ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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
Commission file number 001-35547

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	36-4392754
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

222 Merchandise Mart, Suite 2024

Chicago, IL 60654

(Address of Principal Executive Offices, Zip Code)

(800) 334-8534

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes 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	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

As of November 1, 2018, there were 174,714,207 shares of the registrant's $0.01 par value common stock outstanding.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

FORM 10-Q

For the Fiscal Quarter Ended September 30, 2018

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$111,775	$155,839
Restricted cash	8,016	6,659
Accounts receivable, net of allowance of $61,926 and $37,735 as of September 30, 2018 and December 31, 2017, respectively	520,381	567,873
Contract assets	71,745	0
Prepaid expenses and other current assets	131,826	115,463
Total current assets	843,743	845,834
Fixed assets, net	160,225	165,603
Software development costs, net	239,359	222,189
Intangible assets, net	873,635	826,872
Goodwill	2,207,967	2,004,953
Deferred taxes, net	5,566	4,574
Contract assets - long-term	52,555	0
Other assets	135,030	148,849
Long-term assets attributable to discontinued operations	0	11,276
Total assets	$4,518,080	$4,230,150

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Unaudited)

(In thousands, except per share amounts)	September 30, 2018	December 31, 2017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$126,709	$97,583
Accrued expenses	120,326	85,915
Accrued compensation and benefits	107,799	99,632
Deferred revenue	506,568	546,830
Current maturities of long-term debt	19,516	27,687
Current maturities of non-recourse long-term debt - Netsmart	4,257	2,755
Current maturities of capital lease obligations	9,190	7,865
Total current liabilities	894,365	868,267
Long-term debt	1,002,026	906,725
Non-recourse long-term debt - Netsmart	788,489	625,193
Long-term capital lease obligations	4,606	7,105
Deferred revenue	21,804	24,047
Deferred taxes, net	124,294	93,643
Other liabilities	95,575	92,205
Liabilities attributable to discontinued operations	2,261	21,358
Total liabilities	2,933,420	2,638,543
Redeemable convertible non-controlling interest - Netsmart	467,981	431,535
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: $0.01 par value, 1,000 shares authorized, no shares issued and outstanding as of September 30, 2018 and December 31, 2017	0	0
Common stock: $0.01 par value, 349,000 shares authorized as of September 30, 2018 and December 31, 2017; 270,506 and 174,707 shares issued and outstanding as of September 30, 2018, respectively; 269,335 and 180,832 shares issued and outstanding as of December 31, 2017, respectively	2,708	2,693
Treasury stock: at cost, 96,099 and 88,504 shares as of September 30, 2018 and December 31, 2017, respectively	(423,521)	(322,735)
Additional paid-in capital	1,765,103	1,781,059
Accumulated deficit	(251,363)	(338,150)
Accumulated other comprehensive loss	(5,452)	(1,985)
Total Allscripts Healthcare Solutions, Inc.'s stockholders' equity	1,087,475	1,120,882
Non-controlling interest	29,204	39,190
Total stockholders' equity	1,116,679	1,160,072
Total liabilities and stockholders' equity	$4,518,080	$4,230,150

