GILEAD SCIENCES INC
Form 10-Q
August 09, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 2010**

**or**

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

**For the transition period from ________ to ________**

**Commission File No. 0-19731**

# GILEAD SCIENCES, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Delaware** | **94-3047598** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(IRS Employer Identification No.)** |
| **333 Lakeside Drive, Foster City, California** | **94404** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**650-574-3000**

**Registrant s Telephone Number, Including Area Code**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

Number of shares outstanding of the issuer s common stock, par value $0.001 per share, as of July 30, 2010: 838,632,586

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**GILEAD SCIENCES, INC.**

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

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**GILEAD SCIENCES, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share amounts)

| | June 30, 2010 (unaudited) | December 31, 2009 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,482,639 | $ 1,272,958 |
| Short-term marketable securities | 518,286 | 384,017 |
| Accounts receivable, net | 1,482,900 | 1,389,534 |
| Inventories | 1,356,606 | 1,051,771 |
| Deferred tax assets | 288,642 | 295,080 |
| Prepaid taxes | 255,752 | 274,196 |
| Prepaid expenses | 80,639 | 78,111 |
| Other current assets | 243,550 | 66,891 |
| Total current assets | 5,709,014 | 4,812,558 |
| Property, plant and equipment, net | 695,043 | 699,970 |
| Noncurrent portion of prepaid royalties | 211,849 | 226,250 |
| Noncurrent deferred tax assets | 78,040 | 101,498 |
| Long-term marketable securities | 2,216,610 | 2,247,871 |
| Intangible assets | 1,494,813 | 1,524,777 |
| Other noncurrent assets | 91,339 | 85,635 |
| Total assets | $ 10,496,708 | $ 9,698,559 |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,066,433 | $ 810,544 |
| Accrued government rebates | 294,497 | 248,660 |
| Accrued compensation and employee benefits | 106,116 | 132,481 |
| Income taxes payable | 24,362 | 167,623 |
| Other accrued liabilities | 373,725 | 384,015 |
| Deferred revenues | 116,360 | 122,721 |
| Current portion of other long-term obligations | 1,124,230 | 5,587 |
| Total current liabilities | 3,105,723 | 1,871,631 |
| Long-term deferred revenues | 39,526 | 43,026 |
| Convertible senior notes, net | 562,612 | 1,155,443 |
| Long-term income taxes payable | 65,797 | 87,383 |
| Other long-term obligations | 23,050 | 35,918 |
| Commitments and contingencies (Note 10) | | |
| Stockholders equity: | | |
| Preferred stock, par value $0.001 per share; 5,000 shares authorized; none outstanding | | |
| Common stock, par value $0.001 per share; 2,800,000 shares authorized; 859,720 and 899,753 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively | 860 | 900 |

| | | |
|---|---|---|
| Additional paid-in capital | 4,540,630 | 4,376,651 |
| Accumulated other comprehensive income (loss) | 189,624 | (5,758) |
| Retained earnings | 1,831,381 | 1,995,272 |
| Total Gilead stockholders equity | 6,562,495 | 6,367,065 |
| Noncontrolling interest | 137,505 | 138,093 |
| Total stockholders equity | 6,700,000 | 6,505,158 |
| Total liabilities and stockholders equity | $ 10,496,708 | $ 9,698,559 |

See accompanying notes.

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**GILEAD SCIENCES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(in thousands, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Revenues: | | | | |
| Product sales | $ 1,806,061 | $ 1,568,378 | $ 3,594,124 | $ 3,015,958 |
| Royalty revenues | 117,790 | 73,895 | 411,471 | 126,937 |
| Contract and other revenues | 3,373 | 4,882 | 7,482 | 34,720 |
| Total revenues | 1,927,224 | 1,647,155 | 4,013,077 | 3,177,615 |
| Costs and expenses: | | | | |
| Cost of goods sold | 455,525 | 383,045 | 895,955 | 712,459 |
| Research and development | 231,066 | 241,638 | 449,730 | 430,417 |
| Selling, general and administrative | 248,006 | 261,411 | 513,624 | 465,362 |
| Total costs and expenses | 934,597 | 886,094 | 1,859,309 | 1,608,238 |
| Income from operations | 992,627 | 761,061 | 2,153,768 | 1,569,377 |
| Interest and other income, net | 18,285 | 12,923 | 33,930 | 17,081 |
| Interest expense | (17,764) | (18,484) | (34,719) | (35,155) |
| Income before provision for income taxes | 993,148 | 755,500 | 2,152,979 | 1,551,303 |
| Provision for income taxes | 284,021 | 186,355 | 591,758 | 395,582 |
| Net income | 709,127 | 569,145 | 1,561,221 | 1,155,721 |
| Net loss attributable to noncontrolling interest | 2,934 | 2,253 | 5,741 | 4,789 |
| Net income attributable to Gilead | $ 712,061 | $ 571,398 | $ 1,566,962 | $ 1,160,510 |
| Net income per share attributable to Gilead common stockholders basic | $ 0.81 | $ 0.63 | $ 1.76 | $ 1.28 |
| Shares used in per share calculation basic | 881,802 | 905,611 | 891,649 | 907,684 |
| Net income per share attributable to Gilead common stockholders diluted | $ 0.79 | $ 0.61 | $ 1.71 | $ 1.24 |
| Shares used in per share calculation diluted | 898,753 | 934,478 | 913,819 | 938,500 |

