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## Table of Contents

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our results of operations and financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our audited Consolidated Financial Statements and the accompanying notes to the Consolidated Financial Statements and other disclosures included in this Annual Report on Form 10-K (including the disclosures under "Item 1A. Risk Factors"). Our Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars.

#### **Management Overview**

We are a biopharmaceutical company that discovers, develops and commercializes innovative therapeutics in areas of unmet medical need. Our mission is to advance the care of patients suffering from life threatening diseases worldwide. Headquartered in Foster City, California, we have operations in North America, Europe and Asia Pacific. We market products in the HIV/AIDS, liver disease, respiratory and cardiovascular/metabolic therapeutic areas. Our product portfolio is comprised of Atripla® (efavirenz 600 mg/emtricitabine 200 mg/tenofovir disoproxil fumarate 300 mg), Truvada® (emtricitabine and tenofovir disoproxil fumarate), Viread® (tenofovir disoproxil fumarate) and Emtriva® (emtricitabine) for the treatment of human immunodeficiency virus (HIV) infection; Hepsera® (adefovir dipivoxil) and Viread for the treatment of chronic hepatitis B; AmBisome® (amphotericin B liposome for injection) for the treatment of severe fungal infections; Letairis® (ambrisentan) for the treatment of pulmonary arterial hypertension (PAH); Ranexa® (ranolazine) for the treatment of chronic angina; Vistide® (cidofovir injection) for the treatment of cytomegalovirus infection and Cayston® (aztreonam for inhalation solution) as a treatment to improve respiratory symptoms in cystic fibrosis (CF) patients with *Pseudomonas aeruginosa* (*P. aeruginosa*).

In addition, we also sell and distribute certain products through our corporate partners under royalty-paying collaborative agreements. For example, F. Hoffmann-La Roche Ltd (together with Hoffmann-La Roche Inc., Roche) markets Tamiflu® (oseltamivir phosphate) for the treatment and prevention of influenza; GlaxoSmithKline Inc. (GSK) markets Hepsera and Viread for the treatment of chronic hepatitis B in certain territories outside of the United States; GSK also markets Volibris® (ambrisentan) outside of the United States for the treatment of PAH; Astellas Pharma US, Inc. markets AmBisome for the treatment of severe fungal infections in the United States and Canada; Astellas US LLC markets Lexiscan® (regadenoson) injection in the United States for use as a pharmacologic stress agent in radionuclide myocardial perfusion imaging; RapiScan Pharma Solutions, Inc. markets RapiScan (regadenoson) in certain territories outside of the United States for the inducement of pharmacological stress and/or vasodilation of the coronary vasculature strictly for purposes of diagnosing cardiovascular disease; Menarini International Operations Luxembourg SA markets Ranexa in certain territories outside of the United States for the treatment of chronic angina; and Japan Tobacco Inc. (Japan Tobacco) markets Truvada, Viread and Emtriva in Japan.

#### *Business Highlights*

During 2010, we grew our business significantly and achieved record total revenues of \$7.95 billion while strengthening our product portfolio and pipeline programs.

Our antiviral franchise, in particular Atripla and Truvada, continued to drive product sales growth both in the United States and within the big five European Union markets, which are comprised of the United Kingdom, France, Germany, Italy and Spain. Our cardiovascular franchise also delivered strong results for the year with the contributions of Letairis and Ranexa to our total revenues. Our newest product, Cayston, in the respiratory area, was well accepted in North America and certain countries of Europe, showing continued revenue growth throughout 2010.

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## Table of Contents

During the year, we also made strategic decisions to advance and focus our research and development (R&D) pipeline efforts, including:

- In the HIV area, in September 2010, we announced that we had submitted a Marketing Authorization Application to the European Medicines Agency for marketing approval of the single-tablet regimen of Truvada and Tibotec Pharmaceuticals' (Tibotec) investigational non-nucleoside reverse transcriptase inhibitor, TMC278 (rilpivirine hydrochloride), for the treatment of HIV-1 infection in adults. In November 2010, we announced that we had submitted a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) for marketing approval of the single-tablet regimen of Truvada and Tibotec's TMC278, for the treatment of HIV-1 infection in adults. In January 2011, we received a "refuse to file" notification from the U.S. FDA. In its communication, the FDA requested additional information with respect to the Chemistry, Manufacturing and Controls section of the NDA submission. In February 2011, we re-filed our new drug application, which included the requested information, and are awaiting the FDA's response as to whether it is substantially complete to permit a substantive review.
- Also in the HIV area, during 2010, we initiated both Phase 3 clinical studies for our investigational fixed-dose, single-tablet "Quad" regimen of elvitegravir, cobicistat (formerly GS 9350) and Truvada. The two Phase 3 studies are evaluating the single-tablet fixed-dose regimen versus a standard of care among HIV-infected treatment-naïve patients. In the second quarter of 2010, we also initiated a Phase 3 study evaluating the efficacy, safety and tolerability of cobicistat, our pharmacoenhancer that is in development as a boosting agent for certain HIV medicines and other antivirals. In September 2010, we released positive 48-week results from two of our ongoing Phase 2 clinical studies in HIV-infected patients. The first were from the study of our fixed-dose, single-tablet "Quad" regimen of elvitegravir, cobicistat and Truvada versus Atripla. The second were from the study of cobicistat-boosted atazanavir plus Truvada compared to ritonavir-boosted atazanavir plus Truvada.
- In the liver disease area, our hepatitis C virus (HCV) pipeline now includes seven unique molecules spanning six therapeutic classes with different mechanisms of action. Five of these compounds are currently in clinical trials, and two are slated to enter human clinical studies in early 2011. In October 2010, we announced data from a Phase 2a study showing that our investigational compounds GS 9190 and GS 9256, used in conjunction with current standard of care therapies, produced substantial suppression of HCV within 28 days of treatment. Additionally, in October 2010, we announced new data from the open-label phase of two pivotal Phase 3 clinical trials (Studies 102 and 103) evaluating the four-year efficacy of Viread for the treatment of chronic hepatitis B virus (HBV) infection, which show that Viread maintains antiviral suppression with no development of resistance through four years of treatment. Data also show significant "s" antigen loss, a marker of the resolution of chronic HBV infection, in HBeAg-positive patients.
- Also in the liver disease area, in July 2010, John McHutchison, MD, joined Gilead as Senior Vice President, Liver Disease Therapeutics to lead the efforts to advance discovery and development programs in the liver disease area.
- In the respiratory area, we announced in October 2010 that our head-to-head Phase 3 clinical trial of Cayston versus tobramycin inhalation solution (TIS) in CF patients with *P. aeruginosa* achieved its co-primary endpoint of superiority of Cayston to TIS for mean actual change in forced expiratory volume in one second (FEV1, a measure of lung function) percent predicted across three treatment cycles (six months). Earlier in the year, in February, we received marketing approval from the FDA for Cayston as a treatment to improve respiratory symptoms in CF patients with *P. aeruginosa*.
- In the cardiovascular and metabolic areas, in December 2010, we announced the termination of ARTEMIS-IPF, our Phase 3 study of ambrisentan in patients with idiopathic pulmonary fibrosis (IPF). This decision follows an interim analysis of unblinded efficacy and safety data by the study's Data Monitoring Committee and our review of those data, which did not show evidence of a treatment benefit in the group of patients randomized to receive ambrisentan.

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## Table of Contents

During the year, we also expanded our pipeline through strategic acquisitions. We completed the acquisition of Arresto Biosciences, Inc. (Arresto) in January 2011 for \$225 million plus potential future payments based on achievement of certain sales levels. Arresto was a privately-held, development-stage biotechnology company based in Palo Alto, California, focused on developing antibodies for the potential treatment of fibrotic diseases and cancer. The company's lead product is GS 6624 (formerly AB0024), a humanized monoclonal antibody (mAb) targeting the human lysyl oxidase-like-2 (LOXL2) protein. In addition to an ongoing Phase 1 study of GS 6624 in patients with advanced solid tumors, a Phase 1 study is being conducted to evaluate GS 6624 in patients with IPF.

We completed the acquisition of CGI Pharmaceuticals, Inc. (CGI) in July 2010 for up to \$120 million in cash, the majority as an upfront payment and the remaining based on the achievement of certain clinical development milestones. CGI was a privately-held development stage pharmaceutical company based in Branford, Connecticut, primarily focused on small molecule chemistry and protein kinase biology. The lead preclinical compound from CGI's library of proprietary small molecule kinase inhibitors targets spleen tyrosine kinase (Syk) and could have unique applications for the treatment of serious inflammatory diseases, including rheumatoid arthritis.

### *Financial Highlights*

Our operating results for 2010 were led by total product sales of \$7.39 billion, an increase of 14% over total product sales of \$6.47 billion for 2009. The increase in product sales was driven primarily by our antiviral franchise (Atripla, Truvada, Viread, Hepsersa and Emtriva), due mainly to the strong growth in Atripla sales. Atripla contributed \$2.93 billion, or 45%, to our 2010 antiviral product sales. Atripla product sales for 2010 increased 23% from 2009 primarily due to sales volume growth in the United States and Europe. Truvada product sales for 2010 comprised \$2.65 billion, or 41% of 2010 antiviral product sales. Truvada product sales for 2010 increased 6% from 2009 primarily due to sales volume growth in the United States and Europe. Foreign currency exchange had an unfavorable impact of \$93.7 million and \$79.8 million on our 2010 revenues and pre-tax earnings, respectively, compared to 2009.

Product sales in the United States were driven primarily by our antiviral franchise but also reflected growth in sales of our cardiovascular products. Antiviral product sales in the United States increased 13% in 2010 compared to 2009, resulting from the continued growth of patient and market share in the United States. With respect to our cardiovascular franchise, Ranexa sales in the United States were \$234.8 million in 2010, reflecting a continued growth in demand as Ranexa prescriptions have increased by 71% since our acquisition of CV Therapeutics, Inc. (CV Therapeutics) in April 2009. Ranexa sales were \$123.1 million in 2009 for the period subsequent to our acquisition of CV Therapeutics. Furthermore, Letairis sales contributed \$240.3 million to 2010 product sales in the United States, reflecting a 31% increase from 2009. Our newest product, Cayston, also contributed \$47.5 million during its first year of sales in 2010, the majority of which was in the United States.

Product sales in Europe were driven by antiviral product sales, which increased 9% in 2010 compared to 2009, due to continued strong growth in demand. While we saw demand growth for our products in Europe, the effect was partially offset by recent mandatory price reductions in certain European countries and foreign currency exchange impact from a strengthening U.S. dollar relative to European currencies.

Royalty revenues recognized from our collaborations with corporate partners were \$546.0 million for 2010, an increase of \$54.2 million or 11% from royalty revenues of \$491.8 million for 2009. Other royalty revenues, which include royalties from GSK for Hepsersa, royalties from Astellas for Lexiscan and royalties from Japan Tobacco for Truvada, contributed to the increase in total royalty revenues, partially offset by Tamiflu royalties from Roche which decreased from \$392.7 million in 2009 to \$386.5 million in 2010.

Our R&D and selling, general and administrative (SG&A) expenses increased by \$230.7 million, or 12% for 2010 compared to 2009. The increase was due primarily to impairment charges related to in-process R&D

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## Table of Contents

(IPR&D) assets acquired from CV Therapeutics, higher headcount and expenses to support our expanding commercial activities and clinical studies expenses related to increased HIV research activities, partially offset by lower R&D expense reimbursement related to our collaboration with Tibotec.

We approved and communicated a plan during the second quarter of 2010 to close our research operations in Durham, North Carolina and consolidate our liver disease research activities in Foster City, California. We believe this plan will allow our employees to collaborate more effectively and further advance our programs in the liver disease area. During the year, we incurred a total of \$25.0 million of restructuring expenses related to employee severance and facilities-related expenses under this plan. In December 2010, we closed our operations in Durham. We do not expect to incur any additional significant costs in connection with this plan.

### *Financing Activity*

Cash, cash equivalents and marketable securities increased by \$1.41 billion during 2010, driven primarily by our operating cash flows of \$2.83 billion and proceeds of \$2.46 billion from the issuance of convertible senior notes, net of issuance costs, partially offset by repurchases of our common stock under our stock repurchase programs. Under our current three-year, \$5.00 billion stock repurchase program authorized in May 2010, we repurchased \$3.02 billion of our common stock through December 31, 2010. In May 2010, we had completed the \$1.00 billion stock repurchase program previously authorized in January 2010. For the year, we utilized a total of \$4.02 billion of cash to repurchase and retire 109.9 million shares of our common stock at an average purchase price of \$36.57 per share.

Our Board authorized an additional three-year, \$5.00 billion stock repurchase program in January 2011 for future repurchases of our outstanding shares of common stock which will commence upon the completion of our existing program authorized in May 2010. We intend to use the additional authorization to repurchase our shares from time to time to offset the dilution created by shares issued under employee stock plans and to repurchase shares opportunistically.

We issued \$2.50 billion of convertible senior notes in July 2010 in a private placement and purchased convertible note hedges as well as sold warrants for a net cost of \$207.2 million. The cost of the convertible note hedges will be tax deductible over the life of the notes. The convertible note hedges and warrants are intended to reduce the potential economic dilution upon future conversions of the notes by effectively increasing our conversion prices for the notes. Our interest expense for 2010 increased by \$39.3 million compared to 2009, due primarily to increased interest expense related to the notes.

We have used and will continue to use the net proceeds from the issuance of the convertible notes to repurchase shares of our common stock and repay existing indebtedness.

### *Healthcare Reform*

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

- effective January 1, 2010, our minimum base rebate amount owed to Medicaid on products reimbursed by Medicaid was increased by 8%, and the discounts or rebates we owe to ADAPs and other Public Health Service entities which reimburse or purchase our products were also increased by 8%;
- effective March 23, 2010, we are required to extend rebates to patients receiving our products through Medicaid managed care organizations;
- effective January 1, 2011, we are required to provide a 50% discount on products sold to patients while they are in the Medicare Part D “donut hole;” and

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## Table of Contents

- effective 2011, we, along with other pharmaceutical manufacturers of branded drug products, are required to pay a portion of a new industry fee (also known as the pharmaceutical excise tax), calculated based on select government sales during the 2010 calendar year as a percentage of total industry government sales.

Starting in 2014, as the number of people with access to healthcare coverage is expected to increase, we could experience a positive impact on the sales of our products. Further, the expansion of healthcare coverage may decrease the reliance of patients on state ADAPs that currently rely on the availability of federal and state funding.

The full impact of healthcare reform for 2010 was a reduction of approximately \$200 million in U.S. net product sales. The majority of this impact began in the third quarter and continued throughout the fourth quarter of 2010 since some of the new discount and rebate requirements took two quarters to fully take effect. For 2011, excluding the impact of the new pharmaceutical excise tax, we estimate that the impact of healthcare reform on product sales will be approximately 5–6% of our U.S. net product sales.

Many of the specific determinations necessary to implement the healthcare reform legislation have yet to be decided and communicated by the federal government. For example, we do not know how many or how quickly patients receiving our product under the Medicare Part D program will reach the “donut hole” or how details of the pharmaceutical excise tax will be calculated. Based on the information that we have to date, we estimate the 2011 impact of the pharmaceutical excise tax to be between \$30–\$50 million, which will be classified as SG&A expense. The excise tax is not tax deductible. In calculating the anticipated financial impacts of healthcare reform described above, we made several estimates and assumptions with respect to our expected payer mix and how the reforms will be implemented.

### *2011 Outlook*

Our operating objectives for 2011 include increasing the market share of our commercial products, continuing to strengthen our pipeline with internally developed and/or externally in-licensed or purchased opportunities and strengthening our key alliances. Additionally, we remain committed to returning value to our shareholders as we continue to repurchase our shares in a disciplined manner throughout the year.

From an R&D standpoint, we will continue to execute on our pipeline development with a particular focus on innovative HIV single-tablet regimens for patients and progression of HCV molecules into the clinic.

From a commercial standpoint, we have a number of internal and external initiatives intended to promote the continued growth of our franchises. In the HIV area, we expect to see continued positive impact from the revised U.S. Department of Health and Human Services treatment guidelines that recommend earlier treatment for patients with HIV. The extension of the Ryan White Treatment Act should provide stable funding for ADAPs in the United States through 2013. Assuming the timely resolution of the issues with the “refuse to file” notification from the FDA, we expect to launch a single-tablet regimen of Truvada and Tibotec’s TMC278 in the second half of 2011 which we expect to contribute incremental revenue to our HIV franchise. In February 2011, we re-filed our new drug application, which included the requested information, and are awaiting the FDA’s response as to whether it is substantially complete to permit a substantive review. In the hepatitis B virus (HBV) area, we will continue to support educational and promotional activities focused on U.S. Asian communities, highlighting the need to screen, diagnose and link patients to care. As part of those efforts, in 2010, we expanded our hepatitis B field team in the United States. In the cardiovascular area, we will continue in our efforts to raise awareness of Gilead in the PAH and cardiology communities and believe this will help grow revenues of Letairis and Ranexa in 2011. In cystic fibrosis, we intend to expand our field team to further grow our market share for Cayston.

We are mindful that conditions in our current macroeconomic environment could affect our ability to achieve our goals. Some of the factors that could affect our business include: any future changes to healthcare

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## Table of Contents

reform in the United States, a continuation or worsening of global economic conditions, patent expirations of competitive products and the launch of generic competitors, continued government pricing pressures internationally and the potential volatility in foreign currency exchange rates. We will continue to monitor these conditions and will adjust our business processes, as appropriate, to mitigate these risks to our business.

The successes we experienced in 2010 have helped us maintain and build a financially sound business model that we believe will allow us to continue to further expand our commercial, collaborative and R&D activities and to maintain quality and compliance. As we continue to grow our business, we remain focused on profitable revenue growth and prudent expense management that we believe will enable solid execution of our operating objectives for 2011.

