CORELOGIC, INC.
Form 10-Q
October 25, 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

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-13585

CoreLogic, Inc.
(Exact name of registrant as specified in its charter)

Delaware	95-1068610
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

40 Pacifica, Irvine, California	92618-7471
(Address of principal executive offices)	(Zip Code)

(949) 214-1000
(Registrant's telephone number, including area code)

Not Applicable
(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 o

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 x No o

Indicate by check mark whether the registrant: is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting 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	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

o 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 o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On October 22, 2018 there were 80,561,463 shares of common stock outstanding.

CoreLogic, Inc.
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PART I: FINANCIAL INFORMATION
Item 1. Financial Statements.
CoreLogic, Inc.
Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except par value)	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 97,884	$ 118,804
Accounts receivable (less allowance for doubtful accounts of $6,936 and $8,229 as of September 30, 2018 and December 31, 2017, respectively)	254,263	256,595
Prepaid expenses and other current assets	53,515	47,220
Income tax receivable	8,984	7,649
Total current assets	414,646	430,268
Property and equipment, net	453,431	447,659
Goodwill, net	2,312,297	2,250,599
Other intangible assets, net	475,037	475,613
Capitalized data and database costs, net	324,779	329,403
Investment in affiliates, net	42,090	38,989
Other assets	119,380	104,882
Total assets	$ 4,141,660	$ 4,077,413
Liabilities and Equity		
Current liabilities:		
Accounts payable and other accrued expenses	$ 157,580	$ 145,655
Accrued salaries and benefits	79,171	93,717
Contract liabilities, current	308,659	303,948
Current portion of long-term debt	27,068	70,046
Total current liabilities	572,478	613,366
Long-term debt, net of current	1,737,855	1,683,524
Contract liabilities, net of current	520,544	504,900
Deferred income tax liabilities	109,356	102,571
Other liabilities	171,311	165,176
Total liabilities	3,111,544	3,069,537
Stockholders' equity:		
Preferred stock, $0.00001 par value; 500 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.00001 par value; 180,000 shares authorized; 80,562 and 80,885 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	173,963	224,455
Retained earnings	962,765	877,111
Accumulated other comprehensive loss	(106,613)	(93,691)
Total stockholders' equity	1,030,116	1,007,876
Total liabilities and equity	$ 4,141,660	$ 4,077,413

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

CoreLogic, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands, except per share amounts)	2018	2017	2018	2017
Operating revenues	$451,768	$483,131	$1,385,069	$1,396,960
Cost of services (excluding depreciation and amortization shown below)	230,419	244,186	709,154	745,314
Selling, general and administrative expenses	113,075	131,323	340,049	346,723
Depreciation and amortization	48,494	45,326	142,030	131,668
Total operating expenses	391,988	420,835	1,191,233	1,223,705
Operating income	59,780	62,296	193,836	173,255
Interest expense:				
Interest income	299	393	1,053	1,323
Interest expense	19,382	16,686	56,061	45,352
Total interest expense, net	(19,083)	(16,293)	(55,008)	(44,029)
Gain/(loss) on investments and other, net	2,835	(3,095)	5,124	(6,513)
Income from continuing operations before equity in (losses)/earnings of affiliates and income taxes	43,532	42,908	143,952	122,713
Provision for income taxes	20,836	11,851	37,432	36,759
Income from continuing operations before equity in (losses)/earnings of affiliates	22,696	31,057	106,520	85,954
Equity in (losses)/earnings of affiliates, net of tax	(161)	(229)	2,909	(1,232)
Net income from continuing operations	22,535	30,828	109,429	84,722
(Loss)/income from discontinued operations, net of tax	(84)	(74)	(175)	2,421
Gain from sale of discontinued operations, net of tax	—	—	—	310
Net income	$22,451	$30,754	$109,254	$87,453
Basic income per share:				
Net income from continuing operations	$0.28	$0.37	$1.35	$1.01
(Loss)/income from discontinued operations, net of tax	—	—	—	0.03
Gain from sale of discontinued operations, net of tax	—	—	—	—
Net income	$0.28	$0.37	$1.35	$1.04
Diluted income per share:				
Net income from continuing operations	$0.27	$0.36	$1.33	$0.99
(Loss)/income from discontinued operations, net of tax	—	—	—	0.03
Gain from sale of discontinued operations, net of tax	—	—	—	—
Net income	$0.27	$0.36	$1.33	$1.02
Weighted-average common shares outstanding:				
Basic	80,680	83,362	81,073	84,114
Diluted	82,017	85,090	82,528	85,840

