Mylan N.V.
Form 10-Q
August 08, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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 Number 333-199861
MYLAN N.V.
(Exact name of registrant as specified in its charter)

The Netherlands	98-1189497
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Building 4, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, England
(Address of principal executive offices)
+44 (0) 1707-853-000
(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 þ 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 þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer þ	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 us 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 þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of August 3, 2018, there were 515,567,254 of the issuer's €0.01 nominal value ordinary shares outstanding.

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For the Quarterly Period Ended
June 30, 2018

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PART I — FINANCIAL INFORMATION

MYLAN N.V. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited; in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Net sales	$2,755.5	$2,926.5	$5,405.9	$5,613.9
Other revenues	52.8	35.7	86.9	67.8
Total revenues	2,808.3	2,962.2	5,492.8	5,681.7
Cost of sales	1,845.8	1,736.8	3,546.0	3,371.3
Gross profit	962.5	1,225.4	1,946.8	2,310.4
Operating expenses:				
Research and development	206.7	181.1	411.6	398.6
Selling, general and administrative	623.3	620.5	1,230.8	1,251.3
Litigation settlements and other contingencies, net	(46.4)	(50.0)	(30.2)	(41.0)
Total operating expenses	783.6	751.6	1,612.2	1,608.9
Earnings from operations	178.9	473.8	334.6	701.5
Interest expense	139.2	136.3	270.9	274.5
Other expense, net	21.0	12.8	34.5	30.7
Earnings before income taxes	18.7	324.7	29.2	396.3
Income tax (benefit) provision	(18.8)	27.7	(95.4)	32.9
Net earnings	$37.5	$297.0	$124.6	$363.4
Earnings per ordinary share:				
Basic	$0.07	$0.56	$0.24	$0.68
Diluted	$0.07	$0.55	$0.24	$0.68
Weighted average ordinary shares outstanding:				
Basic	514.4	535.0	514.4	534.7
Diluted	516.3	537.0	516.6	537.0

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MYLAN N.V. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Earnings
(Unaudited; in millions)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net earnings	$37.5	$297.0	$124.6	$363.4
Other comprehensive (loss) earnings, before tax:				
Foreign currency translation adjustment	(1,088.7)	974.7	(826.8)	1,408.9
Change in unrecognized gain (loss) and prior service cost related to defined benefit plans	2.8	1.1	(1.5)	1.3
Net unrecognized (loss) gain on derivatives in cash flow hedging relationships	(62.2)	1.3	(94.2)	33.7
Net unrecognized gain (loss) on derivatives in net investment hedging relationships	119.1	(121.2)	59.9	(131.1)
Net unrealized gain (loss) on marketable securities	0.3	4.7	(0.1)	12.4
Other comprehensive (loss) earnings, before tax	(1,028.7)	860.6	(862.7)	1,325.2
Income tax (benefit) provision	(20.9)	3.1	(32.1)	17.1
Other comprehensive (loss) earnings, net of tax	(1,007.8)	857.5	(830.6)	1,308.1
Comprehensive (loss) earnings	$(970.3)	$1,154.5	$(706.0)	$1,671.5

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MYLAN N.V. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited; in millions, except share and per share amounts)

