilities

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

	June 30, 2016	December 31, 2015
Branded Prescription Drug fee	$ 513	$ 649
Output tax payable	368	376
Compensation and employee benefits	292	380
Other accrued expenses	1,657	1,767
Total other accrued liabilities	$ 2,830	$ 3,172

6. INTANGIBLE ASSETS

The following table summarizes the carrying amounts of our Intangible assets, net (in millions):

	June 30, 2016	December 31, 2015
Finite-lived intangible assets	$ 9,395	$ 9,815
Indefinite-lived intangible assets	318	432
Total intangible assets	$ 9,713	$ 10,247

Finite-Lived Intangible Assets

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

	June 30, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible asset - sofosbuvir	$10,720	$ 1,806	$10,720	$ 1,456
Intangible asset - Ranexa	688	413	688	363
Other	455	249	455	229
Total	$11,863	$ 2,468	$11,863	$ 2,048

Amortization expense related to finite-lived intangible assets included primarily in Cost of goods sold in our Condensed Consolidated Statements of Income totaled $210 million and $420 million for the three and six months ended June 30, 2016 and $207 million and $413 million for the three and six months ended June 30, 2015, respectively. As of June 30, 2016, the estimated future amortization expense associated with our finite-lived intangible assets for the remaining six months of 2016 and each of the five succeeding fiscal years and thereafter is as follows (in millions):

Fiscal Year	Amount
2016 (remaining six months)	$ 419
2017	844
2018	849
2019	741
2020	713
2021 and thereafter	5,829
Total	$ 9,395

Indefinite-Lived Intangible Assets

The following table summarizes our indefinite-lived intangible assets (in-process research and development) (in millions):

	June 30, 2016	December 31, 2015
Indefinite-lived intangible asset - momelotinib	$201	$ 315
Indefinite-lived intangible assets - Other	117	117
Total	$318	$ 432

In the first quarter of 2016, the estimated fair value of the intangible asset related to momelotinib declined to $201 million due to changes in its planned clinical development, and as a result, we recorded an impairment charge of $114 million within Research and development expenses in our Condensed Consolidated Statements of Income.

7. ACQUISITION

In May 2016, we acquired Nimbus Apollo, Inc., a privately held company, and its Acetyl-CoA Carboxylase inhibitor program, which is being evaluated in Phase 1 trials for the potential treatment of non-alcoholic steatohepatitis, hepatocellular carcinoma and other diseases.

The consideration included a payment of $400 million and contingent development and regulatory milestone-based payments of up to $800 million. The transaction did not meet the requirements to be accounted for as a business combination under ASC 805 - Business Combinations and therefore was accounted for as an asset acquisition. As a result, the payment of $400 million was recorded within Research and development expenses in our Condensed Consolidated Statements of Income.

8. COLLABORATIVE ARRANGEMENTS

We enter into collaborative arrangements with third parties for the development and commercialization of certain products. Both parties are active participants in the operating activities of the collaboration and exposed to significant risks and rewards depending on the commercial success of the activities. Selected information related to our collaborative arrangements follows.

Bristol-Myers Squibb Company

North America

In 2004, we entered into a collaboration arrangement with BMS to develop and commercialize a single-tablet regimen containing our Truvada and BMS's Sustiva (efavirenz) in the United States. This combination was approved for use in the United States in 2006 and is sold under the brand name Atripla. We and BMS structured this collaboration as a joint venture that operates as a limited liability company named Bristol-Myers Squibb & Gilead Sciences, LLC, which we consolidate. We and BMS granted royalty free sublicenses to the joint venture for the use of our respective company owned technologies and, in return, were granted a license by the joint venture to use any intellectual property that results from the collaboration. In 2006, we and BMS amended the joint venture's collaboration agreement to allow the joint venture to sell Atripla in Canada. The economic interests of the joint venture held by us and BMS (including a share of revenues and out-of-pocket expenses) are based on the portion of the net selling price of Atripla attributable to efavirenz and Truvada. Since the net selling price for Truvada may change over time relative to the net selling price of efavirenz, both our and BMS's respective economic interests in the joint venture may vary annually. We and BMS shared marketing and sales efforts. Starting in the second quarter of 2011, except for a limited number of activities that are jointly managed, the parties no longer coordinate detailing and promotional activities in the United States, and the parties reduced their joint promotional efforts since we launched Complera in August 2011 and Stribild in August 2012. The parties continue to collaborate on activities such as manufacturing, regulatory, compliance and pharmacovigilance. The daily operations of the joint venture are governed by four primary joint committees formed by both BMS and Gilead. We are responsible for accounting, financial reporting, tax reporting, manufacturing and product distribution for the joint venture. Both parties provide their respective bulk active pharmaceutical ingredients to the joint venture at their approximate market values. The agreement will continue until terminated by the mutual agreement of the parties. In addition, either party may terminate the other party's participation in the collaboration within 30 days after the launch of at least one generic version of such other party's single agent products (or the double agent products). The terminating party then has the right to continue to sell Atripla and become the continuing party, but will be obligated to pay the terminated party certain royalties for a three-year period following the effective date of the termination.

As of June 30, 2016 and December 31, 2015, 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 were primarily included in Inventories in our Condensed Consolidated Balance Sheets.

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

	June 30, 2016	December 31, 2015
Total assets	$2,197	$ 2,464
Cash and cash equivalents	128	166
Accounts receivable, net	287	269
Inventories	1,780	2,027
Total liabilities	803	1,055
Accounts payable	390	606
Other accrued liabilities	413	449

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

Europe

In 2007, Gilead Sciences Ireland UC, our wholly-owned subsidiary, and BMS entered into a collaboration agreement with BMS which sets forth the terms and conditions under which we and BMS commercialize and distribute Atripla in the European Union, Iceland, Liechtenstein, Norway and Switzerland (collectively, the European Territory). The parties formed a limited liability

company which we consolidate, to manufacture Atripla for distribution in the European Territory using efavirenz that it purchases from BMS at BMS's estimated net selling price of efavirenz in the European Territory. We are responsible for manufacturing, product distribution, inventory management and warehousing. Through our local subsidiaries, we have primary responsibility for order fulfillment, collection of receivables, customer relations and handling of sales returns in all the territories where we and BMS promote Atripla. In general, the parties share revenues and out-of-pocket expenses in proportion to the net selling prices of the components of Atripla, Truvada and efavirenz. Starting in 2012, except for a limited number of activities that are jointly managed, the parties no longer coordinate detailing and promotional activities in the European Territory. We are responsible for accounting, financial reporting and tax reporting for the collaboration. As of June 30, 2016 and December 31, 2015, efavirenz purchased from BMS at BMS's estimated net selling price of efavirenz in the European Territory is included in Inventories in our Condensed Consolidated Balance Sheets.

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

The agreement will terminate upon the expiration of the last-to-expire patent which affords market exclusivity to Atripla or one of its components in the European Territory. In addition, since December 31, 2013, either party may terminate the agreement for any reason and such termination will be effective two calendar quarters after notice of termination. The non-terminating party has the right to continue to sell Atripla and become the continuing party, but will be obligated to pay the terminating party certain royalties for a three-year period following the effective date of the termination. In the event the continuing party decides not to sell Atripla, the effective date of the termination will be the date Atripla is withdrawn in each country or the date on which a third party assumes distribution of Atripla, whichever is earlier.