### **Critical Accounting Policies, Estimates and Judgments**

The discussion and analysis of our financial condition and results of operations is based on our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these 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 estimates, including those related to revenue recognition, intangible assets, allowance for doubtful accounts, prepaid royalties, clinical trial accruals, our tax provision and stock-based compensation. We base our estimates on historical experience and on various other market specific and other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

#### *Revenue Recognition*

##### *Product Sales*

We recognize revenues from product sales when there is persuasive evidence that an arrangement exists, delivery to the customer has occurred, the price is fixed or determinable and collectability is reasonably assured. We record estimated reductions to revenues for government rebates such as Medicaid reimbursements, customer incentives such as cash discounts for prompt payment, distributor fees and expected returns of expired products. These estimates are deducted from gross product sales at the time such revenues are recognized. Of these reductions from gross product sales, government rebates significantly impact our reported net product sales and are based upon certain estimates that require complex and significant judgment by management.

##### *Government Rebates*

We estimate reductions to our revenues for government-managed Medicaid programs as well as to certain other qualifying federal, state and foreign government programs for the reimbursement of portions of the retail price of prescriptions filled that are covered by these programs. These reductions are settled either by the company being invoiced directly or through charge-backs from our wholesalers. Government rebates that are invoiced directly to us are recorded in accrued government rebates on our Consolidated Balance Sheets. For qualified programs that can purchase our products through wholesalers at a lower contractual government price, the wholesalers charge back to us the difference between their acquisition cost and the lower contractual government price, which we record as allowances against accounts receivable. Although we may pay rebates in countries outside of the United States, to date, payments made to foreign governments have not represented a significant portion of our total government rebates. For government programs in the United States, we estimate these sales allowances based on contractual terms, historical utilization rates, new information regarding changes in these programs' regulations and guidelines that would impact the amount of the actual rebates, our

## Table of Contents

expectations regarding future utilization rates for these programs and channel inventory data obtained from our major U.S. wholesalers in accordance with our inventory management agreements. During 2010, 2009, and 2008, U.S. government rebates of \$1.38 billion, \$885.5 million and \$625.0 million, respectively, representing 15%, 12% and 10% of total gross product sales, respectively, were deducted from gross product sales. We believe that the methodology that we use to estimate our sales allowances for government price reductions is reasonable and appropriate given the current facts and circumstances. However, actual results may differ. Based on the current information available to us, actual government rebates claimed for these periods have varied by less than 2% from our estimates recorded in those periods. As of December 31, 2010 and 2009, we had accrued U.S. government rebates of \$318.3 million and \$242.9 million, respectively, in accrued government rebates and had an allowance for doubtful accounts of \$53.5 million and \$41.8 million, respectively, recorded against accounts receivable.

The following table summarizes the aggregate activity in our U.S. government rebates allowance and accrued liabilities accounts:

	<u>Balance at Beginning of Year</u>	<u>Charged to Expense</u>	<u>Deducted from Accruals</u>	<u>Balance at End of Year</u>
Year ended December 31, 2010:				
Government rebates allowances and accrued liabilities				
Activity related to 2010 sales	\$ —	\$ 1,383,855	\$ 1,012,874	\$ 370,981
Activity related to sales prior to 2010	284,642	(8,573)	275,267	802
Total	<u>\$284,642</u>	<u>\$1,375,282</u>	<u>\$1,288,141</u>	<u>\$371,783</u>
Year ended December 31, 2009:				
Government rebates allowances and accrued liabilities				
Activity related to 2009 sales	\$ —	\$ 878,593	\$ 594,579	\$ 284,014
Activity related to sales prior to 2009	206,273	6,902	212,547	628
Total	<u>\$206,273</u>	<u>\$ 885,495</u>	<u>\$ 807,126</u>	<u>\$284,642</u>

### *Intangible Assets*

In conjunction with business combinations that we have completed, we have recorded intangible assets primarily related to marketed products, IPR&D projects and goodwill as part of our recognition and measurement of assets acquired and liabilities assumed in a business combination. Identifiable intangible assets, such as those related to marketed products or IPR&D projects, are measured at their respective fair values as of the acquisition date. We believe the fair values assigned to our acquired intangible assets are based on reasonable estimates and assumptions given the available facts and circumstances as of the acquisition dates. Discounted cash flow models are used in valuing these intangible assets, and these models require the use of significant estimates and assumptions including but not limited to:

- estimates of revenues and operating profits related to the products or product candidates;
- the probability of success for unapproved product candidates considering their stages of development;
- the time and resources needed to complete the development and approval of product candidates;
- the life of the potential commercialized products and associated risks, including the inherent difficulties and uncertainties in developing a product candidate such as obtaining FDA and other regulatory approvals; and
- risks related to the viability of and potential alternative treatments in any future target markets.

Goodwill represents the excess of the consideration transferred over the estimated fair values of assets acquired and liabilities assumed in a business combination. Goodwill and intangible assets determined to have indefinite useful lives are not amortized, but are required to be tested for impairment at least annually. We test

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## Table of Contents

goodwill and other indefinite-lived intangible assets for impairment on an annual basis and in between annual tests if we become aware of any events occurring or changes in circumstances that would indicate a reduction in the fair values of the assets below their carrying amounts. As of December 31, 2010, we had \$562.2 million of indefinite-lived intangible assets consisting of \$532.7 million of goodwill resulting from various business combinations and \$29.5 million of intangible assets related to the IPR&D projects that we acquired from CGI and CV Therapeutics.

Intangible assets with finite useful lives are amortized over their estimated useful lives and are reviewed for impairment when facts or circumstances suggest that the carrying value of these assets may not be recoverable. We are amortizing the intangible asset related to the Ranexa product, which we acquired from CV Therapeutics, over its estimated useful life using an amortization rate derived from our forecasted future product sales for Ranexa. Our product sales forecasts are prepared annually and determined using our best estimates of future activity upon considering such factors as historical and expected future patient usage or uptake of our products, the introduction of complimentary or combination therapies or products and future product launch plans. If a previously unanticipated and significant change occurs to our sales forecasts, we will prospectively update the rate used to amortize our intangible asset related to Ranexa which may increase future cost of goods sold, as that is where we record the amortization expense. We are amortizing the intangible asset related to the Lexiscan product, which we also acquired from CV Therapeutics, over its estimated useful life to cost of goods sold on a straight-line basis. Given that current Lexiscan revenues consist of royalties received from a collaboration partner and our lack of ongoing access and visibility into that partner's future sales forecasts, we cannot make a reasonable estimate of the amortization rate using a forecasted product sales approach. As of December 31, 2010, we had \$863.4 million of net unamortized finite-lived intangible assets consisting primarily of intangible assets related to the marketed products that we acquired from CV Therapeutics.

Our judgment regarding the existence of impairment indicators is based on our historical and projected future operating results, our extent or manner of use of the acquired assets, legal and regulatory factors and events, our overall business strategy and market and economic trends. If events occur in the future that cause us to conclude that impairment indicators exist and that certain intangible assets are impaired, our financial condition and results of operations may be adversely impacted.

During the fourth quarter of 2010, we recorded \$136.0 million of impairment charges related to certain IPR&D assets acquired from CV Therapeutics which we had no future plans to develop and which were deemed to have no future use to us or other market participants. These charges related to the GS 9667, Adentri and tecadenoson programs and were recorded in R&D expense. The majority of the impairment charge related to our GS 9667 program, a product candidate that was in Phase 1 clinical studies for the treatment of diabetes and hypertriglyceridemia, which was terminated in the fourth quarter of 2010 due to unfavorable results from pharmacokinetics and pharmacodynamics tests that demonstrated limited effectiveness of the compound in patients. Given these results, we do not believe it has alternative future uses for us or other market participants.

### *Allowance for Doubtful Accounts*

We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance is based on our analysis of several factors including, but not limited to, contractual payment terms, historical payment patterns of our customers and individual customer circumstances, an analysis of days sales outstanding by geographic region and a review of the local economic environment and its potential impact on government funding and reimbursement practices. If the financial condition of our customers or the economic environment in which they operate were to deteriorate, resulting in an inability to make payments, additional allowances may be required. Our allowance for doubtful accounts balance as a percentage of total accounts receivable did not materially change from December 31, 2009 to December 31, 2010. We believe that the allowance for doubtful accounts is adequate to cover anticipated losses under current conditions; however, significant deterioration in any of the above factors could materially change these expectations and may result in an increase to our allowance for doubtful accounts.



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## Table of Contents

### *Prepaid Royalties*

We capitalize royalties that we have prepaid at cost, specifically those related to the emtricitabine royalties we paid to Emory University (Emory) for the HIV indication, based on the present value of the future royalty obligation that we would expect to pay to Emory assuming certain expected future levels of our product sales incorporating emtricitabine. The present value of our future royalty obligation was derived using our weighted-average cost of capital. We review periodically the expected future sales levels of our products and any indicators that might require a write-down in the net recoverable value of our asset or a change in the estimated life of the prepaid royalty. Some potential indicators of impairment include the launch of a significant product by a competitor, significant deviations in recognized product sales compared to forecast and product safety issues and recalls.