	June 30, 2018	December 31, 2017
ASSETS		
Assets		
Current assets:		
Cash and cash equivalents	$330.2	$ 292.1
Accounts receivable, net	2,818.2	3,612.4
Inventories	2,561.0	2,542.7
Prepaid expenses and other current assets	588.4	766.1
Total current assets	6,297.8	7,213.3
Property, plant and equipment, net	2,186.2	2,339.1
Intangible assets, net	14,152.8	15,245.8
Goodwill	9,880.6	10,205.7
Deferred income tax benefit	467.8	496.8
Other assets	286.3	305.6
Total assets	$33,271.5	$ 35,806.3
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities:		
Accounts payable	$1,342.1	$ 1,452.5
Short-term borrowings	225.4	46.5
Income taxes payable	26.7	112.9
Current portion of long-term debt and other long-term obligations	1,196.7	1,808.9
Other current liabilities	2,072.3	2,964.5
Total current liabilities	4,863.2	6,385.3
Long-term debt	13,320.0	12,865.3
Deferred income tax liability	1,824.4	2,012.4
Other long-term obligations	1,055.2	1,235.7
Total liabilities	21,062.8	22,498.7
Equity		
Mylan N.V. shareholders' equity		
Ordinary shares — nominal value €0.01 per ordinary share		
Shares authorized: 1,200,000,000		
Shares issued: 539,010,910 and 537,902,426 as of June 30, 2018 and December 31, 2017	6.0	6.0
Additional paid-in capital	8,612.6	8,586.0
Retained earnings	5,789.1	5,644.5
Accumulated other comprehensive loss	(1,199.3)	(361.2)
	13,208.4	13,875.3
Less: Treasury stock — at cost		
Ordinary shares: 23,490,867 and 13,695,251 as of June 30, 2018 and December 31, 2017	999.7	567.7
Total equity	12,208.7	13,307.6
Total liabilities and equity	$33,271.5	$ 35,806.3

See Notes to Condensed Consolidated Financial Statements

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MYLAN N.V. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited; in millions)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net earnings	$124.6	$363.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,000.4	836.7
Share-based compensation expense	20.6	42.0
Deferred income tax benefit	(65.4)	(130.0)
Loss from equity method investments	46.0	54.9
Other non-cash items	261.6	144.5
Litigation settlements and other contingencies, net	(22.3)	(41.4)
Changes in operating assets and liabilities:		
Accounts receivable	479.0	402.3
Inventories	(280.7)	(139.9)
Accounts payable	(130.6)	(296.2)
Income taxes	(122.9)	(38.0)
Other operating assets and liabilities, net	(258.3)	(177.6)
Net cash provided by operating activities	1,052.0	1,020.7
Cash flows from investing activities:		
Cash paid for acquisitions, net	(63.3)	(71.6)
Capital expenditures	(75.9)	(109.3)
Proceeds from the sale of assets	—	31.1
Purchase of available for sale securities and other investments	(44.4)	(6.2)
Proceeds from the sale of marketable securities	65.3	6.2
Payments for product rights and other, net	(614.4)	(479.0)
Net cash used in investing activities	(732.7)	(628.8)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,577.2	555.7
Payments of long-term debt	(2,598.6)	(1,326.6)
Purchase of ordinary shares	(432.0)	—
Change in short-term borrowings, net	179.0	(42.7)
Taxes paid related to net share settlement of equity awards	(10.1)	(7.4)
Contingent consideration payments	(0.2)	(10.1)
Payments of financing fees	(18.4)	(8.1)
Proceeds from exercise of stock options	13.7	8.9
Other items, net	(0.5)	(0.5)
Net cash used in financing activities	(289.9)	(830.8)
Effect on cash of changes in exchange rates	(15.1)	40.7
Net increase (decrease) in cash, cash equivalents and restricted cash	14.3	(398.2)
Cash, cash equivalents and restricted cash — beginning of period	369.9	1,147.0
Cash, cash equivalents and restricted cash — end of period	$384.2	$748.8

See Notes to Condensed Consolidated Financial Statements

1.General

The accompanying unaudited Condensed Consolidated Financial Statements ("interim financial statements") of Mylan N.V. and subsidiaries ("Mylan" or the "Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") for reporting on Form 10-Q; therefore, as permitted under these rules, certain footnotes and other financial information included in audited financial statements were condensed or omitted. The interim financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the interim results of operations, comprehensive earnings, financial position and cash flows for the periods presented.

These interim financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto in Mylan N.V.'s Annual Report on Form 10-K for the year ended December 31, 2017, as amended (the "2017 Form 10-K"). The December 31, 2017 Condensed Consolidated Balance Sheet was derived from audited financial statements.

The interim results of operations and comprehensive earnings for the three and six months ended June 30, 2018, and cash flows for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period. Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Revenue Recognition and Accounts Receivable

On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606 Revenue from Contracts with Customers ("ASC 606") using the modified retrospective method applied to those contracts which were not completed as of the date of adoption. Results for reporting periods beginning on January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with ASC Topic 605 Revenue Recognition ("ASC 605"). Under ASC 605, the Company recognized net sales when title and risk of loss passed to its customers and when provisions for estimates, as described below, were reasonably determinable.

