GILEAD SCIENCES INC
Form 10-Q
May 09, 2018

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________
Commission File No. 0-19731

GILEAD SCIENCES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

650-574-3000
Registrant’s Telephone Number, Including Area Code

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company)

Smaller reporting company ¨ Emerging growth company ¨

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

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

Number of shares outstanding of the issuer's common stock, par value $0.001 per share, as of April 30, 2018: 1,300,260,832

GILEAD SCIENCES, INC.
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We own or have rights to various trademarks, copyrights and trade names used in our business, including the following: GILEAD®, GILEAD SCIENCES®, AMBISOME®, AXI-CEL™, BIKTARVY®, CAYSTON®, COMPLERA®, DESCOVY®, EMTRIVA®, EPCLUSA®, EVIPLERA®, GENVOYA®, GILEAD COMPASS INITIATIVE™, HARVONI®, HEPSERA®, LETAIRIS®, ODEFSEY®, RANEXA®, SOVALDI®, STRIBILD®,

SYNNOTCH™, THROTTLE™, TRUVADA®, TYBOST®, VEMLIDY®, VIREAD®, VOLIBRIS®, VOSEVI®, YESCARTA® and ZYDELIG®. ATRIPLA® is a registered trademark of Gilead Sciences, LLC. LEXISCAN® is a registered trademark of Astellas U.S. LLC. MACUGEN® is a registered trademark of Eyetech, Inc. TAMIFLU® is a registered trademark of Hoffmann-La Roche Inc. This report also includes other trademarks, service marks and trade names of other companies.

PART I. FINANCIAL INFORMATION
Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
GILEAD SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in millions, except per share amounts)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$7,643	$ 7,588
Short-term marketable securities	16,355	17,922
Accounts receivable, net of allowances of $554 at March 31, 2018 and $455 at December 31, 2017	3,775	3,851
Inventories	885	801
Prepaid and other current assets	1,600	1,661
Total current assets	30,258	31,823
Property, plant and equipment, net	3,415	3,295
Long-term marketable securities	8,104	11,184
Intangible assets, net	16,803	17,100
Goodwill	4,159	4,159
Other long-term assets	2,642	2,722
Total assets	$65,381	$ 70,283
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$711	$ 814
Accrued government and other rebates	5,048	4,704
Other accrued liabilities	2,414	3,370
Current portion of long-term debt and other obligations, net	2,497	2,747
Total current liabilities	10,670	11,635
Long-term debt, net	26,557	30,795
Long-term income taxes payable	6,832	6,794
Other long-term obligations	671	558
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 5 shares authorized; none outstanding	—	—
Common stock, par value $0.001 per share; shares authorized of 5,600 at March 31, 2018 and December 31, 2017; shares issued and outstanding of 1,300 at March 31, 2018 and 1,308 at December 31, 2017	1	1
Additional paid-in capital	1,564	1,264
Accumulated other comprehensive income (loss)	(170)	165
Retained earnings	19,196	19,012
Total Gilead stockholders' equity	20,591	20,442
Noncontrolling interest	60	59
Total stockholders' equity	20,651	20,501
Total liabilities and stockholders' equity	$65,381	$ 70,283

See accompanying notes.

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

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Product sales	$5,001	$6,377
Royalty, contract and other revenues	87	128
Total revenues	5,088	6,505
Costs and expenses:		
Cost of goods sold	1,001	957
Research and development expenses	937	931
Selling, general and administrative expenses	997	850
Total costs and expenses	2,935	2,738
Income from operations	2,153	3,767
Interest expense	(290)	(261)
Other income (expense), net	170	111
Income before provision for income taxes	2,033	3,617
Provision for income taxes	494	918
Net income	1,539	2,699
Net income (loss) attributable to noncontrolling interest	1	(3)
Net income attributable to Gilead	$1,538	$2,702
Net income per share attributable to Gilead common stockholders - basic	$1.18	$2.07
Shares used in per share calculation - basic	1,307	1,308
Net income per share attributable to Gilead common stockholders - diluted	$1.17	$2.05
Shares used in per share calculation - diluted	1,320	1,320
Cash dividends declared per share	$0.57	$0.52

See accompanying notes.

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

	Three Months Ended March 31,	
	2018	2017
Net income	$1,539	$2,699
Other comprehensive income (loss):		
Net foreign currency translation gain (loss), net of tax	7	(76)
Available-for-sale securities:		
Net unrealized gain (loss), net of tax impact of $0 and $2, respectively	(36)	184
Reclassifications to net income, net of tax impact of $0 and $0, respectively	—	3
Net change	(36)	187
Cash flow hedges:		
Net unrealized loss, net of tax impact of $0 and $(7), respectively	(61)	(87)
Reclassifications to net income, net of tax impact of $0 and $(1), respectively	48	(42)
Net change	(13)	(129)
Other comprehensive loss	(42)	(18)
Comprehensive income	1,497	2,681
Comprehensive income (loss) attributable to noncontrolling interest	1	(3)
Comprehensive income attributable to Gilead	$1,496	$2,684

See accompanying notes.