We amortize our prepaid royalties based on an effective royalty rate that we derive from forecasted future HIV product sales incorporating emtricitabine. Our product sales forecasts are prepared annually and determined using our best estimates of future activity upon considering such factors as historical and expected future patient usage or uptake of our products, the introduction of complimentary or combination therapies or products and future product launch plans. If a previously unanticipated and significant change occurs to our sales forecasts, including the introduction of a competing product by us or one of our competitors in the same HIV market as emtricitabine, we will prospectively update the royalty rate used to amortize our prepaid royalties which may increase future cost of goods sold, as that is where we record the amortization expense. As of December 31, 2010 and 2009, we had a prepaid royalty asset relating to the emtricitabine royalties we paid to Emory of \$219.5 million and \$245.0 million, respectively. Amortization expense relating to this prepaid royalty asset was \$25.5 million, \$29.9 million and \$31.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

### *Clinical Trial Accruals*

We record accruals for estimated clinical study costs. Most of our clinical studies are performed by third-party contract research organizations (CROs). These costs are a significant component of R&D expenses. During 2010, 2009 and 2008, we incurred CRO costs of \$99.0 million, \$109.9 million and \$111.8 million, respectively. We accrue costs for clinical studies performed by CROs over the service periods specified in the contracts and adjust our estimates, if required, based upon our ongoing review of the level of effort and costs actually incurred by the CROs. We validate our accruals quarterly with our vendors and perform detailed reviews of the activities related to our significant contracts. Based upon the results of these validation processes, we assess the appropriateness of our accruals and make any adjustments we deem necessary to ensure that our expenses reflect the actual effort incurred by the CROs.

Generally, a significant portion of the total clinical trial costs is associated with start up activities for the trial and patient enrollment. We extensively outsource our clinical trial activities and usually perform only a small portion of the start-up activities in-house. As a result, CROs typically perform most of the total start-up activities for our trials, including document preparation, site identification, screening and preparation, pre-study visits, training and program management. Start-up costs usually occur within a few months after the contract has been executed and are milestone or event driven in nature.

The remaining clinical activities and related costs, such as patient monitoring and administration, generally occur ratably throughout the life of the individual contract or study. Most contracts are negotiated as fixed per unit prices and can vary in length between three months for a single dose Phase 1 clinical study and up to two years or more for a more complex Phase 3 clinical study. The average length of contracts in 2010, 2009 and 2008 has been at the upper end of this range in order to provide long-term safety and efficacy data to support the commercial launches of Atripla, Truvada, Viread, Hepsera, Emtriva, Letairis and Ranexa. All of our material CRO contracts are terminable by us upon written notice and we are generally only liable for actual effort expended by the CRO and certain non-cancelable expenses incurred at any point of termination. Amounts paid in advance relating to uncompleted services will be refunded to us if a contract is terminated. Some contracts may include additional termination payments that become due and payable if we terminate the contract. Such

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## Table of Contents

additional termination payments are only recorded if it becomes probable that a contract will be terminated. Through December 31, 2010, differences between actual and estimated activity levels for any particular study have not been material. However, if management does not receive complete and accurate information from our vendors or underestimates activity levels associated with a study at a given point in time, we may have to record additional and potentially significant R&D expenses in future periods.

### *Tax Provision*

We estimate our income tax provision, including deferred tax assets and liabilities, based on significant management judgment. We evaluate the realization of all or a portion of our deferred tax assets on a quarterly basis. We record a valuation allowance to reduce our deferred tax assets to the amounts that are more likely than not to be realized. We consider future taxable income, ongoing tax planning strategies and our historical financial performance in assessing the need for a valuation allowance.

If we expect to realize deferred tax assets for which we have previously recorded a valuation allowance, we will reduce the valuation allowance in the period in which such determination is first made.

Our future effective income tax rate may be affected by such factors as changes in tax laws, regulations or rates, changing interpretation of existing laws or regulations, our portion of the non-tax deductible pharmaceutical excise tax that we will be required to pay starting in 2011 as a result of the enactment of U.S. healthcare reform legislation, the impact of accounting for stock-based compensation, changes in our international organization and changes in overall levels of income before tax.

At December 31, 2010 and 2009, the total gross unrecognized tax benefits were \$126.5 million and \$106.5 million, respectively. Of the total unrecognized tax benefits, \$106.5 million and \$72.6 million at December 31, 2010 and 2009, respectively, if recognized, would reduce our effective tax rate in the period of recognition.

As of December 31, 2010, we believe it is reasonably possible that our unrecognized tax benefits will decrease by approximately \$6.0 million in the next 12 months as we expect to have clarification from the tax authorities around certain of our uncertain tax positions. With respect to the remaining unrecognized tax benefits, we are currently unable to make a reasonable estimate as to the period of cash settlement, if any, with the respective tax authorities.

We file federal, state and foreign income tax returns in many jurisdictions in the United States and abroad. For federal income tax purposes, the statute of limitations is open for 2003 and onward. For certain acquired entities, the statute of limitations is open for all years from inception due to our utilization of their net operating losses and credits carried over from prior years. For California income tax purposes, the statute of limitations remains open for 2002 and onwards.

Our income tax returns are audited by federal, state and foreign tax authorities. We are currently under examination by the Internal Revenue Service for the 2005, 2006 and 2007 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 guidance that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We do not believe any such uncertain

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## [Table of Contents](#)

tax positions currently pending will have a material adverse effect on our Consolidated Financial Statements, although an adverse resolution of one or more of these uncertain tax positions in any period could have a material impact on the results of operations for that period.

### *Stock-based Compensation*

We measure all share-based payments to employees and directors, including grants of stock options, based on their relative fair values. Fair values of awards granted under our stock option plans and Employee Stock Purchase Plan were estimated at grant or purchase dates using a Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility and expected award life.

Stock-based compensation is recognized as expense over the requisite service periods in our Consolidated Statements of Income using a graded vesting expense attribution approach for unvested stock options granted prior to January 1, 2006, and using the straight-line expense attribution approach for stock options granted after our adoption of new guidance for share-based payments to employees and directors on January 1, 2006. As stock-based compensation expenses, related to stock options recognized on adoption of the new guidance, is based on awards ultimately expected to vest, gross expense has been reduced for estimated forfeitures. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We estimated forfeitures based on our historical experience. Prior to the adoption of this guidance, pro forma information that was required to be disclosed included forfeitures as they occurred. As a result of the guidance adopted on January 1, 2006, we only recognize a tax benefit from stock-based compensation in additional paid-in capital (APIC) if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized. In addition, we have elected to account for the indirect benefits of stock-based compensation on the research tax credit and the extraterritorial income deduction through our Consolidated Statements of Income rather than through APIC.

During the years ended December 31, 2010, 2009 and 2008, we recognized stock-based compensation expenses of \$200.0 million, \$185.8 million and \$153.4 million, respectively, in operating expenses, and we capitalized \$10.9 million, \$11.4 million and \$9.9 million, respectively, to inventory. As of December 31, 2010, we had unrecognized stock-based compensation expenses of \$260.8 million related to unvested stock options, which we expect to expense over an estimated weighted-average period of 2.7 years.

Our management has discussed the development, selection and disclosure of these critical accounting policies with the Audit Committee of our Board, and the Audit Committee has reviewed the disclosure presented above relating to these critical accounting policies.

## **Results of Operations**

### *Total Revenues*

We had total revenues of \$7.95 billion in 2010, \$7.01 billion in 2009 and \$5.34 billion in 2008. Included in total revenues were product sales, royalty revenues and contract and other revenues. A significant percentage of our product sales continued to be denominated in foreign currencies and we face exposure to adverse movements in foreign currency exchange rates. We used foreign currency exchange forward and option contracts to hedge a percentage of our forecasted international sales, primarily those denominated in Euro. Foreign currency exchange had an unfavorable impact of \$93.7 million on our 2010 revenues compared to 2009.

## Table of Contents

### *Product Sales*

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

	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>
Antiviral products:					
Atripla	\$2,926,579	23%	\$2,382,113	51%	\$1,572,455
Truvada	2,649,908	6%	2,489,682	18%	2,106,687
Viread	732,240	10%	667,510	7%	621,187
Hepsera	200,592	(26)%	271,595	(20)%	341,023
Emtriva	27,679	(1)%	27,974	(10)%	31,080
Total antiviral products	6,536,998	12%	5,838,874	25%	4,672,432
AmBisome	305,856	2%	298,597	3%	289,651
Letairis	240,279	31%	183,949	63%	112,855
Ranexa	239,832	83%	131,062	—	—
Other	66,956	298%	16,829	71%	9,858
Total product sales	<u>\$7,389,921</u>	14%	<u>\$6,469,311</u>	27%	<u>\$5,084,796</u>

Total product sales increased by 14% in 2010 compared to 2009 and 27% in 2009 compared to 2008, due primarily to an overall increase in our antiviral product sales driven by the strong growth of Atripla sales and the continued growth of Truvada sales. The growth of our cardiovascular products, Letairis and Ranexa, also contributed to the overall increase in product sales in those periods.

