

Sabre Corp
Form 10-Q
July 31, 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 June 30, 2018

or

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

Commission File Number: 001-36422

Sabre Corporation
(Exact name of registrant as specified in its charter)

Delaware 20-8647322
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
3150 Sabre Drive
Southlake, TX 76092
(Address, including zip code, of principal executive offices)
(682) 605-1000
(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 (the "Exchange Act") 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 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 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.

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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 July 26, 2018, 275,148,798 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

SABRE CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SABRE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	\$984,376	\$900,663	\$1,972,745	\$1,816,016
Cost of revenue	721,759	643,067	1,414,616	1,250,653
Selling, general and administrative	123,784	146,856	253,895	291,297
Impairment and related charges	—	92,022	—	92,022
Operating income	138,833	18,718	304,234	182,044
Other income (expense):				
Interest expense, net	(39,409)	(38,097)	(77,518)	(77,658)
Loss on extinguishment of debt	—	—	(633)	—
Joint venture equity income	951	513	2,122	1,411
Other, net	(7,735)	(752)	(8,841)	(15,986)
Total other expense, net	(46,193)	(38,336)	(84,870)	(92,233)
Income (loss) from continuing operations before income taxes	92,640	(19,618)	219,364	89,811
Provision (benefit) for income taxes	75	(15,466)	36,350	16,241
Income (loss) from continuing operations	92,565	(4,152)	183,014	73,570
Income (loss) from discontinued operations, net of tax	760	(1,222)	(447)	(1,699)
Net income (loss)	93,325	(5,374)	182,567	71,871
Net income attributable to noncontrolling interests	1,079	1,113	2,441	2,419
Net income (loss) attributable to common stockholders	\$92,246	\$(6,487)	\$180,126	\$69,452
Basic net income (loss) per share attributable to common stockholders:				
Income (loss) from continuing operations	\$0.33	\$(0.02)	\$0.66	\$0.26
Loss from discontinued operations	—	—	—	(0.01)
Net income (loss) per common share	\$0.33	\$(0.02)	\$0.66	\$0.25
Diluted net income (loss) per share attributable to common stockholders:				
Income (loss) from continuing operations	\$0.33	\$(0.02)	\$0.65	\$0.25
Loss from discontinued operations	—	—	—	(0.01)
Net income (loss) per common share	\$0.33	\$(0.02)	\$0.65	\$0.25
Weighted-average common shares outstanding:				
Basic	275,715	278,441	275,220	277,900
Diluted	277,180	278,441	276,565	279,919
Dividends per common share	\$0.14	\$0.14	\$0.28	\$0.28

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$93,325	\$(5,374)	\$182,567	\$71,871
Other comprehensive income, net of tax:				
Foreign currency translation adjustments ("CTA"), net of tax				
Foreign CTA (losses) gains, net of tax	(6,298)	8,483	(3,324)	7,669
Net change in foreign CTA (losses) gains, net of tax	(6,298)	8,483	(3,324)	7,669
Retirement-related benefit plans:				
Amortization of prior service credits	(310)	(99)	(588)	(457)
Amortization of actuarial losses	1,397	520	2,794	2,395
Net change in retirement-related benefit plans, net of tax	1,087	421	2,206	1,938
Derivatives and securities:				
Unrealized (losses) gains, net of taxes of \$1,112, \$(804), \$(909) and \$(1,648)	(5,226)	2,345	2,186	7,000
Reclassification adjustment for realized gains (losses), net of taxes of \$(132), \$(683), \$220 and \$(1,598)	69	806	(1,679)	3,677
Net change in derivatives and securities, net of tax	(5,157)	3,151	507	10,677
Share of other comprehensive income of joint venture	139	118	269	50
Other comprehensive (loss) income	(10,229)	12,173	(342)	20,334
Comprehensive income	83,096	6,799	182,225	92,205
Less: Comprehensive income attributable to noncontrolling interests	(1,079)	(1,113)	(2,441)	(2,419)
Comprehensive income attributable to Sabre Corporation	\$82,017	\$5,686	\$179,784	\$89,786

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$370,003	\$ 361,381
Accounts receivable, net	562,147	490,558
Prepaid expenses and other current assets	163,095	108,753
Total current assets	1,095,245	960,692
Property and equipment, net of accumulated depreciation of \$1,379,864 and \$1,236,523	787,583	799,194
Investments in joint ventures	28,936	27,527
Goodwill	2,553,002	2,554,987
Acquired customer relationships, net of accumulated amortization of \$699,703 and \$687,072	337,248	351,034
Other intangible assets, net of accumulated amortization of \$616,590 and \$594,015	309,595	332,171
Deferred income taxes	37,913	31,817
Other assets, net	633,761	591,942
Total assets	\$5,783,283	\$ 5,649,364
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 164,868	\$ 162,755
Accrued compensation and related benefits	85,493	112,343
Accrued subscriber incentives	316,486	271,200
Deferred revenues	81,002	110,532
Other accrued liabilities	204,747	198,353
Current portion of debt	57,168	57,138
Tax Receivable Agreement	93,439	59,826
Total current liabilities	1,003,203	972,147
Deferred income taxes	192,339	99,801
Other noncurrent liabilities	331,390	480,185
Long-term debt	3,374,826	3,398,731
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common Stock: \$0.01 par value; 450,000 authorized shares; 291,397 and 289,138 shares issued, 275,125 and 274,342 shares outstanding at June 30, 2018 and December 31, 2017, respectively	2,914	2,891
Additional paid-in capital	2,210,820	2,174,187
Treasury Stock, at cost, 16,272 and 14,796 shares at June 30, 2018 and December 31, 2017, respectively	(377,000)	(341,846)
Retained deficit	(848,948)	(1,053,446)
Accumulated other comprehensive loss	(111,125)	(88,484)
Noncontrolling interest	4,864	5,198
Total stockholders' equity	881,525	698,500

Total liabilities and stockholders' equity	\$5,783,283	\$5,649,364
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See Notes to Consolidated Financial Statements.

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SABRE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
Operating Activities		
Net income	\$182,567	\$71,871
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	204,819	198,687
Deferred income taxes	57,538	(16,121)
Amortization of upfront incentive consideration	39,117	32,293
Stock-based compensation expense	26,200	22,758
Allowance for doubtful accounts	3,152	5,356
Joint venture equity income	(2,122)	(1,411)
Amortization of debt issuance costs	1,995	3,640
Debt modification costs	1,558	11,730
Dividends received from joint venture investments	981	896
Loss on extinguishment of debt	633	—
Loss from discontinued operations	447	1,699
Impairment and related charges	—	92,022
Other	1,875	7,135
Changes in operating assets and liabilities:		
Accounts and other receivables	(83,162)	(125,913)
Prepaid expenses and other current assets	9,777	(1,434)
Capitalized implementation costs	(21,597)	(31,444)
Upfront incentive consideration	(43,463)	(37,260)
Other assets	(16,867)	(31,207)
Accrued compensation and related benefits	(30,683)	7,170
Accounts payable and other accrued liabilities	(8,597)	41,702
Deferred revenue including upfront solution fees	17,671	25,707
Cash provided by operating activities	341,839	277,876
Investing Activities		
Additions to property and equipment	(131,886)	(167,410)
Cash used in investing activities	(131,886)	(167,410)
Financing Activities		
Cash dividends paid to common stockholders	(77,053)	(77,934)
Payments on Tax Receivable Agreement	(58,908)	(99,241)
Repurchase of common stock	(26,281)	(22,213)
Payments on borrowings from lenders	(23,655)	(1,856,803)
Net receipts on the settlement of equity-based awards	1,637	9,383
Debt issuance and modification costs	(1,567)	(12,380)
Proceeds of borrowings from lenders	—	1,897,625
Other financing activities	(15,698)	(749)
Cash used in financing activities	(201,525)	(162,312)
Cash Flows from Discontinued Operations		

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Cash used in operating activities	(3,064) (2,780)
Cash used in discontinued operations	(3,064) (2,780)
Effect of exchange rate changes on cash and cash equivalents	3,258	(2,792)
Increase (decrease) in cash and cash equivalents	8,622	(57,418)
Cash and cash equivalents at beginning of period	361,381	364,114	
Cash and cash equivalents at end of period	\$370,003	\$306,696	

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information

Sabre Corporation is a Delaware corporation formed in December 2006. On March 30, 2007, Sabre Corporation acquired Sabre Holdings Corporation (“Sabre Holdings”). Sabre Holdings is the sole subsidiary of Sabre Corporation. Sabre GLOB Inc. (“Sabre GLOB”) is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre GLOB or its direct or indirect subsidiaries conduct all of our businesses. In these consolidated financial statements, references to “Sabre,” the “Company,” “we,” “our,” “ours” and “us” refer to Sabre Corporation and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

We connect people and places with technology that reimagines the business of travel. We operate our business and present our results through three business segments: (i) Travel Network, our global travel marketplace for travel suppliers and travel buyers, (ii) Airline Solutions, a broad portfolio of software technology products and solutions primarily for airlines, and (iii) Hospitality Solutions, an extensive suite of leading software solutions for hoteliers. Basis of Presentation—The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2018. The accompanying interim financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018. Effective the first quarter of 2018, our business has three reportable segments and each segment now reflects a portion of our shared corporate costs that historically were not allocated to a business unit, based on relative consumption of shared technology infrastructure costs and defined revenue metrics. These changes have no impact on our consolidated results of operations, but result in a decrease of segment profitability only. Prior year amounts have been recast for the disaggregation of our segments and the modification of our allocation of shared corporate costs where applicable.

We consolidate all majority-owned subsidiaries and companies over which we exercise control through majority voting rights. No entities are consolidated due to control through operating agreements, financing agreements or as the primary beneficiary of a variable interest entity.

The consolidated financial statements include our accounts after elimination of all significant intercompany balances and transactions. All dollar amounts in the financial statements and the tables in the notes, except per share amounts, are stated in thousands of U.S. dollars unless otherwise indicated. All amounts in the notes reference results from continuing operations unless otherwise indicated.

Use of Estimates—The preparation of these interim financial statements in conformity with GAAP requires that certain amounts be recorded based on estimates and assumptions made by management. Actual results could differ from these estimates and assumptions. Our accounting policies, which consist of significant estimates and assumptions, include, among other things, the estimation of the collectability of accounts receivable, estimation of future cancellations of bookings processed through the Sabre global distribution system (“GDS”), revenue recognition for software arrangements, determination of the fair value of assets and liabilities acquired in a business combination, determination of the fair value of derivatives, the evaluation of the recoverability of the carrying value of intangible assets and goodwill, assumptions utilized in the determination of pension and other postretirement benefit liabilities, the evaluation of the recoverability of customer implementation costs, assumptions utilized to evaluate the recoverability of deferred customer advance and discounts, and estimation of uncertainties surrounding the calculation of our tax assets and liabilities. Our use of estimates and the related accounting policies are discussed in the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the

SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018. Additionally, see Note 2. Revenue from Contracts with Customers for additional information on the use of significant estimates and assumptions in recognizing revenue.

Stockholders' Equity—During the six months ended June 30, 2018, we issued 2,258,615 shares of our common stock as a result of the exercise and settlement of employee equity-based awards. In addition, we had \$2 million in net receipts from the exercise of employee stock-option awards, which includes a \$9 million payment of income tax withholdings associated with the settlement of employee restricted-stock awards. We paid quarterly cash dividends on our common stock of \$0.14 per share, totaling \$77 million and \$78 million, during the six months ended June 30, 2018 and 2017, respectively.

During the six months ended June 30, 2018, certain of our stockholders sold an aggregate of 31,000,000 shares of our common stock through secondary public offerings. See section "—Share Repurchase Program" for information on shares we repurchased in connection with this offering. We did not offer any shares or receive any proceeds from these secondary public offerings.

Share Repurchase Program—In February 2017, we announced the approval of a multi-year share repurchase program to purchase up to \$500 million of Sabre's common stock outstanding. Repurchases under the program may take place in the open market or privately negotiated transactions. Approximately \$365 million remains authorized for repurchases under the Share Repurchase Program as of June 30, 2018. For the six months ended June 30, 2018, we repurchased 1,075,255 shares totaling \$26 million pursuant to this share repurchase program, including the repurchase of 1,000,000 shares of our common stock for approximately \$24 million in connection with a secondary public offering as described in "—Stockholders' Equity."

Adoption of New Accounting Standards

In June 2018, the Financial Accounting Standards Board ("FASB") issued updated guidance for share-based payment awards issued to non-employees. The updated standard aligns the accounting for share-based payment awards for non-employees with employees, except for guidance related to the attribution of compensation costs for non-employees. The Accounting Standards Update ("ASU") is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods for public business entities, with early adoption permitted. We early adopted this standard in the second quarter of 2018, which did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued updated guidance to give entities the option to reclassify to retained earnings the tax effects of items within accumulated other comprehensive income ("stranded tax effects") resulting from a reduction of the federal corporate income tax rate from 35% to 21% under the Tax Cuts and Jobs Act ("TCJA") signed into law in December 2017. The ASU is effective for annual periods beginning after December 15, 2018, with early adoption permitted. See Note 7. Income Taxes in our consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for additional information on certain impacts related to the enactment of the TCJA. We early adopted the updated standard in the second quarter of 2018 and elected to reclassify the stranded income tax effects related to the enactment of the TCJA to retained earnings. The adoption of this ASU resulted in a decrease in our retained deficit of \$22 million with a corresponding increase to accumulated other comprehensive income primarily as a result of reclassifying stranded tax effects for our retirement-related benefit plans. The adoption of this updated standard did not have a material impact on our consolidated results of operations and statement of cash flows.

In August 2017, the FASB issued updated guidance to expand and simplify the application of hedge accounting. The updated standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The ASU is effective for annual periods beginning after December 15, 2018, with early adoption permitted. We early adopted this standard in the second quarter of 2018, which did not have a material impact on our consolidated financial statements.

In March 2017, the FASB issued updated guidance improving the presentation requirements related to reporting the service cost component of net benefit costs to require that the service cost component be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, disaggregating the component from other net benefit costs. Net benefit cost is composed of several items, which reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees. The updated guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods for public business entities. We adopted this standard in the first quarter of 2018, which did not have a material impact on our consolidated financial statements.

In February 2017, the FASB issued updated guidance on gains and losses from the derecognition of non-financial assets. The updated guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods for public business entities. We adopted this standard in the first quarter of 2018, which did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued updated guidance on accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure for financial instruments. Under this updated standard, entities must measure equity investments at fair value and recognize changes in fair value in net income. For equity

investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices less impairment. The updated guidance does not apply to equity method investments or investments in consolidated subsidiaries. This new standard is effective for public companies for annual periods, including interim periods, beginning after December 15, 2017. We adopted this standard in the first quarter of 2018, which did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued updated guidance requiring organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases, when the lease has a term of more than 12 months. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We plan to adopt the new standard on its effective date of January 1, 2019 and expect to elect the package of practical expedients upon adoption. We are in the process of cataloging our existing lease contracts and implementing changes to our processes and systems. We do not expect that the adoption of this updated standard will have a material impact on our consolidated results of operations and cash flows.

2. Revenue from Contracts with Customers

In the first quarter of 2018, we adopted the comprehensive update to revenue recognition guidance for Revenue from Contracts with Customers ("ASC 606"), which replaced the previous standard ("ASC 605"), using the modified retrospective approach, applied to contracts that were not completed as of the adoption date. Under ASC 606, revenue is recognized when a company transfers the promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods and services. The key areas of impact on our financials include:

- Revenue recognition for our Travel Network and Hospitality Solutions businesses did not change significantly. The definition of a performance obligation for Travel Network under the new guidance impacts the calculation for our booking fee cancellation reserve, which resulted in a beginning balance sheet adjustment.

- Our Airline Solutions business is primarily impacted by ASC 606 due to the following:

Under ASC 605, we recognized revenue related to license fee and maintenance agreements ratably over the life of the contract. Under ASC 606, revenue for license fees is recognized upon delivery of the license and ongoing maintenance services are to be recognized ratably over the life of the contract. For existing open agreements, this change resulted in a beginning balance sheet adjustment and reduced revenue in subsequent years from these agreements.

Allocation of contract revenues among various products and solutions, and the timing of the recognition of those revenues, are impacted by agreements with tiered pricing or variable rate structures that do not correspond with the goods or services delivered to the customer. For existing open agreements, this change resulted in a beginning balance sheet adjustment and reduced revenue in subsequent years from these agreements.

- Capitalization of incremental contract acquisition costs (such as sales commissions), and recognition of these costs over the customer benefit period resulted in the recognition of an asset on our balance sheet and impacted our Airline Solutions and Hospitality Solutions businesses.

Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC 605. The impacts described above resulted in a net reduction to our opening retained deficit as of January 1, 2018 of approximately \$102 million (net of tax, \$78 million) with a corresponding increase primarily in current and long-term unbilled receivables, contract assets, other assets and other accrued liabilities.

The following tables set forth the impact of the adoption of the revenue recognition standard to our reported results on our consolidated statement of operations and consolidated balance sheet, respectively (in thousands):

	Six Months Ended June 30, 2018		
	As		
	reported	Adjustments	ASC 605
	ASC 606		
Revenue	\$1,972,745	\$ 16,915	\$1,989,660
Cost of Revenue	1,414,616	2,447	1,417,063
Selling, general and administrative	253,895	(221)	253,674
Operating income	304,234	14,689	318,923
Income from continuing operations before income taxes	219,364	14,689	234,053
Provision for income taxes	36,350	3,133	39,483
Income from continuing operations	183,014	11,556	194,570
Net income	182,567	11,556	194,123
Net income attributable to common stockholders	180,126	11,556	191,682

June 30, 2018

As

	reported ASC 606	Adjustments	ASC 605
Accounts receivable, net	\$562,147	\$ (30,589)	\$531,558
Prepaid expenses and other current assets	163,095	(17,620)	145,475
Total current assets	1,095,245	(48,209)	1,047,036
Other assets, net	633,761	(6,865)	626,896
Total assets	5,783,283	(55,074)	5,728,209
Accrued subscriber incentives	316,486	4,746	321,232
Deferred revenues	81,002	51,710	132,712
Other accrued liabilities	204,747	(24,224)	180,523
Total current liabilities	1,003,203	32,232	1,035,435
Deferred income taxes	192,339	(19,966)	172,373
Other noncurrent liabilities	331,390	(253)	331,137
Retained deficit	(848,948)	(67,087)	(916,035)
Total stockholders' equity	881,525	(67,087)	814,438
Total liabilities and stockholders' equity	5,783,283	(55,074)	5,728,209

Contract Balances

Revenue recognition for a significant portion of our revenue coincides with normal billing terms, including Travel Network's transactional revenues, and Airline Solutions' and Hospitality Solutions' Software-as-a-Service ("SaaS") and hosted revenues. Timing differences among revenue recognition, unconditional rights to bill, and receipt of contract consideration may result in contract assets or contract liabilities. Contract liabilities are included within deferred revenues and other noncurrent liabilities on the consolidated balance sheet. Contract liabilities totaled \$158 million and \$175 million as of January 1, 2018 and June 30, 2018, respectively. During the six months ended June 30, 2018, we recognized revenue of approximately \$21 million from contract liabilities that existed as of January 1, 2018. Contract assets are included within prepaid expenses and other current assets and other assets, net on the consolidated balance sheet. The following table presents the changes in our contract assets balance (in thousands):

Contract assets as of January 1, 2018	\$75,624
Additions	8,030
Deductions	(14,384)
Other	(31)
Contract assets as of June 30, 2018	\$69,239

Our contract assets include deferred customer advances and discounts, which are capitalized and amortized in future periods as the related revenue is earned. The contract assets also include revenue recognized for services already transferred to a customer, for which the fulfillment of another contractual performance obligation is required, before we have the unconditional right to bill and collect based on contract terms. These assets are reviewed for recoverability on a periodic basis based on review of impairment indicators. For the six months ended June 30, 2018, we did not impair any of our contract assets as a result of the related contract becoming uncollectable, modified or canceled. Our trade accounts receivable, net recorded in accounts receivable, net on the consolidated balance sheet as of June 30, 2018 and January 1, 2018 was \$556 million and \$506 million, respectively. Our long-term trade unbilled receivables, net recorded in other assets, net on the consolidated balance sheet as of June 30, 2018 and January 1, 2018 was \$54 million. We evaluate collectability of our accounts receivable based on a combination of factors and record reserves as reflected in Note 1. Summary of Business and Significant Accounting Policies in our consolidated financial statements in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018.