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In thousands, except per share amounts)	2018	2017	2018	2017
Revenue:				
Software delivery, support and maintenance	$330,397	$289,102	$996,569	$832,323
Client services	191,882	160,340	565,213	456,685
Total revenue	522,279	449,442	1,561,782	1,289,008
Cost of revenue:				
Software delivery, support and maintenance	109,682	86,893	328,534	259,361
Client services	159,669	132,629	480,231	379,797
Amortization of software development and acquisition-related assets	34,557	28,001	101,008	81,788
Total cost of revenue	303,908	247,523	909,773	720,946
Gross profit	218,371	201,919	652,009	568,062
Selling, general and administrative expenses	133,214	117,352	425,365	340,234
Research and development	69,747	51,057	220,066	146,748
Asset impairment charges	0	0	30,075	0
Amortization of intangible and acquisition-related assets	13,000	8,137	37,210	23,340
Income (loss) from operations	2,410	25,373	(60,707)	57,740
Interest expense	(29,343)	(22,252)	(80,843)	(62,722)
Other loss, net	(525)	(570)	(590)	(545)
Gain on sale of businesses, net	0	0	172,258	0
Impairment of long-term investments	0	(20,700)	(15,487)	(165,290)
Equity in net (loss) income of unconsolidated investments	(177)	449	529	706
(Loss) income from continuing operations before income taxes	(27,635)	(17,700)	15,160	(170,111)
Income tax benefit	3,789	238	3,020	1,073
(Loss) income from continuing operations, net of tax	(23,846)	(17,462)	18,180	(169,038)
Income from discontinued operations, net of tax	0	0	3,731	0
Net (loss) income	(23,846)	(17,462)	21,911	(169,038)
Less: Net loss (income) attributable to non-controlling interests	4	(163)	3,494	(352)
Less: Accretion of redemption preference on redeemable convertible non-controlling interest - Netsmart	(12,149)	(10,962)	(36,446)	(32,887)
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders	$(35,991)	$(28,587)	$(11,041)	$(202,277)
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders per share:				
Basic				
Continuing operations	$(0.20)	$(0.16)	$(0.09)	$(1.12)

Discontinued operations	0.00	0.00	0.03	0.00
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders per share	$(0.20)	$(0.16)	$(0.06)	$(1.12)
Diluted				
Continuing operations	$(0.20)	$(0.16)	$(0.09)	$(1.12)
Discontinued operations	0.00	0.00	0.03	0.00
Net loss attributable to Allscripts Healthcare Solutions, Inc. stockholders per share	$(0.20)	$(0.16)	$(0.06)	$(1.12)

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In thousands)	2018	2017	2018	2017
Net (loss) income	$(23,846)	$(17,462)	$21,911	$(169,038)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(60)	693	(1,622)	3,040
Change in unrealized (loss) gain on available for sale securities	0	(4)	0	56,507
Change in fair value of derivatives qualifying as cash flow hedges	(1,602)	(692)	(2,695)	341
Other comprehensive (loss) income before income tax benefit (expense)	(1,662)	(3)	(4,317)	59,888
Income tax benefit (expense) related to items in other comprehensive income (loss)	416	271	850	(126)
Total other comprehensive (loss) income	(1,246)	268	(3,467)	59,762
Comprehensive (loss) income	(25,092)	(17,194)	18,444	(109,276)
Less: Comprehensive loss (income) attributable to non-controlling interests	4	(163)	3,494	(352)
Comprehensive (loss) income, net	$(25,088)	$(17,357)	$21,938	$(109,628)

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$21,911	$(169,038)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	200,829	155,108
Stock-based compensation expense	29,810	28,140
Excess tax benefits from stock-based compensation	0	0
Write-off of unamortized deferred debt issuance costs - Netsmart	855	0
Deferred taxes	(5,347)	(5,324)
Asset impairment charges	30,075	0
Impairment of long-term investments	15,487	165,290
Equity in net income of unconsolidated investments	(529)	(706)
Gain on sale of businesses, net	(172,258)	0
Other (losses) income, net	(101)	3,711
Changes in operating assets and liabilities (net of businesses acquired):		
Accounts receivable and contract assets, net	8,051	(31,256)
Prepaid expenses and other assets	(8,901)	(6,939)
Accounts payable	19,111	2,908
Accrued expenses	8,817	(6,196)
Accrued compensation and benefits	(4,873)	5,930
Deferred revenue	(59,595)	18,661
Other liabilities	(1,788)	12,894
Net cash provided by operating activities	81,554	173,183
Cash flows from investing activities:		
Capital expenditures	(26,670)	(40,216)
Capitalized software	(101,272)	(107,079)
Cash paid for business acquisitions, net of cash acquired	(343,873)	(54,308)
Cash received from sale of businesses, net	241,153	0
Purchases of equity securities, other investments and related intangible assets	(2,723)	(5,423)
Other proceeds from investing activities	64	215
Net cash used in investing activities	(233,321)	(206,811)
Cash flows from financing activities:		
Proceeds from sale or issuance of common stock	1,283	0
Taxes paid related to net share settlement of equity awards	(8,763)	(6,777)
Payments of capital lease obligations	(8,071)	(9,013)
Credit facility payments	(260,478)	(115,281)
Credit facility borrowings, net of issuance costs	497,493	189,698