Under ASC 606, the Company recognizes net revenue for product sales when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Revenues are recorded net of provisions for variable consideration, including discounts, rebates, governmental rebate programs, price adjustments, returns, chargebacks, promotional programs and other sales allowances. Accruals for these provisions are presented in the interim financial statements as reductions in determining net sales and as a contra asset in accounts receivable, net (if settled via credit) and other current liabilities (if paid in cash). The following briefly describes the nature of our provisions for variable consideration and how such provisions are estimated:

- Chargebacks: the Company has agreements with certain indirect customers, such as independent pharmacies, managed care organizations, hospitals, nursing homes, governmental agencies and pharmacy benefit managers, which establish contract prices for certain products. The indirect customers then independently select a wholesaler from which to purchase the products at these contracted prices. Alternatively, certain wholesalers may enter into agreements with indirect customers that establish contract pricing for certain products, which the wholesalers provide. Under either arrangement, Mylan will provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. Such credits are called chargebacks. The provision for chargebacks is based on expected sell-through levels by our wholesaler customers to indirect customers, as well as estimated wholesaler inventory levels.
- Rebates, promotional programs and other sales allowances: this category includes rebate and other programs to assist in product sales. These programs generally provide that the customer receives credit directly related to the amount of purchases or credits upon the attainment of pre-established volumes. Also included in this category are prompt pay discounts, administrative fees and price adjustments to reflect decreases in the selling prices of products.
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- Returns: consistent with industry practice, Mylan maintains a return policy that allows customers to return a product, which varies country by country in accordance with local practices, generally within a specified period prior (six months) and subsequent (twelve months) to the expiration date. The Company’s estimate of the provision for returns is generally based upon historical experience with actual returns.
- Governmental rebate programs: government reimbursement programs include Medicare, Medicaid, and State Pharmacy Assistance Programs established according to statute, regulations and policy. Manufacturers of pharmaceutical products that are covered by the Medicaid program are required to pay rebates to each state based on a

statutory formula set forth in the Social Security Act. Medicare beneficiaries are eligible to obtain discounted prescription drug coverage from private sector providers. In addition, certain states have also implemented supplemental rebate programs that obligate manufacturers to pay rebates in excess of those required under federal law. Our estimate of these rebates is based on the historical trends of rebates paid as well as on changes in wholesaler inventory levels and increases or decreases in the level of sales. Also, includes price reductions that are mandated by law outside of the U.S.

Wholesaler and distributor inventory levels of our products can fluctuate throughout the year due to the seasonality of certain products, the timing of product demand and other factors. Such fluctuations may impact the comparability of our net sales between periods.

Consideration received from licenses of intellectual property is recorded as revenue. Royalty or profit share amounts, which are based on sales of licensed products or technology, are recorded when the customer’s subsequent sales or usages occur. Such consideration is included in other revenue in the Consolidated Statements of Operations.

The Company elected to apply the following practical expedients and elections in connection with the adoption of ASC 606: i) taxes collected from customers and remitted to government authorities and that are related to the sales of the Company’s products, primarily in Europe, are excluded from revenues, and ii) shipping and handling activities are accounted for as fulfillment costs and are recorded in selling, general and administrative expense (“SG&A”). Payment terms related to product sales vary by jurisdiction and customer, but revenue for product sales has not been adjusted for the effects of a financing component as we expect that the period between when we transfer control of the product and when we receive payment to be one year or less.

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MYLAN N.V. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

Revenue Disaggregation
The following table presents the Company’s net sales by therapeutic franchise for each of our reportable segments for the three and six months ended June 30, 2018:

(In millions)	North America	Europe	Rest of World	Total
Three Months Ended June 30, 2018				
Central Nervous System & Anesthesia	$199.9	$220.7	$76.4	$497.0
Infectious Disease	62.6	58.2	251.6	372.4
Respiratory & Allergy	181.6	129.4	53.7	364.7
Cardiovascular	76.1	149.1	46.2	271.4
Gastroenterology	33.9	145.1	92.1	271.1
Diabetes & Metabolism	114.1	80.2	33.5	227.8
Dermatology	84.5	74.3	27.2	186.0
Women’s Healthcare	85.2	66.8	22.2	174.2
Oncology	102.2	18.4	32.8	153.4
Immunology	14.1	2.5	10.7	27.3
Other (1)	46.6	45.9	117.7	210.2
Total	$1,000.8	$990.6	$764.1	$2,755.5
Six Months Ended June 30, 2018				
Central Nervous System & Anesthesia	$399.5	$446.1	$159.3	$1,004.9
Infectious Disease	109.0	122.7	420.6	652.3
Respiratory & Allergy	295.5	257.0	100.3	652.8
Cardiovascular	166.5	295.9	85.7	548.1
Gastroenterology	78.0	298.3	158.2	534.5
Diabetes & Metabolism	223.7	154.0	58.3	436.0
Dermatology	179.0	154.6	52.1	385.7
Women’s Healthcare	178.3	136.8	41.4	356.5
Oncology	211.5	37.2	63.7	312.4
Immunology	28.1	5.0	19.1	52.2
Other (1)	117.0	121.4	232.1	470.5
Total	$1,986.1	$2,029.0	$1,390.8	$5,405.9

(1) Other consists of numerous therapeutic franchises, none of which individually exceeds 5% of consolidated net sales.

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Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

Variable Consideration and Accounts Receivable
The following table presents a reconciliation of gross sales to net sales by each significant category of variable consideration during the three and six months ended June 30, 2018:

(In millions)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Gross sales	$4,825.3	$9,557.6
Gross to net adjustments:		
Chargebacks	(816.4)	(1,688.5)
Rebates, promotional programs and other sales allowances	(1,088.0)	(2,118.6)
Returns	(23.8)	(101.1)
Governmental rebate programs	(141.6)	(243.5)
Total gross to net adjustments	$(2,069.8)	$(4,151.7)
Net sales	$2,755.5	$5,405.9

No significant revisions were made to the methodology used in determining these provisions or the nature of the provisions during the three and six months ended June 30, 2018. Such allowances were comprised of the following at June 30, 2018 and December 31, 2017, respectively:

(In millions)	June 30, 2018	December 31, 2017
Accounts receivable	$1,626.5	$ 1,977.2
Other current liabilities	670.0	818.0
Total	$2,296.5	$ 2,795.2

Accounts receivable, net was comprised of the following at June 30, 2018 and December 31, 2017, respectively:

(In millions)	June 30, 2018	December 31, 2017
Trade receivables, net	$2,476.6	$ 3,173.1
Other receivables	341.6	439.3
Accounts receivable, net	$2,818.2	$ 3,612.4

Through its wholly owned subsidiary Mylan Pharmaceuticals Inc. (“MPI”), the Company has access to a $400 million accounts receivable securitization facility (the “Receivables Facility”). The receivables underlying any borrowings are included in accounts receivable, net, in the Condensed Consolidated Balance Sheets. There were $427.9 million and $1.04 billion of securitized accounts receivable at June 30, 2018 and December 31, 2017, respectively.

3. Recent Accounting Pronouncements

Accounting Standards Issued Not Yet Adopted

In June 2018, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The changes take effect for public companies for fiscal years starting after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The Company is currently assessing the impact of the adoption of this guidance on its consolidated financial statements and disclosures.

In February 2018, the FASB issued Accounting Standards Update 2018-02, Income Statement - Reporting Comprehensive Income, (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate under the comprehensive tax legislation enacted by the U.S. government on December 22, 2017 commonly referred to as the Tax Cuts and Jobs Act. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate. The new standard is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2018 with early adoption in any interim period permitted. The Company is currently assessing the impact of the adoption of this guidance on its consolidated financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842) which supersedes FASB Topic 840, Leases (Topic 840) ("ASU 2016-02") and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. In January 2018, the FASB issued Accounting Standards Update 2018-01, Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842, which amends ASU 2016-02 to provide entities an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 842. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. The standard will be effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company is currently assessing the impact of the adoption of this guidance on its consolidated financial statements and disclosures. The Company is in the process of analyzing its lease portfolio, implementing systems, processes and updating our accounting policies to comply with Topic 842.

Adoption of New Accounting Standards

In August 2017, the FASB issued Accounting Standards Update 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). The objective of this update is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in this update also make certain targeted improvements to simplify the application of the hedge accounting guidance in current U.S. GAAP based on feedback received from preparers, auditors, users, and other stakeholders. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted, including adoption in any interim period. The Company has elected to early adopt this guidance as of January 1, 2018 and is applying it on a prospective basis. Upon adoption, the Company recorded a cumulative effect adjustment.

In May 2017, the FASB issued Accounting Standards Update 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. As required, the Company applied the provisions of ASU 2017-09 on a prospective basis as of January 1, 2018 and the adoption did not have a material impact on its condensed consolidated financial statements.

In March 2017, the FASB issued Accounting Standards Update 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU

2017-07”), which requires companies to disaggregate the service cost component from the other components of net benefit cost and disclose the amount of net benefit cost that is included in the income statement or capitalized in assets, by line item. This guidance requires companies to report the service cost component in the same line item(s) as other compensation costs and to report other pension-related costs (which include interest costs, amortization of pension-related costs from prior periods and gains or losses on plan assets) separately and exclude them from the subtotal of operating income. This guidance also allows only the service cost component to be eligible for capitalization when applicable. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. This guidance should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The update allows a practical expedient that permits a company to use the amounts disclosed in its pension and other postretirement plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. As required, the Company applied the provisions of ASU 2017-07 as of January 1, 2018 and the adoption did not have a material impact on its condensed consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash (“ASU 2016-18”), which requires that the reconciliation of the beginning of period and end of period amounts shown in the statement of cash flows include restricted cash and restricted cash equivalents. If restricted cash is presented separately from cash and cash equivalents on the balance sheet, companies will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. As required, the Company applied the provisions of ASU 2016-18 as of January 1, 2018. As a result, the change in restricted cash has been excluded from investing activities and included in the change in cash, cash equivalents and restricted cash and the prior year period has been recast to reflect the new presentation.

In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which supersedes the current guidance to classify equity securities with readily determinable fair values into different categories and requires equity securities to be measured at fair value with changes in the fair value recognized through net income (loss). In February 2018, the FASB issued Accounting Standards Update 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies the guidance in ASU 2016-01. The standards are effective for annual and interim periods beginning after December 15, 2017. As required, the Company applied the provisions of ASU 2016-01 as of January 1, 2018. Upon adoption, the Company recorded a cumulative effect adjustment.

In May 2014, the FASB issued Accounting Standards Update 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers (updated with Accounting Standards Update 2015-14, 2016-08, 2016-10, 2016-12 and 2016-20), which revises accounting guidance on revenue recognition that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, and can be applied using a full retrospective or modified retrospective approach. The Company adopted this standard and its updates as of January 1, 2018 and elected to apply the modified retrospective transition approach. As a result, the Company is recognizing revenue on certain arrangements upon the transfer of control of product shipments rather than upon sell-through by the customer, and is recording certain costs historically in cost of sales as contra revenue.

MYLAN N.V. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09, ASU 2016-01 and ASU 2017-12 were as follows:

(In millions)	Balance as of December 31, 2017	Adjustments Due to ASU 2014-09	Adjustments Due to ASU 2016-01	Adjustments Due to ASU 2017-12	Balance as of January 1, 2018
Condensed Consolidated Balance Sheet					
Assets					
Prepaid expenses and other current assets	$ 766.1	$ 18.5	$ —	$ —	$ 784.6
Liabilities					
Deferred income tax liability	2,012.4	5.7	—	—	2,018.1
Equity					
Retained earnings	5,644.5	12.8	10.0	(2.5)	5,664.8
Accumulated other comprehensive loss	(361.2)	—	(10.0)	2.5	(368.7)

In accordance with ASU 2014-09, the disclosure of the impact of adoption on our condensed consolidated statement of operations and balance sheet was as follows:

	For the Three Months Ended June 30, 2018		
(In millions)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Increase (Decrease)
Condensed Consolidated Statement of Operations			
Revenues	$ 2,808.3	$ 2,833.6	$ (25.3)
Cost of sales	1,845.8	1,873.3	(27.5)
Income tax benefit	(18.8)	(19.5)	0.7
Net earnings	37.5	36.0	1.5

	For the Six Months Ended June 30, 2018		
(In millions)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Increase (Decrease)
Condensed Consolidated Statement of Operations			
Revenues	$ 5,492.8	$ 5,540.0	$ (47.2)
Cost of sales	3,546.0	3,599.1	(53.1)
Income tax benefit	(95.4)	(97.3)	1.9
Net earnings	124.6	120.6	4.0

	June 30, 2018		
(In millions)	As Reported	Balances Without	Effect of Change

		Adoption of ASC 606	Increase (Decrease)
Condensed Consolidated Balance Sheet			
Prepaid expenses and other current assets	$588.4	$582.5	$ 5.9
Income taxes payable	26.7	24.8	1.9
Retained earnings	5,789.1	5,785.1	4.0

4. Acquisitions and Other Transactions

Apicore Inc.

On October 3, 2017, the Company completed the acquisition of Apicore, Inc. (“Apicore”), a U.S. based developer and manufacturer of active pharmaceutical ingredient (“API”) for approximately $174.9 million, net of cash acquired, which included estimated contingent consideration of approximately $4.0 million related to the potential $15.0 million payment contingent on the achievement of certain 2017 financial results of the acquired business. As of December 31, 2017, the contingent consideration liability was zero as Apicore did not achieve the financial results that would have triggered the contingent consideration payment.

The preliminary allocation of the $174.9 million purchase price to the assets acquired and liabilities assumed for this business is as follows:

(In millions)	
Current assets (net of cash acquired)	$6.5
Identified intangible assets	121.0
Goodwill	92.2
Other assets	1.9
Total assets acquired	221.6
Current liabilities	(4.1)
Deferred tax liabilities	(40.9)
Other non-current liabilities	(1.7)
Net assets acquired	$174.9

The preliminary fair value estimates for the assets acquired and liabilities assumed were based upon preliminary calculations, valuations and assumptions that are subject to change as the Company obtains additional information during the measurement period (up to one year from the acquisition date). The primary areas subject to change relate to the finalization of the working capital components, the valuation of intangible assets and income taxes.

The acquisition of Apicore added a diversified portfolio of API products to the Company’s existing portfolio. The identified intangible assets of $121.0 million are comprised of product rights and licenses with a weighted average useful life of seven years and includes in-process research and development (“IPR&D”) with a fair value of $9.0 million at date of the acquisition. Significant assumptions utilized in the valuation of identified intangible assets were based on company specific information and projections which are not observable in the market and are thus considered Level 3 measurements as defined by U.S. GAAP. The goodwill of $92.2 million arising from the acquisition consisted largely of the value of the employee workforce and the expected value of products to be developed in the future. The final allocation of goodwill to Mylan’s reportable segments has not been completed; however, the goodwill is expected to be allocated to the North America segment. None of the goodwill recognized in this transaction is currently expected to be deductible for income tax purposes. The acquisition did not have a material impact on the Company’s results of operations since the acquisition date or on a pro forma basis for the three and six months ended June 30, 2018 and 2017.

Other Transactions

On December 25, 2017, the Company entered into an agreement to reacquire certain intellectual property rights and marketing authorizations related to a product commercialized in Japan for $90.0 million, which was paid during the second quarter of 2018. The Company recognized a liability in its Condensed Consolidated Balance Sheet as of December 31, 2017 for the reacquisition of these rights. The Company accounted for this transaction as an asset acquisition and the asset is being amortized over a useful life of five years.

On February 28, 2018, the Company and Revance Therapeutics, Inc. (“Revance”) entered into a collaboration agreement (the “Revance Collaboration Agreement”) pursuant to which the Company and Revance will collaborate exclusively, on a world-wide basis (excluding Japan), to develop, manufacture and commercialize a biosimilar to the branded biologic product (onabotulinumtoxinA) marketed as BOTOX®.