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

	Three Months Ended March 31,	
	2018	2017
Operating Activities:		
Net income	$1,539	$2,699
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	56	49
Amortization expense	301	245
Stock-based compensation expense	220	89
Deferred income taxes	35	58
Other	49	39
Changes in operating assets and liabilities:		
Accounts receivable, net	101	537
Inventories	(14)	(5)
Prepaid expenses and other	529	177
Accounts payable	(92)	(262)
Income taxes payable	(618)	(24)
Accrued liabilities	164	(677)
Net cash provided by operating activities	2,270	2,925
Investing Activities:		
Purchases of marketable securities	(397)	(3,482)
Proceeds from sales of marketable securities	221	3,173
Proceeds from maturities of marketable securities	4,762	734
Capital expenditures	(212)	(118)
Other	(20)	—
Net cash provided by investing activities	4,354	307
Financing Activities:		
Proceeds from issuances of common stock	111	96
Repurchases of common stock	(1,039)	(565)
Repayments of debt and other obligations	(4,500)	(30)
Payments of dividends	(753)	(687)
Other	(414)	(58)
Net cash used in financing activities	(6,595)	(1,244)
Effect of exchange rate changes on cash and cash equivalents	26	68
Net change in cash and cash equivalents	55	2,056
Cash and cash equivalents at beginning of period	7,588	8,229
Cash and cash equivalents at end of period	$7,643	$10,285

See accompanying notes.

GILEAD SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

We assess whether we are the primary beneficiary of a variable interest entity (VIE) at the inception of the arrangement and at each reporting date. This assessment is based on our power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and our obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. As of March 31, 2018, we do not have any material VIEs.

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

Significant Accounting Policies, Estimates and Judgments

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

Concentrations of Risk

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

We are also subject to credit risk from our accounts receivable related to our product sales. The majority of our trade accounts receivable arises from product sales in the United States and Europe. To date, we have not experienced significant losses with respect to the collection of our accounts receivable. We believe that our allowance for doubtful accounts was adequate at March 31, 2018.

Recently Adopted Accounting Pronouncements

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

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

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

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

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

For the three months ended March 31, 2018, the impact as a result of applying Topic 606 in place of Topic 605 was an increase to revenues of $5 million.

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

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

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

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02) “Leases.” ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. The guidance will become effective for us beginning in the first quarter of 2019 and is required to be adopted using a modified retrospective approach. Early adoption is permitted. We are evaluating the impact of the adoption of this standard and we anticipate recognition of additional assets and corresponding liabilities related to leases on our Condensed Consolidated Balance Sheets.

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

2. REVENUES

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

Product Sales

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

Royalty, Contract and Other Revenues

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

Policy Elections and Practical Expedients Taken

- We account for shipping and handling activities that are performed after a customer has obtained control of a good as fulfillment costs rather than as separate performance obligations; and
- If we expect, at contract inception, that the period between the transfer of control and corresponding payment from the customer will be one year or less, we do not adjust the amount of consideration for the effects of a significant financing component.

Variable Consideration

Rebates and Chargebacks

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

Cash Discounts

We estimate cash discounts based on contractual terms, historical utilization rates and our expectations regarding future utilization rates.

Distributor Fees

Under our inventory management agreements with our significant U.S. wholesalers, we pay the wholesalers a fee primarily for compliance with certain contractually determined covenants such as the maintenance of agreed upon inventory levels. These distributor fees are based on a contractually determined fixed percentage of sales.

Product Returns

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

Revenue Recognized from Performance Obligations Satisfied in Prior Periods

During the three months ended March 31, 2018, revenue recognized from performance obligations satisfied in prior periods was $10 million, consisting primarily of royalties for licenses of our intellectual property and revised estimates for variable consideration related to sales made in prior periods.

Contract Assets

Our contract assets, which consist of unbilled amounts primarily from arrangements where the licensing of intellectual property is the only or predominant performance obligation, totaled $117 million and $132 million at March 31, and January 1, 2018, respectively.

Disaggregation of Revenues

The following table disaggregates our product sales by product and geographic region and disaggregates our royalty, contract and other revenues by geographic region for the three months ended March 31, 2018 and 2017. The information for the three months ended March 31, 2017 has not been adjusted in accordance with our modified retrospective adoption of Topic 606 and continues to be reported in accordance with our historical accounting under Topic 605.