Repurchase of common stock	(101,905)	(12,077)
Payment of acquisition financing obligations	(3,226)	(2,398)
(Purchases) sales of subsidiary shares owned by non-controlling interest	(6,945)	1,494
Net cash provided by financing activities	109,388	45,646
Effect of exchange rate changes on cash and cash equivalents	(328)	796
Net (decrease) increase in cash and cash equivalents	(42,707)	12,814
Cash, cash equivalents and restricted cash, beginning of period	162,498	96,610
Cash, cash equivalents and restricted cash, end of period	$119,791	$109,424

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

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Allscripts Healthcare Solutions, Inc. (“Allscripts”) and its wholly-owned subsidiaries and controlled affiliates. All significant intercompany balances and transactions have been eliminated. Each of the terms “we,” “us,” “our” or the “Company” as used herein refers collectively to Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiaries and controlled affiliates, unless otherwise stated.

Unaudited Interim Financial Information

The unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2018 and 2017 have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These interim consolidated financial statements are unaudited and, in the opinion of our management, include all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the consolidated financial statements for the periods presented in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The consolidated 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 ending December 31, 2018.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with the SEC's rules and regulations for interim reporting. The Company believes that the disclosures made are adequate to make that information not misleading. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017 (our “Form 10-K”).

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates.

Change in Presentation

During the first quarter of 2018, we changed the presentation of certain bundled revenue streams. Such revenue was previously included as part of software delivery, support and maintenance revenue. Under the new presentation, such revenue is included as part of client services revenue. The revenues previously reported for the three and nine months ended September 30, 2017 have been recast to match the new presentation by reducing software delivery, support and maintenance and increasing client services by $5.1 million and $13.6 million, respectively.

Significant Accounting Policies

We adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606 (“ASC 606”) effective on January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. There have been no other significant changes to our significant accounting policies from those disclosed in our Form 10-K.

Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in ASU 2016-01 modify the requirements related to the measurement of certain financial instruments in the statement of financial condition and results of operation. Equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are required to be measured at fair value with changes in fair value recognized in net income. An entity may continue to elect to measure equity investments which do not have a readily determinable fair value at cost with adjustments for impairment, if any, and observable changes in price. In addition, for a liability (other than a derivative liability) that an entity measures at fair value, any change in fair value related to the instrument-specific credit risk (i.e., the entity’s own credit risk), should be presented separately in other comprehensive income and not as a component of net income. ASU 2016-01 also clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for sale securities in combination with the entity’s other deferred tax assets. We adopted ASU 2016-01 effective January 1, 2018 and there was no immediate impact upon adoption. Refer to Note 4, “Fair Value Measurements and Long-term Investments,” for additional information regarding our unconsolidated equity investments.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”). ASU 2017-01 provides new accounting guidance to assist an entity in evaluating when a set of transferred assets and activities is a business. We adopted ASU 2017-01 effective January 1, 2018 and there was no immediate impact upon adoption.

Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)” (“ASU 2018-15”), which discusses customer accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Training costs and certain data conversion costs that cannot be capitalized under Subtopic 350-40 also cannot be capitalized for a hosting arrangement that is a service contract. Costs for implementation activities in the application development state are capitalized depending on the nature of the costs, while costs incurred during preliminary stages are expensed. ASU 2018-15 requires the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and apply existing impairment guidance in Subtopic 350-40 to the capitalized implementation costs related to each module or component of a hosting arrangement that is a service contract. ASU 2018-15 also requires the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of operations as the fees associated with the hosting element of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is required to present the capitalized implementation costs in the balance sheet in the same line item that a prepayment for the hosting arrangement fees would be presented. ASU 2018-15 is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and can be applied either retrospectively or prospectively. We early adopted ASU 2018-15 on a prospective basis effective October 1, 2018 and do not expect any impact upon adoption.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, “Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”), which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value instruments. ASU 2018-13 will be effective for all entities for interim and annual periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of this accounting guidance.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, “Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. ASU 2018-07 is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this accounting guidance.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), intended to improve financial reporting about leasing transactions. The new guidance will require entities that lease assets to recognize on their balance sheets the assets and liabilities for the rights and obligations created by those leases and to disclose key information about the leasing arrangements. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. We plan to adopt ASU 2016-02 on

