

GILEAD SCIENCES INC  
Form 10-Q  
May 02, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2008

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-19731

**GILEAD SCIENCES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>94-3047598</b> (IRS Employer Identification No.)
<b>333 Lakeside Drive, Foster City, California</b> (Address of principal executive offices)	<b>94404</b> (Zip Code)
<b>650-574-3000</b>	
<b>Registrant's Telephone Number, Including Area Code</b>	

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

Indicate by check mark whether the registrant 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. (Check one):

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

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

Number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of April 30, 2008: 922,469,379

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We own or have rights to various trademarks, copyrights and trade names used in our business, including the following: GILEAD SCIENCES®, TRUVADA®, VIREAD®, EMTRIVA®, HEPSERA®, AMBISOME®, VISTIDE®, LETAIRIS® and VOLIBRIS®. ATRIPLA® is a registered trademark belonging to Bristol-Myers Squibb & Gilead Sciences, LLC. MACUGEN® is a registered trademark belonging to OSI Pharmaceuticals, Inc. SUSTIVA® is a registered trademark of Bristol-Myers Squibb Company. TAMIFLU® is a registered trademark belonging to F. Hoffmann-La Roche Ltd. FLOLAN® is a registered trademark of GlaxoSmithKline Inc. This report also includes other trademarks, service marks and trade names of other companies.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
GILEAD SCIENCES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share amounts)

	<b>March 31, 2008 (unaudited)</b>	<b>December 31, 2007 (1)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 722,884	\$ 968,086
Short-term marketable securities	191,311	203,892
Accounts receivable, net	979,802	795,127
Inventories	661,093	599,966
Deferred tax assets	140,352	152,533
Prepaid taxes	147,376	216,909
Other current assets	105,439	91,779
Total current assets	2,948,257	3,028,292
Property, plant and equipment, net	455,759	447,696
Noncurrent portion of prepaid royalties	283,347	290,742
Noncurrent deferred tax assets	300,207	297,359
Long-term marketable securities	1,674,809	1,550,444
Other noncurrent assets	216,624	220,183
Total assets	\$ 5,879,003	\$ 5,834,716
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 396,208	\$ 290,333
Accrued government rebates	138,564	115,495
Accrued compensation and employee benefits	88,082	90,553
Income taxes payable	9,868	
Other accrued liabilities	264,893	208,861
Deferred revenues	41,174	30,747
Current portion of other long-term obligations	216	286
Total current liabilities	939,005	736,275
Long-term deferred revenues	60,264	61,316
Convertible senior notes	1,300,000	1,300,000
Long-term income taxes payable	129,954	125,232
Other long-term obligations	10,287	11,604
Minority interest	110,011	140,299
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 5,000 shares authorized; none outstanding		
Common stock, par value \$0.001 per share; 1,400,000 shares authorized; 921,387 and 932,484 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	921	932
Additional paid-in capital	3,371,108	3,214,341

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Accumulated other comprehensive loss	(7,931)	(4,363)
Retained earnings (accumulated deficit)	(34,616)	249,080
<b>Total stockholders' equity</b>	<b>3,329,482</b>	<b>3,459,990</b>
Total liabilities and stockholders' equity	\$ 5,879,003	\$ 5,834,716

- (1) The condensed consolidated balance sheet at December 31, 2007 has been derived from audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See accompanying notes.

**Table of Contents****GILEAD SCIENCES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>		
Product sales	\$ 1,141,306	\$ 840,225
Royalty revenues	109,452	180,462
Contract and other revenues	7,394	7,743
<b>Total revenues</b>	<b>1,258,152</b>	<b>1,028,430</b>
<b>Costs and expenses:</b>		
Cost of goods sold	239,848	171,638
Research and development	155,301	130,090
Selling, general and administrative	194,957	166,558
<b>Total costs and expenses</b>	<b>590,106</b>	<b>468,286</b>
<b>Income from operations</b>	<b>668,046</b>	<b>560,144</b>
Interest and other income, net	22,700	23,104
Interest expense	(3,105)	(4,547)
Minority interest	1,875	2,153
<b>Income before provision for income taxes</b>	<b>689,516</b>	<b>580,854</b>
Provision for income taxes	193,389	173,447
<b>Net income</b>	<b>\$ 496,127</b>	<b>\$ 407,407</b>
Net income per share basic	\$ 0.53	\$ 0.44
Shares used in per share calculation basic	928,104	926,940
Net income per share diluted	\$ 0.51	\$ 0.42
Shares used in per share calculation diluted	966,554	962,716

See accompanying notes.

