SABRE HOLDINGS CORP
Form 10-Q
August 06, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý	**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended June 30, 2004.

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 1-12175.

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**75-2662240**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3150 Sabre Drive, Southlake, Texas	**76092**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(682) 605-1000**

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

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

Class A Common Stock, $.01 par value 137,252,826 as of July 30, 2004

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SABRE HOLDINGS CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SABRE HOLDINGS CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands)

	June 30, 2004	December 31, 2003
Assets		
Current assets		
Cash	$ 31,702	$ 40,862
Marketable securities	988,782	881,749
Accounts receivable, net	373,680	348,988
Prepaid expenses	68,658	86,475
Deferred income taxes	18,836	10,237
Total current assets	1,481,658	1,368,311
Property and equipment		
Buildings and leasehold improvements	306,195	306,294
Furniture, fixtures and equipment	35,679	36,684
Computer software and equipment	308,735	275,664
	650,609	618,642
Less accumulated depreciation and amortization	(263,692)	(234,262)
Total property and equipment	386,917	384,380
Investments in joint ventures	182,556	181,142
Goodwill and intangible assets, net	861,102	888,198
Other assets, net	136,630	134,122
Total assets	$ 3,048,863	$ 2,956,153
Liabilities and stockholders equity		
Current liabilities		
Accounts payable	$ 252,894	$ 202,615
Accrued compensation and related benefits	58,264	62,557
Accrued subscriber incentives	93,988	70,178
Deferred revenues	37,356	34,791
Other accrued liabilities	174,624	133,254
Total current liabilities	617,126	503,395
Deferred income taxes	7,188	4,420
Pensions and other postretirement benefits	139,070	133,404
Other liabilities	25,796	25,162

Minority interests	6,278	6,463
Capital lease obligation	157,549	160,725
Public and other notes payable	432,265	442,476
Commitments and contingencies		
Stockholders equity		
Preferred stock: $0.01 par value; 20,000 shares authorized; no shares issued		
Class A common stock, $0.01 par value; 250,000 shares authorized; 145,856 and 145,652 shares issued at June 30, 2004 and December 31, 2003, respectively	1,459	1,457
Additional paid-in capital	1,286,276	1,291,841
Retained earnings	576,440	495,372
Accumulated other comprehensive loss	(16,928)	(8,115)
Less treasury stock at cost: 7,986 and 4,322 shares, respectively	(183,656)	(100,447)
Total stockholders equity	1,663,591	1,680,108
Total liabilities and stockholders equity	$ 3,048,863	$ 2,956,153

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited) (In thousands, except per share amounts)

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Revenues	$ 550,903	$ 507,189	$ 1,090,656	$ 1,051,022
Cost of revenues	307,777	318,303	619,292	629,908
Gross profit	243,126	188,886	471,364	421,114
Other operating expenses				
Selling, general and administrative	139,455	136,400	286,084	252,247
Amortization of intangible assets	15,228	12,094	27,349	24,581
Total other operating expenses	154,683	148,494	313,433	276,828
Operating income	88,443	40,392	157,931	144,286
Other income (expense)				
Interest income	3,306	3,973	6,541	8,379
Interest expense	(6,431)	(5,300)	(12,858)	(10,772)
Other, net	6,057	(29,909)	6,485	(30,102)
Total other income (expense)	2,932	(31,236)	168	(32,495)
Income before provision for income taxes	91,375	9,156	158,099	111,791
Provision for income taxes	32,438	2,340	56,125	40,096
Net earnings	$ 58,937	$ 6,816	$ 101,974	$ 71,695
Earnings per common share				
Basic	$ .43	$ .05	$ .74	$ .50
Diluted	$ .42	$ .05	$ .73	$ .50
Dividends per common share	$ .075	$ .07	$ .15	$ .07

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS EQUITY

SIX MONTHS ENDED JUNE 30, 2004

(Unaudited) (In thousands)

	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2003	$ 1,457	$ 1,291,841	$ 495,372	$ (8,115)	$ (100,447)	$ 1,680,108
Issuance of Class A common stock and treasury shares pursuant to:						
Stock option plans		(719)			8,767	8,048
Restricted stock plan	2	(11,342)			10,586	(754)
Employee stock purchase plan		(865)			4,373	3,508
Tax benefit from exercise of employee stock options		910				910
Stock based compensation for employees		6,433				6,433
Dividends			(20,906)			(20,906)
Purchase of treasury stock					(106,935)	(106,935)
Other		18				18
Comprehensive income:						
Net earnings			101,974			101,974
Unrealized loss on foreign currency forward and option contracts, net of deferred income taxes				(3,829)		(3,829)
Unrealized loss on investments, net of deferred income taxes				(2,368)		(2,368)
Unrealized foreign currency translation loss				(2,026)		(2,026)
Other				(590)		(590)
Total comprehensive income						93,161
Balance at June 30, 2004	$ 1,459	$ 1,286,276	$ 576,440	$ (16,928)	$ (183,656)	$ 1,663,591

See Notes to Consolidated Financial Statements.

SABRE HOLDINGS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Six Months Ended June 30, 2004	2003
Operating Activities		
Net earnings	$ 101,974	$ 71,695
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	64,415	61,736
Stock based compensation for employees	6,433	9,259
Deferred income taxes	(5,831)	(5,949)
Tax benefit from exercise of stock options	910	265
Loss on impaired intangible asset	3,198	
Gain on disposal of equipment	(903)	
Equity loss in joint ventures	7,621	3,849
Loss on refinancing of building		27,947
Other	(3,775)	1,180
Changes in operating assets and liabilities:		
Accounts receivable	(24,692)	(63,129)
Prepaid expenses	11,617	(3,492)
Other assets	12,804	19,158
Accrued compensation and related benefits	(4,293)	(16,711)
Accounts payable and other accrued liabilities	113,901	48,313
Pensions and other postretirement benefits	5,075	(1,716)
Other liabilities	(2,103)	(2,465)
Cash provided by operating activities	286,351	149,940
Investing Activities		
Additions to property and equipment	(35,908)	(39,589)
Business combinations, net of cash acquired		(11,868)
Investments in and loans to joint ventures	(32,934)	(10,068)
Purchases of marketable securities	(4,138,162)	(4,460,154)
Sales of marketable securities	4,030,234	4,414,602
Other investing activities	(5,000)	4,196
Cash used for investing activities	(181,770)	(102,881)
Financing Activities		
Proceeds from exercise of stock options and issuance of stock under employee stock purchase plan	10,802	706
Dividends paid	(20,906)	(10,029)
Purchases of treasury stock	(101,925)	
Payment to refinance building		(27,947)
Other financing activities, net	(1,712)	(2,030)
Cash used for financing activities	(113,741)	(39,300)
Increase (decrease) in cash	(9,160)	7,759
Cash at beginning of period	40,862	21,176
Cash at end of period	$ 31,702	$ 28,935

See Notes to Consolidated Financial Statements

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SABRE HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General Information

Sabre Holdings Corporation (Sabre Holdings) is a Delaware holding company. Sabre Inc. is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre Inc. or its direct or indirect subsidiaries conduct all of our businesses. In this Report on Form 10-Q, references to the company , we , our , ours and us refer to Sabre Hol and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

We are a world leader in travel commerce, marketing travel products and providing distribution and technology solutions for the travel industry. We operate in multiple travel distribution channels: the travel agency channel, the consumer-direct channel and the corporate or business-direct channel. Through our *Sabre*®(1) global distribution system (the *Sabre* system or *Sabre* GDS) subscribers can access information about, and can book reservations for, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. Our *Sabre Travel Network* business operates the *Sabre* GDS and markets and distributes travel-related products and services through the travel agency and corporate channels. We engage in consumer-direct and business-direct travel marketing and distribution through our *Travelocity*® business. In addition, our *Sabre Airline Solutions* business is a leading provider of technology and services, including development and consulting services, to airlines and other travel providers.

During the fourth quarter of 2003, we realigned our *GetThere*® business segment, which engaged in business direct travel services and had previously been operated as a separate business segment, within our other three segments. This realignment resulted in *GetThere* products, services and operations being integrated into the remaining three segments. Accordingly, GetThere is no longer reported as a separate segment. Disaggregated information relating to the financial performance of our business segments for the three and six months ended June 30, 2004 and 2003 is presented in Note 7 to the Consolidated Financial Statements.

2. Summary of Significant Accounting Policies

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States 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. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Operating results for the three and six months ended June 30, 2004 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2004. Our quarterly financial data should be read in conjunction with our consolidated financial statements for the year ended December 31, 2003 (including the notes thereto), set forth in Sabre Holdings Corporation s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2004.

We consolidate all of our majority-owned subsidiaries and companies that are not variable interest entities over which we exercise control through majority voting rights. We would also consolidate all variable interest entities of which we are the primary beneficiary. However, no entities are currently consolidated due to control through operating, financing agreements, or other arrangements (including variable interests held in variable interest entities).

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(1) Assured Vantage, Basic Booking Request, Direct Connect, eMergo, eVoya, GetThere, Jurni Network, Nexion, Sabre, Sabre Airline Solutions, Sabre Exclusives, Sabre Holdings, Sabre Travel Network, SabreSonic, Site 59, Site59.com, TotalTrip, Travelocity, Travelocity Business, Travelocity.ca, Travelocity.com, Turbo Sabre and World Choice Travel are trademarks of affiliates of Sabre Holdings Corporation. All other trademarks are the property of their respective owners.

The consolidated financial statements include our accounts after elimination of all significant intercompany balances and transactions. We account for our interests in joint ventures and investments in common stock of other companies that we do not control but over which we exert significant influence using the equity method, with our share of their results classified as revenues. Investments in the common stock of other companies over which we do not exert significant influence are accounted for at cost. We periodically evaluate for impairment equity and debt investments in entities accounted for at cost by reviewing updated financial information provided by the investee, including valuation information from new financing transactions by the investee and information relating to competitors of investees when available. If we determine that a cost method investment is impaired, the carrying value of the investment is reduced to its estimated fair value. To date, write-downs of investments carried at cost have been insignificant to our results of operations.

Reclassifications Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation. These reclassifications are not material, either individually or in the aggregate, to our financial statements.

Earnings Per Share Basic earnings per share excludes any dilutive effect of any stock awards or options. The number of shares used in the diluted earnings per share calculations includes the dilutive effect of any stock awards or options.

The following table reconciles weighted average shares used in computing basic and diluted earnings per common share (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Denominator for basic earnings per common share weighted-average shares	137,397	142,367	138,309	142,339
Dilutive effect of stock awards and options	2,583	741	1,497	480
Denominator for diluted earnings per common share adjusted weighted-average shares	139,980	143,108	139,806	142,819

Options to purchase approximately 13,512,386 and 15,628,627 weighted-average shares of our common stock were outstanding during the three and six month periods ending June 30, 2004, but were excluded from the computation of diluted earnings per share because the effect would be anti-dilutive. For the corresponding periods in 2003, anti-dilutive options to purchase approximately 16,428,401 and 17,644,523 weighted-average shares of our common stock were excluded from the computation of diluted earnings per share. The decrease in the weighted-average shares for the three and six month periods ending June 30, 2004 versus 2003 is due to our share repurchase programs.

Stock Awards and Options We account for stock awards and stock option grants using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations. Generally, no compensation expense is recognized for stock option grants to employees if the exercise price is at or above the fair market value of the underlying stock on the date of grant. Compensation expense relating to other stock awards is recognized over the period during which the employee renders service to us necessary to earn the award.

The following table summarizes the pro forma effect of stock-based compensation on our net earnings and net earnings per share for the three and six months ended June 30, 2004 and 2003, as if we had accounted for such compensation at fair value (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net earnings as reported	$ 58,937	$ 6,816	$ 101,974	$ 71,695
Add stock compensation expense determined under intrinsic value method, net of income taxes	1,889	2,849	3,972	5,719
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes	(7,978)	(10,062)	(16,266)	(21,616)
Pro forma net earnings (loss)	$ 52,848	$ (397)	$ 89,680	$ 55,798
Net earnings per common share, as reported:				
Basic	$ .43	$ .05	$ .74	$ .50
Diluted	$ .42	$ .05	$ .73	$ .50
Net earnings (loss) per common share, pro forma:				
Basic	$ .38	$ (.00)	$ .65	$ .39
Diluted	$ .38	$ (.00)	$ .64	$ .39

3. Significant Events

Contract Settlements In the first quarter of 2003, we recognized revenue of approximately $36 million, representing settlements from two travel agency subscribers (who were affiliated with each other and were acquired by a competitor of ours) in exchange for allowing them to cancel their existing subscriber agreements.

Cost Reductions In an effort to reduce our operating expenses and better align expenses with revenue targets for 2004 and future years, we reduced our workforce and recorded a charge of approximately $18 million for severance, salaries and benefits in the fourth quarter of 2003. The remaining liability for this charge as of June 30, 2004 was approximately $3 million, of which approximately half is at the corporate level and the remainder relates to our business units.

In the fourth quarter of 2003, we also consolidated our operations (including integrating the products, services and operations of our GetThere business unit into our other three business units) and closed additional facilities in the United States. These actions resulted in an approximately $17 million charge, consisting of write-offs of leasehold improvements and other facility-related assets, employee relocation expenses and lease termination costs. The remaining liability for this charge as of June 30, 2004 was approximately $2 million, which relates entirely to corporate level charges.

The following table summarizes the liabilities included in the balance sheets at December 31, 2003 and June 30, 2004 and the amounts paid during the six-month period (in thousands):

	Severance	Facilities	Total
Remaining liability at December 31, 2003	$ 7,941	$ 4,264	$ 12,205
Amounts paid through June 30, 2004	(5,000)	(2,129)	(7,129)
Remaining liability at June 30, 2004	$ 2,941	$ 2,135	$ 5,076

Amendment to AOL Agreement On January 21, 2004, we revised the terms of and extended our agreement with America Online (AOL) through March 2006. Travelocity continues to be the exclusive reservations engine for AOL s Internet properties under the revised agreement. Under the revised terms of the agreement, we benefit from more strategically aligned terms for placement within AOL s brands. Further, we are obligated for fixed payments of up to $28 million over the two-year term of the agreement. These fixed payments, along with the unamortized portion of fixed payments previously paid under the original contract, are being expensed on a straight-line basis over the remaining term of the extended agreement. For 2004, this expense will be approximately $23 million, of which approximately $6 million and $12 million was recognized for the three and six months ended June 30, 2004, respectively. Additionally, in exchange for lower fixed annual payments, we agreed to a reduced share of advertising revenues generated through the AOL properties. The agreement also contains a productivity component, whereby AOL is paid a percentage of the transaction revenue generated through the AOL network.

WNS Agreement On January 30, 2004, we entered into a multi-year master services agreement with WNS North America, Inc. (WNS). Under the agreement, throughout 2004 we will outsource to WNS an increasing portion of our Travelocity contact center operations, primarily front-line customer service calls and back-office fulfillment. By the end of the first quarter of 2005, WNS should be handling Travelocity s front-line customer service calls and emails, as well as some mid-office and back-office functions. WNS will transition these day-to-day operations of the customer service functions to its contact centers. Travelocity employees will continue to handle sales calls, as well as advanced customer service issues and quality control. We do not expect severance and related costs incurred due to this agreement to be significant.

For 2004, we have minimum commitments to WNS of $18 million, of which approximately $5 million and $9 million was recognized during the three and six months ended June 30, 2004, respectively. Thereafter, we are committed to minimum payments based on a calculation that considers both current and historical transaction volumes compared to thresholds established in the agreement. For 2005 through 2010, the starting thresholds for calculating our commitment for each year ranges from approximately $17 million to $31 million, and actual commitments could be lower than these amounts, depending on call volumes. Additionally, we committed to lend up to $10 million to WNS for transitional assistance. As of June 30, 2004, we have loaned $5 million to WNS. Amounts borrowed by WNS accrue interest at 5%, payable quarterly, and the principal will be due in three annual payments beginning in 2009.

Relocation of Certain Operations In April 2004, we announced to affected employees that we will transition certain operations to Latin America. The transition will occur over the remainder of 2004 and in the first half of 2005. Severance, retention and other related costs associated with the plan are currently estimated to be in the range of $6 million to $8 million, and will primarily be recognized in the fourth quarter of 2004 and in the first half of 2005 as operations are transitioned.

Revolving Credit Agreement On June 15, 2004, we replaced a $300 million revolving credit agreement that was set to expire on September 14, 2004, with a new $300 million, senior unsecured revolving credit agreement that expires June 15, 2009. Under certain conditions, we can request an additional $100 million in credit under this new agreement. Interest on this agreement is variable, based on either the London Interbank Offered Rate (LIBOR) or the prime rate, at our discretion, and is sensitive to our credit rating. The LIBOR margin at our current credit rating is equal to 0.50%, which translates to a total borrowing rate of approximately 2.5% in the current interest rate environment. As of June 30, 2004 there are no borrowings outstanding under this agreement. Under this agreement, we are subject to covenants that could, among other things, restrict our ability to incur additional debt and that limit our ability to pay dividends or repurchase our stock in excess of $150 million per fiscal year (unless, after giving effect to such dividends and/or repurchases, we have more than $400 million in cash and marketable securities domiciled in the United States). A copy of the Revolving Credit Agreement is included as Exhibit 10.1 to this filing. As of June 30, 2004 we are in compliance with all covenants under this agreement including the following financial covenants:

	Requirement	Level at June 30, 2004
Consolidated Leverage Ratio (Debt to EBITDA)	3 to 1 maximum	2 to 1
Consolidated Net Worth	$1.4 billion	$1.7 billion

4. Pension and Other Post Retirement Benefit Plans

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. Our measures of accumulated postretirement benefit obligation and net periodic cost presented for the three and six months ended June 30, 2004 do not reflect the effects of the Act as we have not yet concluded whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act. The effects of the Act are required to be recorded for fiscal periods beginning after June 15, 2004. Accordingly, we will record the effects of the Act on our U.S.-based plans during the third quarter of 2004.

The components of net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans for the three and six months ended June 30, 2004 and 2003 are presented in the tables below (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
Pension Benefits	**2004**	**2003**	**2004**	**2003**
Components of net periodic benefit cost:				
Service cost	$ 982	$ 2,635	$ 2,286	$ 4,173
Interest cost	3,220	10,792	8,223	15,855
Expected return on plan assets	(3,378)	(12,427)	(8,986)	(17,905)
Amortization of transition asset	(3)	(1)	(8)	(6)
Amortization of prior service cost	(8)	13	36	28
Amortization of net loss	699	2,099	1,405	2,632
Net periodic benefit cost	1,512	3,111	2,956	4,777
Settlement gain		(126)		
Total net periodic benefit cost	$ 1,512	$ 2,985	$ 2,956	$ 4,777

	Three Months Ended June 30,		Six Months Ended June 30,	
Other Benefits	**2004**	**2003**	**2004**	**2003**
Components of net periodic benefit cost:				
Service cost	$ 788	$ 597	$ 1,583	$ 1,496
Interest cost	1,859	1,775	3,730	3,523
Amortization of transition asset	3	3	7	7
Amortization of prior service cost	78	68	159	148
Amortization of net loss	679	833	1,375	1,283
Net periodic benefit cost	3,407	3,276	6,854	6,457

Total net periodic benefit cost	$ 3,407	$ 3,276	$ 6,854	$ 6,457

We made contributions to fund our defined benefit pension plans of $5 million and $15 million during the three months ended June 30, 2004 and 2003, respectively. We are evaluating making additional contributions during the remainder of 2004.

5. Income Taxes

The provision for income taxes relating to continuing operations differs from amounts computed at the statutory federal income tax rate as follows (in thousands):

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Income tax provision at statutory federal income tax rate	$ 31,982	$ 3,205	$ 55,335	$ 39,127
State income taxes, net of federal benefit	420	(447)	2,200	2,402
Other, net	36	(418)	(1,410)	(1,433)
Total provision for income taxes	$ 32,438	$ 2,340	$ 56,125	$ 40,096

6. Derivatives

Travelocity received certain vested warrants from Hotels.com in connection with an affiliation agreement entered into during 2000. In March 2001, we extended our affiliation agreement with Hotels.com through July 31, 2005 and expanded the scope of the Hotels.com relationship. In connection with the expanded and extended agreement, we received additional vested Hotels.com warrants with a fair value of approximately $30 million on the date of receipt. We were recognizing this amount as revenue over the extended term of the agreement, which amounted to approximately $2 million and $4 million during the three and six months ended June 30, 2003, respectively. During the three and six months ended June 30, 2003, respectively, we also recognized approximately $5 million and $7 million of revenue for performance warrants earned under this agreement. This agreement was terminated in the third quarter of 2003 and we recognized the remaining deferred balance of approximately $8 million related