Galapagos NV

During the first quarter of 2016, we closed on a license and collaboration agreement with Galapagos NV (Galapagos), a clinical-stage biotechnology company based in Belgium, for the development and commercialization of filgotinib, a JAK1-selective inhibitor being evaluated in Phase 2 trials for inflammatory disease indications.

Upon closing of the license and collaboration agreement, we made an up-front license fee payment of $300 million and a $425 million equity investment in Galapagos by subscribing for new shares at a price of €58 per share, including issuance premium. As a result, we received 6.8 million new shares of Galapagos, representing 14.75% of their outstanding share capital. The license fee payment of $300 million and the issuance premium on the equity investment of $68 million were recorded within Research and development expenses in our Condensed Consolidated Statements of Income. The equity investment, net of issuance premium, of $357 million was recorded as an available-for-sale security in Other long-term assets in our Condensed Consolidated Balance Sheets. Galapagos is eligible to receive development and regulatory milestone-based payments of up to $755 million, sales-based milestone payments of up to $600 million, plus tiered royalties on global sales starting at 20%, with the exception of certain co-promotion territories where profits would be shared equally.

Under the terms of the agreement, we have an exclusive, worldwide, royalty-bearing, sublicensable license for filgotinib and products containing filgotinib. We are primarily responsible for development and seeking regulatory approval related to filgotinib. We are responsible for 80% and Galapagos is responsible for 20% of the development costs incurred. We are also responsible for the manufacturing and commercialization activities. Galapagos has the option to co-promote filgotinib in certain territories, in which case, we and Galapagos will share profits equally.

9. DEBT AND CREDIT FACILITY

Financing Arrangements

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

Type of Borrowing	Issue Date	Due Date	Interest Rate	June 30, 2016	December 31, 2015 [1]
Convertible Notes	July 2010	May 2016	1.625%	$—	$ 283
Senior Unsecured	December 2011	December 2016	3.05%	700	699
Senior Unsecured	September 2015	September 2018	1.85%	997	997
Senior Unsecured	March 2014	April 2019	2.05%	498	498
Senior Unsecured	November 2014	February 2020	2.35%	497	497
Senior Unsecured	September 2015	September 2020	2.55%	1,990	1,989
Senior Unsecured	March 2011	April 2021	4.50%	993	992
Senior Unsecured	December 2011	December 2021	4.40%	1,245	1,244
Senior Unsecured	September 2015	September 2022	3.25%	995	995
Senior Unsecured	March 2014	April 2024	3.70%	1,741	1,740
Senior Unsecured	November 2014	February 2025	3.50%	1,743	1,742
Senior Unsecured	September 2015	March 2026	3.65%	2,725	2,724
Senior Unsecured	September 2015	September 2035	4.60%	988	988
Senior Unsecured	December 2011	December 2041	5.65%	995	995
Senior Unsecured	March 2014	April 2044	4.80%	1,732	1,732
Senior Unsecured	November 2014	February 2045	4.50%	1,729	1,728
Senior Unsecured	September 2015	March 2046	4.75%	2,213	2,212
Floating-rate Borrowings	May 2016	May 2019	Variable	346	—
Total debt, net				$22,127	$ 22,055
Less current portion				700	982
Total long-term debt, net				$21,427	$ 21,073

(1) In connection with our adoption of the ASU relating to the presentation of debt issuance costs during the first quarter of 2016, debt balances at December 31, 2015 have been retrospectively adjusted by $123 million to include unamortized debt issuance costs. Prior to our adoption of the ASU, these unamortized debt issuance costs were included in Prepaid and other current assets and Other long-term assets in our Condensed Consolidated Balance Sheets.

Convertible Notes

During the six months ended June 30, 2016, our Convertible Notes matured and we repaid $285 million of principal balance related to the Convertible Notes. We also paid $956 million in cash related to the conversion spread of the Convertible Notes, which represents the conversion value in excess of the principal amount, and received $956 million in cash from the convertible note hedges related to the Convertible Notes.

As of June 30, 2016, there were 9 million shares of our common stock underlying our warrants associated with our Convertible Notes (the 2016 Warrants). The 2016 Warrants have a strike price of $27.86 per share and expire during the 40 trading-day period commencing on August 1, 2016 and ending on September 26, 2016. On July 27, 2016, we exercised our option to settle the warrants in cash.

Credit Facility

In May 2016, we terminated our existing revolving credit facility and entered into a new $2.5 billion, five-year revolving credit facility maturing in May 2021. The facility can be used for working capital requirements and for general corporate purposes, including, without limitation, acquisitions. As of June 30, 2016, there were no amounts outstanding under the revolving credit facility.

We are required to comply with certain covenants under the credit agreements and note indentures governing our senior notes. As of June 30, 2016, we were not in violation of any covenants.

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10. COMMITMENTS AND CONTINGENCIES

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

Litigation Related to Sofosbuvir

In January 2012, we acquired Pharmasset, Inc. (Pharmasset). Through the acquisition, we acquired sofosbuvir, a nucleotide analog that acts to inhibit the replication of the hepatitis C virus (HCV). In December 2013, we received U.S. Food and Drug Administration (FDA) approval of sofosbuvir, now known commercially as Sovaldi. In October 2014, we also received approval of the fixed-dose combination of ledipasvir and sofosbuvir (LDV/SOF), now known commercially as Harvoni. In June 2016, we received approval of the fixed-dose combination of sofosbuvir and velpatasvir (SOF/VEL), now known commercially as Epclusa. We have received a number of contractual and intellectual property claims regarding sofosbuvir. While we have carefully considered these claims both prior to and following the acquisition and believe they are without merit, we cannot predict the ultimate outcome of such claims or range of loss.

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

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

Interference Proceedings and Litigation with Idenix Pharmaceuticals, Inc. (Idenix)

In February 2012, we received notice that the U.S. Patent and Trademark Office (USPTO) had declared Interference No. 105,871 (First Idenix Interference) between our U.S. Patent No. 7,429,572 (the ’572 patent) and Idenix’s pending U.S. Patent Application No. 12/131,868. An interference is a proceeding before the USPTO designed to determine who was the first to invent the subject matter claimed by both parties. In January 2014, the USPTO Patent Trial and Appeal Board (PTAB) determined that Pharmasset and not Idenix was the first to invent the compounds in dispute and accordingly we prevailed in the First Idenix Interference. Idenix has appealed the PTAB’s decisions to the U.S. District Court for the District of Delaware.

In December 2013, after receiving our request to do so, the USPTO declared Interference No. 105,981 (Second Idenix Interference) between our pending U.S. Patent Application No. 11/854,218 and Idenix’s U.S. Patent No. 7,608,600 (the ’600 patent). The ’600 patent is related to the Idenix patent application at issue in the First Idenix Interference and includes claims directed to methods of treating HCV with nucleoside compounds. The purpose of the Second Idenix Interference was to determine who was first to invent the claimed methods of treating HCV with compounds similar to those which were involved in the First Idenix Interference. In March 2015, the PTAB determined that Pharmasset and not Idenix was the first to invent the claimed methods of treating HCV. Idenix appealed this decision in both the U.S. District Court for the District of Delaware and the U.S. Court of Appeal for the Federal Circuit (CAFC). We have filed a motion to dismiss the appeal in Delaware and have responded to the appeal filed in the CAFC. The CAFC has not yet set a hearing date for this appeal. The Delaware court has stayed the appeal relating to the Second Idenix Interference.