See accompanying notes.

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**GILEAD SCIENCES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(in thousands)

| | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|
| **Operating Activities:** | | |
| Net income | $ 1,561,221 | $ 1,155,721 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation expense | 33,386 | 28,828 |
| Amortization expense | 85,521 | 62,955 |
| Stock-based compensation expenses | 94,888 | 90,254 |
| Excess tax benefits from stock-based compensation | (60,689) | (33,683) |
| Tax benefits from employee stock plans | 62,722 | 38,836 |
| Deferred income taxes | 29,896 | 20,409 |
| Other non-cash transactions | 3,683 | 40,944 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (242,381) | (217,911) |
| Inventories | (317,543) | 6,872 |
| Prepaid expenses and other assets | 299 | 10,600 |
| Accounts payable | 262,262 | 43,691 |
| Income taxes payable | (164,847) | 50,060 |
| Accrued liabilities | 31,091 | (15,947) |
| Deferred revenues | (9,861) | (17,382) |
| Net cash provided by operating activities | 1,369,648 | 1,264,247 |
| **Investing Activities:** | | |
| Purchases of marketable securities | (2,016,151) | (1,190,277) |
| Proceeds from sales of marketable securities | 1,601,656 | 992,271 |
| Proceeds from maturities of marketable securities | 306,406 | 239,200 |
| Acquisition of CV Therapeutics, net of cash acquired | | (1,247,816) |
| Capital expenditures and other | (27,717) | (184,945) |
| Net cash used in investing activities | (135,806) | (1,391,567) |
| **Financing Activities:** | | |
| Proceeds from issuances of common stock | 144,291 | 102,093 |
| Proceeds from credit facility | 500,000 | 400,000 |
| Repurchases of common stock | (1,854,081) | (468,244) |
| Extinguishment of long term debt | | (305,383) |
| Repayments of other long-term obligations | (5,556) | (80) |
| Excess tax benefits from stock-based compensation | 60,689 | 33,683 |
| Distributions from (to) noncontrolling interest | 5,153 | (64,103) |
| Net cash used in financing activities | (1,149,504) | (302,034) |
| Effect of exchange rate changes on cash | 125,343 | 10,926 |

| | | |
|---|---|---|
| Net change in cash and cash equivalents | 209,681 | (418,428) |
| Cash and cash equivalents at beginning of period | 1,272,958 | 1,459,302 |
| Cash and cash equivalents at end of period | $ 1,482,639 | $ 1,040,874 |

See accompanying notes.

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**GILEAD SCIENCES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

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

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

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

The accompanying Condensed Consolidated Financial Statements and related financial information should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2009, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC).

*Consolidation of Variable Interest Entities*

On January 1, 2010, we adopted amended guidance for the consolidation of variable interest entities. The amended guidance eliminates a mandatory quantitative approach to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity in favor of a qualitatively focused analysis. Additionally, the amended guidance requires an ongoing reassessment of whether the entity is a primary beneficiary. We adopted the provisions of this guidance on a prospective basis for our joint ventures with BMS, which we consolidate because we are the primary beneficiary. The adoption of this guidance did not have any impact on our Condensed Consolidated Financial Statements.

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

Basic net income per share attributable to Gilead common stockholders is calculated based on the weighted-average number of shares of our common stock outstanding during the period. Diluted net income per share attributable to Gilead common stockholders is calculated based on the weighted-average number of shares of our common stock outstanding and other dilutive securities outstanding during the period. The potential dilutive

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shares of our common stock resulting from the assumed exercise of outstanding stock options and equivalents (consisting primarily of performance shares) and the assumed exercise of warrants relating to the convertible senior notes due in 2011 (2011 Notes) and convertible senior notes due in 2013 (2013 Notes) (collectively, the Notes) are determined under the treasury stock method.