### *Antiviral Products*

Antiviral product sales increased by 12% in 2010 compared to 2009 and 25% in 2009 compared to 2008.

- *Atripla*

Atripla sales increased by 23% in 2010 compared to 2009, driven primarily by sales volume growth in the United States and Europe. Atripla sales increased by 51% in 2009 compared to 2008, driven primarily by sales volume growth in the United States and Europe. The European growth benefited from the launch of Atripla in France in the second quarter of 2009. Atripla sales include the efavirenz component which has a gross margin of zero. The efavirenz portion of our Atripla sales was approximately \$1.07 billion, \$880.7 million and \$576.0 million in 2010, 2009 and 2008, respectively. Atripla sales accounted for 45%, 41% and 34% of our total antiviral product sales for 2010, 2009 and 2008, respectively.

- *Truvada*

Truvada sales increased by 6% in 2010 compared to 2009, driven primarily by sales volume growth in the United States and Europe. Truvada sales increased by 18% in 2009 compared to 2008, driven primarily by sales volume growth in the United States and Europe, partially offset by an unfavorable foreign currency exchange impact. Truvada sales accounted for 41%, 43% and 45% of our total antiviral product sales for 2010, 2009 and 2008, respectively.

- *Other Antiviral Products*

Other antiviral product sales, which include product sales of Viread, Hepsera and Emtriva, decreased by 1% for 2010 compared to 2009 and 3% for 2009 compared to 2008, due primarily to sales volume decreases in Hepsera, partially offset by sales volume increases in Viread.

### *AmBisome*

Sales of AmBisome increased by 2% in 2010 compared to 2009 and 3% in 2009 compared to 2008, driven primarily by sales volume growth in certain markets outside of the United States, partially offset by an

## Table of Contents

unfavorable foreign currency exchange impact. AmBisome product sales in the United States and Canada relate solely to our sales of AmBisome to Astellas Pharma US, Inc. which are recorded at our manufacturing cost.

### *Letairis*

Sales of Letairis increased by 31% for 2010 compared to 2009 and 63% in 2009 compared to 2008, driven primarily by sales volume growth in the United States.

### *Ranexa*

Sales of Ranexa increased by 83% for 2010 compared to 2009, driven primarily by sales volume growth in the United States. Ranexa sales were \$239.8 million for 2010 and \$131.1 million for 2009. Ranexa sales began on April 15, 2009, the date Gilead acquired CV Therapeutics.

We expect total product sales to continue to grow in 2011 as we continue to expand our sales and marketing efforts to support continued opportunities for market expansion.

### *Royalty Revenues*

The following table summarizes the period over period changes in our royalty revenues (in thousands):

	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>
Royalty revenues	\$545,970	11%	\$491,818	125%	\$218,180

Our most significant source of royalty revenues for 2010, 2009 and 2008 was from sales of Tamiflu by Roche. We recognize royalties on Tamiflu sales by Roche in the quarter following the quarter in which Tamiflu is sold.

Royalty revenues for 2010 were \$546.0 million, an increase of 11% compared to 2009. Other royalty revenues, which include royalties from GSK for Hepsera, royalties from Astellas US LLC for Lexiscan and royalties from Japan Tobacco for Truvada contributed to the increase in total royalty revenues. Tamiflu royalties from Roche contributed \$386.5 million to total royalty revenues in 2010 compared to \$392.7 million in 2009 as pandemic planning initiatives worldwide began to decline throughout 2010. Royalty revenues for 2009 were \$491.8 million, an increase of 125% compared to 2008, driven primarily by the recognition of Tamiflu royalties from Roche of \$392.7 million in 2009 compared to Tamiflu royalties from Roche of \$155.5 million in 2008. The higher Tamiflu royalties for 2009 were due to increased Tamiflu sales by Roche related primarily to pandemic planning initiatives worldwide.

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

The following table summarizes the period over period changes in our product sales (in thousands), cost of goods sold (in thousands) and product gross margin:

	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>
Total product sales	\$7,389,921	14%	\$6,469,311	27%	\$5,084,796
Cost of goods sold	\$1,869,876	17%	\$1,595,558	42%	\$1,127,246
Product gross margin	75%		75%		78%

Our product gross margin for 2010 was 75%, consistent with our product gross margin for 2009. Our product gross margin for 2009 decreased to 75% from 78% for 2008, due primarily to the higher proportion of Atripla sales, which has a gross margin of zero for the efavirenz component, as well as the amortization associated with the intangible assets acquired in our acquisition of CV Therapeutics.

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## Table of Contents

We expect our product gross margin in 2011 to be lower compared to 2010, due primarily to a higher proportion of expected Atripla sales.

### *Restructuring Expenses*

During the second quarter of 2010, we approved and communicated a plan to close our research operations in Durham, North Carolina and consolidate our liver disease research activities in Foster City, California. We believe this plan will allow our employees to collaborate more effectively and further advance our programs in the liver disease area. During the year, we recorded a total of \$14.6 million and \$10.4 million in SG&A expenses and R&D expenses, respectively, related to employee severance and facilities-related expenses under this plan. In December 2010, we closed our operations in Durham. We do not expect to incur any additional significant costs in connection with this plan.

During the second quarter of 2009, we approved a plan to realize certain synergies as a result of the CV Therapeutics acquisition by re-aligning our cardiovascular operations and eliminating redundancies. In 2010, we recorded \$10.6 million and \$3.4 million of restructuring expenses in SG&A and R&D expenses, respectively, related to employee severance, relocation, lease termination costs and other facilities-related expenses. Total costs incurred under this plan were \$36.8 million and \$29.1 million in SG&A and R&D expenses, respectively. We do not expect to incur any additional costs in connection with this plan.

### *Research and Development Expenses*

The following table summarizes the period over period changes in our R&D expenses (in thousands):

	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>
Research and development	\$1,072,930	14%	\$939,918	30%	\$721,768

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

R&D expenses for 2010 increased by \$133.0 million, or 14%, compared to 2009, due primarily to impairment charges of \$136.0 million that we recorded related to IPR&D assets acquired from CV Therapeutics, \$23.5 million of clinical studies expenses related to increased HIV research activities and \$16.1 million of compensation and benefits expenses. The majority of the impairment charge related to our GS 9667 program, a product candidate that was in Phase 1 clinical studies for the treatment of diabetes and hypertriglyceridemia, which was terminated in the fourth quarter of 2010 due to unfavorable results from pharmacokinetics and pharmacodynamics tests that demonstrated limited effectiveness of the compound in patients. Given these results, we do not believe it has alternative future uses for us or other market participants. The increase in R&D expenses was partially offset by \$37.0 million due to the timing of certain clinical studies and \$30.3 million of lower R&D expense reimbursement related to our collaboration with Tibotec.

R&D expenses in 2009 increased by \$218.2 million, or 30%, compared to 2008, due primarily to increased compensation and benefits expenses of \$88.8 million driven by higher headcount related to the growth of our business, the R&D expense reimbursement related to our collaboration with Tibotec of \$52.4 million and increased clinical study expenses of \$23.9 million. The increase in compensation and benefits expenses was also driven by severance and termination benefits associated with our restructuring activities related to our acquisition of CV Therapeutics.

In 2011, we expect R&D expenses to increase over 2010 levels due to increased spending on our internal and collaborative R&D efforts as we anticipate that some of our product candidates will progress into more advanced clinical studies as well as adding more clinical development programs to our pipeline.

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## Table of Contents

### *Selling, General and Administrative Expenses*

The following table summarizes the period over period changes in our SG&A expenses (in thousands):

	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>	<u>2008</u>
Selling, general and administrative	\$1,044,392	10%	\$946,686	19%	\$797,344

SG&A expenses in 2010 increased by \$97.7 million or 10%, compared to 2009, due primarily to increased compensation and benefits expenses of \$36.3 million as a result of higher headcount to support our expanding commercial activities, increased contract and professional services expenses of \$27.3 million driven primarily by our expanding sales and marketing activities and \$18.1 million related to facilities and equipment expenses.

SG&A expenses in 2009 increased by \$149.3 million or 19%, compared to 2008, due primarily to increased compensation and benefits expenses of \$75.4 million driven by higher headcount related to the growth of our business, increased contract and professional services expenses of \$46.6 million driven primarily by our expanding sales and marketing activities and \$5.8 million related to certain contract termination costs. The increase in compensation and benefits expenses was also driven by severance and termination benefits associated with our restructuring activities related to our acquisition of CV Therapeutics.

In 2011, we expect SG&A expenses to increase over 2010 levels due to increased investment to support the continued growth in all of our franchises. We believe we have the appropriate infrastructure to support the growth of our business in 2011.

### *Interest and Other Income, Net*

We recorded interest and other income, net, of \$60.3 million, \$42.4 million and \$59.4 million in 2010, 2009 and 2008, respectively. The increase in interest and other income, net, in 2010 compared to 2009 was due primarily to decreased costs related to our hedging activities. The decrease in interest and other income, net, in 2009 compared to 2008 was due primarily to decreased interest income of \$40.6 million driven by a reduction in the average yield of our investment portfolio as a result of lower interest rates, partially offset by an increase in net foreign currency exchange gains of \$15.7 million.

### *Interest Expense*

Our interest expense was \$109.0 million, \$69.7 million and \$65.2 million in 2010, 2009 and 2008, respectively. The increase in interest expense in 2010 compared to 2009 was due primarily to the issuance of our convertible senior notes for \$2.46 billion, net of issuance costs, in July 2010. The increase in interest expense in 2009 compared to 2008 was due primarily to the effect of accreting the debt discount on our convertible notes due in 2011 and 2013 as additional interest expense over the expected life of the debt, as a result of adopting certain accounting guidance.

### *Provision for Income Taxes*

Our provision for income taxes was \$1.02 billion, \$876.4 million and \$702.4 million in 2010, 2009 and 2008, respectively. The 2010 effective tax rate of 26.2% differed from the U.S. federal statutory rate of 35% due primarily to tax credits and certain operating earnings from non-U.S. subsidiaries that are considered indefinitely invested outside the United States, partially offset by state taxes. We do not provide for U.S. income taxes on undistributed earnings of our foreign operations that are intended to be permanently reinvested.

The 2009 effective tax rate of 25.0% differed from the U.S. federal statutory rate of 35% due primarily to tax credits, the resolution of certain tax positions with tax authorities and certain operating earnings from non-U.S. subsidiaries that are considered indefinitely invested outside the United States, partially offset by state taxes and the revaluation of certain state tax assets related to the integration of CV Therapeutics.

## Table of Contents

The 2008 effective tax rate of 26.3% differs from the U.S. federal statutory rate of 35% due primarily to tax credits, the resolution of certain tax positions with tax authorities and certain operating earnings from non-U.S. subsidiaries that are considered indefinitely invested outside the United States, partially offset by state taxes.

### **Liquidity and Capital Resources**

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

	2010	2009	2008
<b>As of December 31:</b>			
Cash, cash equivalents and marketable securities	\$ 5,318,071	\$ 3,904,846	\$ 3,239,639
Working capital	\$ 3,243,132	\$ 2,940,927	\$ 3,057,416
<b>Year Ended December 31:</b>			
Cash provided by (used in):			
Operating activities	\$ 2,833,913	\$ 3,080,054	\$ 2,143,384
Investing activities	\$(1,937,751)	\$(2,215,900)	\$ (178,819)
Financing activities	\$(1,338,710)	\$(1,051,438)	\$(1,474,569)

#### *Cash, Cash Equivalents and Marketable Securities*

Cash, cash equivalents and marketable securities totaled \$5.32 billion at December 31, 2010, an increase of \$1.41 billion or 36% from December 31, 2009. This increase was primarily attributable to net cash provided by operations of \$2.83 billion and proceeds of \$2.46 billion from the issuance of convertible senior notes, net of issuance costs, partially offset by \$4.02 billion used to repurchase our common stock under our stock repurchase programs.

Cash, cash equivalents and marketable securities totaled \$3.90 billion at December 31, 2009, an increase of \$665.2 million or 21% from December 31, 2008. This increase was primarily attributable to net cash provided by operations of \$3.08 billion and proceeds from issuances of common stock under our employee stock plans of \$222.7 million, partially offset by the following:

- cash used to acquire CV Therapeutics of \$1.13 billion, net of cash, cash equivalents and marketable securities acquired from CV Therapeutics of \$245.4 million;
- \$998.5 million used to repurchase our common stock under our stock repurchase program; and
- \$305.5 million used to extinguish the convertible senior notes we assumed in our acquisition of CV Therapeutics.

#### *Working Capital*

Working capital was \$3.24 billion at December 31, 2010, an increase of \$302.2 million or 10% from working capital as of December 31, 2009. This increase was primarily attributable to:

- an increase of \$441.7 million in cash, cash equivalents and short-term marketable securities;



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## Table of Contents

- an increase of \$232.4 million in accounts receivable, net, primarily driven by increased product sales; and
- an increase of \$152.0 million in inventories, due primarily to the purchase of efavirenz at its estimated net selling price from Bristol-Myers Squibb Company (BMS).

This increase was partially offset by an increase of \$640.8 million in the current portion of convertible senior notes, net and other long-term obligations, due to the reclassification of our convertible senior notes due in 2011 to current liabilities.

Working capital was \$2.94 billion at December 31, 2009, a decrease of \$116.5 million or 4% from working capital as of December 31, 2008. This decrease was primarily attributable to:

- an increase of \$209.3 million in accounts payable, due primarily to the purchase of efavirenz at its estimated net selling price from BMS; and
- a decrease of \$133.1 million in cash, cash equivalents and short-term marketable securities since we held a higher proportion of long-term marketable securities as of December 31, 2009 compared to December 31, 2008.

This decrease from 2008 to 2009 was partially offset by an increase of \$366.1 million in our accounts receivable, net, driven primarily by increased product sales.

### *Cash Provided by Operating Activities*

Cash provided by operating activities of \$2.83 billion in 2010 primarily related to net income of \$2.89 billion, adjusted for non-cash items such as \$265.5 million of depreciation and amortization expenses, \$200.0 million of stock-based compensation expenses, \$136.0 million of IPR&D impairment expenses and \$82.1 million of tax benefits from employee stock plans, partially offset by \$680.4 million of net cash outflow related to changes in operating assets and liabilities and \$81.6 million of excess tax benefits from stock option exercises which we reclassified to cash used in financing activities.

Cash provided by operating activities of \$3.08 billion in 2009 primarily related to net income of \$2.63 billion, adjusted for non-cash items such as \$180.7 million of stock-based compensation expenses and \$148.4 million of amortization expenses. As a result of our adoption of the guidance for our joint ventures with BMS on January 1, 2009, we reclassified the change in noncontrolling interest from cash provided by operating activities to cash used in financing activities.

Cash provided by operating activities of \$2.14 billion in 2008 primarily related to net income of \$1.97 billion, adjusted for non-cash items such as \$209.5 million of tax benefits from employee stock plans and \$153.4 million of stock-based compensation expenses. This was partially offset by \$191.9 million of excess tax benefits from stock option exercises which we reclassified to cash used in financing activities.

### *Cash Used in Investing Activities*

Cash used in investing activities in 2010 was \$1.94 billion, driven by a net use of \$1.78 billion in purchases of marketable securities, \$91.0 million used in our acquisition of CGI and \$61.9 million of capital expenditures.

Cash used in investing activities in 2009 was \$2.22 billion, driven by cash used for our acquisition of CV Therapeutics of \$1.25 billion (net of cash acquired), a net use of \$738.0 million in purchases of marketable securities and \$230.1 million of capital expenditures for the year. Capital expenditures in 2009 included the purchase of an office building and approximately 30 acres of land located in Foster City, California.

Cash used in investing activities in 2008 was \$178.8 million, driven primarily by a net use of \$53.0 million in purchases of marketable securities and \$115.0 million of capital expenditures for the year.

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## Table of Contents

### *Cash Used in Financing Activities*

Cash used in financing activities in 2010 was \$1.34 billion, driven primarily by the \$4.02 billion used to repurchase our common stock under our stock repurchase programs and \$362.6 million used to purchase note hedges related to our convertible senior notes due in 2014 and 2016. The cash outflows were partially offset by \$2.46 billion in proceeds from the issuance of convertible senior notes, net of issuance costs, \$155.4 million in proceeds from the sale of warrants related to our convertible senior notes and \$221.2 million in proceeds from issuances of common stock under our employee stock plans.

Cash used in financing activities in 2009 was \$1.05 billion, driven primarily by the \$998.5 million used to repurchase our common stock under our stock repurchase program and the \$305.5 million used to extinguish the convertible senior notes assumed from the acquisition of CV Therapeutics. The cash outflows were partially offset by proceeds of \$222.7 million from issuances of common stock under our employee stock plans.

Cash used in financing activities in 2008 was \$1.47 billion, driven primarily by the \$1.97 billion used to repurchase our common stock under our stock repurchase program. The cash outflows were partially offset by proceeds of \$246.1 million that we received from issuances of common stock under our employee stock plans as well as \$191.9 million of excess tax benefits from stock option exercises.

### *Other Information*

Under our current three-year, \$5.00 billion stock repurchase program authorized by our Board in May 2010, we repurchased \$3.02 billion of our common stock through December 31, 2010. As of December 31, 2010, the remaining authorized amount of stock repurchases that may be made under our \$5.00 billion repurchase program was \$1.98 billion. In May 2010, we had completed the \$1.00 billion stock repurchase program previously authorized by our Board in January 2010. For the year, we utilized a total of \$4.02 billion of cash to repurchase and retire 109.9 million shares of our common stock at an average purchase price of \$36.57 per share.

In January 2011, our Board authorized an additional three-year, \$5.00 billion stock repurchase program which will commence upon the completion of our existing program authorized in May 2010. We intend to use the additional authorization to repurchase our shares from time to time to offset the dilution created by shares issued under employee stock plans and to repurchase shares opportunistically.

Under our amended and restated credit agreement, we, along with our wholly-owned subsidiary, Gilead Biopharmaceutics Ireland Corporation, may borrow up to an aggregate of \$1.25 billion in revolving credit loans. The credit agreement also includes a sub-facility for swing-line loans and letters of credit. During the year, we borrowed and repaid a \$500.0 million loan under this revolving credit facility. Loans under the credit agreement bear interest at an interest rate of either LIBOR plus a margin ranging from 20 basis points to 32 basis points or the base rate, as described in the credit agreement. The credit agreement will terminate in December 2012 and all unpaid borrowings thereunder shall be due and payable at that time. We may reduce the commitments and may prepay loans under the credit agreement in whole or in part without penalty, subject to certain conditions. As of December 31, 2010, approximately \$1.25 billion was available to be drawn down under this credit agreement.

In July 2010, we issued \$2.50 billion of convertible senior notes in a private placement and purchased convertible note hedges as well as sold warrants for a net cost of \$207.2 million. The cost of the convertible note hedges will be tax deductible over the life of the notes. The convertible note hedges and warrants are intended to reduce the potential economic dilution upon future conversions of the notes by effectively increasing our conversion prices for the notes. We have used and will continue to use the net proceeds from the issuance of the convertible notes to repurchase shares of our common stock and repay existing indebtedness.

We believe that our existing capital resources, supplemented by cash generated from our operations, will be adequate to satisfy our capital needs for the foreseeable future. Our future capital requirements will depend on many factors, including but not limited to the following:

- the commercial performance of our current and future products;

## Table of Contents

- the progress and scope of our R&D efforts, including preclinical studies and clinical trials;
- the cost, timing and outcome of regulatory reviews;
- the expansion of our sales and marketing capabilities;
- administrative expenses;
- the possibility of acquiring additional manufacturing capabilities or office facilities;
- the possibility of acquiring other companies or new products;
- the establishment of additional collaborative relationships with other companies; and
- costs associated with the defense, settlement and adverse results of litigation and government investigations.

We may in the future require additional funding, which could be in the form of proceeds from equity or debt financings. If such funding is required, we cannot assure that it will be available to us on favorable terms, if at all.

### **Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements.

### **Contractual Obligations**

Our contractual obligations consist of debt obligations, operating leases, capital commitments, purchase obligations for active pharmaceutical ingredients and inventory-related items and clinical trials contracts. The following table summarizes our significant enforceable and legally binding obligations, future commitments and obligations related to all contracts that we are likely to continue regardless of the fact that certain of these obligations may be cancelable as of December 31, 2010 (in thousands):

<u>Contractual Obligations</u>	<u>Payments due by Period</u>				
	<u>Total</u>	<u>Less than one year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Convertible senior notes <sup>(1)</sup>	\$3,967,102	\$ 688,486	\$ 721,584	\$1,296,876	\$1,260,156
Operating lease obligations	211,167	45,887	67,381	40,555	57,344
Capital commitments <sup>(2)</sup>	27,323	27,323	—	—	—
Purchase obligations <sup>(3)(4)</sup>	870,436	640,271	206,820	23,345	—
Clinical trials <sup>(5)</sup>	169,245	82,560	77,821	8,864	—
Total	<u>\$5,245,273</u>	<u>\$1,484,527</u>	<u>\$1,073,606</u>	<u>\$1,369,640</u>	<u>\$1,317,500</u>

<sup>(1)</sup> Convertible senior note obligations include future interest payments based on a fixed rate of 0.50% for notes due in 2011, 0.625% for notes due in 2013, 1.00% for notes due in 2014 and 1.625% for notes due in 2016. At December 31, 2010, the carrying value of our convertible senior notes was \$3.48 billion.

<sup>(2)</sup> At December 31, 2010, we had firm capital project commitments of approximately \$27.3 million primarily relating to enterprise software purchase commitments and facilities improvement projects.

<sup>(3)</sup> At December 31, 2010, we had firm purchase commitments related to active pharmaceutical ingredients and certain inventory-related items. These amounts include minimum purchase requirements and actual purchases are expected to significantly exceed these amounts.

<sup>(4)</sup> In addition to the above, we have committed to make potential future milestone payments to third parties as part of licensing, collaboration and development arrangements. Payments under these agreements generally become due and payable only upon achievement of certain developmental, regulatory and/or commercial milestones. Because the achievement of these milestones is neither probable nor reasonably estimable, such contingencies have not been recorded on our Consolidated Balance Sheets and have not been included in the table above.

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## Table of Contents

- (5) At December 31, 2010, we had several clinical studies in various clinical trial phases. Our most significant clinical trial expenditures are to CROs. Although all of our material contracts with CROs are cancelable, we historically have not cancelled such contracts. These amounts reflect commitments based on existing contracts and do not reflect any future modifications to, or terminations of, existing contracts or anticipated or potential new contracts.

We had total gross unrecognized tax benefit liabilities including interest and penalties of \$143.7 million as of December 31, 2010. We believe that it is reasonably possible that our unrecognized tax benefits will decrease by approximately \$6.0 million in the next 12 months as we expect to have clarification from the tax authorities around certain of our uncertain tax positions. With respect to the remaining unrecognized tax benefits, we are currently unable to make a reasonable estimate as to the period of cash settlement, if any, with the respective tax authorities. Such amounts were included in long-term income taxes payable and non current deferred tax assets on our Consolidated Balance Sheet and have not been included in the table above.

### **Recent Accounting Pronouncements**

In October 2009, the Financial Accounting Standards Board issued new standards for revenue recognition for agreements with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. These new standards are effective for us beginning in the first quarter of 2011; however, early adoption is permitted. The adoption of these standards will not have a material impact on our Consolidated Financial Statements.

In December 2010, in response to the pharmaceutical excise tax mandated by healthcare reform legislation adopted in the United States, the FASB issued a new standard to address how pharmaceutical manufacturers should recognize and classify this tax in their income statements. Effective 2011, we, along with other pharmaceutical manufacturers of branded drug products, are required to pay a portion of the pharmaceutical excise tax, calculated based on select government sales for the preceding calendar year as a percentage of total industry government sales. The new standard clarifies that the pharmaceutical excise tax shall be presented as an operating expense and that the liability related to the tax shall be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense generally using a straight-line method of allocation. The new standard is effective for us beginning in the first quarter of 2011. We estimate the 2011 impact of the pharmaceutical excise tax to be between \$30–\$50 million, which will be classified as SG&A expense in our Consolidated Financial Statements.

Also in December 2010, the FASB issued an update to its existing standard for business combinations to address the pro forma financial disclosure requirements for business combinations. The updated standard specifies that if a public entity presents comparative financial statements, the entity should disclose pro forma revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The updated standard is effective for us beginning in the first quarter of 2011; however, early adoption is permitted. The adoption of this standard will not have a material impact on our Consolidated Financial Statements.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### *Foreign Currency Exchange Risk*

Our operations include manufacturing and sales activities in the United States, Canada and Ireland as well as sales activities in countries outside the United States, including Europe and Asia Pacific. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we distribute our products. Our operating results are exposed to changes in foreign currency exchange rates between the U.S. dollar and various foreign currencies,

## Table of Contents

the most significant of which is the Euro. When the U.S. dollar strengthens against these currencies, the relative value of sales made in the respective foreign currency decreases. Conversely, when the U.S. dollar weakens against these currencies, the relative amounts of such sales increase. Overall, we are a net receiver of foreign currencies and, therefore, benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to those foreign currencies in which we transact significant amounts of business.

A significant percentage of our product sales are denominated in foreign currencies. We enter into foreign currency exchange forward and option contracts to partially mitigate the impact of changes in currency exchange rates on net cash flows from our foreign currency denominated sales. We also hedge certain monetary assets and liabilities denominated in foreign currencies, which reduces but does not eliminate our exposure to currency fluctuations between the date a transaction is recorded and the date that cash is collected or paid. In general, the market risks of these contracts are offset by corresponding gains and losses on the transactions being hedged.

The following table summarizes the notional amounts, weighted-average currency exchange rates and fair values of our open foreign currency exchange forward contracts at December 31, 2010. We had no foreign currency exchange option contracts outstanding at December 31, 2010. All contracts have maturities of 18 months or less. Weighted-average rates are stated in terms of the amount of U.S. dollars per foreign currency. Fair values represent estimated settlement amounts at December 31, 2010 (notional amounts and fair values in U.S. dollars and in thousands):

### **Foreign Currency Exchange Forward Contracts**

<u>Currency</u>	<u>Notional Amount</u>	<u>Weighted-Average Settlement Price</u>	<u>Fair Value</u>
Euro	\$2,763,277	1.33	\$ 43,854
British Pound	313,380	1.55	2,133
Canadian Dollar	183,276	0.97	(5,669)
Australian Dollar	112,145	0.95	(8,494)
Swiss Franc	82,765	0.99	(4,935)
Danish Krone	29,532	0.18	690
Swedish Krone	30,266	0.14	(881)
Norwegian Krone	18,871	0.17	(272)
New Zealand Dollar	10,035	0.74	(507)
Turkish Lira	10,539	0.64	(11)
Polish Zloty	435	0.33	(0)
Total	<u>\$3,554,521</u>		<u>\$ 25,908</u>

The total notional amount of \$3.55 billion and total fair value relating to our net asset of \$25.9 million on our open foreign currency exchange forward contracts at December 31, 2010 is comparable to the total notional amount of \$3.45 billion and total fair value relating to our net liability of \$21.5 million on our open foreign currency exchange forward contracts at December 31, 2009.

### *Interest Rate Risk*

Our portfolio of available-for-sale marketable securities and our fixed and variable rate liabilities create an exposure to interest rate risk. With respect to our investment portfolio, we adhere to an investment policy that requires us to limit amounts invested in securities based on credit rating, maturity, industry group and investment type and issuer, except for securities issued by the U.S. government. 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
- competitive after-tax rate of return.

## Table of Contents

The following table summarizes the expected maturities and average interest rates of our interest-generating assets and interest-bearing liabilities at December 31, 2010 (dollars in thousands):

	Years Ending December 31,						Total	Total Fair Value at December 31, 2010
	2011	2012	2013	2014	2015	Thereafter		
<b>Assets</b>								
Available-for-sale debt securities	\$1,212,945	\$1,693,717	\$1,231,719	\$ 74,781	\$56,436	\$ 154,846	\$4,424,444	\$4,424,444
Average interest rate	0.4%	0.7%	1.1%	1.7%	2.7%	2.7%		
<b>Liabilities</b>								
Convertible senior notes <sup>(1)</sup>	\$ 649,987	\$ —	\$ 649,867	\$1,250,000	\$ —	\$1,250,000	\$3,799,854	\$3,971,454
Average interest rate	0.50%		0.625%	1.00%		1.625%		

<sup>(1)</sup> In April 2006, we issued convertible senior notes due in 2011 (2011 Notes) and 2013 (2013 Notes) in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. The notes were issued at par and bear interest rates of 0.50% and 0.625% for the 2011 Notes and 2013 Notes, respectively, and may be converted into shares of our common stock subject to certain circumstances.

In July 2010, we issued convertible senior notes due in 2014 (2014 Notes) and 2016 (2016 Notes) in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. The notes were issued at par and bear interest rates of 1.00% and 1.625% for the 2014 Notes and 2016 Notes, respectively, and may be converted into shares of our common stock subject to certain circumstances.

### *Credit Risk*

As of December 31, 2010, we held approximately \$70.8 million of auction rate securities within our available-for-sale long-term marketable securities. Our auction rate securities comprised approximately 1% of our total cash, cash equivalents and marketable securities as of December 31, 2010. In 2008, we began observing the failed auctions for our auction rate securities for which the underlying assets are comprised of student loans. Most of our auction rate securities, including those subject to the failed auctions, are currently rated AAA, consistent with the high quality rating required by our investment policy, supported by the federal government as part of the Federal Family Education Loan Program and over-collateralized. Our auction rate securities reset every seven to 14 days with maturity dates ranging from 2025 through 2040 and have annual interest rates ranging from 0.43% to 1.19%. As of December 31, 2010, our auction rate securities continued to earn interest.

If auctions continue to fail for securities in which we have invested, we may be unable to liquidate some or all of our auction rate securities at par should we need or desire to access the funds invested in those securities. However, based on our total cash and marketable securities position, our expected operating cash flows as well as access to funds through our credit facility, we believe that we will be able to hold these securities until there is a recovery in the auction market and the related securities, which may be at final maturity. As a result, we do not anticipate that the current illiquidity of these auction rate securities will have a material effect on our cash requirements or working capital.

In light of the volatility and developments that we have seen in the financial markets, we continue to review our cash equivalents and marketable securities carefully and strive to invest prudently. We believe that maintaining the primary goals of our investment policy, safety and preservation of principal and diversification of risk, as well as liquidity, has helped protect us from many of the risks in the credit markets while allowing us to continue to meet our operating cash flow requirements as well as execute on other strategic opportunities.

We are also subject to credit risk from our accounts receivable related to our product sales. Our accounts receivable balance at December 31, 2010 was \$1.62 billion, compared to \$1.39 billion at December 31, 2009. The majority of our trade accounts receivable arises from product sales in the United States and Europe. To date,

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[Table of Contents](#)

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 December 31, 2010.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements required by this item are set forth beginning at page 88 of this Annual Report on Form 10-K and are incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of Disclosure Controls and Procedures

An evaluation as of December 31, 2010 was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our “disclosure controls and procedures,” which are defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at December 31, 2010.

(b) Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Our internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance that the objectives of the internal control system are met.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, we concluded that our internal control over financial reporting was effective as of December 31, 2010.

Our independent registered public accounting firm, Ernst & Young LLP, has audited our Consolidated Financial Statements included in this Annual Report on Form 10-K and have issued a report on the effectiveness of our internal control over financial reporting as of December 31, 2010. Their report on the audit of internal control over financial reporting appears below.

(c) Changes in Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2010, and has concluded that there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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[Table of Contents](#)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Gilead Sciences, Inc.

We have audited Gilead Sciences, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Gilead Sciences, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Gilead Sciences, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2010 consolidated financial statements of Gilead Sciences, Inc. and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Palo Alto, California  
February 28, 2011



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[Table of Contents](#)

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item concerning our directors and executive officers is incorporated by reference to the sections of our Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with our 2011 Annual Meeting of Stockholders (the Proxy Statement) under the headings “Nominees,” “Director Not Standing for Re-Election,” “Qualification of Nominees,” “Board Committees and Meetings,” “Executive Officers,” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

Our written Code of Ethics applies to all of our directors and employees, including our executive officers, including without limitation our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Ethics is available on our website at <http://www.gilead.com> in the Investors section under “Corporate Governance.” Changes to or waivers of the Code of Ethics will be disclosed on the same website. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of the Code of Ethics by disclosing such information on the same website.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the sections of the Proxy Statement under the headings “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report,” and “Compensation of Non-Employee Board Members.”

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated by reference to the sections of the Proxy Statement under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance under Equity Compensation Plans.”

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated by reference to the sections of the Proxy Statement under the headings “Nominees,” “Director Not Standing for Re-Election” and “Certain Relationships and Related Party Transactions.”

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated by reference to the section of the Proxy Statement under the heading “Principal Accountant Fees and Services.”

## Table of Contents

### PART IV

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Index list to Consolidated Financial Statements:

<a href="#">Report of Independent Registered Public Accounting Firm</a>	87
Audited Consolidated Financial Statements:	
<a href="#">Consolidated Balance Sheets</a>	88
<a href="#">Consolidated Statements of Income</a>	89
<a href="#">Consolidated Statements of Stockholders' Equity</a>	90
<a href="#">Consolidated Statements of Cash Flows</a>	91
<a href="#">Notes to Consolidated Financial Statements</a>	92

(2) Schedule II is included on page 140 of this report. All other schedules are omitted because they are not required or the required information is included in the financial statements or notes thereto.

(3) Exhibits.

The following exhibits are filed herewith or incorporated by reference:

<u>Exhibit Footnote</u>	<u>Exhibit Number</u>	<u>Description of Document</u>
(1)	2.1	Agreement and Plan of Merger among Registrant, Apex Merger Sub, Inc. and CV Therapeutics, Inc., dated as of March 12, 2009
±±(2)	2.2	Agreement and Plan of Merger among Registrant, Cougar Merger Sub, Inc. and CGI Pharmaceuticals, Inc., dated as of June 23, 2010
≠+	2.3	Agreement and Plan of Merger among Registrant, Arroyo Merger Sub, Inc. and Arresto Biosciences, Inc., dated as of December 19, 2010
(1)	2.4	Stockholder Agreement by and between Registrant and Louis G. Lange, dated as of March 12, 2009
(3)	3.1	Restated Certificate of Incorporation of Registrant, as amended through May 8, 2008
(4)	3.2	Certificate of Designation of the Series A Junior Participating Preferred Stock of Registrant
(5)	3.3	Certificate of Amendment to Certificate of Designation of Series A Junior Participating Preferred Stock of Registrant
(6)	3.4	Amended and Restated Bylaws of Registrant, as amended and restated on October 24, 2008
	4.1	Reference is made to Exhibit 3.1, Exhibit 3.2, Exhibit 3.3 and Exhibit 3.4
(7)	4.2	Amended and Restated Rights Agreement between Registrant and ChaseMellon Shareholder Services, LLC, dated October 21, 1999
(8)	4.3	First Amendment to Amended and Restated Rights Agreement between Registrant and Mellon Investor Services, LLC (formerly known as ChaseMellon Shareholder Services, LLC), dated October 29, 2003
(9)	4.4	Second Amendment to Amended and Restated Rights Agreement between Registrant and Mellon Investor Services, LLC (formerly known as ChaseMellon Shareholder Services, LLC), dated May 11, 2006