We believe that the Idenix claims involved in the First and Second Idenix Interferences, and similar U.S. and foreign patents claiming the same compounds, metabolites and uses thereof, are invalid. As a result, we filed an Impeachment Action in the Federal Court of Canada to invalidate Idenix Canadian Patent No. 2,490,191 (the ’191 patent), which is the Canadian patent that corresponds to the ’600 patent. Idenix asserted that the commercialization of Sovaldi in Canada will infringe its ’191 patent and that our Canadian Patent No. 2,527,657, corresponding to the ’572 patent involved in the First Idenix Interference, is invalid. In November 2015, the Canadian court held that Idenix’s patent is

invalid and that Gilead's patent is valid. Idenix appealed the decision to the Canadian Federal Court of Appeal in November 2015.

We filed a similar legal action in Norway in the Oslo District Court seeking to invalidate Idenix's Norwegian patent corresponding to the '600 patent. In September 2013, Idenix filed an invalidation action in the Norwegian proceedings against our Norwegian Patent No. 333700 patent, which corresponds to the '572 patent. In March 2014, the Norwegian court found all claims in the Idenix Norwegian patent to be invalid and upheld the validity of all claims in the challenged Gilead patent. Idenix

appealed the decision to the Norwegian Court of Appeal. In April 2016, the Court of Appeal issued its decision invalidating the Idenix patent and upholding the Gilead patent. Idenix has not filed a further appeal.

In January 2013, we filed a legal action in the Federal Court of Australia seeking to invalidate Idenix's Australian patent corresponding to the '600 patent. In April 2013, Idenix asserted that the commercialization of Sovaldi in Australia infringes its Australian patent corresponding to the '600 patent. In March 2016, the Australia court revoked Idenix's Australian patent. Idenix has appealed this decision. The appeal hearing is scheduled for November 2016.

In March 2014, the European Patent Office (EPO) granted Idenix European Patent No. 1 523 489 (the '489 patent), which corresponds to the '600 patent. The same day that the '489 patent was granted, we filed an opposition with the EPO seeking to revoke the '489 patent. An opposition hearing was held in February 2016, and the EPO ruled in our favor and revoked the '489 patent. In March 2014, Idenix also initiated infringement proceedings against us in the United Kingdom (UK), Germany and France alleging that the commercialization of Sovaldi would infringe the UK, German and French counterparts of the '489 patent. A trial was held in the UK in October 2014 to determine the issues of infringement and validity of the Idenix UK patent. In December 2014, the High Court of Justice of England and Wales (UK Court) invalidated all challenged claims of the '489 patent on multiple grounds. Idenix appealed. The appeal hearing was held in July 2016. In March 2015, the German court in Düsseldorf determined that the Idenix patent was highly likely to be invalid and stayed the infringement proceedings pending the outcome of the opposition hearing held by the EPO in February 2016. Idenix has not appealed this decision of the German court staying the proceedings. Upon Idenix's request, the French proceedings have been stayed; however, in March 2016, Idenix requested that the French litigation be reactivated.

Idenix has not been awarded patents corresponding to the '600 patent in Japan or China. In the event such patents are issued, we expect to challenge them in proceedings similar to those we invoked in other countries.

In December 2013, Idenix, Universita Degli Studi di Cagliari (UDSG), Centre National de la Recherche Scientifique and L'Université Montpellier II sued us in U.S. District Court for the District of Delaware alleging that the commercialization of sofosbuvir will infringe the '600 patent and that an interference exists between the '600 patent and our U.S. Patent No. 8,415,322. Also in December 2013, Idenix and UDSG sued us in the U.S. District Court for the District of Massachusetts alleging that the commercialization of sofosbuvir will infringe U.S. Patent Nos. 6,914,054 and 7,608,597. In June 2014, the court transferred the Massachusetts litigation to the U.S. District Court for the District of Delaware. The Delaware district court has set trial dates in October 2016 and December 2016 for resolution of these issues. A decision by the district court may be appealed by either party to the CAFC.

Idenix was acquired by Merck & Co. Inc. (Merck) in August 2014, and Merck continues to pursue the Idenix claims described herein.

Litigation with Merck

In August 2013, Merck contacted us requesting that we pay royalties on the sales of sofosbuvir and obtain a license to U.S. Patent No. 7,105,499 (the '499 patent) and U.S. Patent No. 8,481,712 (the '712 patent), which it co-owns with Isis Pharmaceuticals, Inc. The '499 and '712 patents cover compounds which do not include, but may relate to, sofosbuvir. We filed a lawsuit in August 2013 in the U.S. District Court for the Northern District of California seeking a declaratory judgment that the Merck patents are invalid and not infringed. During patent prosecution, Merck amended its patent application in an attempt to cover compounds related to sofosbuvir. Initially, in March 2016, a jury determined that we had not established that Merck's patents are invalid for lack of written description or lack of enablement and awarded Merck $200 million in damages. However, in June 2016, the court ruled in Gilead's favor on our defense of unclean hands. As a result, the court determined that Merck may not recover any damages from us for the '499 and '712 patents. We have filed a motion seeking recovery of certain fees and have requested judgment that the jury's earlier verdict be vacated. As a result, during the second quarter of 2016, we reversed the $200 million litigation reserve that was recorded in Cost of goods sold in our Condensed Consolidated Statements of Income during the first quarter of 2016.

Once the court has heard and ruled on Gilead's motions, the case will be ready for appeal. Merck has filed a notice of appeal to the Court of Appeals for the Federal Circuit regarding the court's decision on our defense of unclean hands. If the decision on our defense of unclean hands is reversed on appeal, we may be required to pay damages and a royalty on sales of sofosbuvir-containing products following the appeal. In that event, the judge has indicated that she

will determine the amount of the royalty, if necessary, at the conclusion of any appeal in this case.

Litigation with AbbVie, Inc. (AbbVie)

AbbVie has obtained U.S. Patent Nos. 8,466,159, 8,492,386, 8,680,106, 8,685,984, and 8,809,265 (the AbbVie Patents) which purport to cover the use of a combination of LDV/SOF (or Harvoni) for the treatment of HCV. We are aware that AbbVie has pending patent applications in the United States and granted and pending applications in other countries. We own published and pending patent applications directed to the use of combinations for the treatment of HCV, and, specifically, to the combination of LDV/SOF. Certain of our applications were filed before the AbbVie Patents. For this reason and others, we believe the AbbVie Patents are invalid.

Accordingly, in December 2013, we filed a lawsuit in the U.S. District Court for the District of Delaware seeking declaratory judgment that the AbbVie Patents are invalid and unenforceable, as well as other relief. We believe that Abbott Laboratories, Inc. and AbbVie conspired to eliminate competition in the HCV market by falsely representing to the USPTO that they, and not Gilead, invented methods of treating HCV using a combination of LDV/SOF. In February and March 2014, AbbVie responded to our lawsuit by also filing two lawsuits in the U.S. District Court for the District of Delaware alleging that our fixed-dose combination of LDV/SOF will infringe its patents. All of those lawsuits have been consolidated into a single action. In the United States, either party may appeal a decision by the District Court to the CAFC. The AbbVie Patents have not blocked or delayed the commercialization of our combination products in the United States, Canada, or Europe. We do not expect any other foreign patents to block or delay the commercialization around the world. The court has set a trial date of September 12, 2016 for this lawsuit.

Additionally, AbbVie has obtained U.S. Patent No. 9,034,832 which purports to cover a solid oral dosage form containing ledipasvir. Accordingly, in May 2015, we filed a lawsuit in the U.S. District Court for the District of Delaware seeking declaratory judgment that AbbVie's patent is invalid, as well as other relief. The AbbVie Patents have not blocked the commercialization of our combination products. The court has set a trial date of July 31, 2017 for this lawsuit.

In August 2015, we filed an impeachment action against AbbVie seeking a declaration that AbbVie's Canadian Patent No. 2,811,250 (the '250 patent), which purports to cover the use of a combination of LDV/SOF for the treatment of HCV, is invalid. On the same day, AbbVie filed an infringement action against us asserting that commercialization of Harvoni in Canada will infringe the '250 patent. The impeachment action has been stayed and we have counterclaimed for invalidity in the infringement proceeding. The court has set a trial date of April 11, 2018 for this impeachment action.

Additionally, AbbVie has obtained Canadian Patent No. 2,857,339 (the '339 patent) which purports to cover a solid composition that contains ledipasvir. In November 2015, AbbVie filed an infringement action against us asserting that commercialization of Harvoni in Canada infringes the '339 patent. We have filed a counterclaim asserting the invalidity of AbbVie's patent. The court has set a trial date of October 15, 2018 for this impeachment action.

In November 2015, AbbVie filed a lawsuit against us in the Regional Court Düsseldorf for infringement of two quasi-patents, known as "utility models." Utility models are unexamined IP rights and are not the same as standard patents. One utility model, DE 20 2012 013 117, purports to cover the use of a combination of direct-acting antivirals which includes at least an HCV polymerase inhibitor and an HCV NS5A inhibitor in the treatment of HCV; the other utility model, DE 21 2012 000 197, purports to cover a solid dispersion that includes ledipasvir. The court has set a trial date of March 23, 2017 for this lawsuit.

European Patent Claims

In February 2015, several parties filed oppositions in the EPO requesting revocation of our granted European patent covering sofosbuvir that expires in 2028. In January 2016, several parties filed oppositions in the EPO requesting revocation of our granted European patent covering tenofovir alafenamide (TAF) that expires in 2021. In March 2016, three parties filed oppositions in the EPO requesting revocation of our granted European patent covering cobicistat that expires in 2027. While we are confident in the strength of our patents, we cannot predict the ultimate outcome of these oppositions. If we are unsuccessful in defending these oppositions, some or all of our patent claims may be narrowed or revoked and the patent protection for sofosbuvir, TAF and cobicistat in Europe could be substantially shortened or eliminated entirely. If our patents are revoked, and no other European patents are granted covering these compounds, our exclusivity may be based entirely on regulatory exclusivity granted by the European Medicines Agency. Sovaldi has been granted regulatory exclusivity that will prevent generic sofosbuvir from entering the

European Union for 10 years following approval of Sovaldi, or January 2024. If we lose exclusivity for Sovaldi prior to 2028, our expected revenues and results of operation could be negatively impacted for the years including and succeeding the year in which such exclusivity is lost, which may cause our stock price to decline.

Litigation with Generic Manufacturers

As part of the approval process for some of our products, FDA granted us a New Chemical Entity (NCE) exclusivity period during which other manufacturers' applications for approval of generic versions of our product will not be approved. Generic manufacturers may challenge the patents protecting products that have been granted NCE exclusivity one year prior to the end of the NCE exclusivity period. Generic manufacturers have sought and may continue to seek FDA approval for a similar or identical

drug through an abbreviated new drug application (ANDA), the application form typically used by manufacturers seeking approval of a generic drug. The sale of generic versions of our products earlier than their patent expiration would have a significant negative effect on our revenues and results of operations.

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

HIV Products

In November 2011, December 2011 and August 2012, we received notices that Teva Pharmaceuticals (Teva) submitted an abbreviated new drug submission (ANDS) to the Canadian Minister of Health requesting permission to manufacture and market generic versions of Truvada, Atripla and Viread. In the notices, Teva alleges that the patents associated with Truvada, Atripla and Viread are invalid, unenforceable and/or will not be infringed by Teva's manufacture, use or sale of generic versions of those products. We filed lawsuits against Teva in the Federal Court of Canada seeking an order of prohibition against approval of these applications.

In December 2013, the court issued an order prohibiting the Canadian Minister of Health from approving Teva's generic versions of our Viread, Truvada and Atripla products until expiry of our patents in July 2017. Teva has appealed that decision. The court's decision did not rule on the validity of the patents and accordingly the only issue on appeal is whether the Canadian Minister of Health should be prohibited from approving Teva's products. The appeal will be heard by the Canadian Federal Court of Appeal after the trial in the Impeachment Action filed by Teva in August 2012 seeking invalidation of one of our Canadian patents associated with Viread. The court will determine the validity of the patent in the pending Impeachment Action. A trial in the Impeachment Action is scheduled for November 2016. If Teva is successful in invalidating the patent, Teva may be able to launch generic versions of our Viread, Truvada and Atripla products in Canada prior to the expiry of our patent.

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

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

In May 2016, we received notices that Aurobindo Pharma (Aurobindo) submitted ANDAs to FDA requesting permission to manufacture and market generic versions of Emtriva and Truvada. In the notices, Aurobindo alleges that two of the patents associated with our emtricitabine tablets and four of the patents associated with our emtricitabine and tenofovir disoproxil fumarate fixed dose combination tablets are invalid, unenforceable and/or will not be infringed by Aurobindo's manufacture, use or sale of generic versions of Emtriva and Truvada, respectively. In June 2016 and July 2016, we filed lawsuits against Aurobindo in the U.S. District Court for the District of New Jersey for infringement of the patents associated with Emtriva and Truvada.

Letairis

In February 2015, we received notice that Watson Laboratories, Inc. (Watson) submitted an ANDA to FDA requesting permission to manufacture and market a generic version of Letairis. In the notice, Watson alleges that one of the patents associated with ambrisentan tablets is invalid, unenforceable and/or will not be infringed by Watson's

manufacture, use or sale of a generic version of Letairis. In April 2015, we filed a lawsuit against Watson in the U.S. District Court for the District of New Jersey for infringement of our patents.

In June 2015, we received notice that SigmaPharm Laboratories, LLC (SigmaPharm) submitted an ANDA to FDA requesting permission to manufacture and market a generic version of Letairis. In the notice, SigmaPharm alleges that one of the patents associated with ambrisentan tablets is invalid, unenforceable and/or will not be infringed by SigmaPharm's manufacture, use or

sale of a generic version of Letairis. In June 2015, we filed a lawsuit against SigmaPharm in the U.S. District Court for the District of New Jersey for infringement of our patents.

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 claims in the patents may be narrowed or invalidated and the patent protection for our products could be substantially shortened. Further, if all of the patents covering one or more products are invalidated, FDA or the Canadian Minister of Health could approve the requests to manufacture a generic version of such products in the United States or Canada, respectively, prior to the expiration date of those patents. The sale of generic versions of these products earlier than their patent expiration would have a significant negative effect on our revenues and results of operations.