Because the principal amount of the Notes will be settled in cash, only the conversion spread relating to the Notes is included in our calculation of diluted net income per share attributable to Gilead common stockholders. Our common stock resulting from the assumed settlement of the conversion spread of the Notes has a dilutive effect when the average market price of our common stock during the period exceeds the conversion prices of $38.75 and $38.10 for the 2011 Notes and 2013 Notes, respectively. The average market prices of our common stock during each of the three and six months ended June 30, 2010 and 2009 exceeded both of the conversion prices of the Notes and the dilutive effect is included in the table below.

Warrants relating to the 2011 Notes and 2013 Notes have a dilutive effect when the average market price of our common stock during the period exceeds the warrants exercise prices of $50.80 and $53.90, respectively. The average market prices of our common stock during each of the three and six months ended June 30, 2010 and 2009 did not exceed the warrants exercise prices relating to the 2011 or the 2013 Notes; therefore, these warrants did not have a dilutive effect on our net income per share for those periods.

Stock options to purchase approximately 23.4 million and 19.5 million weighted-average shares of our common stock were outstanding during the three and six months ended June 30, 2010, respectively, but were not included in the computation of diluted net income per share attributable to Gilead common stockholders because the options exercise prices were greater than the average market price of our common stock during these periods; therefore, their effect was antidilutive. Stock options to purchase approximately 18.6 million and 16.7 million weighted-average shares of our common stock were outstanding during the three and six months ended June 30, 2009, respectively, but were not included in the computation of diluted net income per share attributable to Gilead common stockholders because the options exercise prices were greater than the average market price of our common stock during these periods; therefore, their effect was antidilutive.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Numerator: | | | | |
| Net income attributable to Gilead | $ 712,061 | $ 571,398 | $ 1,566,962 | $ 1,160,510 |
| Denominator: | | | | |
| Weighted-average shares of common stock outstanding used in the calculation of basic net income per share attributable to Gilead common stockholders | 881,802 | 905,611 | 891,649 | 907,684 |
| Effect of dilutive securities: | | | | |
| Stock options and equivalents | 16,503 | 23,877 | 18,746 | 24,998 |
| Conversion spread related to the 2011 Notes | 81 | 2,352 | 1,568 | 2,766 |
| Conversion spread related to the 2013 Notes | 367 | 2,638 | 1,856 | 3,052 |
| Weighted-average shares of common stock outstanding used in the calculation of diluted net income per share attributable to Gilead common stockholders | 898,753 | 934,478 | 913,819 | 938,500 |

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**Concentrations of Risk**

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

We are also subject to credit risk from our accounts receivable related to our product sales. The majority of our trade accounts receivable arises from product sales in the United States and Europe. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. We believe that our allowance for doubtful accounts was adequate at June 30, 2010.

**Recent Accounting Pronouncements**

In October 2009, the FASB 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. We have not yet evaluated whether these new standards will have a material impact on our Condensed Consolidated Financial Statements.

**2. FAIR VALUE MEASUREMENTS**

Our financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, foreign currency exchange forward and option contracts, accounts payable, short-term and long-term debt. Cash and cash equivalents, marketable securities and foreign currency exchange contracts that hedge accounts receivable and forecasted sales are reported at their respective fair values on our Condensed Consolidated Balance Sheets. The carrying value and fair value of the 2011 and 2013 Notes were $1.19 billion and $1.41 billion, respectively, as of June 30, 2010. The carrying value and fair value of the Notes were $1.16 billion and $1.58 billion, respectively, as of December 31, 2009. The fair value of the Notes was based on their quoted market values. The remaining financial instruments are reported on our Condensed Consolidated Balance Sheets at amounts that approximate current fair values.

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

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

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

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

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

| | June 30, 2010 | | | | December 31, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | | | | |
| Debt securities: | | | | | | | | |
| U.S. treasury securities | $ 770,955 | $ | $ | $ 770,955 | $ 289,790 | $ | $ | $ 289,790 |
| U.S. government sponsored entity debt securities | | 865,274 | | 865,274 | | 877,638 | | 877,638 |
| Municipal debt securities | | 6,896 | | 6,896 | | 433,474 | | 433,474 |
| Corporate debt securities | | 869,476 | | 869,476 | | 783,282 | | 783,282 |
| Residential mortgage-backed securities | | 83,055 | | 83,055 | | 112,972 | | 112,972 |
| Student loan-backed securities | | | 94,062 | 94,062 | | | 104,823 | 104,823 |
| Other debt securities | | 86,817 | | 86,817 | | 74,297 | 839 | 75,136 |
| Total debt securities | 770,955 | 1,911,518 | 94,062 | 2,776,535 | 289,790 | 2,281,663 | 105,662 | 2,677,115 |
| Equity securities | 2,455 | | | 2,455 | 3,470 | | | 3,470 |
| Derivatives | | 203,355 | | 203,355 | | 26,198 | | 26,198 |
| | $ 773,410 | $ 2,114,873 | $ 94,062 | $ 2,982,345 | $ 293,260 | $ 2,307,861 | $ 105,662 | $ 2,706,783 |
| Liabilities: | | | | | | | | |
| Derivatives | $ | $ 10,021 | $ | $ 10,021 | $ | $ 47,688 | $ | $ 47,688 |

Marketable securities, measured at fair value using Level 2 inputs, are primarily comprised of U.S. government sponsored entity and corporate debt securities. The company reviews trading activity and pricing for these investments as of the measurement date. When sufficient quoted pricing for identical securities is not available, the company uses market pricing and other observable market inputs for similar securities obtained from various third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy.

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The following table is a reconciliation of marketable securities measured at fair value using significant unobservable inputs (Level 3) (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance, beginning of period | $ 105,587 | $ 102,593 | $ 105,662 | $ 102,633 |
| Total realized and unrealized gains (losses) included in: | | | | |
| Interest and other income, net | 115 | | 115 | (29) |
| Other comprehensive income, net | 907 | 3,272 | 1,767 | 5,767 |
| Sales of marketable securities | (12,547) | (2,967) | (13,482) | (5,473) |
| Transfers into Level 3 | | | | |
| Balance, end of period | $ 94,062 | $ 102,898 | $ 94,062 | $ 102,898 |
| Total losses included in interest and other income, net attributable to the change in unrealized losses relating to assets still held at the reporting date | $ | $ | $ | $ (29) |

Our policy is to recognize transfers into or out of Level 3 classification as of the actual date of the event or change in circumstances that caused the transfer. Marketable securities, measured at fair value using Level 3 inputs, are substantially comprised of auction rate securities within our available-for-sale investment portfolio. The underlying assets of our auction rate securities are comprised of student loans. Although auction rate securities would typically be measured using Level 2 inputs, the failure of auctions and the lack of market activity and liquidity experienced since the beginning of 2008 required that these securities be measured using Level 3 inputs. The fair value of our auction rate securities was determined using a discounted cash flow model that considered projected cash flows for the issuing trusts, underlying collateral and expected yields. Projected cash flows were estimated based on the underlying loan principal, bonds outstanding and payout formulas. The weighted-average life over which the cash flows were projected considered the collateral composition of the securities and related historical and projected prepayments. The underlying student loans have a weighted-average expected life of four to eight years. The discount rates used in our discounted cash flow model were based on market conditions for comparable or similar term asset-backed securities as well as other fixed income securities adjusted for an illiquidity discount resulting in an annual discount rate of 2.28%. Our auction rate securities reset every seven to 35 days with maturity dates ranging from 2023 through 2040 and have annual interest rates ranging from 0.30% to 1.19%. As of June 30, 2010, our auction rate securities continued to earn interest.

Our auction rate securities were recorded in long-term marketable securities on our Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009. Although there continued to be failed auctions as well as lack of market activity and liquidity in 2010, we believe we had no other-than-temporary impairments on these securities as of June 30, 2010 because we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before the recovery of their amortized cost basis.

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### 3. AVAILABLE-FOR-SALE SECURITIES

The following table is a summary of available-for-sale debt and equity securities recorded in cash equivalents or marketable securities in our Condensed Consolidated Balance Sheets. Estimated fair values of available-for-sale securities are generally based on prices obtained from commercial pricing services (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **June 30, 2010** | | | | |
| Debt securities: | | | | |
| U.S. treasury securities | $ 762,840 | $ 8,117 | $ (2) | $ 770,955 |
| U.S. government sponsored entity debt securities | 854,526 | 10,755 | (7) | 865,274 |
| Municipal debt securities | 6,876 | 20 | | 6,896 |
| Corporate debt securities | 856,903 | 12,666 | (93) | 869,476 |
| Residential mortgage-backed securities | 81,920 | 1,482 | (347) | 83,055 |
| Student loan-backed securities | 102,451 | | (8,389) | 94,062 |
| Other debt securities | 85,573 | 1,250 | (6) | 86,817 |
| Total debt securities | 2,751,089 | 34,290 | (8,844) | 2,776,535 |
| Equity securities | 1,451 | 1,004 | | 2,455 |
| Total | $ 2,752,540 | $ 35,294 | $ (8,844) | $ 2,778,990 |
| **December 31, 2009** | | | | |
| Debt securities: | | | | |
| U.S. treasury securities | | | | |