January 1, 2019 using the cumulative-effect adjustment transition method approved by the FASB in July 2018. We are in the process of implementing changes to our processes and internal controls to meet the new reporting and disclosure requirements. We have implemented a software tool to assist us in the calculation of the amount of additional assets and liabilities to be included on our consolidated balance sheet related to leases currently classified as operating leases with durations greater than twelve months. In addition to existing lease agreements, we are also reviewing service contracts and other agreements to determine if they contain an embedded lease. We continue to evaluate the expected impact of ASU 2016-02 on disclosures, but do not anticipate any material changes to operating results or liquidity as a result of right-of-use assets and corresponding lease liabilities that will be recorded.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which provides new accounting guidance to simplify the accounting for goodwill impairment. ASU 2017-04 removes Step Two of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the new guidance, a goodwill impairment will equal the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill assigned to the reporting unit. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. ASU 2017-04 is effective for annual and interim periods in fiscal years beginning after December 15, 2019 with early adoption permitted for any goodwill impairment tests performed after January 1, 2017. The new guidance is to be applied prospectively. We are currently evaluating the impact of this accounting guidance, including the timing of adoption.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"), which provides new accounting guidance to simplify and improve the reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments in ASU 2017-12 make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We will adopt ASU 2017-02 on January 1, 2019.

We do not believe that any other recently issued, but not yet effective accounting standards, if adopted, would have a material impact on our consolidated financial statements.

2. Revenue from Contracts with Customers

Our two primary revenue streams are (i) software delivery, support and maintenance and (ii) client services. Software delivery, support and maintenance revenue consists of all of our proprietary software sales (either under a perpetual or term license delivery model), subscription-based software sales, transaction-related revenue, the resale of hardware and third-party software and revenue from post-contract client support and maintenance services, which include telephone support services, maintaining and upgrading software and ongoing enhanced maintenance. Client services revenue consists of revenue from managed services solutions, such as private cloud hosting, outsourcing and revenue cycle management, as well as other client services and project-based revenue from implementation, training and consulting services. For some clients, we host the software applications licensed from us using our own or third-party servers. For other clients, we offer an outsourced service in which we assume partial to total responsibility for a healthcare organization's IT operations using our employees.

Adoption of New Revenue Standard ("ASC 606")

In May 2014, the FASB issued ASC 606 to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASC 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASC 606 defines a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under the previous FASB Accounting Standards Codification 605, Revenue Recognition ("ASC 605"), including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation and accounting for significant financing components. Additionally, ASC 606 provides guidance related to costs of obtaining a contract with a customer that an entity expects to recover.

The new revenue recognition guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We adopted the standard effective on January 1, 2018 using the modified retrospective method. We also implemented internal controls, and continue to refine our updated processes and key systems to allow us to continue to comply with the new requirements.

The reported results for the three and nine months ended September 30, 2018 reflect the adoption of ASC 606. The comparative information for the three and nine months ended September 30, 2017 has not been restated and will continue to be reported under the previous guidance of ASC 605, which was in effect during that period. The table below reflects the cumulative adjustments that were made to balances previously reported in the condensed consolidated balance sheet as of December 31, 2017. During the nine months ended September 30, 2018, we identified additional cumulative adjustments, which resulted in a decrease to Accumulated deficit of $14.8 million, an increase to Accounts receivable, net of $0.6 million, an increase to Contract assets of $13.9 million, an increase to Deferred taxes, net of $5.2 million and a decrease to Deferred revenue, current of $5.5 million.

(In thousands)	As Reported December 31, 2017	Adjustments due to ASC 606	Adjusted January 1, 2018
Accounts receivable, net	$567,873	$ (31,948)	$535,925
Contract assets	0		