	Three Months Ended March 31, 2018				Three Months Ended March 31, 2017			
(In millions)	U.S.	Europe	Other International	Total	U.S.	Europe	Other International	Total
Antiviral products:								
Biktarvy	$35	$—	$ —	$35	$—	$—	$ —	$—
Descovy	274	75	12	361	209	37	5	251
Genvoya	853	186	43	1,082	669	87	13	769
Odefsey	279	58	5	342	203	23	1	227
Atripla	228	51	35	314	316	94	42	452
Complera/Eviplera	67	109	14	190	112	125	16	253
Stribild	133	29	12	174	226	67	16	309
Truvada	507	97	48	652	464	189	61	714
Vemlidy	47	3	8	58	11	—	—	11
Viread	7	30	60	97	117	71	72	260
Epclusa	269	198	69	536	735	138	19	892
Harvoni	234	56	58	348	926	243	202	1,371
Vosevi	86	16	5	107	—	—	—	—
Other antiviral	4	13	62	79	41	110	181	332
Other products:								
Yescarta	40	—	—	40	—	—	—	—
Zydelig	14	18	1	33	15	19	1	35
Letairis	204	—	—	204	211	—	—	211
Ranexa	195	—	—	195	153	—	—	153
AmBisome	17	56	34	107	9	52	31	92
Other	34	10	3	47	33	11	1	45
Total product sales	3,527	1,005	469	5,001	4,450	1,266	661	6,377
Royalty, contract and other revenues	20	52	15	87	19	93	16	128
Total revenues	$3,547	$1,057	$ 484	$5,088	$4,469	$1,359	$ 677	$6,505

3. FAIR VALUE MEASUREMENTS

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

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

- Level 2 inputs include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability. For our marketable securities, we review trading activity and pricing as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data; and
- Level 3 inputs include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Our Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation.

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

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

	March 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Available-for-sale debt securities:								
Corporate debt securities	$—	$11,972	$ —	$11,972	$—	$14,747	$ —	$14,747
U.S. treasury securities	3,884	—	—	3,884	4,061	—	—	4,061
Residential mortgage and asset-backed securities	—	3,406	—	3,406	—	4,058	—	4,058
U.S. government agencies securities	—	925	—	925	—	926	—	926
Certificates of deposit	—	3,908	—	3,908	—	5,131	—	5,131
Non-U.S. government securities	—	559	—	559	—	664	—	664
Marketable equity securities:								
Money market funds	4,674	—	—	4,674	4,714	—	—	4,714
Equity securities	680	—	—	680	635	—	—	635
Deferred compensation plan	126	—	—	126	116	—	—	116
Foreign currency derivative contracts	—	4	—	4	—	13	—	13
Total	$9,364	$20,774	$ —	$30,138	$9,526	$25,539	$ —	$35,065
Liabilities:								
Deferred compensation plan	$126	$—	$ —	$126	$116	$—	$ —	$116
Foreign currency derivative contracts	—	110	—	110	—	93	—	93
Total	$126	$110	$ —	$236	$116	$93	$ —	$209

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

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

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$ 4,674	$ 4,714
Prepaid and other current assets	681	637
Other long-term assets	125	114
Total	$ 5,480	$ 5,465

For the three months ended March 31, 2018, changes in the estimated fair values of the marketable equity securities resulted in unrealized gains of $45 million, which were included in Other income (expense), net, on our Condensed Consolidated Statements of Income.

Cash and cash equivalents in the table above excludes cash of $2.8 billion and $2.4 billion, respectively, and cash equivalents of $195 million and $481 million as of March 31, 2018 and December 31, 2017, respectively.

Level 2 Inputs

We estimate the fair values of Level 2 instruments by taking into consideration valuations obtained from third-party pricing services. The pricing services utilize industry standard valuation models, including both income-based and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of and broker/dealer quotes on the same or similar securities, issuer credit spreads, benchmark securities, prepayment/default projections based on historical data and other observable inputs.

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

The total estimated fair values of our short-term and long-term debt, determined using Level 2 inputs based on their quoted market values, were approximately $29.9 billion and $35.5 billion at March 31, 2018 and December 31, 2017, respectively, and the carrying values were $29.1 billion and $33.5 billion at March 31, 2018 and December 31, 2017, respectively.

4. AVAILABLE-FOR-SALE DEBT SECURITIES

The following table summarizes our available-for-sale debt securities (in millions):

	March 31, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$12,044	$ 2	$ (74)	$ 11,972	$14,790	$ 3	$ (46)	$ 14,747
U.S. treasury securities	3,912	—	(28)	3,884	4,090	—	(29)	4,061
Residential mortgage and asset-backed securities	3,427	—	(21)	3,406	4,072	1	(15)	4,058
U.S. government agencies securities	934	—	(9)	925	934	—	(8)	926
Certificates of deposit	3,908	—	—	3,908	5,131	—	—	5,131
Non-U.S. government securities	563	—	(4)	559	668	—	(4)	664
Total	$24,788	$ 2	$ (136)	$ 24,654	$29,685	$ 4	$ (102)	$ 29,587

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

	March 31, 2018	December 31, 2017

Cash and cash equivalents	$195	$ 481
Short-term marketable securities	16,355	17,922
Long-term marketable securities	8,104	11,184
Total	$24,654	$ 29,587

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

	March 31, 2018	
	Amortized Cost	Fair Value
Within one year	$16,591	$16,550
After one year through five years	8,094	8,003
After five years through ten years	76	74
After ten years	27	27
Total	$24,788	$24,654

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

Less Than 12 Months		12 Months or Greater		Total
Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses