ALEXION PHARMACEUTICALS, INC.
Form 10-Q
October 24, 2018
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 September 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: 0-27756

ALEXION PHARMACEUTICALS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-3648318
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

121 Seaport Boulevard, Boston Massachusetts 02210
(Address of Principal Executive Offices) (Zip Code)
475-230-2596
(Registrant's telephone number, including area code)
N/A
(Former name, former address, and former fiscal year, if changed since last report)

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 Website, 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, a smaller reporting company, or 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 x Accelerated filer ¨ Non-accelerated filer ¨
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 x

Common Stock, $0.0001 par value	223,096,632
Class	Outstanding as of October 22, 2018

Alexion Pharmaceuticals, Inc.
Contents

Alexion Pharmaceuticals, Inc.
Condensed Consolidated Balance Sheets
(unaudited)
(amounts in millions, except per share amounts)

	September 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$1,228.9	$584.4
Marketable securities	306.2	889.7
Trade accounts receivable, net	910.2	726.5
Inventories	432.7	460.4
Prepaid expenses and other current assets	370.4	292.9
Total current assets	3,248.4	2,953.9
Property, plant and equipment, net	1,443.4	1,325.4
Intangible assets, net	3,713.6	3,954.4
Goodwill	5,037.4	5,037.4
Other assets	400.8	312.2
Total assets	$13,843.6	$13,583.3
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$52.2	$70.8
Accrued expenses	539.8	639.4
Revolving credit facility	250.0	—
Current portion of long-term debt	61.2	167.4
Current portion of contingent consideration	95.8	—
Other current liabilities	28.4	74.9
Total current liabilities	1,027.4	952.5
Long-term debt, less current portion	2,533.3	2,720.7
Contingent consideration	179.4	168.9
Facility lease obligation	361.2	342.9
Deferred tax liabilities	442.8	365.0
Other liabilities	129.8	140.2
Total liabilities	4,673.9	4,690.2
Commitments and contingencies (Note 18)		
Stockholders' Equity:		
Common stock, $0.0001 par value; 290.0 shares authorized; 235.8 and 234.3 shares issued at September 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	8,481.8	8,290.3
Treasury stock, at cost, 12.7 and 12.0 shares at September 30, 2018 and December 31, 2017, respectively	(1,689.9)	(1,604.9)
Accumulated other comprehensive income (loss)	6.9	(34.4)
Retained earnings	2,370.9	2,242.1
Total stockholders' equity	9,169.7	8,893.1
Total liabilities and stockholders' equity	$13,843.6	$13,583.3

The accompanying notes are an integral part of these condensed consolidated financial statements.

Alexion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Operations
(unaudited)
(amounts in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net product sales	$1,026.5	$858.8	$3,001.6	$2,640.1
Other revenue	—	0.3	0.8	1.3
Total revenues	1,026.5	859.1	3,002.4	2,641.4
Cost of sales	90.6	157.0	277.5	309.6
Operating expenses:				
Research and development	174.8	195.7	524.8	613.4
Selling, general and administrative	258.7	270.6	793.1	798.0
Acquired in-process research and development	—	—	803.7	—
Amortization of purchased intangible assets	80.0	80.0	240.1	240.1
Change in fair value of contingent consideration	53.5	3.7	110.9	31.8
Restructuring expenses	10.3	72.0	26.4	98.7
Impairment of intangible assets	—	—	—	31.0
Total operating expenses	577.3	622.0	2,499.0	1,813.0
Operating income	358.6	80.1	225.9	518.8
Other income and expense:				
Investment income	5.9	4.5	119.4	12.9
Interest expense	(24.6)	(25.0)	(73.7)	(73.3)
Other income (expense)	2.2	(1.4)	3.5	0.1
Income before income taxes	342.1	58.2	275.1	458.5
Income tax expense (benefit)	11.2	(19.8)	152.5	45.2
Net income	$330.9	$78.0	$122.6	$413.3
Earnings per common share				
Basic	$1.48	$0.35	$0.55	$1.84
Diluted	$1.47	$0.35	$0.55	$1.83
Shares used in computing earnings per common share				
Basic	222.9	223.3	222.5	224.1
Diluted	224.6	225.0	224.2	225.5

The accompanying notes are an integral part of these condensed consolidated financial statements.

Alexion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(unaudited)
(amounts in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$330.9	$78.0	$122.6	$413.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(1.7)	2.0	(6.0)	8.8
Unrealized gains (losses) on debt securities	0.1	0.2	(0.3)	1.1
Unrealized gains on pension obligation	—	—	0.7	0.3
Unrealized gains (losses) on hedging activities, net of tax of $2.9, $(14.0), $13.4 and $(59.3), respectively	11.4	(25.3)	46.9	(107.6)
Other comprehensive income (loss), net of tax	9.8	(23.1)	41.3	(97.4)
Comprehensive income	$340.7	$54.9	$163.9	$315.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

Alexion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(amounts in millions)

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$122.6	$413.3
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	306.9	311.6
Impairment of assets	13.5	112.6
Change in fair value of contingent consideration	110.9	31.8
Payments of contingent consideration	—	(18.0)
Share-based compensation expense	150.9	172.3
Non-cash expense for acquired IPR&D	86.6	—
Deferred taxes	79.1	(57.3)
Unrealized foreign currency loss (gain)	8.6	(5.7)
Unrealized (gain) loss on forward contracts	(9.9)	8.1
Unrealized gain on equity investments	(100.5)	—
Other	(3.0)	4.4
Changes in operating assets and liabilities:		
Accounts receivable	(197.4)	(34.6)
Inventories	26.7	(69.1)
Prepaid expenses and other assets	(85.1)	(94.5)
Accounts payable, accrued expenses and other liabilities	(167.3)	82.6
Net cash provided by operating activities	342.6	857.5
Cash flows from investing activities:		
Purchases of available-for-sale debt securities	(771.4)	(1,580.0)
Proceeds from maturity or sale of available-for-sale debt securities	1,356.4	932.3
Purchases of mutual funds related to nonqualified deferred compensation plan	(9.0)	(8.1)
Proceeds from sale of mutual funds related to nonqualified deferred compensation plan	9.3	5.8
Purchases of property, plant and equipment	(170.6)	(268.8)
Other	3.6	0.1
Net cash provided by (used in) investing activities	418.3	(918.7)
Cash flows from financing activities:		
Debt issuance costs	(7.6)	—
Proceeds from revolving credit facility	250.0	—
Payments on term loan	(293.8)	(131.3)
Repurchases of common stock	(85.0)	(298.5)
Net proceeds from issuance of common stock under share-based compensation arrangements	41.4	76.0
Payments of contingent consideration	—	(7.0)
Other	(10.5)	(10.4)
Net cash used in financing activities	(105.5)	(371.2)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(10.6)	16.5
Net change in cash and cash equivalents and restricted cash	644.8	(415.9)
Cash and cash equivalents and restricted cash at beginning of period	586.3	966.0
Cash and cash equivalents and restricted cash at end of period	$1,231.1	$550.1

Supplemental cash flow disclosures from investing and financing activities:		
Capitalization of construction costs related to facility lease obligations	$44.3	$109.6
Accrued expenses for purchases of property, plant and equipment	$10.2	$32.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

Alexion Pharmaceuticals, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)
(amounts in millions, except per share amounts)

1. Business

Alexion Pharmaceuticals, Inc. (Alexion, the Company, we, our or us) is a global biopharmaceutical company focused on serving patients and families affected by rare diseases through the innovation, development and commercialization of life-changing therapies.

We are the global leader in complement inhibition and have developed and commercialize the first and only approved complement inhibitor to treat patients with paroxysmal nocturnal hemoglobinuria (PNH), atypical hemolytic uremic syndrome (aHUS), and anti-acetylcholine receptor (AChR) antibody-positive generalized myasthenia gravis (gMG). In addition, Alexion has two highly innovative enzyme replacement therapies for patients with life-threatening and ultra-rare metabolic disorders, hypophosphatasia (HPP) and lysosomal acid lipase deficiency (LAL-D).

As the leader in complement biology for over 20 years, Alexion focuses its research efforts on novel molecules and targets in the complement cascade, and its development efforts on the core therapeutic areas of hematology, nephrology, neurology, and metabolic disorders. We were incorporated in 1992 under the laws of the State of Delaware.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These accounting principles were applied on a basis consistent with those of the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. In our opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial statements for interim periods in accordance with accounting principles generally accepted in the United States. The condensed consolidated balance sheet data as of December 31, 2017 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2017 included in our Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year or any other future periods. In the current year, the Company’s rounding presentation of reported amounts have changed. The current year rounding presentation has been applied to all prior year amounts presented and, in certain circumstances, this change may adjust previously reported balances.

The financial statements of our subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities, historical exchange rates for stockholders' equity and weighted average exchange rates for operating results. Translation gains and losses are included in accumulated other comprehensive income (loss), net of tax, in stockholders' equity. Foreign currency transaction gains and losses are included in the results of operations in other income and expense.

The accompanying unaudited condensed consolidated financial statements include the accounts of Alexion Pharmaceuticals, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. Updates to our accounting policies, including impacts from the adoption of new accounting standards, are discussed within Note 8, Marketable Securities, Note 9, Derivative Instruments and Hedging Activities, Note 10, Other Investments, and Note 14, Revenue Recognition.

Reclassifications

Certain items in the prior period’s condensed consolidated financial statements have been reclassified to conform to the current presentation.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued a new standard requiring that the rights and obligations arising from leases be recognized on the balance sheet by recording a right-of-use (ROU) asset and corresponding lease liability. The new standard also requires qualitative and quantitative disclosures to understand the amount, timing, and uncertainty of cash flows arising from leases, as well as significant management estimates utilized. The standard is effective for interim and annual periods beginning after December 15, 2018 and requires a modified retrospective adoption. In July 2018, the FASB issued an update with an optional transition method when adopting the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than recast the comparative periods presented in the year of adoption. We plan to elect this optional method. We have substantially completed the process of collecting and continue to analyze the Company’s lease contracts and during the third quarter 2018, we started implementing our leasing software, including data upload and test procedures. Our lease accounting software implementation efforts are ongoing. While our assessment of the standard remains open, the standard may have a material impact on the Company’s Condensed Consolidated Balance Sheets due to the requirement to recognize lease ROU assets and corresponding liabilities related to leases on the Company’s Condensed Consolidated Balance Sheets.

In June 2016, the FASB issued a new standard intended to improve reporting requirements specific to loans, receivables and other financial instruments. The new standard requires that credit losses be reported based on expected losses compared to the current incurred loss model. The new standard also requires enhanced disclosure of credit risk associated with respective assets. The standard is effective for interim and annual periods beginning after December 15, 2019 with early adoption permitted. We are currently assessing the impact of this standard on our financial condition and results of operations.

In February 2018, the FASB issued a new standard that would permit entities to make a one time reclassification from accumulated other comprehensive income (AOCI) to retained earnings for the stranded tax effects resulting from the newly enacted corporate tax rates under the Tax Cuts and Jobs Act (the Tax Act), that was effective for the year ended December 31, 2017. The amount of the reclassification is calculated on the basis of the difference between the historical tax rate and newly enacted tax rate. The standard is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. We are currently assessing the impact of this standard on our financial condition.

In August 2018, the FASB issued a new standard on a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement (CCA). Under the new guidance, customers will assess if a CCA includes a software license and if a CCA does include a software license, implementation and set-up costs will be accounted for consistent with existing internal-use software implementation guidance. Implementation costs associated with a CCA that does not include a software license would be expensed to operating expenses. The standard also provides classification guidance on these implementation costs as well as additional quantitative and qualitative disclosures. The standard is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim periods. Entities can choose to adopt the new guidance prospectively or retrospectively. We are still assessing the impact this standard will have on our statement of financial condition and results of operations.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new standard which amends revenue recognition principles and provides a single set of criteria for revenue recognition among all industries. The new standard provides a five-step framework whereby revenue is recognized when promised goods or services are transferred to a customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted the new standard on January 1, 2018.

In January 2017, the FASB issued a new standard that clarifies the definition of a business and determines when an integrated set of assets and activities is not a business. This framework requires that if substantially all of the fair value of gross assets acquired or disposed of is concentrated in a single asset or group of similar identifiable assets, the assets would not represent a business. We adopted the new standard on January 1, 2018 and will apply the new guidance prospectively to transactions occurring after adoption. We anticipate that the adoption of this new standard will likely result in more transactions, to the extent that such transactions are undertaken by the Company, being accounted for as asset acquisitions.

Alexion Pharmaceuticals, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)
(amounts in millions, except per share amounts)

In January 2016, the FASB issued a new standard that changes accounting for equity investments, financial liabilities under the fair value option, and presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. Equity investments with readily determinable fair values will be measured at fair value with changes in fair value recognized in net income. Companies have the option to either measure equity investments without readily determinable fair values at fair value, or at cost adjusted for changes in observable prices minus impairment. We adopted the new standard on January 1, 2018, and have elected to measure our current equity investments without readily determinable fair values at cost adjusted for changes in observable prices minus impairment. In connection with the adoption of the new standard, we reclassified an immaterial amount of unrealized gains on equity securities from other comprehensive income to retained earnings. The guidance related to equity investments without readily determinable fair values was applied prospectively to equity investments that existed as of the date of adoption. We will assess our equity investments without readily determinable fair values for observable price changes and impairment on a quarterly basis. Refer to Note 10, Other Investments, for further details.

In March 2017, the FASB issued a new standard that improves the presentation of net periodic pension cost and net periodic post retirement benefit cost by requiring the bifurcation of net benefit cost. Under the new standard, the service cost component of net benefit cost will be presented with other employee costs in operating expenses; while other components will be reported separately in other income and expense. We adopted the new standard on January 1, 2018. The adoption of this standard did not have a material impact on our condensed consolidated statements of operations.

In November 2016, the FASB issued a new standard that clarifies how entities should present restricted cash in the statement of cash flows. Under the new standard, changes in total cash, inclusive of restricted cash, should be reflected in the statement of cash flows. As a result, transfers between cash and restricted cash will no longer be reflected as activity within the statement of cash flows. We adopted the new standard on January 1, 2018. The adoption of this standard did not have a material impact on our condensed consolidated statements of cash flows.

In August 2017, the FASB issued a new standard intended to improve and simplify certain aspects of the accounting for hedges. The new standard is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. The standard is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. We early adopted the new standard in the second quarter 2018 using the modified retrospective method. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

Impacts of the New Revenue Standard

We adopted the new revenue standard by applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. We recorded a net increase to opening equity of $6.0 as of January 1, 2018 due to the cumulative impact of adopting this new standard.

The impact to net product sales for the three and nine months ended September 30, 2018 was an increase of $6.7 and $20.5, respectively, as a result of adopting the new standard. The resulting impact to net income for the three and nine months ended September 30, 2018 was an increase of $4.8 and $16.6, respectively. The impact of adopting the new standard for the three and nine months ended September 30, 2018 is due primarily to the earlier recognition of revenue associated with customer arrangements for which control of the product has transferred to the customer prior to the shipment clearing customs in the respective country. Under prior revenue guidance, these amounts would have been deferred until risk of loss had transferred to the customer following customs clearance.

The new standard also resulted in a decrease of $32.2 in deferred revenue and an increase of $22.7 in retained earnings as of September 30, 2018. The adoption of the new revenue standard did not have a material impact on any other balances within the condensed consolidated financial statements as of and for the three and nine months ended September 30, 2018.

Alexion Pharmaceuticals, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)
(amounts in millions, except per share amounts)

3. Acquisitions

Wilson Therapeutics AB

On May 25, 2018, we completed the acquisition of Wilson Therapeutics AB (publ), a biopharmaceutical company based in Stockholm, Sweden (Wilson Therapeutics) that develops a novel therapy for patients with rare copper-mediated disorders, pursuant to a recommended public cash offer of SEK 232 for each share of stock of Wilson Therapeutics. As a result of the acquisition, we added WTX101, a highly innovative drug candidate that is currently in the early stages of Phase III clinical trials for the treatment of patients with Wilson disease, to our clinical pipeline.

The acquisition of Wilson Therapeutics is accounted for as an asset acquisition, as substantially all of the fair value of the gross assets acquired is concentrated in a single asset, WTX101. As of September 30, 2018, Alexion had acquired 99.8% of the outstanding shares of Wilson Therapeutics.

The following table summarizes the total consideration for the acquisition and the value of assets acquired and liabilities assumed:

Consideration	
Cash paid for acquisition of Wilson Therapeutics outstanding shares	$749.3
Transaction costs	15.1
Total consideration	$764.4
Assets Acquired and Liabilities Assumed	
Cash	$45.1
In-process research & development	803.7
Employee related liabilities	(71.4)
Other assets and liabilities	(13.0)
Total net assets acquired	$764.4

The acquired in-process research and development asset relates to WTX101, an early Phase III asset in development for the treatment of Wilson Disease. Due to the stage of development of this asset, significant risk remains and it is not yet probable that there is future economic benefit from this asset. Absent successful clinical results and regulatory approval for the asset, there is no alternative future use associated with WTX101. Accordingly, the value of this asset of $803.7 was expensed during the nine months ended September 30, 2018.

Employee related liabilities include the value of outstanding employee equity incentive awards that were accelerated in connection with the Wilson Therapeutics acquisition that have been settled in cash. Also included in this amount are employer tax obligations associated with the employee equity incentive awards.

In connection with rights to WTX101 that were previously acquired by Wilson Therapeutics from third parties, we could be required to pay up to approximately $19.0 if certain development, regulatory and commercial milestones are met over time, as well as royalties on commercial sales.

Syntimmune, Inc.

In September 2018, we entered into a definitive agreement to acquire Syntimmune, Inc. (Syntimmune), a clinical-stage biotechnology company developing an antibody therapy targeting the neonatal Fc receptor (FcRn). Syntimmune’s lead candidate, SYNT001, is a monoclonal antibody that inhibits the interaction of FcRn with Immunoglobulin G (IgG) and IgG immune complexes, and is being studied in Phase 1b/2a trials for the treatment of IgG-mediated autoimmune diseases. Under the terms of the agreement, Alexion will acquire Syntimmune for an upfront payment of $400.0, with the potential for additional milestone-dependent payments of up to $800.0, for a total value of up to $1,200.0. The acquisition of Syntimmune, which is subject to the satisfaction of customary closing conditions (including approval from relevant regulatory agencies), is expected to close in the fourth quarter of 2018. We intend to finance the acquisition through cash on hand and account for the transaction as an asset acquisition.

Alexion Pharmaceuticals, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)
(amounts in millions, except per share amounts)

4. Inventories

The components of inventory are as follows:

	September 30, 2018	December 31, 2017
Raw materials	$ 10.8	$ 4.7
Work-in-process	107.8	148.6
Finished goods	314.1	307.1
	$ 432.7	$ 460.4

5. Intangible Assets and Goodwill

The following table summarizes the carrying amount of our intangible assets and goodwill, net of accumulated amortization:

		September 30, 2018			December 31, 2017		
	Estimated Life (years)	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Licensing rights	5-8	$31.0	$ (29.1)	$1.9	$31.0	$ (28.5)	$2.5
Patents	7	10.5	(10.5)	—	10.5	(10.5)	—
Purchased technology	6-16	4,710.5	(999.0)	3,711.5	4,710.5	(758.9)	3,951.6
Other intangibles	5	0.4	(0.2)	0.2	0.4	(0.1)	0.3
Total		$4,752.4	$ (1,038.8)	$3,713.6	$4,752.4	$ (798.0)	$3,954.4
Goodwill	Indefinite	$5,040.3	$ (2.9)	$5,037.4	$5,040.3	$ (2.9)	$5,037.4

Amortization expense for the three months ended September 30, 2018 and 2017 was $80.2 and $80.0, respectively. Amortization expense for the nine months ended September 30, 2018 and 2017 was $240.8 and $240.1, respectively. Assuming no changes in the gross cost basis of intangible assets, the total estimated amortization expense for finite-lived intangible assets is $80.2 for the three months ending December 31, 2018, and approximately $320.0 for each of the years ending December 31, 2019 through December 31, 2023.

In the second quarter 2017, we recognized an impairment charge of $31.0 related to our SBC-103 acquired in-process research and development asset due to clinical results.

6. Debt

On June 7, 2018, we entered into an Amended and Restated Credit Agreement (the Credit Agreement), with Bank of America, N.A. as Administrative Agent. The Credit Agreement amends and restates our credit agreement dated as of June 22, 2015 (the Prior Credit Agreement).

The Credit Agreement provides for a $1,000.0 revolving credit facility and a $2,612.5 term loan facility. The revolving credit facility and the term loan facility mature on June 7, 2023. Beginning with the quarter ending June 30, 2019, we are required to make amortization payments of 5.00% of the aggregate principal amount of the term loan facility annually, payable in equal quarterly installments.

Loans under the Credit Agreement bear interest, at our option, at either a base rate or a Eurodollar rate, in each case plus an applicable margin. Under the Credit Agreement, the applicable margins on base rate loans range from 0.25% to 1.00% and the applicable margins on Eurodollar loans range from 1.25% to 2.00%, in each case based on our consolidated net leverage ratio (as calculated in accordance with the Credit Agreement). Our obligations under the

Credit Agreement are guaranteed by certain of Alexion Pharmaceuticals, Inc.'s foreign and domestic subsidiaries and secured by liens on certain of our subsidiaries' equity interests, subject to certain exceptions. Under the terms of the Credit Agreement, we must maintain a ratio of total net debt to EBITDA of 3.50 to 1.00 (subject to certain limited adjustments) and EBITDA to cash interest expense ratio of at least 3.50 to 1.00, in each case as calculated in accordance with the Credit Agreement.

(amounts in millions, except per share amounts)

The Credit Agreement contains certain representations and warranties, affirmative and negative covenants and events of default. The negative covenants in the Credit Agreement restrict Alexion's and its subsidiaries' ability, subject to certain baskets and exceptions, to (among other things) incur liens or indebtedness, make investments, enter into mergers and other fundamental changes, make dispositions or pay dividends. The restriction on dividend payments includes an exception that permits us to pay dividends and make other restricted payments regardless of dollar amount so long as, after giving pro forma effect thereto, we have a consolidated net leverage ratio, as defined in the Credit Agreement, within predefined ranges, subject to certain increases following designated material acquisitions.

In connection with entering into the Credit Agreement and the Prior Credit Agreement, we paid an aggregate of $53.1 in financing costs. Financing costs are amortized as interest expense over the life of the debt. Amortization expense associated with deferred financing costs for the three months ended September 30, 2018 and 2017 was $1.3 and $2.3, respectively, and amortization of deferred financing costs for the nine months ended September 30, 2018 and 2017 was $6.7 and $7.0 respectively. Remaining unamortized deferred financing costs as of September 30, 2018 and December 31, 2017 were $22.1 and $21.0, respectively.

As of September 30, 2018, we had $2,612.5 outstanding on the term loan and $250.0 of borrowings outstanding under the revolving credit facility. The $250.0 of proceeds on the revolving credit facility was used to refinance amounts outstanding under the Prior Credit Agreement. As of September 30, 2018, we had open letters of credit of $1.7 that offset our availability in the revolving facility.

The fair value of our long term debt, which is measured using Level 2 inputs of the fair value hierarchy, approximates book value.

7. Earnings Per Common Share

Basic earnings per common share (EPS) is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the applicable period. For purposes of calculating diluted EPS, the denominator reflects the potential dilution that could occur if stock options, unvested restricted stock units or other contracts to issue common stock were exercised or converted into common stock, using the treasury stock method.

The following table summarizes the calculation of basic and diluted EPS for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income used for basic and diluted calculation	$330.9	$78.0	$122.6	$413.3
Shares used in computing earnings per common share—basic	222.9	223.3	222.5	224.1
Weighted-average effect of dilutive securities:				
Stock awards	1.7	1.7	1.7	1.4
Shares used in computing earnings per common share—diluted	224.6	225.0	224.2	225.5
Earnings per common share:				
Basic	$1.48	$0.35	$0.55	$1.84
Diluted	$1.47	$0.35	$0.55	$1.83

We exclude from EPS the weighted-average number of securities whose effect is anti-dilutive. Excluded from the calculation of EPS for the three months ended September 30, 2018 and 2017 were 2.5 and 3.9 shares of common stock because their effect was anti-dilutive. Similarly, we excluded 2.9 and 4.1 shares of common stock from the calculation of EPS for the nine months ended September 30, 2018 and 2017 because their effect was anti-dilutive.

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8. Marketable Securities

We invest our excess cash balances in marketable securities of highly rated financial institutions and investment-grade debt instruments. We classify these marketable securities as available-for-sale and, accordingly, record such securities at fair value. Unrealized gains and losses that are deemed temporary are included in accumulated other comprehensive income (loss) as a separate component of stockholders' equity in the accompanying balance sheets.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of available-for-sale debt securities by type of security as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Commercial paper	$196.1	$ —	$ —	$196.1
Corporate bonds	136.0	—	—	136.0
Other government-related obligations:				
U.S.	9.7	—	—	9.7
Foreign	2.6	—	—	2.6
Bank certificates of deposit	43.4	—	—	43.4
Total available-for-sale debt securities	$387.8	$ —	$ —	$387.8

	December 31, 2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Commercial paper	$16.0	$ —	$ —	$16.0
Repurchase agreements	27.0	—	—	27.0
Corporate bonds	432.2	0.5	(0.2)	432.5
Other government-related obligations:				
U.S.	—	—	—	—
Foreign	426.3	0.2	(0.2)	426.3
Bank certificates of deposit	11.8	—	—	11.8
Total available-for-sale debt securities	$913.3	$ 0.7	$ (0.4)	$913.6

The aggregate fair value of available-for-sale debt securities in an unrealized loss position as of September 30, 2018 and December 31, 2017 was $92.8 and $436.2, respectively. Investments that have been in a continuous unrealized loss position for more than 12 months were zero as of September 30, 2018 and $12.0 as of December 31, 2017. As of September 30, 2018, we believe that the cost basis of our available-for-sale debt securities is recoverable.

The fair values of available-for-sale debt securities by classification in the condensed consolidated balance sheet were as follows:

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 100.5	$ 42.7

Marketable securities	287.3	870.9
	$ 387.8	$ 913.6

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The fair values of available-for-sale debt securities at September 30, 2018, by contractual maturity, are summarized as follows:

	September 30, 2018
Due in one year or less	$ 372.7
Due after one year through three years	15.1
	$ 387.8

We sponsor a nonqualified deferred compensation plan which allows certain highly-compensated employees to elect to defer income to future periods. Participants in the plan earn a return on their deferrals based on several investment options, which mirror returns on underlying mutual fund investments. We choose to invest in the underlying mutual fund investments to offset the liability associated with our nonqualified deferred compensation plan. These mutual fund investments are valued at net asset value per share and are carried at fair value with gains and losses included in investment income. The changes in the underlying liability to the employee are recorded in operating expenses. As of September 30, 2018 and December 31, 2017, the fair value of these investments was $18.9 and $18.5, respectively.

We utilize the specific identification method in computing realized gains and losses. Realized gains and losses on our marketable securities were not material for the three and nine months ended September 30, 2018 and 2017.

9. Derivative Instruments and Hedging Activities

We operate internationally and, in the normal course of business, are exposed to fluctuations in foreign currency exchange rates. The exposures result from portions of our revenues, as well as the related receivables, and expenses that are denominated in currencies other than the U.S. dollar, primarily the Euro and Japanese Yen. We are also exposed to fluctuations in interest rates on outstanding borrowings under our revolving credit facility and term loan facility. We manage these exposures within specified guidelines through the use of derivatives. All of our derivative instruments are utilized for risk management purposes, and we do not use derivatives for speculative trading purposes.

We enter into foreign exchange forward contracts, with durations of up to 60 months, to hedge exposures resulting from portions of our forecasted revenues, including intercompany revenues, and certain forecasted expenses that are denominated in currencies other than the U.S. dollar. The purpose of these hedges is to reduce the volatility of exchange rate fluctuations on our operating results. These hedges are designated as cash flow hedges upon contract inception. As of September 30, 2018, we had open revenue related foreign exchange forward contracts with notional amounts totaling $994.4 that qualified for hedge accounting. As of September 30, 2018, we had open expense related foreign exchange forward contracts with notional amounts totaling $22.0 that qualified for hedge accounting.

To achieve a desired mix of floating and fixed interest rates on our term loan, we enter into interest rate swap agreements that qualify for and are designated as cash flow hedges. These contracts convert the floating interest rate on a portion of our debt to a fixed rate, plus a borrowing spread.

The following table summarizes our interest rate swap contracts as of September 30, 2018:

Type of Interest Rate Swap	Notional Amount	Effective Date	Termination Date	Fixed Interest Rate or Rate Range
Floating to Fixed	2,031.3	December 2016 - January 2018	December 2018 - December 2019	0.98% - 1.62%
Floating to Fixed	250.0	December 2018	December 2022	2.79%
Floating to Fixed	300.0	January 2019	December 2019	2.08%
Floating to Fixed	900.0	December 2019	December 2022	2.79% - 2.83%

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During the second quarter 2018, we adopted the new standard for accounting for hedges that is designed to simplify the application of hedge accounting and increase transparency as to the scope and results of hedging programs. The updated guidance no longer requires the separate measurement and reporting of hedge ineffectiveness. Following adoption, all unrealized gains and losses on derivatives that are designated and qualify for hedge accounting are reported in other comprehensive income (loss) and recognized in our condensed consolidated statements of operations when the underlying hedged transaction affects earnings.

The amount of gains and losses recognized in the condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 from foreign exchange and interest rate swap contracts that qualified as cash flow hedges were as follows:

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	Net Product Sales	Interest Expense	Net Product Sales	Interest Expense
Financial Statement Line Item in which the Effects of Cash Flow Hedges are Recorded	$1,026.5	$(24.6)	$858.8	$(25.0)
Impact of cash flow hedging relationships:				
Foreign Exchange Forward Contracts	$3.3	$—	$(1.3)	$—
Interest Rate Swap Contracts	$—	$4.0	$—	$(0.3)

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Net Product Sales	Interest Expense	Net Product Sales	Interest Expense
Financial Statement Line Item in which the Effects of Cash Flow Hedges are Recorded	$3,001.6	$(73.7)	$2,640.1	$(73.3)
Impact of cash flow hedging relationships:				
Foreign Exchange Forward Contracts	$(11.5)	$—	$30.7	$—
Interest Rate Swap Contracts	$—	$8.5	$—	$(1.6)

The impact on accumulated other comprehensive income (AOCI) from foreign exchange and interest rate swap contracts that qualified as cash flow hedges, for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017

Foreign Exchange Forward Contracts:				
Gain (loss) recognized in AOCI, net of tax	$9.8	$(27.6)	$26.3	$(89.3)
Gain (loss) reclassified from AOCI to net product sales, net of tax	$2.5	$(0.8)	$(8.9)	$19.8
Interest Rate Contracts:				
Gain (loss) recognized in AOCI, net of tax	$7.2	$1.2	$18.4	$0.4
Gain (loss) reclassified from AOCI to interest expense, net of tax	$3.1	$(0.2)	$6.7	$(1.0)

Assuming no change in foreign exchange rates from market rates at September 30, 2018, $7.5 of gains recognized in AOCI will be reclassified to revenue over the next 12 months. The amount of gains recognized in AOCI that will be reclassified to interest expense over the next 12 months is $22.6. Amounts recognized in AOCI for expense related foreign exchange forward contracts was not material at September 30, 2018.

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We enter into foreign exchange forward contracts, with durations up to seven months, designed to limit the balance sheet exposure of monetary assets and liabilities. We enter into these hedges to reduce the impact of fluctuating exchange rates on our operating results. Hedge accounting is not applied to these derivative instruments as gains and losses on these hedge transactions are designed to offset gains and losses on underlying balance sheet exposures. As of September 30, 2018, the notional amount of foreign exchange contracts where hedge accounting is not applied was $794.2.

We recognized a gain (loss) of $6.8 and $(2.5), in other income and expense, for the three months ended September 30, 2018 and 2017, respectively, associated with the foreign exchange contracts not designated as hedging instruments. We recognized a gain (loss) of $17.1 and $(11.7), for the nine months ended September 30, 2018 and 2017, respectively, associated with the foreign exchange contracts not designated as hedging instruments. These amounts were partially offset by gains or losses on monetary assets and liabilities.

The following tables summarize the fair value of outstanding derivatives as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expenses and other current assets	$ 16.9	Other current liabilities	$ 10.0
Foreign exchange forward contracts	Other assets	0.7	Other liabilities	5.8
Interest rate contracts	Prepaid expenses and other current assets	22.6	Other current liabilities	—
Interest rate contracts	Other assets	14.1	Other liabilities	—
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expenses and other current assets	10.1	Other current liabilities	3.9
Total fair value of derivative instruments		$ 64.4		$ 19.7

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	December 31, 2017			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expenses and other current assets	$12.9	Other current liabilities	$34.8
Foreign exchange forward contracts	Other assets	4.1	Other liabilities	26.0
Interest rate contracts	Prepaid expenses and other current assets	9.3	Other current liabilities	—
Interest rate contracts	Other assets	12.5	Other liabilities	—
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expenses and other current assets	10.0	Other current liabilities	13.7
Total fair value of derivative instruments		$48.8		$74.5

Although we do not offset derivative assets and liabilities within our condensed consolidated balance sheets, our International Swap and Derivatives Association agreements provide for net settlement of transactions that are due to or from the same counterparty upon early termination of the agreement due to an event of default or other termination event. The following tables summarize the potential effect on our condensed consolidated balance sheets of offsetting our foreign exchange forward contracts and interest rate contracts subject to such provisions:

	September 30, 2018					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
Description	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheet	Derivative Financial Instruments	Cash Collateral Received (Pledged)	Net Amount
Derivative assets	$64.4	$ —	$ 64.4			