TAF Litigation

In January 2016, AIDS Healthcare Foundation, Inc. (AHF) filed a complaint with the U.S. District Court for the Northern District of California against Gilead, Japan Tobacco, Inc., Japan Tobacco International, U.S.A. (together, Japan Tobacco), and Emory University (Emory). In April 2016, AHF amended its complaint to add Janssen Sciences Ireland UC (Janssen) and Johnson & Johnson Inc. (J&J) as defendants. AHF claims that U.S. Patent Nos. 7,390,791; 7,800,788; 8,754,065; 8,148,374; and 8,633,219 are invalid. In addition, AHF claims that Gilead, independently and together with Japan Tobacco, Akros, Janssen and J&J, is violating federal and state antitrust and unfair competition laws in the market for sales of TAF by offering TAF as part of a fixed-dose combination product with elvitegravir, cobicistat and emtricitabine (Genvoya), a fixed-dose combination product with elvitegravir and rilpivirine (Odefsey) and in a fixed-dosed combination product with elvitegravir (Descovy). AHF seeks a declaratory judgment of invalidity against each of the patents as well as monetary damages. In May 2016, we, Japan Tobacco, Janssen, and J&J filed motions to dismiss all of AHF's claims, which AHF opposed. In June 2016, a hearing was held on the motions to dismiss. In July 2016, the judge granted our and the other defendants' motions and dismissed all of AHF's claims. AHF may elect to appeal this decision.

Department of Justice Investigations

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

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

Massachusetts Attorney General Investigation

In January 2016, we received a letter from the Massachusetts Attorney General that their office is considering whether our pricing of Sovaldi and Harvoni may constitute an unfair trade practice in violation of Massachusetts law. In February 2016, the Massachusetts Attorney General's office served us with a Civil Investigative Demand (CID) requesting that we produce documents related to our HCV products. In July 2016, the Massachusetts Attorney General's office notified us of their decision to suspend Gilead's obligations under the CID until further notice.

Other Matters

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

11. STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity (in millions):

	Gilead Stockholders' Equity						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2015	1,422	$ 1	$ 444	$ 88	$18,001	$ 579	$ 19,113
Net income	—	—	—	—	7,063	1	7,064
Other comprehensive loss, net of tax	—	—	—	(134)	—	—	(134)
Change in noncontrolling interest	—	—	—	—	—	(1)	(1)
Issuances under employee stock purchase plan	1	—	48	—	—	—	48
Issuances under equity incentive plans	8	—	69	—	—	—	69
Stock-based compensation	—	—	183	—	—	—	183
Tax benefits from employee stock plans	—	—	125	—	—	—	125
Repurchases of common stock	(100)	—	(239)	—	(8,897)	—	(9,136)
Convertible Notes settlement	—	—	(95)	—	—	—	(95)
Convertible note hedges settlement	—	—	95	—	—	—	95
Dividends declared	—	—	—	—	(1,218)	—	(1,218)
Reclassification of conversion spread of Convertible Notes	—	—	(733)	—	—	—	(733)
Reclassification of convertible note hedges	—	—	733	—	—	—	733
Reclassification to equity component of currently redeemable Convertible Notes	—	—	2	—	—	—	2
Balance at June 30, 2016	1,331	$ 1	$ 632	$ (46)	$14,949	$ 579	$ 16,115

Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Items	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Cash Flow Hedges	Total
Balance at December 31, 2015	$ (45)	$ (16)	$ 149	$88
Other comprehensive income (loss) before reclassifications	11	130	(204)	(63)
Amounts reclassified from AOCI	—	(2)	(69)	(71)
Net current period other comprehensive income (loss)	11	128	(273)	(134)
Balance at June 30, 2016	$ (34)	$ 112	$ (124)	$(46)

Amounts reclassified for gains (losses) on cash flow hedges are recorded as part of Product sales in our Condensed Consolidated Statements of Income. Amounts reclassified for gains (losses) on available-for-sale securities are recorded as part of Other income (expense), net in our Condensed Consolidated Statements of Income.

Stock Repurchase Programs

In February 2016, we entered into an accelerated stock repurchase program (ASR) to repurchase $5.0 billion of our common stock under the $15.0 billion stock repurchase program announced in January 2015 (2015 Program). We made an upfront payment of $5.0 billion and received 46 million shares of our common stock. The 46 million shares represented approximately 80% of the total shares calculated based on our common stock closing price of $86.68 per share on the date we entered into the ASR. In April 2016, the ASR settled and we received an additional 8 million shares of our common stock based on the average price of our common stock during the ASR purchase period less a

predetermined discount. As a result, the average purchase price of our common stock from the ASR was $92.09 per share.

We accounted for the ASR as two separate transactions: (a) as shares of common stock acquired in a treasury stock transaction recorded on the transaction date and (b) as a forward contract indexed to our own common stock. As such, the up-front payment of $5.0 billion was accounted for as a reduction to Stockholders' equity in our Condensed Consolidated Balance Sheets in the period the payment was made. The ASR met all of the applicable criteria for equity classification, and therefore was not accounted for as a derivative instrument. The shares received under the ASR were retired in the periods they were received.

During the first quarter of 2016, we also repurchased and retired 34 million shares of our common stock for an aggregate purchase price of $3.0 billion through open market transactions under the 2015 Program.

In February 2016, our Board of Directors authorized a $12.0 billion stock repurchase program (2016 Program) under which repurchases may be made in the open market or in privately negotiated transactions. We started repurchases under our 2016 Program in April 2016, upon completion of the 2015 program.

During the second quarter of 2016, we repurchased a total of 10 million shares of our common stock for an aggregate purchase price of $1.0 billion through open market transactions.

12. NET INCOME PER SHARE ATTRIBUTABLE TO GILEAD COMMON STOCKHOLDERS

Basic net income per share attributable to Gilead common stockholders is calculated based on the weighted-average number of shares of our common stock outstanding during the period. Diluted net income per share attributable to Gilead common stockholders is calculated based on the weighted-average number of shares of our common stock outstanding and other dilutive securities outstanding during the period. The potential dilutive shares of our common stock resulting from the assumed exercise of outstanding stock options and equivalents, the assumed conversion of our outstanding Convertible Notes and the assumed exercise of the 2016 Warrants were determined under the treasury stock method.

In March 2016, we exercised our option to elect cash settlement for the conversion spread of the remaining Convertible Notes. Prior to our cash settlement election, our common stock resulting from the assumed settlement of the conversion spread of the Convertible Notes had a dilutive effect when the average market price of our common stock during the period exceeded the conversion price for the Convertible Notes. As a result, we included their dilutive impact in our net income per share calculations. Additionally, the 2016 Warrants have a dilutive effect when the average market price of our common stock during the period exceeded the warrants' exercise price. See Note 9, Debt and Credit Facility for additional information.

