CORELOGIC, INC.
Form 10-Q
July 26, 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

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of

this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes 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 (Do not check if a smaller reporting company)	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 July 23, 2018 there were 80,943,867 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)	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$85,031	$118,804
Accounts receivable (less allowance for doubtful accounts of $7,187 and $8,229 as of June 30, 2018 and December 31, 2017, respectively)	256,225	256,595
Prepaid expenses and other current assets	52,438	47,220
Income tax receivable	16,332	7,649
Total current assets	410,026	430,268
Property and equipment, net	453,780	447,659
Goodwill, net	2,317,410	2,250,599
Other intangible assets, net	492,120	475,613
Capitalized data and database costs, net	326,868	329,403
Investment in affiliates, net	42,305	38,989
Deferred income tax assets	127	366
Other assets	114,197	104,516
Total assets	$4,156,833	$4,077,413
Liabilities and Equity		
Current liabilities:		
Accounts payable and other accrued expenses	$159,975	$145,655
Accrued salaries and benefits	64,174	93,717
Contract liabilities, current	322,700	303,948
Current portion of long-term debt	49,658	70,046
Total current liabilities	596,507	613,366
Long-term debt, net of current	1,759,050	1,683,524
Contract liabilities, net of current	511,837	504,900
Deferred income tax liabilities	106,815	102,571
Other liabilities	158,385	165,176
Total liabilities	3,132,594	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; 80,944 and 80,885 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	186,816	224,455
Retained earnings	940,314	877,111
Accumulated other comprehensive loss	(102,892)	(93,691)
Total stockholders' equity	1,024,239	1,007,876
Total liabilities and equity	$4,156,833	$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 June 30,		For the Six Months Ended June 30,	
(in thousands, except per share amounts)	2018	2017	2018	2017
Operating revenues	$488,401	$473,978	$933,301	$913,829
Cost of services (excluding depreciation and amortization shown below)	239,346	249,162	478,735	501,128
Selling, general and administrative expenses	112,022	103,552	226,974	215,400
Depreciation and amortization	47,396	42,871	93,536	86,343
Total operating expenses	398,764	395,585	799,245	802,871
Operating income	89,637	78,393	134,056	110,958
Interest expense:				
Interest income	224	592	754	930
Interest expense	18,987	14,535	36,679	28,666
Total interest expense, net	(18,763)	(13,943)	(35,925)	(27,736)
Gain/(loss) on investments and other, net	2,128	(4,353)	2,289	(3,418)
Income from continuing operations before equity in earnings/(losses) of affiliates and income taxes	73,002	60,097	100,420	79,804
Provision for income taxes	17,307	18,635	16,596	24,909
Income from continuing operations before equity in earnings/(losses) of affiliates	55,695	41,462	83,824	54,895
Equity in earnings/(losses) of affiliates, net of tax	2,837	(280)	3,070	(1,004)
Net income from continuing operations	58,532	41,182	86,894	53,891
(Loss)/income from discontinued operations, net of tax	(16)	78	(91)	2,495
Gain from sale of discontinued operations, net of tax	—	—	—	312
Net income	$58,516	$41,260	$86,803	$56,698
Basic income per share:				
Net income from continuing operations	$0.72	$0.49	$1.07	$0.64
(Loss)/income from discontinued operations, net of tax	—	—	—	0.03
Gain from sale of discontinued operations, net of tax	—	—	—	—
Net income	$0.72	$0.49	$1.07	$0.67
Diluted income per share:				
Net income from continuing operations	$0.71	$0.48	$1.05	$0.63
(Loss)/income from discontinued operations, net of tax	—	—	—	0.03
Gain from sale of discontinued operations, net of tax	—	—	—	—
Net income	$0.71	$0.48	$1.05	$0.66
Weighted-average common shares outstanding:				
Basic	81,284	84,548	81,269	84,490
Diluted	82,440	86,097	82,685	86,224

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

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

(in thousands)	For the Three Months Ended June 30, 2018	2017	For the Six Months Ended June 30, 2018	2017
Net income	$58,516	$41,260	$86,803	$56,698
Other comprehensive (loss)/income				
Adoption of new accounting standards	—	—	408	—
Market value adjustments on interest rate swaps, net of tax	4,101	50	8,238	1,580
Foreign currency translation adjustments	(13,486)	3,135	(17,600)	16,683
Supplemental benefit plans adjustments, net of tax	(123)	1,731	(247)	1,625
Total other comprehensive (loss)/income	(9,508)	4,916	(9,201)	19,888
Comprehensive income	$49,008	$46,176	$77,602	$76,586

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

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

(in thousands)	For the Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$86,803	$56,698
Less: (Loss)/income from discontinued operations, net of tax	(91)	2,495
Less: Gain from sale of discontinued operations, net of tax	—	312
Net income from continuing operations	86,894	53,891
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	93,536	86,343
Amortization of debt issuance costs	2,744	2,870
Provision for bad debt and claim losses	7,480	7,939
Share-based compensation	19,799	20,939
Equity in (earnings)/losses of affiliates, net of taxes	(3,070)	1,004
Gain on sale of property and equipment	(19)	(231)
Deferred income tax	8,743	6,193
(Gain)/loss on investment and other, net	(2,289)	3,418
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	259	(2,070)
Prepaid expenses and other current assets	(6,075)	(4,161)
Accounts payable and other accrued expenses	(27,234)	(74,371)
Contract liabilities	(13,692)	24,675
Income taxes	(9,704)	(13,445)
Dividends received from investments in affiliates	775	1,097
Other assets and other liabilities	(9,732)	22,357
Net cash provided by operating activities - continuing operations	148,415	136,448
Net cash (used in)/provided by operating activities - discontinued operations	(4)	3,663
Total cash provided by operating activities	$148,411	$140,111
Cash flows from investing activities:		
Purchases of property and equipment	$(21,378)	$(20,237)
Purchases of capitalized data and other intangible assets	(18,589)	(17,202)
Cash paid for acquisitions, net of cash acquired	(141,056)	—
Purchases of investments	—	(70,000)
Proceeds from sale of property and equipment	197	304
Proceeds from investments	980	—
Net cash used in investing activities - continuing operations	(179,846)	(107,135)
Net cash provided by investing activities - discontinued operations	—	—
Total cash used in investing activities	$(179,846)	$(107,135)
Cash flows from financing activities:		
Proceeds from long-term debt	$120,095	$70,000
Repayment of long-term debt	(68,898)	(35,234)
Proceeds from issuance of shares in connection with share-based compensation	17,566	4,504
Payment of tax withholdings related to net share settlements	(11,682)	(13,420)
Shares repurchased and retired	(63,322)	(40,950)

Net cash used in financing activities - continuing operations	(6,241)	(15,100)
Net cash provided by financing activities - discontinued operations	—	—
Total cash used in financing activities	$(6,241)	$(15,100)
Effect of exchange rate on cash, cash equivalents and restricted cash	1,379	(993)
Net change in cash, cash equivalents and restricted cash	(36,297)	16,883
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)	3,663
Plus: Cash swept (to)/from discontinued operations	(4)	3,663
Cash, cash equivalents and restricted cash at end of period	$95,857	$106,857
Supplemental disclosures of cash flow information:		
Cash paid for interest	$33,101	$24,076
Cash paid for income taxes	$24,230	$35,009
Cash refunds from income taxes	$3,108	$507
Non-cash investing activities:		
Capital expenditures included in accounts payable and other accrued expenses	$11,139	$5,304

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

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	—	—	—	86,803	—	86,803
Shares issued in connection with share-based compensation	1,331	—	17,566	—	—	17,566
Payment of tax withholdings related to net share settlements	—	—	(11,682)	—	—	(11,682)
Share-based compensation	—	—	19,799	—	—	19,799
Shares repurchased and retired	(1,272)	—	(63,322)	—	—	(63,322)
Other comprehensive loss	—	—	—	—	(9,609)	(9,609)
Balance as of June 30, 2018	80,944	$ 1	$186,816	$940,314	$ (102,892)	$1,024,239

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 41% of our operating revenues for the three months ended June 30, 2018 and 2017, respectively, and 33% and 41% for the six months ended June 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 June 30, 2018, and two of our clients accounted for approximately 14% and 10% of our operating revenues for the three months ended June 30, 2017. None of our clients accounted for greater than 10% of our operating revenues for the six months ended June 30, 2018, and two of our clients accounted for approximately 13% and 10% of our operating revenues for the six months ended June 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)	June 30, 2018	June 30, 2017
Cash and cash equivalents	$85,031	$89,422

Restricted cash included in other assets	9,756	17,435
Restricted cash included in prepaid expenses and other current assets	1,070	—
Total cash, cash equivalents and restricted cash	$95,857	$106,857

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 income. The following table shows the components of accumulated other comprehensive loss, net of taxes as of June 30, 2018 and December 31, 2017:

(in thousands)	2018	2017
Cumulative foreign currency translation	$(113,240)	$(95,630)
Cumulative supplemental benefit plans	(6,884)	(5,461)
Net unrecognized gains on interest rate swaps	17,232	7,400
Accumulated other comprehensive loss	$(102,892)	$(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 earnings of affiliates, net of tax of $2.8 million and equity in losses of affiliates, net of tax of $0.3 million for the three months ended June 30, 2018 and 2017, respectively, and equity in earnings of affiliates, net of tax of $3.1 million and equity in losses of affiliates, net of tax of $1.0 million for the six months ended June 30, 2018 and 2017, respectively. For the three months ended June 30, 2018 and 2017, we recorded $0.3 million and $1.9 million, respectively, of operating revenues and $2.0 million and $2.9 million, respectively, of operating expenses related to our investment in affiliates. For the six months ended June 30, 2018 and 2017, we recorded $0.6 million and $4.1 million, respectively, of operating revenues and $5.3 million and $5.7 million, respectively, of operating expenses related to our investment in affiliates.

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 intend to vigorously assert our contractual and other rights, including to pursue an appeal 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 six months ended June 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 pre-tax legal settlement for the six months ended June 30, 2018. As of June 30, 2018 and December 31, 2017, we recorded assets of discontinued operations of $0.5 million and $0.4 million, respectively, within prepaid expenses and other current assets within our condensed consolidated balance sheets. Additionally, as of June 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 $262.8 million as of June 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 $20.4 million and $21.7 million as of June 30, 2018, and December 31, 2017, respectively, of which $9.4 million for both periods 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 March 2018, the Financial Accounting Standards Board ("FASB") issued guidance pertaining to the accounting of 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 but we do not anticipate to elect 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 via the modified retrospective approach on the required date of January 1, 2019. 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. Once further evaluation is complete we will expand our disclosure regarding the expected impact of adopting the updated guidance.

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 did not have 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	107,062
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:

	June 30, 2018		
(in thousands)	As Reported	Balances Without Adoption Adjustments	Effect of Change Higher/(Lower)
Assets			
Accounts receivable, net	$256,225	$256,501	$ (276)
Prepaid expenses and other current assets	52,438	53,632	(1,194)
Income tax receivable	16,332	15,345	987
Deferred income tax assets	127	133	(6)
Other assets	114,197	111,675	2,522
Liabilities			
Accounts payable and other accrued expenses	$159,975	$160,167	$ (192)
Contract liabilities, current	322,700	314,808	7,892
Contract liabilities, net of current	511,837	512,820	(983)
Deferred income tax liability	106,815	107,872	(1,057)
Equity			
Accumulated other comprehensive loss	$(102,892)	$(102,913)	$ 21
Retained earnings	940,314	943,962	(3,648)

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

	For the Three Months Ended June 30, 2018		
(in thousands)	As Reported	Balances Without Adoption Adjustments	Effect of Change Higher/(Lower)
Operating revenue	$488,401	$ 464,322	$ 24,079
Cost of services	239,346	239,663	(317)
Selling, general and administrative expenses	112,022	112,791	(769)
Operating income	89,637	64,472	25,165
Provision for income taxes	17,307	11,608	5,699
Net income	58,516	39,050	19,466

	For the Six Months Ended June 30, 2018		
(in thousands)	As Reported	Balances Without Adoption Adjustments	Effect of Change Higher/(Lower)
Operating revenue	$933,301	$ 908,727	$ 24,574
Cost of services	478,735	479,189	(454)
Selling, general and administrative expenses	226,974	227,171	(197)
Operating income	134,056	108,831	25,225
Provision for income taxes	16,596	10,906	5,690
Net income	86,803	67,268	19,535

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 three months ended June 30, 2018, the difference between revenues as reported and pro forma revenues without the 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 on an ongoing basis 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 June 30, 2018 and December 31, 2017 consists of the following:

(in thousands)	2018	2017
Land	$ 7,476	$ 7,476
Buildings	6,487	6,487
Furniture and equipment	64,083	63,255
Capitalized software	912,798	878,156
Leasehold improvements		