LABORATORY CORP OF AMERICA HOLDINGS
Form 10-Q
July 27, 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 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 1-11353

LABORATORY CORPORATION OF
AMERICA HOLDINGS
(Exact name of registrant as specified in its charter)

Delaware	13-3757370
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

358 South Main Street,	
Burlington, North Carolina	27215
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) 336-229-1127

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 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 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 [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
	Emerging growth company [ ]

If 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].

The number of shares outstanding of the issuer's common stock is 101.9 million shares, net of treasury stock as of July 25, 2018.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$221.4	$ 316.6
Accounts receivable	1,520.3	1,531.0
Unbilled services	351.3	316.5
Supplies inventories	230.7	227.2
Prepaid expenses and other	286.1	308.8
Current assets held for sale	411.4	33.7
Total current assets	3,021.2	2,733.8
Property, plant and equipment, net	1,710.9	1,706.6
Goodwill, net	7,423.3	7,400.9
Intangible assets, net	4,049.5	4,166.1
Joint venture partnerships and equity method investments	58.9	58.4
Deferred income tax assets	1.7	1.9
Other assets, net	239.0	217.5
Long-term assets held for sale	—	387.8
Total assets	$16,504.5	$ 16,673.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$488.1	$ 573.9
Accrued expenses and other	739.9	793.3
Unearned revenue	393.3	380.8
Short-term borrowings and current portion of long-term debt	417.8	417.5
Current liabilities held for sale	82.4	20.2
Total current liabilities	2,121.5	2,185.7
Long-term debt, less current portion	6,039.4	6,344.6
Deferred income taxes and other tax liabilities	914.1	875.5
Other liabilities	371.8	376.0
Long-term liabilities held for sale	—	66.3
Total liabilities	9,446.8	9,848.1
Commitments and contingent liabilities		
Noncontrolling interest	20.0	20.8
Shareholders' equity:		
Common stock, 102.0 and 101.9 shares outstanding at June 30, 2018 and December 31, 2017, respectively	12.0	12.0
Additional paid-in capital	1,934.8	1,989.8
Retained earnings	6,603.1	6,196.1

Less common stock held in treasury	(1,105.2)	(1,060.1)
Accumulated other comprehensive loss	(407.0)	(333.7)
Total shareholders’ equity	7,037.7	6,804.1
Total liabilities and shareholders’ equity	$16,504.5	$ 16,673.0

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$2,866.3	$2,528.2	$5,714.6	$4,941.9
Cost of revenues	2,031.2	1,750.2	4,100.5	3,451.4
Gross profit	835.1	778.0	1,614.1	1,490.5
Selling, general and administrative expenses	395.2	357.7	792.2	700.6
Amortization of intangibles and other assets	58.5	51.4	120.8	99.0
Restructuring and other special charges	12.2	39.1	26.5	43.0
Operating income	369.2	329.8	674.6	647.9
Other income (expenses):				
Interest expense	(63.1)	(55.0)	(126.6)	(107.4)
Equity method income, net	3.0	4.5	5.5	6.8
Investment income	0.8	0.4	1.4	0.7
Other, net	2.8	(0.5)	(0.7)	(3.6)
Earnings before income taxes	312.7	279.2	554.2	544.4
Provision for income taxes	78.6	94.1	147.6	176.0
Net earnings	234.1	185.1	406.6	368.4
Less: Net (earnings) loss attributable to the noncontrolling interest	(0.3)	(0.3)	0.4	(0.6)
Net earnings attributable to Laboratory Corporation of America Holdings	$233.8	$184.8	$407.0	$367.8
Basic earnings per common share	$2.29	$1.80	$3.99	$3.59
Diluted earnings per common share	$2.27	$1.78	$3.94	$3.54

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(in millions, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings	$234.1	$185.1	$406.6	$368.4
Foreign currency translation adjustments	(121.9)	157.2	(82.6)	215.8
Net benefit plan adjustments	3.3	0.5	6.2	1.1
Other comprehensive earnings (loss) before tax	(118.6)	157.7	(76.4)	216.9
(Provision) benefit for income tax related to items of other comprehensive earnings	(7.2)	(14.9)	3.1	(20.8)
Other comprehensive earnings, net of tax	(125.8)	142.8	(73.3)	196.1
Comprehensive earnings	108.3	327.9	333.3	564.5
Less: Net (earnings) loss attributable to the noncontrolling interest	(0.3)	(0.3)	0.4	(0.6)
Comprehensive earnings attributable to Laboratory Corporation of America Holdings	$108.0	$327.6	$333.7	$563.9

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in millions)
(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2016	$ 12.1	$ 2,131.7	$ 4,969.0	$ (1,012.7)	$ (581.9)	$ 5,518.2
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	367.8	—	—	367.8
Other comprehensive earnings, net of tax	—	—	—	—	196.1	196.1
Issuance of common stock under employee stock plans	0.1	31.3	—	—	—	31.4
Surrender of restricted stock and performance share awards	—	—	—	(46.2)	—	(46.2)
Conversion of zero-coupon convertible debt	—	12.8	—	—	—	12.8
Stock compensation	—	52.7	—	—	—	52.7
Purchase of common stock	(0.2)	(255.8)	—	—	—	(256.0)
BALANCE AT JUNE 30, 2017	$ 12.0	$ 1,972.7	$ 5,336.8	$ (1,058.9)	$ (385.8)	$ 5,876.8
BALANCE AT DECEMBER 31, 2017	$ 12.0	$ 1,989.8	$ 6,196.1	$ (1,060.1)	$ (333.7)	$ 6,804.1
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	407.0	—	—	407.0
Other comprehensive earnings, net of tax	—	—	—	—	(73.3)	(73.3)
Issuance of common stock under employee stock plans	—	43.0	—	—	—	43.0
Surrender of restricted stock and performance share awards	—	—	—	(45.1)	—	(45.1)
Stock compensation	—	52.0	—	—	—	52.0
Purchase of common stock	—	(150.0)	—	—	—	(150.0)
BALANCE AT JUNE 30, 2018	$ 12.0	$ 1,934.8	$ 6,603.1	$ (1,105.2)	$ (407.0)	$ 7,037.7

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$406.6	$368.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	281.3	255.1
Stock compensation	52.0	52.7
(Gain) loss on sale of assets	(0.3)	0.6
Accreted interest on zero-coupon subordinated notes	0.1	0.2
Cumulative earnings less than distributions from equity method investments	(1.3)	(4.0)
Asset impairment	2.3	15.1
Deferred income taxes	36.0	(4.6)
Change in assets and liabilities (net of effects of acquisitions):		
Decrease (increase) in accounts receivable	13.2	(50.2)
Increase in unbilled services	(36.5)	(37.1)
Increase in inventories	(4.7)	(0.7)
(Increase) decrease in prepaid expenses and other	(27.2)	4.8
(Decrease) increase in accounts payable	(91.3)	8.6
Increase (decrease) in unearned revenue	8.3	(10.0)
Decrease in accrued expenses and other	(116.5)	(62.5)
Net cash provided by operating activities	522.0	536.4
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(159.7)	(141.5)
Proceeds from sale of assets	0.7	1.0
Proceeds from sale of held for sale assets	49.1	—
Acquisition of licensing technology	—	(2.3)
Investments in equity affiliates	(7.3)	(26.1)
Acquisition of businesses, net of cash acquired	(79.1)	(568.0)
Net cash used for investing activities	(196.3)	(736.9)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on term loan	(295.0)	—
Proceeds from revolving credit facilities	394.7	749.7
Payments on revolving credit facilities	(394.7)	(440.7)
Payments on zero-coupon subordinated notes	—	(23.2)
Noncontrolling interest distributions	(5.9)	(0.5)
Deferred payments on acquisitions	—	(1.5)
Payments on long-term lease obligations	(5.1)	(4.3)
Net proceeds from issuance of stock to employees	43.0	31.4
Purchase of common stock	(150.0)	(256.0)
Net cash (used for) provided by financing activities	(413.0)	54.9
Effect of exchange rate changes on cash and cash equivalents	(7.9)	11.8
Net (decrease) increase in cash and cash equivalents	(95.2)	(133.8)

Cash and cash equivalents at beginning of period	316.6	433.6
Cash and cash equivalents included in assets held for sale	—	(0.2)
Cash and cash equivalents at end of period	$221.4	$299.6

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars and shares in millions, except per share data)

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

Laboratory Corporation of America® Holdings together with its subsidiaries (the Company) is a leading global life sciences company that is deeply integrated in guiding patient care, providing comprehensive clinical laboratory and end-to-end drug development services. The Company's mission is to improve health and improve lives by delivering world-class diagnostic solutions, bringing innovative medicines to patients faster and using technology to provide better care. The Company serves a broad range of customers, including managed care organizations (MCOs), biopharmaceutical companies, governmental agencies, physicians and other healthcare providers (e.g., physician assistants and nurse practitioners, generally referred to herein as physicians), hospitals and health systems, employers, patients and consumers, contract research organizations, food and nutritional companies and independent clinical laboratories. The Company believes that it generated more revenue from laboratory testing than any other company in the world in 2017.

The Company reports its business in two segments, LabCorp Diagnostics (LCD) and Covance Drug Development (CDD). For further financial information about these segments, see Note 15 (Business Segment Information). During the three months ended June 30, 2018, LCD and CDD contributed approximately 63% and 37%, respectively, of net revenues to the Company, and for the six months ended June 30, 2018, contributed approximately 63% and 37%, respectively.

The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries for which it exercises control. Long-term investments in affiliated companies in which the Company exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which the Company does not exercise significant influence (generally, when the Company has an investment of less than 20.0% and no representation on the investee's board of directors) are accounted for at fair value or at cost minus impairment for those investments that do not have readily determinable fair values. All significant inter-company transactions and accounts have been eliminated. The Company does not have any variable interest entities or special purpose entities whose financial results are not included in the condensed consolidated financial statements.

The financial statements of the Company's operating foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average monthly exchange rates prevailing during the period. Resulting translation adjustments are included in "Accumulated other comprehensive income."

The accompanying condensed consolidated financial statements of the Company are unaudited. In the opinion of management, all adjustments necessary for a fair statement of results of operations, cash flows and financial position have been made. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles.

The condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the United States (U.S.) Securities and Exchange Commission (SEC) and do not contain certain information included in the Company's 2017 Annual Report on Form 10-K. Therefore, the interim statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report.

Recently Adopted Guidance Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued the converged standard on revenue recognition with the objective of providing a single, comprehensive model for all contracts with customers to improve comparability in the financial statements of companies reporting using International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (GAAP). The standard contains principles that an entity must apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity must recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

The standard was effective for the Company beginning January 1, 2018. The Company elected to adopt the standard using the full retrospective approach, which resulted in a recasting of revenue and the related financial statement items for 2016 and 2017. During transition to the new standard, the Company also elected several practical expedients, as provided by the standard. Contracts that began and ended within the same annual reporting period were not restated. Contracts that were completed by December 31, 2017 that had variable consideration were estimated using the transaction price at the date the contract was completed. The amount of the transaction price allocated to the remaining performance obligations will not be disclosed for prior reporting periods. Contracts that were modified prior to the earliest reporting period will be reflected in the earliest reporting period with an aggregate adjustment for prior modifications.

As a result of the new standard, the Company has changed its accounting policies for revenue recognition. The significant changes under the new standard, and the quantitative impact of these changes, are detailed below.

LCD

The primary impact of the new standard to the LCD segment was classifying bad debt expense of $78.0 and $156.2 for the three and six months ended June 30, 2017, respectively, as a reduction in revenue rather than as a selling, general and administrative expense.

CDD

The primary impact of the new standard to the CDD segment was as follows:

Investigator fees: Prior to the new standard, reimbursements of investigator fees by clients were netted against the amounts paid to investigators in net revenues, on the basis that CDD was acting as the agent in arranging the investigator services. Under the new standard, revenue for investigator services and other reimbursable activities is recognized gross of fees paid to the investigators and other vendors, on the basis that a clinical study is considered a single, combined performance obligation for which CDD acts as a principal. Where CDD assumes the obligations by contract in studies involving patients, CDD is the principal because CDD may contract directly with third party clinical trial sites and investigators for investigator services and other reimbursable activities, which are combined with other CDD services in the management of a clinical study. Where CDD has assumed certain clinical trial sponsor obligations by contract in studies involving patients, CDD has primary responsibility for fulfilling its obligations associated with the full management of a clinical study, has inventory risk since it may be obligated to compensate investigators and other vendors for reimbursable activities regardless of payment by the customer, and has discretion within the framework agreed upon with the customer in setting the price of the study, including the budget for all pass-through costs, including investigator grants.

The financial impact of this change on revenue for the three and six months ended June 30, 2017 was an increase of $69.0 and $126.5, respectively. Revenue and expenses from reimbursable out-of-pocket costs were previously recognized gross as separate line items from Net revenues and Net cost of revenue in the Consolidated Statement of Operations. Under the new standard, reimbursable out-of-pocket costs continue to be recognized gross, but are no longer presented separately (i.e., expenses are included in Cost of revenues and reimbursements are included in Revenues). In the statement of financial position, unbilled investigator fees and reimbursable out of pocket costs were reclassified from “Prepaid expenses and other” to “Unbilled services” and billed investigator grants and reimbursable out-of-pocket costs were reclassified from “Prepaid expenses and other” to “Accounts receivable, net.”

Measure of progress: Prior to the new standard, service fee revenue in clinical studies was recognized on a proportional-performance basis, generally using output measures that are specific to the service provided (e.g., number of investigators enrolled, number of sites initiated, number of trial subjects enrolled and number of monitoring visits completed), while reimbursable out-of-pocket revenue was recognized when the associated expense was incurred. Changes in contract value from changes in scope were reflected once the customer agreed to the changes in scope and renegotiated pricing terms. Under the new standard, revenue in a clinical study (inclusive of budgeted reimbursable pass-through costs) is recognized using an input-based measure of progress based on costs incurred (including pass-through costs such as investigator services and reimbursable out-of-pocket expenses). If a customer’s approval of a work scope change creates an enforceable right to payment, the related revenue will be estimated and included in the measure of progress before a formal change order is executed, which results in recognition of revenue as services are provided. The financial impact of this change on revenue for the three and six months ended June 30, 2017 was a decrease of $5.7 and $18.3, respectively.

Sales commissions: Prior to the new standard, sales commissions were recorded as an expense each quarter when incurred. Under the new standard, CDD amortizes sales commissions according to the expected service period to which the commissions relate on the basis that they are recoverable through the margin inherent in the contracts and recognizes the unamortized commissions as current and long-term assets.

CDD applied the portfolio practical expedient in the new standard to determine the amortization period for assets recognized from sales commissions. Under the portfolio approach, CDD determined the weighted average contract term for groups of contracts with similar characteristics, and then amortized the capitalized sales commissions for that group over that term. CDD believes that any difference between the amortization patterns under the specific identification approach and the portfolio approach are not significant to CDD’s consolidated financial statements. The financial impact of this change on selling, general, and administrative expenses for the three and six months ended June 30, 2017 was a decrease of $0.1 and an increase of $1.2, respectively.

The total quantitative impact of the new standard on retained earnings as of January 1, 2017 was an increase of $13.2.

New Accounting Pronouncements

In January 2016, the FASB issued a new accounting standard that addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. A financial instrument is defined as cash, evidence of ownership interest in a company or other entity, or a contract that both: (i) imposes on one entity a contractual obligation either to deliver cash or another financial instrument to a second entity or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (ii) conveys to that second entity a contractual right either to receive cash or another financial instrument from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity. The Company adopted this standard effective January 1, 2018. As a result of adoption, investments in which the Company does not exercise significant influence (generally, when the Company has an investment of less than 20.0% and no representation on the investee's board of directors) are accounted for at fair value or at cost minus impairment for those investments that do not have readily determinable fair values. The adoption of this standard did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued a new accounting standard that sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., 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. 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 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for based on guidance similar to current guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company will implement a new module into the current leasing software solution which will facilitate compliance with the new standard and is currently evaluating the impact that this new standard will have on the consolidated financial statements.

In June 2016, the FASB issued a new accounting standard intended to provide financial statement users with more decision-useful information about expected credit losses and other commitments to extend credit held by the reporting entity. The standard replaces the incurred loss impairment methodology in current GAAP with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective on January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact this new standard will have on the consolidated financial statements.

In August 2016, the FASB issued a new accounting standard that makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted this standard on a retrospective basis effective January 1, 2018. As a result, the Company reclassified accreted interest paid upon conversion of its zero-coupon subordinated notes from a financing activity to an operating activity.

In January 2017, the FASB issued a new accounting standard that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material impact on the consolidated financial statements as of June 30, 2018.

In March 2017, the FASB issued a new accounting standard that requires employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension cost and net periodic post-retirement benefit cost in operating expenses with other employee compensation costs. The other components of net benefit cost, including amortization of prior service cost/credit and settlement and curtailment effects are to be included in other, net non-operating expenses. The Company adopted this standard effective January

1, 2018. The adoption of this standard reduced operating margin due to the service cost remaining in operating expenses with no offset from the other components of net pension cost and has been applied retrospectively. The adoption of this standard had no impact on net earnings.

In May 2017, the FASB issued a new accounting standard that amends the scope of modification accounting for share-based payment arrangements and 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. 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. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material impact on the consolidated financial statements.

In July 2017, the FASB issued a new accounting standard intended to reduce the complexity associated with the issuer's accounting for certain financial instruments with characteristics of liabilities and equity. Specifically, a down round feature would no longer cause a free-standing equity-linked financial instrument (or embedded conversion option) to be accounted for as a derivative liability at fair value with changes in fair value recognized in current earnings. This update is effective on January 1, 2019, with early adoption permitted and the option to use the retrospective or modified retrospective adoption method. The Company is currently evaluating the impact this new standard will have on the consolidated financial statements.

(dollars and shares in millions, except per share data)

In August 2017, the FASB issued a new accounting standard 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. As a result, more hedging strategies are eligible for hedge accounting. The Company early adopted this standard effective January 1, 2018, and as allowed by the standard, elected to change the methodology for assessing hedge effectiveness of net investment hedges from a method based on changes in forward exchange rates to a method based on changes in spot exchange rates. The spot methodology under this standard allows the interest accrual components of hedge instruments to be reported directly in earnings while the changes in the fair value of hedge instruments attributable to changes in the spot rate are reported in the cumulative translation adjustment section of other comprehensive income.

Reclassifications

Adoption of the standards related to revenue recognition, pension accounting and cash receipts and payments impacted previously reported results as follows:

	Condensed Consolidated Statement of Operations			
	For the Three Months Ended June 30, 2017			
	As Previously Reported	ASC 606 Revenue Adjustments	Pension Adjustments	As Adjusted
Total revenues	$2,542.9	$ (14.7)	$ —	$2,528.2
Total cost of revenue	1,681.1	68.9	0.2	1,750.2
Gross profit	861.8	(83.6)	(0.2)	778.0
Selling, general and administrative expenses	435.3	(78.1)	0.5	357.7
Other operating and non-operating expenses, net	141.4	0.4		