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

For the three and six months ended June 30, 2016 and 2015, the number of anti-dilutive stock options and equivalents excluded from the computation of diluted net income per share attributable to Gilead common stockholders was not significant.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income attributable to Gilead	$3,497	$4,492	$7,063	$8,825
Shares used in per share calculation - basic	1,335	1,472	1,359	1,480
Effect of dilutive securities:				
Stock options and equivalents	14	23	15	25
Conversion spread related to the Convertible Notes	—	14	3	15
Warrants related to the Convertible Notes	6	31	6	35
Shares used in per share calculation - diluted	1,355	1,540	1,383	1,555
Net income per share attributable to Gilead common stockholders - basic	$2.62	$3.05	$5.20	$5.96
Net income per share attributable to Gilead common stockholders - diluted	$2.58	$2.92	$5.11	$5.68

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13. SEGMENT INFORMATION

We have one operating segment, which primarily focuses on the discovery, development and commercialization of innovative medicines in areas of unmet medical need. Therefore, our results of operations are reported on a consolidated basis consistent with internal management reporting reviewed by our chief operating decision maker, our chief executive officer. Total product sales on an individual product basis are summarized in the following table (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Antiviral products:				
Harvoni	$2,564	$3,608	$5,581	$7,187
Sovaldi	1,358	1,291	2,635	2,263
Truvada	942	849	1,840	1,620
Atripla	673	782	1,348	1,516
Stribild	429	447	906	803
Complera/Eviplera	368	367	749	687
Genvoya	302	—	460	—
Viread	287	271	559	505
Epclusa	64	—	64	—
Descovy	61	—	61	—
Odefsey	58	—	69	—
Other antiviral	20	16	37	38
Total antiviral products	7,126	7,631	14,309	14,619
Other products:				
Letairis	203	176	378	327
Ranexa	153	141	297	258
AmBisome	85	103	171	188
Zydelig	41	30	90	56
Other	43	45	87	83
Total product sales	$7,651	$8,126	$15,332	$15,531

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
McKesson Corp.	23%	24%	22%	25%
AmerisourceBergen Corp.	18%	20%	17%	20%
Cardinal Health, Inc.	16%	15%	16%	16%

14. INCOME TAXES

Our income tax rate of 20.5% and 20.6% for the three and six months ended June 30, 2016, differed from the U.S. federal statutory rate of 35% due primarily to certain operating earnings from non-U.S. subsidiaries that are considered indefinitely reinvested and tax credits, partially offset by state taxes, our portion of the non-tax deductible Branded Prescription Drug fee and amortization expense of the intangible asset related to sofosbuvir for which we receive no tax benefit. We do not provide for U.S. income taxes on undistributed earnings of our foreign operations that are intended to be indefinitely reinvested in our foreign subsidiaries.

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

of limitations is open for all years from inception due to our utilization of their net operating losses and credits carried over from prior years.

Our income tax returns are subject to audit by federal, state and foreign tax authorities. We are currently under examination by the Internal Revenue Service for the 2010, 2011 and 2012 tax years and by various state and foreign jurisdictions. There are differing interpretations of tax laws and regulations, and as a result, significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions. We periodically evaluate our exposures associated with our tax filing 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. Resolution of one or more of these uncertain tax positions in any period may have a material impact on the results of operations for that period.

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

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The forward-looking statements are contained principally in this section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors." Words such as "expect," "anticipate," "target," "goal," "project," "hope," "intend," "plan," "believe," "seek," "estimate," "continue," "should," "might," variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements other than statements of historical fact are forward-looking statements, including statements regarding overall trends, operating cost and revenue trends, liquidity and capital needs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions.

We have based these forward-looking statements on our current expectations about future events. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Our actual results may differ materially from those suggested by these forward-looking statements for various reasons, including those identified below under "Risk Factors." Given these risks and uncertainties, you are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. Except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission, we do not undertake, and specifically decline, any obligation to update any of these statements or to publicly announce the results of any revisions to any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise.

In evaluating our business, you should carefully consider the risks described in the section entitled "Risk Factors" under Part II, Item 1A below, in addition to the other information in this Quarterly Report on Form 10-Q. Any of the risks contained herein could materially and adversely affect our business, results of operations and financial condition.

You should read the following management's discussion and analysis of our financial condition and results of operations in conjunction with our audited Consolidated Financial Statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2015 and our unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2016 and other disclosures (including the disclosures under Part II, Item 1A, "Risk Factors") included in this Quarterly Report on Form 10-Q. Our Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars.

Management Overview

Gilead Sciences, Inc. (Gilead, we or us), incorporated in Delaware on June 22, 1987, is a research-based biopharmaceutical company that discovers, develops and commercializes innovative medicines in areas of unmet medical need. With each new discovery and investigational drug candidate, we strive to transform and simplify care for people with life-threatening illnesses around the world. Gilead's primary areas of focus include human immunodeficiency virus (HIV), liver diseases such as chronic hepatitis C virus (HCV) infection and chronic hepatitis B virus (HBV) infection, cardiovascular, hematology/oncology and inflammation/respiratory. We have operations in more than 30 countries worldwide, with headquarters in Foster City, California. We continue to add to our existing portfolio of products through our internal discovery and clinical development programs and through a product acquisition and in-licensing strategy.

Our portfolio of marketed products includes AmBisome®, Atripla®, Cayston®, Complera®/Eviplera®, Descovy®, Emtriva®, Epclusa®, Genvoya®, Harvoni®, Hepsera®, Letairis®, Odefsey®, Ranexa®, Sovaldi®, Stribild®, Tamiflu®, Truvada®, Tybost®, Viread®, Vitekta®, and Zydelig®. We have U.S. and international commercial sales operations, with marketing subsidiaries in North and South America, Europe and Asia-Pacific. We also sell and distribute certain products through our corporate partners under royalty-paying collaborative agreements.

Business Highlights

During the second quarter of 2016, we continued to advance our product pipeline across our therapeutic areas with the goal of delivering best-in-class drugs that advance the current standard of care and/or address unmet medical needs. Recent key announcements include:

U.S. Food and Drug Administration (FDA) and European Commission approved Epclusa (sofosbuvir 400 mg/velpatasvir 100 mg; SOF/VEL), the first all-oral, pan-genotypic, single-tablet regimen (STR) for the treatment of adults with genotype 1-6 HCV infection. Epclusa is also the first STR approved for the treatment of patients with HCV genotype 2 and 3, without the need for ribavirin (RBV). Epclusa for 12 weeks was approved in patients without cirrhosis or with compensated cirrhosis (Child-Pugh A), and in combination with RBV for patients with decompensated cirrhosis (Child-Pugh B or C).

FDA granted Epclusa a Priority Review and Breakthrough Therapy designation, which is given to investigational medicines that may offer major advances in treatment over existing options.

- The European Commission granted marketing authorization for the once-daily STR Odefsey (emtricitabine 200 mg/rilpivirine 25 mg/tenofovir alafenamide 25 mg) for the treatment of HIV-1 infection. Odefsey combines our emtricitabine and tenofovir alafenamide (marketed as Descovy) with rilpivirine, marketed by Janssen Sciences Ireland UC, one of the Janssen Pharmaceutical Companies of Johnson & Johnson. Odefsey is our second STR based on the Descovy backbone to receive marketing authorization in the European Union and is currently the smallest STR for the treatment of HIV.
- Presented at the American Society of Microbiology Microbe 2016 conference positive data from four pre-clinical and Phase 1 studies evaluating bictegravir (GS-9883), a novel, unboosted, investigational once-daily integrase strand transfer inhibitor. The studies examined the antiviral potency, resistance profile, pharmacokinetics and safety of bictegravir.
- Presented data at the 51st Annual Meeting of the European Association for the Study of the Liver, which included the announcement of:
  - Positive results from the open-label, Phase 3 ASTRAL-5 study evaluating once-daily SOF/VEL for 12 weeks among patients with HCV genotype 1-6 who are co-infected with HIV demonstrated that SOF/VEL was well-tolerated and resulted in high sustained virologic response rates at 12 weeks after treatment (SVR12).
  - Positive results from three Phase 2 trials evaluating SOF/VEL plus voxilaprevir (VOX), a pan-genotypic protease inhibitor (Studies1168 and1169 and TRILOGY-3). Studies 1168 and 1169 evaluated 6 weeks of SOF/VEL plus VOX among treatment-naïve patients, 8 weeks of SOF/VEL plus VOX, with or without RBV, among treatment-naïve patients, and 12 weeks of SOF/VEL plus VOX among patients who failed prior treatment including those previously exposed to a direct acting antiviral (DAA) regimen. Study 1168 evaluated genotype 1 patients and Study 1169 evaluated genotype 2-6 patients. TRILOGY-3 featured data from the Phase 2 trial evaluating 12 weeks of a fixed-dose combination of SOF/VEL/VOX, with or without RBV, among genotype 1, DAA-experienced, HCV-infected patients, including patients with cirrhosis.
- The European Commission granted marketing authorization for two doses of Descovy (200/10 mg and 200/25 mg), a fixed-dose combination for the treatment of HIV-1 infection. Descovy is our second tenofovir alafenamide (TAF)-based therapy to receive marketing authorization in the European Union. Descovy was approved by FDA and is indicated in combination with other antiretroviral agents for the treatment of HIV-1 infection in adults and pediatric patients 12 years of age and older.
- Purchased Nimbus Apollo, Inc. (Nimbus), a wholly-owned subsidiary of Nimbus Therapeutics, and its Acetyl-CoA Carboxylase (ACC) inhibitor program. The Nimbus program includes the lead candidate NDI-010976, an ACC inhibitor, and other pre-clinical ACC inhibitors for the potential treatment of non-alcoholic steatohepatitis, hepatocellular carcinoma and other diseases. NDI-010976 was granted Fast Track designation by FDA in February 2016. In connection with the purchase, we made a payment of $400 million during the second quarter of 2016.

Financial Highlights

Total revenues were $7.8 billion for the second quarter of 2016, compared to $8.2 billion in the second quarter of 2015, primarily due to lower product sales, which were $7.7 billion compared to $8.1 billion in the same quarter of 2015.

Cost of goods sold was $864 million for the second quarter of 2016, compared to $998 million in the second quarter of 2015, primarily due to the reversal of the $200 million litigation reserve recorded in the first quarter of 2016 following a favorable court decision.

Research and development (R&D) expenses were $1.5 billion for the second quarter of 2016, compared to $818 million in the second quarter of 2015, primarily driven by our purchase of Nimbus, purchase of a FDA priority review voucher and the overall progression of our clinical studies.

Selling, general and administrative (SG&A) expenses were $890 million for the second quarter of 2016, compared to $812 million in the second quarter of 2015, primarily driven by costs to support our new product launches and geographic expansion of our business.

Net income attributable to Gilead was $3.5 billion or $2.58 per diluted share for the second quarter of 2016, compared to $4.5 billion or $2.92 per diluted share for the second quarter of 2015, primarily due to increases in R&D and SG&A expenses and a decrease in product sales. Year over year earnings per share were favorably impacted by our share repurchase activities in the first half of 2016 and the second half of 2015. During the first half of 2016, we repurchased a total of 98 million shares for $9 billion, of which 54 million shares or $5 billion were repurchased under an accelerated stock repurchase program. During the second half of 2015, we repurchased a total of 56 million shares for $6.1 billion.

As of June 30, 2016, we had $24.6 billion of cash, cash equivalents and marketable securities, compared to $21.3 billion as of March 31, 2016. During the second quarter of 2016, cash flow from operating activities was $4.9 billion.

Results of Operations

Total Revenues

The following table summarizes our product sales, and royalty, contract and other revenues:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions, except percentages)	2016	2015	Change	2016	2015	Change
Revenues:						
Product sales	$7,651	$8,126	(6)%	$15,332	$15,531	(1)%
Royalty, contract and other revenues	125	118	6 %	238	307	(22)%
Total revenues	$7,776	$8,244	(6)%	$15,570	$15,838	(2)%

Product sales for the three months ended June 30, 2016

Total product sales were $7.7 billion for the three months ended June 30, 2016, compared to $8.1 billion for the same period in 2015, primarily due to a decrease in antiviral product sales.

Antiviral product sales, which include sales of our HIV and other antiviral products and HCV products, were $7.1 billion for the three months ended June 30, 2016, compared to $7.6 billion for the same period in 2015. HIV and other antiviral product sales were $3.1 billion for the three months ended June 30, 2016, compared to $2.7 billion for the same period in 2015 primarily due to sales of our tenofovir alafenamide (TAF)-based products, Genvoya, Descovy and Odefsey. HCV product sales, which consist of Harvoni, Sovaldi and Epclusa, were $4.0 billion for the three months ended June 30, 2016, compared to $4.9 billion for the same period in 2015 primarily due to a decline in sales of Harvoni.

Other product sales, which include sales of Ranexa, Letairis and AmBisome, were $525 million for the three months ended June 30, 2016, compared to $495 million for the same period in 2015.

Foreign currency exchange, net of hedges, had an unfavorable impact on our product sales of $115 million for the three months ended June 30, 2016, compared to the same period in 2015. Of our total product sales, 36% were generated outside of the United States (U.S.) during the three months ended June 30, 2016. We faced exposure to movements in foreign currency exchange rates, primarily in the Euro. We use foreign currency exchange contracts to hedge a percentage of our foreign currency exposure.

Product sales in the U.S. were $4.9 billion for the three months ended June 30, 2016, compared to $5.6 billion for the same period in 2015. A decline in sales of Harvoni was partially offset by sales of our TAF-based products, Genvoya, Odefsey and Descovy, and an increase in sales of Truvada.

Product sales in Europe were $1.6 billion for the three months ended June 30, 2016, compared to $2.0 billion for the same period in 2015. The decrease was primarily due to lower Sovaldi and Harvoni sales volume and a higher proportion of sales in countries with lower Sovaldi and Harvoni average net selling prices. In addition, foreign currency exchange rates, net of hedges, had an unfavorable impact of $104 million on our product sales for the three months ended June 30, 2016, compared to the same period in 2015.

Product sales in Japan, which consist of Sovaldi and Harvoni, were $619 million for the three months ended June 30, 2016, compared to $62 million for the same period in 2015. Sovaldi and Harvoni were launched in Japan in May and September 2015, respectively.

Product sales in other international locations were $531 million for the three months ended June 30, 2016, compared to $515 million for the same period in 2015, primarily due to continued launches of our HCV products.

Product sales for the six months ended June 30, 2016

Total product sales were $15.3 billion for the six months ended June 30, 2016, compared to $15.5 billion for the same period in 2015, primarily due to a decrease in antiviral product sales.

Antiviral product sales were $14.3 billion for the six months ended June 30, 2016, compared to $14.6 billion for the same period in 2015. HIV and other antiviral product sales were $6.0 billion for the six months ended June 30, 2016, compared to $5.2 billion for the same period in 2015 primarily due to sales of our TAF-based products, Genvoya, Descovy, and Odefsey. HCV product sales were $8.3 billion for the six months ended June 30, 2016, compared to $9.4 billion for the same period in 2015 primarily due to a decline in sales of Harvoni.

Other product sales, which include sales of Ranexa, Letairis and AmBisome, were $1.0 billion for the six months ended June 30, 2016, compared to $912 million for the same period in 2015.

Foreign currency exchange, net of hedges, had an unfavorable impact on our product sales of $300 million for the six months ended June 30, 2016, compared to the same period in 2015. Of our total product sales, 40% were generated outside of the U.S. during the six months ended June 30, 2016. We faced exposure to movements in foreign currency exchange rates, primarily in the Euro. We use foreign currency exchange contracts to hedge a percentage of our foreign currency exposure.

Product sales in the U.S. were $9.3 billion for the six months ended June 30, 2016, compared to $10.8 billion for the same period in 2015. A decline in sales of Harvoni was partially offset by an increase in sales of Sovaldi, sales of Genvoya, which was launched in the U.S. in November 2015, and an increase in sales of Truvada where we have seen an increase in the use of Truvada as a preventive treatment for HIV.

Product sales in Europe were $3.2 billion for the six months ended June 30, 2016, compared to $3.8 billion for the same period in 2015. The decrease was primarily due to lower HCV products average net selling prices and lower Sovaldi sales volume. In addition, foreign currency exchange rates, net of hedges, had an unfavorable impact of $245 million on our product sales for the six months ended June 30, 2016, compared to the same period in 2015.

Product sales in Japan, which consist of Sovaldi and Harvoni, were $1.7 billion for the six months ended June 30, 2016, compared to $62 million for the same period in 2015. Sovaldi and Harvoni were launched in Japan in May and September 2015, respectively. During the six months ended June 30, 2016, sales volume declined from early launch levels reached during the second half of 2015 and pricing for Sovaldi and Harvoni was adjusted to reflect a mandatory price reduction of 32% that was effective April 1, 2016.

Product sales in other international locations were $1.1 billion for the six months ended June 30, 2016, compared to $879 million for the same period in 2015, primarily due to continued launches of our HCV products.

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

(In millions, except percentages)	Three Months Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Antiviral products:						
Harvoni	$2,564	$3,608	(29)%	$5,581	$7,187	(22)%
Sovaldi	1,358	1,291	5 %	2,635	2,263	16 %
Truvada	942	849	11 %	1,840	1,620	14 %
Atripla	673	782	(14)%	1,348	1,516	(11)%
Stribild	429	447	(4)%	906	803	13 %
Complera/Eviplera	368	367	— %	749	687	9 %
Genvoya	302	—	*	460	—	*
Viread	287	271	6 %	559	505	11 %
Epclusa	64	—	*	64	—	*
Descovy	61	—	*	61	—	*
Odefsey	58	—	*	69	—	*
Other antiviral	20	16	25 %	37	38	(3)%
Total antiviral products	7,126	7,631	(7)%	14,309	14,619	(2)%
Other products:						
Letairis	203	176	15 %	378	327	16 %
Ranexa	153	141	9 %	297	258	15 %
AmBisome	85	103	(17)%	171	188	(9)%
Zydelig	41	30	37 %	90	56	61 %
Other	43	45	(4)%	87	83	5 %
Total product sales	$7,651	$8,126	(6)%	$15,332	$15,531	(1)%

* Percentage not meaningful

Following is additional discussion related to the key period over period changes in net product sales by product:

•Harvoni

Net product sales of Harvoni for the three and six months ended June 30, 2016 accounted for 36% and 39% of our total antiviral product sales, respectively.

For the three months ended June 30, 2016, net product sales of Harvoni were $1.5 billion in the U.S., $512 million in Europe, $448 million in Japan, and $130 million in other international locations, compared to $2.8 billion in the U.S., $623 million in Europe and $159 million in other international locations for the same period in 2015. In the U.S., the decrease was primarily due to lower average net selling price and lower sales volume compared to Harvoni's early launch levels during the prior year. The number of patients that started treatment with Harvoni in the U.S. peaked in the first half of 2015 indicative of the rapid initiation of treatment for many warehoused patients. Harvoni was launched in the U.S. in October 2014. During the second quarter, we also had a favorable revision to our Harvoni sales return reserve of $181 million. In Europe, the decrease was primarily due to lower sales volume and a higher proportion of sales from countries that have lower average net selling prices. Additionally, we have seen a slight decline in average treatment duration, as countries are treating more patients with lower fibrosis scores who qualify for an eight-week treatment duration. In Japan, we launched Harvoni in September 2015. In other international locations, the decrease was primarily due to higher sales from countries that have lower average net selling prices.

For the six months ended June 30, 2016, net product sales of Harvoni were $2.9 billion in the U.S., $1.1 billion in Europe, $1.3 billion in Japan, and $298 million in other international locations, compared to $5.8 billion in the U.S., $1.1 billion in Europe and $245 million in other international locations for the same period in 2015. In the U.S., the decrease was primarily due to lower sales volume and lower average net selling price. The number of patients that started treatment with Harvoni in the U.S. peaked in the first half of 2015 indicative of the rapid initiation of treatment

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for many warehoused patients. In Europe, higher sales volume were offset by a higher proportion of sales from countries that have lower average net selling prices and unfavorable foreign exchange currency rates, net of hedges. In Japan, the increase was driven by the launch of Harvoni in September 2015. In other international locations, the increase was driven by the continued launches of Harvoni.

•Sovaldi

Net product sales of Sovaldi for the three and six months ended June 30, 2016 accounted for 19% and 18% of our total antiviral product sales, respectively.

For the three months ended June 30, 2016, net product sales of Sovaldi were $775 million in the U.S., $263 million in Europe, $171 million in Japan, and $149 million in other international locations, compared to $615 million in the U.S., $522 million in Europe, $62 million in Japan and $92 million in other international locations for the same period in 2015. In the U.S., the increase includes a favorable revision to our Sovaldi sales return reserve of $98 million and higher sales volume, partially offset by lower average net selling price. In Europe, the decrease was primarily due to lower sales volume and lower average net selling price. In Japan, the increase is reflective of the launch of Sovaldi in May 2015. In other international locations, the increase was primarily driven by the continued launches of Sovaldi.

For the six months ended June 30, 2016, net product sales of Sovaldi were $1.4 billion in the U.S., $543 million in Europe, $373 million in Japan, and $299 million in other international locations, compared to $1.0 billion in the U.S., $1.0 billion in Europe, $62 million in Japan and $160 million in other international locations for the same period in 2015. In the U.S., the increase was primarily driven by higher sales volume. In Europe, the decrease was primarily due to lower sales volume and lower average net selling price. In Japan, the increase was primarily driven by the launch of Sovaldi in May 2015. In other international locations, the increase was primarily driven by the continued launches of Sovaldi.

•Truvada

Net product sales of Truvada for both the three and six months ended June 30, 2016 accounted for 13% of our antiviral product sales.

For the three months ended June 30, 2016, net product sales of Truvada were $631 million in the U.S., $245 million in Europe and $66 million in other international locations, compared to $500 million in the U.S., $277 million in Europe and $72 million in other international locations for the same period in 2015. The increase was primarily driven by higher average net selling price and higher sales volume primarily driven by increased usage of Truvada for pre-exposure prophylaxis or PrEP.

For the six months ended June 30, 2016, net product sales of Truvada were $1.2 billion in the U.S., $496 million in Europe and $137 million in other international locations, compared to $909 million in the U.S., $578 million in Europe and $133 million in other international locations for the same period in 2015. The increase was primarily driven by higher average net selling price and higher sales volume primarily driven by increased usage of Truvada for PrEP.

•Atripla

Net product sales of Atripla for both the three and six months ended June 30, 2016 accounted for 9% of our total antiviral product sales.

For the three months ended June 30, 2016, net product sales of Atripla were $479 million in the U.S. and $140 million in Europe, compared to $549 million in the U.S. and $178 million in Europe for the same period in 2015. The decrease was primarily due to declines in sales volume as doctors prescribed newer regimens, including tenofovir disoproxil fumarate (TDF) and TAF-based regimens. The efavirenz component of Atripla sales, which has a gross margin o