**Table of Contents****GILEAD SCIENCES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities:</b>		
Net income	\$ 496,127	\$ 407,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,709	7,427
Amortization	6,030	4,244
Stock-based compensation expense	36,136	57,294
Excess tax benefits from stock-based compensation	(89,244)	(33,770)
Tax benefits from employee stock plans	93,533	39,934
Deferred income taxes	9,332	7,848
Other non-cash transactions	(15,229)	950
Changes in operating assets and liabilities:		
Accounts receivable, net	(141,022)	(74,836)
Inventories	(58,120)	41,923
Prepaid expenses and other assets	58,516	(796)
Accounts payable	104,674	(71,150)
Income taxes payable	14,590	58,695
Accrued liabilities	70,104	21,211
Deferred revenues	9,375	17,161
Minority interest	(28,413)	6,951
Net cash provided by operating activities	577,098	490,493
<b>Investing Activities:</b>		
Purchases of marketable securities	(658,962)	(825,041)
Proceeds from sales of marketable securities	531,995	214,251
Proceeds from maturities of marketable securities	20,500	45,400
Capital expenditures and other	(16,749)	(25,041)
Net cash used in investing activities	(123,216)	(590,431)
<b>Financing Activities:</b>		
Proceeds from issuances of common stock	65,480	83,586
Repurchases of common stock	(815,936)	
Repayments of long-term debt and other obligations	(97)	(99,137)
Excess tax benefits from stock-based compensation	89,244	33,770
Net cash provided by (used in) financing activities	(661,309)	18,219
Effect of exchange rate changes on cash	(37,775)	(5,146)
Net change in cash and cash equivalents	(245,202)	(86,865)
Cash and cash equivalents at beginning of period	968,086	816,007

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Cash and cash equivalents at end of period

\$ 722,884

\$ 729,142

See accompanying notes.



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**GILEAD SCIENCES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, inventories, prepaid royalties, clinical trial accruals, tax provision and stock-based compensation. We base our estimates on historical experience and on various other market-specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

The accompanying Condensed Consolidated Financial Statements include the accounts of Gilead, our wholly-owned subsidiaries and our joint ventures with Bristol-Myers Squibb Company (BMS), for which we are the primary beneficiary as determined under Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R). We record a minority interest in our Condensed Consolidated Financial Statements to reflect BMS's interest in the joint ventures. Significant intercompany transactions have been eliminated.

On June 22, 2007, we completed a two-for-one stock split in the form of a stock dividend to stockholders of record as of May 24, 2007. Accordingly, all share and per share amounts for all periods presented in these Condensed Consolidated Financial Statements and notes thereto have been adjusted retroactively, where applicable, to reflect this stock split.

The accompanying financial information should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2007, included in our Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission.

**Earnings Per Share**

Basic earnings per share is calculated based on the weighted-average number of shares of our common stock outstanding during the period. Diluted earnings per share 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 and the assumed exercise of the warrants relating to the convertible senior notes due in 2011 (2011 Notes) and the convertible senior notes due in 2013 (2013 Notes) (collectively, the Notes) are determined under the treasury stock method.

The Notes are considered to be Instrument C securities as defined by Emerging Issues Task Force (EITF) Issue No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion* (EITF 90-19); therefore, only the conversion spread relating to the Notes is included in our diluted earnings per share calculation. The potential

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dilutive shares of our common stock resulting from the assumed settlement of the conversion spread of the Notes are determined under the method set forth in EITF 90-19. Under such method, the settlement of the conversion spread of the Notes has a dilutive effect when the average market price of our common stock during the period exceeds \$38.75 and \$38.10 for the 2011 Notes and 2013 Notes, respectively. The average market price of our common stock during the quarter ended March 31, 2008 exceeded both of the conversion prices of the Notes while the average market price of our common stock during the quarter ended March 31, 2007 did not exceed either of the conversion prices of the Notes.

Warrants to purchase approximately 33.8 million weighted-average shares of our common stock were outstanding during the quarters ended March 31, 2008 and 2007, but were not included in the computation of diluted earnings per share because the warrants' exercise prices were greater than the average market price of our common stock during these periods; therefore, their effect was antidilutive.

Stock options to purchase approximately 9.5 million and 24.4 million weighted-average shares of our common stock were outstanding during the quarters ended March 31, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of our common stock during these periods; therefore, their effect was antidilutive.

The following table is a reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Numerator:</b>		
Net income	\$ 496,127	\$ 407,407
<b>Denominator:</b>		
Weighted-average shares of common stock outstanding used in calculation of basic earnings per share	928,104	926,940
<b>Effect of dilutive securities:</b>		
Stock options and equivalents	32,562	35,776
Conversion spread related to convertible senior notes	5,888	