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

CoreLogic, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	2018	2017	2018	2017
Net income	$22,451	$30,754	$109,254	$87,453
Other comprehensive (loss)/income				
Adoption of new accounting standards	—	—	408	—
Market value adjustments on interest rate swaps, net of tax	2,532	41	10,770	1,621
Foreign currency translation adjustments	(6,129)	6,078	(23,729)	22,761
Supplemental benefit plans adjustments, net of tax	(124)	(106)	(371)	1,519
Total other comprehensive (loss)/income	(3,721)	6,013	(12,922)	25,901
Comprehensive income	$18,730	$36,767	$96,332	$113,354

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

CoreLogic, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30,	
(in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$109,254	$87,453
Less: (Loss)/income from discontinued operations, net of tax	(175)	2,421
Less: Gain from sale of discontinued operations, net of tax	—	310
Net income from continuing operations	109,429	84,722
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	142,030	131,668
Amortization of debt issuance costs	4,103	4,263
Provision for bad debt and claim losses	11,113	12,268
Share-based compensation	29,574	29,558
Equity in (earnings)/losses of affiliates, net of taxes	(2,909)	1,232
Gain on sale of property and equipment	(19)	(227)
Deferred income tax	10,279	(7,038)
(Gain)/loss on investment and other, net	(5,124)	6,513
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	2,619	(5,655)
Prepaid expenses and other current assets	(7,617)	2,414
Accounts payable and other accrued expenses	(22,037)	(40,681)
Contract liabilities	(18,406)	26,037
Income taxes	7,847	644
Dividends received from investments in affiliates	775	1,198
Other assets and other liabilities	(9,353)	21,765
Net cash provided by operating activities - continuing operations	252,304	268,681
Net cash (used in)/provided by operating activities - discontinued operations	(4)	3,660
Total cash provided by operating activities	$252,300	$272,341
Cash flows from investing activities:		
Purchases of property and equipment	$(41,020)	$(28,534)
Purchases of capitalized data and other intangible assets	(25,013)	(25,744)
Cash paid for acquisitions, net of cash acquired	(140,977)	(188,372)
Cash received from sale of business-line	3,245	—
Proceeds from sale of property and equipment	198	316
Proceeds from investments	980	—
Net cash used in investing activities - continuing operations	(202,587)	(242,334)
Net cash provided by investing activities - discontinued operations	—	—
Total cash used in investing activities	$(202,587)	$(242,334)
Cash flows from financing activities:		
Proceeds from long-term debt	$120,095	$1,995,000
Debt issuance costs	—	(14,294)
Repayment of long-term debt	(114,626)	(1,796,661)
Proceeds from issuance of shares in connection with share-based compensation	19,585	6,330
Payment of tax withholdings related to net share settlements	(12,623)	(13,629)

Shares repurchased and retired	(87,028)	(132,460)
Net cash (used in)/provided by financing activities - continuing operations	(74,597)	44,286
Net cash provided by financing activities - discontinued operations	—	—
Total cash (used in)/provided by financing activities	$(74,597)	$44,286
Effect of exchange rate on cash, cash equivalents and restricted cash	2,039	(1,324)
Net change in cash, cash equivalents and restricted cash	(22,845)	72,969
Cash, cash equivalents and restricted cash at beginning of period	132,154	89,974
Less: Change in cash, cash equivalents and restricted cash - discontinued operations	(4)	3,660
Plus: Cash swept (to)/from discontinued operations	(4)	3,660
Cash, cash equivalents and restricted cash at end of period	$109,309	$162,943
Supplemental disclosures of cash flow information:		
Cash paid for interest	$50,108	$37,283
Cash paid for income taxes	$25,406	$45,702
Cash refunds from income taxes	$3,271	$524
Non-cash investing activities:		
Capital expenditures included in accounts payable and other accrued expenses	$16,911	$6,281

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

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CoreLogic, Inc.
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total
Balance as of December 31, 2017	80,885	$ 1	$224,455	$877,111	$ (93,691)	$1,007,876
Adoption of new accounting standards	—	—	—	(23,600)	408	(23,192)
Net income	—	—	—	109,254	—	109,254
Shares issued in connection with share-based compensation	1,428	—	19,585	—	—	19,585
Payment of tax withholdings related to net share settlements	—	—	(12,623)	—	—	(12,623)
Share-based compensation	—	—	29,574	—	—	29,574
Shares repurchased and retired	(1,751)	—	(87,028)	—	—	(87,028)
Other comprehensive loss	—	—	—	—	(13,330)	(13,330)
Balance as of September 30, 2018	80,562	$ 1	$173,963	$962,765	$ (106,613)	$1,030,116

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

Note 1 – Basis of Condensed Consolidated Financial Statements

CoreLogic, Inc., together with its subsidiaries (collectively "we", "us" or "our"), is a leading global property information, insight, analytics and data-enabled solutions provider operating in North America, Western Europe and Asia Pacific. Our combined data from public, contributory and proprietary sources provides detailed coverage of property, mortgages and other encumbrances, consumer credit, tenancy, location, hazard risk and related performance information. The markets we serve include real estate and mortgage finance, insurance, capital markets and the public sector. We deliver value to clients through unique data, analytics, workflow technology, advisory and managed solutions. Clients rely on us to help identify and manage growth opportunities, improve performance and mitigate risk.

Our condensed consolidated financial information included in this report has been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the condensed consolidated financial statements and accompanying notes. Actual amounts may differ from these estimated amounts. Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The 2017 year-end condensed consolidated balance sheet was derived from the Company's audited financial statements for the year ended December 31, 2017. Interim financial information does not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal recurring items which, in the opinion of management, are necessary for a fair statement of the results of operations for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future periods.

Client Concentration

We generate the majority of our operating revenues from clients with operations in the U.S. residential real estate, mortgage origination and mortgage servicing markets. Approximately 32% and 37% of our operating revenues for the three months ended September 30, 2018 and 2017, respectively, and 32% and 39% for the nine months ended September 30, 2018 and 2017, respectively, were generated from our top ten clients, who consist of the largest U.S. mortgage originators and servicers. None of our clients accounted for greater than 10% of our operating revenues for the three months ended September 30, 2018, and one of our clients accounted for approximately 11% of our operating revenues for the three months ended September 30, 2017. None of our clients accounted for greater than 10% of our operating revenues for the nine months ended September 30, 2018, and two of our clients accounted for approximately 12% and 10% of our operating revenues for the nine months ended September 30, 2017.

Cash, Cash Equivalents and Restricted Cash

We deem the carrying value of cash, cash equivalents and restricted cash to be a reasonable estimate of fair value due to the nature of these instruments. The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts shown in the statement of cash flows:

(in thousands)	September 30, 2018	September 30, 2017
Cash and cash equivalents	$ 97,884	$ 149,411

Restricted cash included in other assets	10,355	13,532
Restricted cash included in prepaid expenses and other current assets	1,070	—
Total cash, cash equivalents and restricted cash	$ 109,309	$ 162,943

Operating Revenue Recognition

We derive our operating revenues primarily from U.S. mortgage lenders, servicers and insurance companies with good creditworthiness. Operating revenue arrangements are written and specify the products or services to be delivered, pricing and payment terms. Operating revenue is recognized when the distinct good or service, or performance obligation, is delivered and

control has been transferred to the client. Generally, clients contract with us to provide products and services that are highly interrelated and not separately identifiable. Therefore, the entire contract is accounted for as one performance obligation. At times, some of our contracts have multiple performance obligations where we allocate the total price to each performance obligation based on the estimated relative standalone selling price using observable sales or the cost-plus-margin approach.

For products or services where delivery occurs at a point in time, we recognize operating revenue when the client obtains control of the products upon delivery. When delivery occurs over time, we generally recognize operating revenue ratably over the service period, once initial delivery has occurred. For certain of our products or services, clients may also pay upfront fees, which we defer and recognize as operating revenue over the longer of the contractual term or the expected client relationship period.

Licensing arrangements that provide our clients with the right to access or use our intellectual property are considered functional licenses for which we generally recognize operating revenue based on usage. For arrangements that provide a stand-ready obligation or substantive updates to the intellectual property, which the client is contractually or practically required to use, we recognize operating revenue ratably over the contractual term.

Client payment terms are standard with no significant financing components or extended payment terms granted. In limited cases, we allow for client cancellations for which we estimate a reserve.

See further discussion in Note 6 - Operating Revenues.

Comprehensive Income

Comprehensive income includes all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Specifically, foreign currency translation adjustments, amounts related to supplemental benefit plans, unrealized gains and losses on interest rate swap transactions and unrealized gains and losses on investment are recorded in other comprehensive (loss)/income. The following table shows the components of accumulated other comprehensive loss, net of taxes as of September 30, 2018 and December 31, 2017:

(in thousands)	2018	2017
Cumulative foreign currency translation	$(119,369)	$(95,630)
Cumulative supplemental benefit plans	(7,008)	(5,461)
Net unrecognized gains on interest rate swaps	19,764	7,400
Accumulated other comprehensive loss	$(106,613)	$(93,691)

Investment in Affiliates, net

Investments in affiliates are accounted for under the equity method of accounting when we are deemed to have significant influence over the affiliate but do not control or have a majority voting interest in the affiliate. Investments are carried at the cost of acquisition, including subsequent impairments, capital contributions and loans from us, plus our equity in undistributed earnings or losses since inception of the investment.

We recorded equity in losses of affiliates, net of tax of $0.2 million for both the three months ended September 30, 2018 and 2017, and equity in earnings of affiliates, net of tax of $2.9 million and equity in losses of affiliates, net of tax of $1.2 million for the nine months ended September 30, 2018 and 2017, respectively. For the three months ended September 30, 2018 and 2017, we recorded $0.3 million and $2.8 million, respectively, of operating revenues and $1.0 million and $3.2 million, respectively, of operating expenses related to our investment in affiliates. For the nine months ended September 30, 2018 and 2017, we recorded $0.9 million and $6.9 million, respectively, of operating

revenues and $6.3 million and $8.9 million, respectively, of operating expenses related to our investment in affiliates.

In June 2017, we acquired a 45.0% interest in Mercury Network, LLC ("Mercury") for $70.0 million, which included a call option to purchase the remaining 55.0% interest within the next nine-month period. We initially fair-valued the call option using the Black-Scholes model at $4.6 million. In August 2017, we purchased the remaining 55.0% ownership of Mercury for an additional $83.0 million and wrote-off our related call option, which resulted in a net loss of $1.9 million within gain/(loss) on investments and other, net, in the accompanying consolidated statement of operations for the three months ended September 30, 2017. Prior to our acquisition of the controlling interest in August 2017, we accounted for the investment in Mercury using the equity method. See Note 12 - Acquisitions for further discussion.

Discontinued Operations

In September 2014, we completed the sale of our collateral solutions and field services businesses, which were included in the former reporting segment Asset Management and Processing Solutions ("AMPS"). In September 2012, we completed the wind down of our consumer services business and our appraisal management company business. In September 2011, we closed our marketing services business. In December 2010, we completed the sale of our Employer and Litigation Services businesses.

In connection with previous divestitures, we retain the prospect of contingent liabilities for indemnification obligations or breaches of representations or warranties. With respect to one such divestiture, in September 2016, a jury returned an unfavorable verdict against a discontinued operating unit that, if upheld on appeal, could result in indemnification exposure up to $25.0 million, including interest. We do not consider this outcome to be probable and are pursuing an appeal of the verdict to eliminate or substantially reduce any potential post-divestiture contingency. Any actual liability that comes to fruition would be reflected in our results from discontinued operations.

For the nine months ended September 30, 2017, we recorded a gain of $4.5 million related to a pre-tax legal settlement in AMPS within our discontinued operations. There was no such legal settlement for the nine months ended September 30, 2018. As of September 30, 2018 and December 31, 2017, we recorded assets of discontinued operations of $0.4 million for both periods within prepaid expenses and other current assets within our condensed consolidated balance sheets. Additionally, as of September 30, 2018 and December 31, 2017, we recorded liabilities of $1.8 million for both periods within accounts payable and other accrued expenses.

Tax Escrow Disbursement Arrangements

We administer tax escrow disbursements as a service to our clients in connection with our property tax processing solutions. These deposits are maintained in segregated accounts for the benefit of our clients. Tax escrow deposits totaled $909.5 million as of September 30, 2018, and $961.5 million as of December 31, 2017. Because these deposits are held on behalf of our clients, they are not our funds and, therefore, are not included in the accompanying condensed consolidated balance sheets.

These deposits generally remain in the accounts for a period of two to five business days. We generally derive operating income and expenses from these deposits and bear the risk of loss. To mitigate the risk of loss, we diversify the placement of funds across institutions with high credit ratings.

Under our contracts with our clients, if we make a payment in error or fail to pay a taxing authority when a payment is due, we could be held liable to our clients for all or part of the financial loss they suffer as a result of our act or omission. We maintained total claim reserves relating to incorrect disposition of assets of $21.5 million and $21.7 million as of September 30, 2018, and December 31, 2017, respectively, of which $9.3 million and $9.4 million, respectively, are short-term and are reflected within accounts payable and other accrued expenses within our accompanying condensed consolidated balance sheets. The remaining reserves are reflected within other liabilities.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued guidance that amends fair value disclosure requirements. The guidance removes disclosure requirements on the transfers between Level 1 and Level 2 of the fair value hierarchy in addition to the disclosure requirements on the policy for timing of transfers between levels and the valuation process for Level 3 fair value measurements. The guidance clarifies the measurement uncertainty disclosure and adds disclosure requirements for Level 3 unrealized gains and losses and significant

unobservable inputs used to develop Level 3 fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019. Entities are permitted to early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until the effective date. We have elected to early adopt the removed disclosures and do not anticipate adoption of the modified or added disclosures to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued guidance which modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The guidance removes certain disclosures, while modifying and adding others, and is effective for fiscal years ending after December 15, 2020 on a retrospective basis. Early adoption is permitted, however we have not elected early adoption. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued new guidance on accounting for implementation, set-up and other upfront costs incurred in a cloud computing arrangement that is hosted by a vendor under a service contract. This new guidance aligns the requirements for capitalization with those for capitalizing implementation costs incurred for internal-use software with additional quantitative and qualitative disclosures required. The guidance is effective for fiscal years beginning after December 15, 2018. As permitted, we have elected early adoption as of period-end on a prospective basis. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued guidance pertaining to the accounting for the Tax Cuts and Jobs Act ("TCJA"), allowing companies a year to finalize and record any provisional or inestimable impacts for the TCJA. This guidance was effective upon issuance during the first quarter. The adoption of this guidance did not have a material effect on our financial statements. See Note 9 - Income Taxes for discussion of the impacts of the TCJA on our Company.

In February 2018, the FASB issued guidance permitting companies to reclassify stranded tax effects from the TCJA from accumulated other comprehensive loss to retained earnings. The stranded tax effects consist of deferred taxes originally recorded in accumulated other comprehensive loss that exceed the newly enacted federal corporate tax rate. As permitted in the guidance, we elected to early adopt as of January 1, 2018. The net impact of adoption was a balance sheet reclassification of a $0.4 million unrealized loss within accumulated other comprehensive loss to retained earnings.

In August 2017, the FASB issued guidance to amend and improve the accounting for hedging activities. The amendment eliminates the requirement to separately measure and report hedge ineffectiveness. An initial quantitative assessment to establish that the hedge is highly effective is still required but the amendment allows until the end of the first quarter it is designated to perform the assessment. After initial qualification, a qualitative assessment can be performed if the hedge is highly effective and the documentation at inception can reasonably support an expectation of high effectiveness throughout the hedge’s term. The amendment requires companies to present all hedged accounting elements that affect earnings in the same income statement line as the hedged item. For highly effective cash flow hedges, fair value changes will be recorded in other comprehensive income and reclassified to earnings when the hedged item impacts earnings. The guidance is effective prospectively in fiscal years beginning after December 15, 2018. Early adoption is permitted, however we have not elected early adoption. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued guidance that affects the presentation of restricted cash in the statement of cash flows and related disclosures. The guidance requires that the statement of cash flows explain the change in the combined total of restricted and unrestricted balances. Disclosure of how the statement of cash flows reconciles to the balance sheet is required if restricted cash is shown separately from cash and cash equivalents and the nature of the restrictions. We have adopted this guidance in the current year as required. Please see further discussion above within this Note.

In February 2016, the FASB issued guidance on lease accounting which requires leases with durations greater than 12-months to be recognized on the balance sheet as lease assets and lease liabilities beginning after December 15, 2018. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. Early adoption is permitted, however we will elect to adopt on the required date of January 1, 2019 via the new transition method election issued by the FASB in July 2018 where comparative periods presented in the period of adoption do not need to be restated. We are continuing to evaluate the impact of adopting this standard on our consolidated financial statements, controls and processes, and are in the process of implementing a new lease administration software solution. We anticipate that our notes to the consolidated financial statements related to leases will be expanded and the most substantial change to our consolidated financial statements will be a gross-up of our total assets and liabilities of less than 5%, based on our preliminary analysis.

Further, the guidance is not expected to materially impact our results of operations in the upcoming fiscal years and interim periods. We will continue to monitor the overall impact of adoption and update our disclosures as appropriate.

In January 2016, the FASB issued guidance on accounting for equity investments and financial liabilities. The standard does not apply to equity method investments or investments in consolidated subsidiaries. The update provides that equity investments with readily determinable values be measured at fair value and changes in the fair value flow through net income. These changes historically have been included in other comprehensive income. Equity investments without readily determinable fair values have the option to be measured at fair value or at cost adjusted for changes in observable prices minus impairment. Changes in fair value from the application of either method are also recognized in net income. The standard requires a qualitative assessment of impairment indicators at each reporting period. For financial liabilities, entities that elect the fair value option must recognize the change in fair value attributable to instrument-specific credit risk in other comprehensive loss rather than net income. Lastly, regarding deferred tax assets, the need for a valuation allowance on a

deferred tax asset will need to be assessed in relation to available-for-sale debt securities. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We have adopted this guidance in the current year, which has not had a material impact on our financial statements.

In May 2014, the FASB issued updated guidance on revenue recognition in order to i) remove inconsistencies in revenue requirements, ii) provide a better framework for addressing revenue issues, iii) improve comparability across entities, industries, etc., iv) provide more useful information through improved disclosures, and v) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. Under the amendment, an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting treatment for the incremental costs of obtaining a contract, which would not have been incurred had the contract not been obtained. Further, an entity is required to disclose sufficient information to enable the user of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The updated guidance provides two methods of adoption: i) retrospective application to each prior reporting period presented, or ii) recognition of the cumulative effect from the retrospective application at the date of initial application.

On January 1, 2018, we adopted this new accounting standard, and all the related amendments, using the modified retrospective approach for all contracts that were not in effect as of the adoption date. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those prior periods. We also applied practical expedients which permit (i) the omission of remaining performance obligations that have contracts with an original expected duration of one year or less, (ii) the omission of performance obligations, which are for usage-based variable consideration, which we will recognize over the term of the arrangements based on the actual usage by the customers and (iii) expensing incremental contract costs, which would have otherwise been recognized in one year or less.

The cumulative effect of the changes made to our condensed consolidated balance sheet as of January 1, 2018 for the adoption of the new accounting standard is as follows:

(in thousands)	December 31, 2017	Adoption Adjustments	January 1, 2018
Assets			
Accounts receivable, net	$256,595	$ (941)	$255,654
Prepaid expenses and other current assets	47,220	(965)	46,255
Other assets	104,516	2,546	107,428
Liabilities			
Contract liabilities, current	$303,948	$ 6,767	$310,715
Contract liabilities, net of current	504,900	24,801	529,701
Deferred income tax liability	102,571	(7,736)	94,835
Equity			
Retained earnings	$877,111	$ (23,183)	$853,928
Accumulated other comprehensive loss	(93,691)	(9)	(93,700)

In connection with the adoption of the new accounting guidance, we increased our total contract liabilities by $31.6 million of which $23.2 million was the result of a change in the accounting for contracts containing material rights the client would have not received without entering into the contract. The performance obligation associated with the material right is recognized when the future products or services are transferred or when the option expires. Further,

we recorded $1.6 million of contract-related assets associated with the change in accounting, which are presented in prepaid expenses and other current assets and other assets in our condensed consolidated balance sheet. As a result of the adoption-related adjustments previously discussed, we adjusted our related deferred income tax and retained earnings accounts.

The impact of the adoption of the new accounting standard on our condensed consolidated balance sheet is as follows:

(in thousands)	September 30, 2018 As Reported	Balances Without Adoption Adjustments	Effect of Change Higher/(Lower)
Assets			
Accounts receivable, net	$254,263	$255,364	$ (1,101)
Prepaid expenses and other current assets	53,515	53,153	362
Income tax receivable	8,984	7,985	999
Other assets	119,380	117,013	2,367
Liabilities			
Accounts payable and other accrued expenses	$157,580	$157,908	$ (328)
Contract liabilities, current	308,659	299,617	9,042
Contract liabilities, net of current	520,544	523,175	(2,631)
Deferred income tax liability	109,356	110,101	(745)
Equity			
Accumulated other comprehensive loss	$(106,613)	$(106,642)	$ 29
Retained earnings	962,765	965,505	(2,740)

The impact of the adoption of the new accounting standard on our condensed consolidated statement of operations is as follows:

(in thousands)	For the Three Months Ended September 30, 2018 As Reported	Balances Without Adoption Adjustments	Effect of Change Higher/(Lower)
Operating revenue	$451,768	$ 451,239	$ 529
Cost of services	230,419	230,361	58
Selling, general and administrative expenses	113,075	113,814	(739)
Operating income	59,780	58,570	1,210
Provision for income taxes	20,836	20,534	302
Net income	22,451	21,543	908

(in thousands)	For the Nine Months Ended September 30, 2018 As Reported	Balances Without Adoption Adjustments	Effect of Change Higher/(Lower)
Operating revenue	$1,385,069	$1,359,966	$ 25,103
Cost of services	709,154	709,550	(396)
Selling, general and administrative expenses	340,049	340,985	(936)
Operating income	193,836	167,401	26,435
Provision for income taxes	37,432	31,440	5,992
Net income	109,254	88,811	20,443

During the second quarter of 2018, we amended contractual terms, which eliminated certain performance obligations that would have otherwise been fulfilled over time. For the nine months ended September 30, 2018, the difference between the reported revenues and the pro forma revenues without adoption adjustments from the new revenue guidance is primarily due to the removal of the aforementioned performance obligations. We do not expect the new accounting standard to have a material impact to net income prospectively, based on the terms and conditions of contracts in effect at this time. See Note 6 - Operating Revenues for additional information.

Note 2 - Property and Equipment, Net

Property and equipment, net as of September 30, 2018 and December 31, 2017 consists of the following:

(in thousands)	2018	2017
Land	$7,476	$7,476
Buildings	6,487	