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Under the Revance Collaboration Agreement, the Company will be primarily responsible for (a) clinical development activities outside of North America (excluding Japan) (the “ex-U.S. Mylan territories”), (b) regulatory activities, and (c) commercialization for any approved product. Revance will be primarily responsible for (a) non-clinical development activities, (b) clinical development activities in North America, and (c) manufacturing and supply of clinical drug substance and drug product; Revance will be solely responsible for an initial portion of non-clinical development costs. The remaining portion of any non-clinical development costs and clinical development costs for obtaining approval in the U.S. and Europe will be shared equally between the parties, and the Company will be responsible for all other clinical development costs and commercialization expenses. Upon closing, Revance received a non-refundable upfront payment of $25.0 million. In addition, under the Revance Collaboration Agreement, Revance can receive potential development milestone payments of up to $100.0 million, in the aggregate, upon the achievement of specified clinical and regulatory milestones and potential tiered sales milestones of up to $225.0 million. In addition, Mylan will pay Revance royalties on sales of the biosimilar in the ex-U.S. Mylan territories. The Company accounted for this transaction as an asset acquisition of IPR&D and the total upfront payment was expensed as a component of research and development (“R&D”) expense in the three and six months ended June 30, 2018.

During the six months ended June 30, 2018, the Company completed four agreements to acquire certain intellectual property rights and marketing authorizations for products that are currently in the development stage, including agreements with Fujifilm Kyowa Kirin Biologics Co., Ltd., Mapi Pharma Ltd., and Lupin Limited. The Company also completed the acquisition of intellectual property rights and marketing authorizations related to a commercialized product in certain rest of world markets for $220.0 million, of which $160.0 million was paid at closing with the remaining amount due within twelve months of the closing of the transaction. The Company is accounting for these transactions as asset acquisitions and a useful life of five years is being used to amortize the asset related to the commercialized product. The Company recorded expense of approximately $36.0 million and $53.7 million as a component of R&D expense related to non-refundable upfront payments for agreements for products in development during the three and six months ended June 30, 2018, respectively. Certain of the agreements include additional development and commercial milestones.

On July 30, 2018, the Company entered into an agreement to purchase the worldwide rights to a commercialized product for approximately $463.0 million. The Company expects to close the transaction in the second half of 2018 and to pay approximately $240.0 million in 2018.

5. Share-Based Incentive Plan

The Company’s shareholders have approved the 2003 Long-Term Incentive Plan (as amended, the “2003 Plan”). Under the 2003 Plan, 55,300,000 ordinary shares are reserved for issuance to key employees, consultants, independent contractors and non-employee directors of the Company through a variety of incentive awards, including: stock options, stock appreciation rights (“SAR”), restricted ordinary shares, restricted stock units, performance awards (“PSU”), other stock-based awards and short-term cash awards. Stock option awards are granted with an exercise price equal to the fair market value of the ordinary shares underlying the stock options at the date of the grant, generally become exercisable over periods ranging from three to four years, and generally expire in ten years. Since approval of the 2003 Plan, no further grants of stock options have been made under any other previous plan.

The following table summarizes stock option and SAR (together, “stock awards”) activity:

	Number of Shares Under Stock Awards	Weighted Average Exercise Price per Share
Outstanding at December 31, 2017	7,198,684	$ 35.17
Granted	823,930	40.99
Exercised	(636,979)	21.90
Forfeited	(225,534)	48.59

Outstanding at June 30, 2018	7,160,101	$ 36.60
Vested and expected to vest at June 30, 2018	6,928,512	$ 36.36
Exercisable at June 30, 2018	5,366,103	$ 34.45

As of June 30, 2018, stock awards outstanding, stock awards vested and expected to vest and stock awards exercisable had average remaining contractual terms of 5.7 years, 5.6 years and 4.6 years, respectively. Also, at June 30, 2018, stock awards outstanding, stock awards vested and expected to vest and stock awards exercisable each had an aggregate intrinsic value of $41.1 million, $41.1 million and $40.9 million, respectively.

A summary of the status of the Company's nonvested restricted ordinary shares and restricted stock unit awards, including PSUs (collectively, "restricted stock awards"), as of June 30, 2018 and the changes during the six months ended June 30, 2018 are presented below: