LAUREATE EDUCATION, INC.
Form 10-Q
November 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
OR
o Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________.
Commission File Number: 001-38002
Laureate Education, Inc.
(Exact name of registrant as specified in its charter)

Delaware	52-1492296
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
650 S. Exeter Street, Baltimore, Maryland	21202
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (410) 843-6100
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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-accelerated filer x (Do not check if a smaller reporting company)
Smaller reporting company o Emerging Growth Company 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. o
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.

Class	Outstanding at September 30, 2018
Class A common stock, par value $0.004 per share	91,654,217 shares
Class B common stock, par value $0.004 per share	132,386,666 shares

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
IN THOUSANDS, except per share amounts

For the three months ended September 30,	2018 (Unaudited)	2017 (Unaudited)
Revenues	$ 787,102	$ 818,601
Costs and expenses:		
Direct costs	677,816	728,743
General and administrative expenses	73,680	64,999
Loss on impairment of assets	10,030	—
Operating income	25,576	24,859
Interest income	3,502	3,677
Interest expense	(58,319)	(69,103)
Loss on derivatives	(144)	(19,930)
Other income (expense), net	8,312	(778)
Foreign currency exchange (loss) gain, net	(26,492)	6,624
Loss from continuing operations before income taxes	(47,565)	(54,651)
Income tax benefit (expense)	3,773	(12,530)
Loss from continuing operations	(43,792)	(67,181)
Loss from discontinued operations, net of tax benefit (expense) of $2,905 and $(1,329), respectively	(34,466)	(36,309)
Loss on sales of discontinued operations, net of tax expense of $2,694 and $0	(18,426)	—
Net loss	(96,684)	(103,490)
Net loss attributable to noncontrolling interests	1,895	5,531
Net loss attributable to Laureate Education, Inc.	$ (94,789)	$ (97,959)
Accretion of Series A convertible redeemable preferred stock and other redeemable noncontrolling interests and equity	324	(84,060)
Net loss available to common stockholders	$ (94,465)	$ (182,019)

Basic and diluted loss per share:		
Loss from continuing operations	$ (0.18)	$ (0.82)
Loss from discontinued operations	(0.24)	(0.20)
Basic and diluted loss per share	$ (0.42)	$ (1.02)

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

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LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
IN THOUSANDS, except per share amounts

For the nine months ended September 30,	2018 (Unaudited)	2017 (Unaudited)
Revenues	$2,436,514	$2,434,687
Costs and expenses:		
Direct costs	2,081,125	2,110,901
General and administrative expenses	194,184	221,909
Loss on impairment of assets	10,030	—
Operating income	151,175	101,877
Interest income	9,358	9,702
Interest expense	(181,764)	(256,677)
Loss on debt extinguishment	(7,481)	(8,425)
Gain on derivatives	92,112	19,187
Other income (expense), net	10,815	(568)
Foreign currency exchange loss, net	(43,942)	(2,221)
Income (loss) from continuing operations before income taxes and equity in net income of affiliates	30,273	(137,125)
Income tax expense	(65,822)	(13,668)
Equity in net income of affiliates, net of tax	—	1
Loss from continuing operations	(35,549)	(150,792)
Income from discontinued operations, net of tax expense of $39,712 and $15,125, respectively	22,459	44,047
Gain on sales of discontinued operations, net, including tax benefit of $18,097 and $0, respectively	311,904	—
Net income (loss)	298,814	(106,745)
Net (income) loss attributable to noncontrolling interests	(315)	2,365
Net income (loss) attributable to Laureate Education, Inc.	$298,499	$(104,380)
Accretion of Series A convertible redeemable preferred stock and other redeemable noncontrolling interests and equity	(61,403)	(192,141)
Gain upon conversion of Series A convertible redeemable preferred stock	74,110	—
Net income (loss) available to common stockholders	$311,206	$(296,521)

Basic earnings (loss) per share:		
Income (loss) from continuing operations	$(0.10)	$(2.03)
Income from discontinued operations	1.59	0.26
Basic earnings (loss) per share	$1.49	$(1.77)
Diluted earnings (loss) per share:		
Loss from continuing operations	$(0.16)	$(2.03)
Income from discontinued operations	1.59	0.26
Diluted earnings (loss) per share	$1.43	$(1.77)

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

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LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
IN THOUSANDS

For the three months ended September 30,	2018 (Unaudited)	2017 (Unaudited)
Net loss	$(96,684)	$(103,490)
Other comprehensive (loss) income:		
Foreign currency translation adjustment, net of tax of $0 for both periods	(52,750)	64,742
Unrealized (loss) gain on derivative instruments, net of tax of $0 for both periods	(560)	525
Total other comprehensive (loss) income	(53,310)	65,267
Comprehensive loss	(149,994)	(38,223)
Net comprehensive loss attributable to noncontrolling interests	1,683	4,065
Comprehensive loss attributable to Laureate Education, Inc.	$(148,311)	$(34,158)

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
IN THOUSANDS

For the nine months ended September 30,	2018	2017
	(Unaudited)	(Unaudited)
Net income (loss)	$ 298,814	$ (106,745)
Other comprehensive (loss) income:		
Foreign currency translation adjustment, net of tax of $0 for both periods	(166,052)	196,593
Unrealized gain on derivative instruments, net of tax of $0 for both periods	11,776	6,625
Minimum pension liability adjustment, net of tax of $0	376	—
Total other comprehensive (loss) income	(153,900)	203,218
Comprehensive income	144,914	96,473
Net comprehensive (income) loss attributable to noncontrolling interests	(719)	10
Comprehensive income attributable to Laureate Education, Inc.	$ 144,195	$ 96,483

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
IN THOUSANDS, except per share amounts

Assets	September 30, 2018 (Unaudited)	December 31, 2017 (Unaudited)
Current assets:		
Cash and cash equivalents (includes VIE amounts of $146,927 and $100,971, see Note 2)	$392,348	$320,567
Restricted cash	196,790	212,215
Receivables:		
Accounts and notes receivable	571,240	474,456
Other receivables	17,500	15,175
Allowance for doubtful accounts	(164,101)	(178,566)
Receivables, net	424,639	311,065
Income tax receivable	16,454	38,231
Prepaid expenses and other current assets	77,554	81,948
Current assets held for sale	346,702	324,668
Total current assets (includes VIE amounts of $642,133 and $407,315, see Note 2)	1,454,487	1,288,694
Notes receivable, net	12,171	3,528
Property and equipment:		
Land	229,455	243,179
Buildings	642,040	669,973
Furniture, equipment and software	961,712	977,382
Leasehold improvements	359,466	366,735
Construction in-progress	45,792	62,474
Accumulated depreciation and amortization	(980,778)	(939,326)
Property and equipment, net	1,257,687	1,380,417
Land use rights, net	1,631	1,572
Goodwill	1,709,586	1,828,365
Other intangible assets:		
Tradenames	1,130,186	1,167,302
Other intangible assets, net	25,455	35,779
Deferred costs, net	65,896	60,931
Deferred income taxes	150,530	152,398
Derivative instruments	682	48,186
Other assets	174,881	199,441
Long-term assets held for sale	1,007,344	1,224,672
Total assets (includes VIE amounts of $1,334,870 and $1,419,579, see Note 2)	$6,990,536	$7,391,285

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (continued)
IN THOUSANDS, except per share amounts

Liabilities and stockholders' equity	September 30, 2018 (Unaudited)	December 31, 2017 (Unaudited)
Current liabilities:		
Accounts payable	$51,395	$70,137
Accrued expenses	269,255	239,620
Accrued compensation and benefits	173,718	215,760
Deferred revenue and student deposits	465,290	184,116
Current portion of long-term debt	104,502	121,870
Current portion of due to shareholders of acquired companies	23,065	34,745
Income taxes payable	13,713	20,553
Derivative instruments	35	4,458
Other current liabilities	42,063	31,761
Current liabilities held for sale	394,229	451,569
Total current liabilities (includes VIE amounts of $314,860 and $341,147, see Note 2)	1,537,265	1,374,589
Long-term debt, less current portion	2,505,498	2,973,396
Due to shareholders of acquired companies, less current portion	20,045	37,040
Deferred compensation	13,383	14,470
Income taxes payable	73,275	106,062
Deferred income taxes	257,083	247,371
Derivative instruments	7,258	9,390
Other long-term liabilities	239,053	221,941
Long-term liabilities held for sale	353,338	405,747
Total liabilities (includes VIE amounts of $382,380 and $449,561, see Note 2)	5,006,198	5,390,006
Series A convertible redeemable preferred stock, par value $0.001 per share – 111 shares authorized, no shares issued and outstanding as of September 30, 2018 and 512 shares authorized, 401 shares issued and outstanding as of December 31, 2017	—	400,276
Redeemable noncontrolling interests and equity	12,671	13,721
Stockholders' equity:		
Preferred stock, par value $0.001 per share – 49,889 and 49,488 shares authorized as of September 30, 2018 and December 31, 2017, respectively, no shares issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Class A common stock, par value $0.004 per share – 700,000 shares authorized, 91,654 shares issued and outstanding as of September 30, 2018 and 55,052 shares issued and outstanding as of December 31, 2017	366	220
Class B common stock, par value $0.004 per share – 175,000 shares authorized, 132,387 shares issued and outstanding as of September 30, 2018 and 132,443 shares issued and outstanding as of December 31, 2017	530	530
Additional paid-in capital	3,705,707	3,446,206
Accumulated deficit	(643,407)	(946,236)
Accumulated other comprehensive loss	(1,079,860)	(925,556)
Total Laureate Education, Inc. stockholders' equity	1,983,336	1,575,164
Noncontrolling interests	(11,669)	12,118
Total stockholders' equity	1,971,667	1,587,282

Total liabilities and stockholders' equity	$6,990,536	$7,391,285

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
IN THOUSANDS

For the nine months ended September 30,	2018	2017
Cash flows from operating activities	(Unaudited)	(Unaudited)
Net income (loss)	$ 298,814	$ (106,745)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	189,961	199,394
Loss on impairment of assets	10,030	—
(Gain) loss on sales of subsidiaries and disposal of property and equipment, net	(292,999)	3,050
Gain on derivative instruments	(92,749)	(19,621)
Proceeds from settlement of derivative contracts	14,117	—
Loss on debt extinguishment	7,481	8,425
Non-cash interest expense	14,651	29,809
Interest paid on deferred purchase price for acquisitions	—	(39,419)
Non-cash share-based compensation expense	10,492	43,969
Bad debt expense	83,029	88,677
Deferred income taxes	(389)	(21,787)
Unrealized foreign currency exchange loss	53,731	4,852
Non-cash (gain) loss from non-income tax contingencies	(843)	4,032
Other, net	(11,607)	1,637
Changes in operating assets and liabilities:		
Receivables	(288,747)	(344,661)
Prepaid expenses and other assets	(50,919)	(69,843)
Accounts payable and accrued expenses	(6,263)	14,624
Income tax receivable/payable, net	(10,084)	(19,815)
Deferred revenue and other liabilities	428,664	435,173
Net cash provided by operating activities	356,370	211,751
Cash flows from investing activities		
Purchase of property and equipment	(150,458)	(134,629)
Expenditures for deferred costs	(13,182)	(12,712)
Receipts from sales of discontinued operations and property and equipment, net of cash sold	375,792	1,180
Settlement of derivatives related to sale of discontinued operations	(9,960)	—
Proceeds from corporate-owned life insurance and property insurance recoveries	24,641	370
Business acquisitions, net of cash acquired	—	(835)
Payments (to) from related parties and investments in affiliates	(8)	349
Net cash provided by (used in) investing activities	226,825	(146,277)
Cash flows from financing activities		
Proceeds from issuance of long-term debt, net of original issue discount	383,594	2,349,673
Payments on long-term debt	(838,542)	(2,695,511)
Payments of deferred purchase price for acquisitions	(17,588)	(93,813)
Payments to purchase noncontrolling interests	(127)	—
Proceeds from issuance of convertible redeemable preferred stock, net of issuance costs	—	55,290
Payment of dividends on Series A Preferred Stock	(11,103)	(5,252)
Proceeds from initial public offering, net of issuance costs	—	456,359
Withholding of shares to satisfy tax withholding for vested stock awards	(1,744)	(1,725)
Payments of debt issuance costs and redemption and call premiums for debt modification	(490)	(76,523)
Noncontrolling interest holder's loan to subsidiaries	—	943

Distributions to noncontrolling interest holders	(912)	(847)
Net cash used in financing activities	(486,912)	(11,406)
Effects of exchange rate changes on Cash and cash equivalents and Restricted cash	(4,535)	25,965
Change in cash included in current assets held for sale	(35,392)	(68,100)
Net change in Cash and cash equivalents and Restricted cash	56,356	11,933
Cash and cash equivalents and Restricted cash at beginning of period	532,782	474,337
Cash and cash equivalents and Restricted cash at end of period	$ 589,138	$ 486,270

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

Laureate Education, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars and shares in thousands)
Note 1. Description of Business

Laureate Education, Inc. and subsidiaries (hereinafter Laureate, we, us, our, or the Company) provide higher education programs and services to students through an international network of licensed universities and higher education institutions (institutions). Laureate's programs are provided through institutions that are campus-based and internet-based, or through electronically distributed educational programs (online). On October 1, 2015, we redomiciled in Delaware as a public benefit corporation as a demonstration of our long-term commitment to our mission to benefit our students and society.

The Company's shares are listed on the Nasdaq Global Select Market under the symbol ‘‘LAUR’’. In its initial public offering (IPO) on February 6, 2017, the Company sold 35,000 shares of its Class A common stock in the IPO at a price of $14.00 per share, resulting in net proceeds to the Company during the first quarter of 2017, after deducting underwriting discounts and commissions and offering expenses payable by us, of $456,359.

On August 9, 2018, the Company announced that it plans to divest additional subsidiaries located in Europe, Asia and Central America, which are included in the Rest of World (formerly called EMEAA), Andean (formerly called Andean & Iberian), and Central America & U.S. Campuses segments. Previously, the Company had announced the divestiture of certain subsidiaries in the Rest of World and Central America & U.S. Campuses segments. After completing all of these announced divestitures, the Company’s remaining principal markets will be Brazil, Chile, Mexico and Peru, along with the Online & Partnerships segment and the institutions in Australia and New Zealand. This represents a strategic shift that will have a major effect on the Company's operations and financial results. Accordingly, all of the divestitures that are part of this strategic shift, including the divestitures announced on August 9, 2018 and those announced previously, are now accounted for as discontinued operations for all periods presented in accordance with Accounting Standards Codification (ASC) 205-20, ‘‘Discontinued Operations’’ (ASC 205). See Note 4, Discontinued Operations and Assets Held for Sale, for more information. Unless indicated otherwise, the information in the footnotes to the Consolidated Financial Statements relates to continuing operations.

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, these financial statements include all adjustments considered necessary to present a fair statement of our consolidated results of operations, financial position and cash flows. Operating results for any interim period are not necessarily indicative of the results that may be expected for the full year. These unaudited Consolidated Financial Statements should be read in conjunction with Laureate's audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the 2017 Form 10-K).

Note 2. Significant Accounting Policies

The Variable Interest Entity (VIE) Arrangements

Laureate consolidates in its financial statements certain internationally based educational organizations that do not have shares or other equity ownership interests. Although these educational organizations may be considered not-for-profit entities in their home countries and they are operated in compliance with their respective not-for-profit legal regimes, we believe they do not meet the definition of a not-for-profit entity under GAAP, and therefore we treat them as "for-profit" entities for accounting purposes. These entities generally cannot declare dividends or distribute their net assets to the entities that control them.
Under ASC 810-10, ‘‘Consolidation,’’ we have determined that these institutions are VIEs and that Laureate is the primary beneficiary of these VIEs because we have, as further described herein: (1) the power to direct the activities of the VIEs that most significantly affect their educational and economic performance and (2) the right to receive economic benefits from contractual and other arrangements with the VIEs that could potentially be significant to the VIEs. We account for the acquisition of the right to control a VIE in accordance with ASC 805, "Business Combinations."

The VIEs in Brazil and Mexico comprise several not-for-profit foundations that have insignificant revenues and operating expenses. Selected Consolidated Statements of Operations information for VIEs that are included in continuing operations was as follows, net of the charges related to the above-described contractual arrangements:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Selected Statements of Operations information:				
Revenues, by segment:				
Brazil	$ —	$ 11	$ —	$ 57
Mexico	4	—	89	—
Andean	119,884	114,494	325,421	320,385
Revenues	119,888	114,505	325,510	320,442
Depreciation and amortization	6,163	6,626	19,398	20,397
Operating income (loss), by segment:				
Brazil	(16)	(23)	(56)	(30)
Mexico	(121)	(163)	(349)	(516)
Andean	12,954	5,613	7,714	(3,545)
Operating income (loss)	12,817	5,427	7,309	(4,091)
Net income	18,812	10,928	22,860	8,308
Net income attributable to Laureate Education, Inc.	18,812	10,928	22,860	8,308

The following table reconciles the Net income (loss) attributable to Laureate Education, Inc. as presented in the table above, to the amounts in our Consolidated Statements of Operations:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net (loss) income attributable to Laureate Education, Inc.:				
Variable interest entities	$18,812	$10,928	$22,860	$8,308
Other operations	21,564	40,366	241,920	278,804
Corporate and eliminations	(135,165)	(149,253)	33,719	(391,492)
Net (loss) income attributable to Laureate Education, Inc.	$(94,789)	$(97,959)	$298,499	$(104,380)

The following table presents selected assets and liabilities of the consolidated VIEs. Except for Goodwill, the assets in the table below include the assets that can be used only to settle the obligations for the VIEs. The liabilities in the table are liabilities for which the creditors of the VIEs do not have recourse to the general credit of Laureate.

Selected Consolidated Balance Sheet amounts for these VIEs were as follows:

	September 30, 2018		December 31, 2017	
	VIE	Consolidated	VIE	Consolidated
Balance Sheets data:				
Cash and cash equivalents	$146,927	$ 392,348	$100,971	$ 320,567
Current assets held for sale	170,886	346,702	170,229	324,668
Other current assets	324,320	715,437	136,115	643,459
Total current assets	642,133	1,454,487	407,315	1,288,694
Goodwill	174,600	1,709,586	183,812	1,828,365
Tradenames	69,107	1,130,186	74,484	1,167,302
Other intangible assets, net	—	25,455	—	35,779
Long-term assets held for sale	151,310	1,007,344	369,375	1,224,672
Other long-term assets	297,720	1,663,478	384,593	1,846,473
Total assets	1,334,870	6,990,536	1,419,579	7,391,285
Current liabilities held for sale	114,569	394,229	183,166	451,569
Other current liabilities	200,291	1,143,036	157,981	923,020
Long-term liabilities held for sale	38,696	353,338	84,760	405,747
Long-term debt and other long-term liabilities	28,824	3,115,595	23,654	3,609,670
Total liabilities	382,380	5,006,198	449,561	5,390,006
Total stockholders' equity	952,490	1,971,667	970,018	1,587,282
Total stockholders' equity attributable to Laureate Education, Inc.	952,317	1,983,336	948,966	1,575,164

On January 24, 2018, a new Higher Education Law (the New Law) was passed by the Chilean Congress. On March 27, 2018, the Constitutional Court declared unconstitutional Article 63 of the New Law, which would have prohibited for-profit organizations such as Laureate from controlling the boards of universities in Chile. The Constitutional Court released its opinion on April 26, 2018, and signature and enactment of the New Law occurred in May 2018. Among other things left intact by the Constitutional Court, the New Law prohibits conflicts of interests and related party transactions with certain exceptions, including the provision of services that are educational in nature or essential for the university's purposes. The New Law provides for a transition period. The incoming Chilean presidential administration, which took office on March 11, 2018, has the responsibility to implement the new legislative mandates and compliance processes.

The Company is reviewing the impact the New Law will have on its Chilean operations, including the extent to which it will affect existing contractual relationships that the Company maintains with the Chilean non-profit universities. As the New Law no longer contains provisions that prohibit Laureate from controlling the boards of the Chilean non-profit universities, but still requires the promulgation of new regulations and procedures that will be applicable to any commercial relationship that the Company has with the Chilean non-profit universities, the Company has determined that it will continue to consolidate the three Chilean non-profit universities, which are accounted for as variable interest entities, and its Chilean real estate subsidiary.

While we believe that all of our institutions in Chile are operating in full compliance with Chilean law, we cannot predict the extent or outcome of any educational reforms that may be implemented in Chile. The Company does not believe the New Law will change its relationship with its two tech/voc institutions in Chile that are for-profit entities. However, it is possible that the Chilean government will adopt additional laws that affect for-profit tech/voc institutions and their relationships with their owners. Depending upon how these reforms are defined and implemented, there could be a material adverse effect on our financial condition and results of operations.

Allowance for Doubtful Accounts

Receivables are deemed to be uncollectible when they have been outstanding for two years, or earlier when collection efforts have ceased, at which time they are written off. Prior to that, Laureate records an allowance for doubtful accounts to reduce our receivables to their net realizable value. Our allowance estimation methodology is based on the age of the receivables, the status of past-due amounts, historical collection trends, current economic conditions and student enrollment status. In the event that current collection trends differ from historical trends, an adjustment is made to the allowance account and bad debt expense.

The reconciliations of the beginning and ending balances of the Allowance for doubtful accounts were as follows:

For the nine months ended September 30,	2018	2017
Balance at beginning of period	$182,965	$169,014
Additions: charges to bad debt expense	74,969	79,408
Deductions [(a)]	(90,494)	(68,155)
Balance at end of period	$167,440	$180,267

[(a)] Deductions includes accounts receivable written off against the allowance (net of recoveries), reclassifications, and foreign currency translation. The beginning and ending balances of the Allowance for doubtful accounts include the current portion, as shown on the face of Consolidated Balance Sheets, in addition to the noncurrent portion that is included in Notes receivable, net on the Consolidated Balance Sheets.

Impairment of Long-lived Assets

Effective September 30, 2018, the University of Liverpool (Liverpool), an institution in our Online & Partnerships segment, elected not to renew its institutional partnership agreement and therefore the existing agreement will terminate in April 2021. Accordingly, Liverpool will stop enrolling new students and will begin a teach-out process that is expected to be completed in April 2021. As a result, during the third quarter of 2018, we recorded an impairment charge of $10,030 related to fixed assets of this entity that are no longer recoverable based on expected future cash flows. Because Liverpool does not meet the criteria to be classified as held-for-sale or a discontinued operation, its results are reported within continuing operations for all periods presented.

Recently Adopted Accounting Standards

Accounting Standards Update (ASU) No. 2014-09, (ASU 2014-09), Revenue from Contracts with Customers (Topic 606)

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, which, along with amendments issued in 2015 and 2016, supersedes the revenue recognition requirements in ASC 605, ‘‘Revenue Recognition’’ and most industry-specific guidance. The core principle of ASU 2014-09 is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method and elected to apply the standard only to contracts that were not completed as of that date. We recorded a net increase to opening retained earnings of approximately $1,400 as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to the deferral of costs to obtain a contract which were previously expensed as incurred. The impact to revenues as a result of applying Topic 606 was an increase of $2,577 for the nine months ended September 30, 2018.

In accordance with the requirements under Topic 606, the impact of adoption on our Consolidated Statement of Operations and Consolidated Balance Sheet was as follows:

	For the nine months ended September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Statement of Operations data:			
Revenues	$2,436,514	$2,433,937	$ 2,577
Costs and Expenses:			
Direct costs	2,081,125	2,084,654	(3,529)
Income tax expense	(65,822)	(65,786)	(36)
Net income	298,814	292,743	6,071

	As of September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheet data:			
Assets:			
Deferred costs, net	$65,896	$60,949	$ 4,947
Liabilities:			
Deferred revenue and student deposits	465,290	467,867	(2,577)
Deferred income taxes	257,083	257,047	36

Equity:			
Accumulated deficit	(643,407)	(650,895)	7,488

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ASU No. 2016-15 (ASU 2016-15), Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15 in order to address the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This standard addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The Company adopted this standard beginning January 1, 2018. Because this standard requires retrospective application, for the nine months ended September 30, 2017 we have reclassified from operating activities to financing activities approximately $65,000 of redemption and call premiums that were paid in connection with a debt modification that was completed during the second quarter of 2017.

ASU No. 2016-16 (ASU 2016-16), Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU 2016-16 in order to improve the accounting for income tax consequences for intra-entity transfers of assets other than inventory. Prior to adopting this ASU, the recognition of current and deferred income taxes for an intra-entity transfer was prohibited until the asset was sold to a third party. The amendments in this ASU state that an entity should recognize income tax consequences of an intra-entity transfer when the transfer occurs. This aligns the recognition of income tax consequences for intra-entity transfers of assets with International Financing Reporting Standards (IFRS). Laureate adopted ASU 2016-16 effective January 1, 2018 and recorded a cumulative-effect adjustment to retained earnings of approximately $2,900.

ASU No. 2016-18 (ASU 2016-18), Statement of Cash Flows (Topic 230): Restricted Cash

In November 2016, the FASB issued ASU 2016-18 in order to address the diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. This ASU was adopted by Laureate beginning January 1, 2018 and resulted in a change in presentation within the Consolidated Statements of Cash Flows. As required, Laureate retrospectively applied the guidance to the prior period presented, which resulted in an increase of $1,743 in operating cash flows and an increase of $3,921 in investing cash flows on the Consolidated Statement of Cash Flows for the nine months ended September 30, 2017. As required by the ASU, we have provided a reconciliation from cash and cash equivalents as presented on our Consolidated Balance Sheets to cash, cash equivalents, and restricted cash as reported on our Consolidated Statements of Cash Flows. See Note 20, Supplemental Cash Flow Information, for this reconciliation, as well as a discussion of the nature of our restricted cash balances.

ASU No. 2017-07 (ASU 2017-07), Compensation - Retirement Benefits (Topic 715)

In March 2017, the FASB issued ASU 2017-07 in order to improve the presentation of net periodic pension cost and net periodic post retirement benefit cost. Prior to adoption of this ASU, these costs comprised several components that reflected different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees, and were aggregated for reporting purposes. Under the amendments in this ASU, the service cost component of net periodic benefit cost is disaggregated and reported in the same line item(s) as other compensation costs arising from services rendered during the period, and the remaining components are presented on the income statement separately from the service cost component and outside a subtotal of income from operations, if presented. Laureate adopted ASU 2017-07 on January 1, 2018. Because the effect of ASU 2017-07 on prior periods presented was insignificant, we did not revise the Consolidated Statement of Operations for the nine months ended September 30, 2017. For the nine months ended September 30, 2018, the impact on our Consolidated Statement of Operations was immaterial to the Company.

Recently Issued Accounting Standards Not Yet Adopted

ASU No. 2016-02 (ASU 2016-02), Leases (Topic 842)

On February 25, 2016, the FASB issued ASU 2016-02. Lessees will need to recognize on their balance sheet a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of the lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs and uneven rent payments. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The standard is effective for Laureate beginning January 1, 2019. During the third quarter of 2018, the FASB issued ASU 2018-11, ‘‘Leases (Topic 842): Targeted improvements,’’ which provides companies with an additional, optional transition method to adopt the new lease requirements by allowing entities to apply the requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As a result, a company's reporting for the comparative periods presented in the financial statements in which the company adopts the new lease requirements would continue to be in accordance with current GAAP (ASC Topic 840). A company electing this optional transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The amendments do not change the existing disclosure requirements in Topic 840 and do not create any interim disclosure requirements that companies previously were not required to provide. We plan to elect this optional transition method. We have completed our diagnostic assessment and have established a cross-functional implementation team which is in the process of identifying changes to our accounting policies, business processes, systems and internal controls in preparation for the implementation. We anticipate that ASU 2016-02 will have a material impact on our Consolidated Balance Sheets, as we will record significant asset and liability balances in connection with our leased properties. We are still evaluating the impact to our Consolidated Statements of Operations and Cash Flows.

Note 3. Revenue

Revenue Recognition

Laureate's revenues primarily consist of tuition and educational service revenues. We also generate other revenues from student fees, dormitory/residency fees and other education-related activities. These other revenues are less material to our overall financial results and have a tendency to trend with tuition revenues. Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. These revenues are recognized net of scholarships and other discounts, refunds, waivers and the fair value of any guarantees made by Laureate related to student financing programs. Laureate's institutions have various billing and academic cycles.

We determine revenue recognition through the five-step model prescribed by Topic 606 as follows:

•Identification of the contract, or contracts, with a customer;
•Identification of the performance obligations in the contract;
•Determination of the transaction price;
•Allocation of the transaction price to the performance obligations in the contract; and
•Recognition of revenue when, or as, we satisfy a performance obligation.

We assess collectibility on a portfolio basis prior to recording revenue. Generally, students cannot re-enroll for the next academic session without satisfactory resolution of any past-due amounts. If a student withdraws from an institution, Laureate's obligation to issue a refund depends on the refund policy at that institution and the timing of the student's withdrawal. Generally, our refund obligations are reduced over the course of the academic term. We record refunds as a reduction of deferred revenue as applicable.

As discussed in Note 1, Description of Business, during the quarter ended September 30, 2018, a number of our subsidiaries met the requirements to be classified as discontinued operations, including the entire Central America & U.S. Campuses segment. As a result, the operations of the Central America & U.S. Campuses segment have been excluded from the segment information for all periods presented. In addition, the portions of the Andean and Rest of World reportable segments that are included in discontinued operations have also been excluded from the segment information for all periods presented.

The following table shows the components of Revenues by reportable segment and as a percentage of total net revenue for the three months ended September 30, 2018:

	Brazil	Mexico	Andean	Rest of World	Online & Partnerships	Corporate[1]	Total	
Tuition and educational services	$196,670	$158,602	$312,274	$57,768	$180,063	$—	$905,377	115 %
Other	2,272	23,676	22,594	3,112	13,767	(3,694)	61,727	8 %
Gross revenue	198,942	182,278	334,868	60,880	193,830	(3,694)	967,104	123 %
Less: Discounts / waivers / scholarships	(77,853)	(33,953)	(35,255)	(4,332)	(28,609)	—	(180,002)	(23)%
Total	$121,089	$148,325	$299,613	$56,548	$165,221	$(3,694)	$787,102	100 %

(1) Includes the elimination of intersegment revenues.

The following table shows the components of Revenues by reportable segment and as a percentage of total net revenue for the nine months ended September 30, 2018:

	Brazil	Mexico	Andean	Rest of World	Online & Partnerships	Corporate[1]	Total	
Tuition and educational services	$741,945	$499,876	$889,290	$174,192	$541,681	$—	$2,846,984	117 %
Other	7,974	68,905	59,523	8,350	40,500	(9,418)	175,834	7 %
Gross revenue	749,919	568,781	948,813	182,542	582,181	(9,418)	3,022,818	124 %
Less: Discounts / waivers / scholarships	(280,439)	(104,913)	(104,600)	(12,378)	(83,974)	—	(586,304)	(24)%
Total	$469,480	$463,868	$844,213	$170,164	$498,207	$(9,418)	$2,436,514	100 %

(1) Includes the elimination of intersegment revenues.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of accounting in ASC Topic 606. A contract’s transaction price is allocated to each performance obligation identified in the arrangement based on the relative standalone selling price of each distinct good or service in the contract and recognized as revenue when, or as, the performance obligation is satisfied. The primary method used to estimate standalone selling price is the adjusted market assessment approach, under which we evaluate the market and estimate the price that a customer would be willing to pay for the goods and services we provide.

Our performance obligations are primarily satisfied over time during the course of an academic semester or academic year. Laureate's transaction price is determined based on gross price, net of scholarships and other discounts, refunds, waivers and the fair value of any guarantees made by Laureate related to student financing programs. The majority of our revenue is derived from tuition and educational services agreements with students, and thus, is recognized over time on a weekly straight-line basis over each academic session. We view the knowledge gained by the student as the benefit which the student receives during the academic sessions. We use the output method to recognize tuition and educational services revenue as this method faithfully depicts our performance toward complete satisfaction of the performance obligation. Dormitory/residency revenues, which are included in the Other line item in the table above, are recognized over time throughout the occupancy period using the output method based on the proportional period of time elapsed which faithfully depicts our performance toward complete satisfaction of the performance obligation.

We have elected the optional exemption to not disclose amounts where the performance obligation is part of a contract that has an original expected duration of one year or less. We expect to recognize substantially all revenue on these remaining performance obligations over the next 12 months.

Contract Balances

The timing of billings, cash collections and revenue recognition results in accounts receivable (contract assets) and deferred revenue and student deposits (contract liabilities) on the Consolidated Balance Sheets. We have various billing and academic cycles and recognize student receivables when an academic session begins, although students generally enroll in courses prior to the start of the academic session. Receivables are recognized only to the extent that it is probable that we will collect substantially all of the consideration to which we are entitled in exchange for the goods and services that will be transferred to the student. We receive advance payments or deposits from our students before revenue is recognized, which are recorded as contract liabilities in deferred revenue and student deposits. Payment terms vary by university with some universities requiring payment in advance of the academic session and other universities allowing students to pay in installments over the term of the academic session.

All of our contract assets are considered accounts receivable and are included within the Accounts and notes receivable balance in the accompanying Consolidated Balance Sheets. Total accounts receivable from our contracts with students were $571,240 and $474,456 as of September 30, 2018 and December 31, 2017, respectively. The increase in the contract assets balance at September 30, 2018 compared to December 31, 2017 is primarily driven by our enrollment cycles. The first and third calendar quarters generally coincide with the primary and secondary intakes for some of our larger institutions. All contract asset amounts are classified as current.

Contract liabilities in the amount of $465,290 and $184,116 were included within the Deferred revenue and student deposits balance in the current liabilities section of the accompanying Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively. The increase in the contract liability balance during the period ended September 30, 2018 is the result of semester billings and cash payments received in advance of satisfying performance obligations, offset by revenue recognized during that period. Revenue recognized for the nine months ended September 30, 2018 that was included in the contract liability balance at the beginning of the year was approximately $166,000.

Costs to Obtain a Contract

Certain commissions and bonuses earned by third party agents and our employees are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized over the period of benefit which ranges from two to four years. We determined the expected period of benefit, by university, as the expected student enrollment period. As of September 30, 2018 and December 31, 2017, the asset balances were approximately $8,300 and $0, respectively, and the accumulated amortization balances were approximately $3,400 and $0, respectively, both of which are included in Deferred costs, net, in the accompanying Consolidated Balance Sheets. The associated operating cost of approximately $3,400 was recorded in Direct costs in the accompanying Consolidated Statement of Operations for the nine months ended September 30, 2018. We also pay certain commissions and bonuses where the period of benefit is one year or less. We have elected the practical expedient available in ASC 340-40 whereby any incremental costs of obtaining a contract are recognized as an expense when incurred if the amortization period of the asset that would have been recognized is one year or less.

Practical Expedients and Optional Exemptions

We elected to adopt this standard using the modified retrospective approach with the cumulative effect of adoption recognized at the initial date of application. We have elected to apply the standard only to contracts that are not completed at the initial date of application.

As noted above, we recognize the incremental costs of obtaining a contract with a student as an expense when incurred in instances where the amortization period of the asset that we would have recognized is one year or less.

We have made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by governmental authorities that are both imposed on and concurrent with specific revenue-producing transactions and collected by the entity from our customers (e.g., sales, use, value added and excise taxes).

Note 4. Discontinued Operations and Assets Held for Sale

As discussed in Note 1, Description of Business, on August 9, 2018, the Company announced that it plans to focus on its principal markets and will divest of its other markets. The principal markets that will remain (the Continuing Operations) include Brazil, Chile, Mexico, and Peru, along with the Online & Partnerships segment and the institutions in Australia and New Zealand. The markets to be divested (the Discontinued Operations) include the institutions in Portugal and Spain, which are part of the Andean segment, all remaining institutions in the Central America & U.S. Campuses segment, and all remaining institutions in the Rest of World segment, except for Australia, New Zealand and the managed institutions in the Kingdom of Saudi Arabia and China. Included in the Discontinued Operations are seven VIE institutions.

The divestitures are expected to create a more focused and simplified business model and generate proceeds that will be used for further repayment of long-term debt. The timing and ability to complete any of these transactions is uncertain and will be subject to market and other conditions, which may include regulatory approvals and consents of third parties. As described in Note 5, Dispositions, several sale transactions have already closed during 2018.

Summarized operating results and cash flows of the Discontinued Operations are presented in the following tables:

For the nine months ended September 30,	2018	2017
Revenues	$635,223	$682,079
Depreciation and amortization	26,632	46,885
Share-based compensation expense	920	1,755
Other direct costs	526,706	560,028
Operating income	80,965	73,411
Other non-operating expense	(18,794)	(14,239)
Pretax income of discontinued operations	62,171	59,172
Income tax expense	(39,712)	(15,125)
Income from discontinued operations, net of tax	$22,459	$44,047
Operating cash flows of discontinued operations	$148,251	$153,707
Investing cash flows of discontinued operations	$(38,876)	$(25,056)
Financing cash flows of discontinued operations	$(15,284)	$(34,909)

For the three months ended September 30,	2018	2017
Revenues	$151,430	$164,793
Depreciation and amortization	6,321	15,994
Share-based compensation expense	173	679
Other direct costs	176,686	178,675
Operating loss	(31,750)	(30,555)
Other non-operating expense	(5,621)	(4,425)
Pretax loss of discontinued operations	(37,371)	(34,980)
Income tax benefit (expense)	2,905	(1,329)
Loss from discontinued operations, net of tax	$(34,466)	$(36,309)

The assets and liabilities of the Discontinued Operations, which are subject to finalization, have been classified as held for sale as of September 30, 2018 and December 31, 2017, in accordance with ASC 205. The assets and liabilities are recorded at the lower of their carrying values or their estimated 'fair values less costs to sell.' In addition to the Discontinued Operations, UniNorte, an institution in the Brazil segment, has also been classified as held for sale as of September 30, 2018. UniNorte is included in Continuing Operations as it is not part of the strategic shift described above. The carrying amounts of the major classes of assets and liabilities that were classified as held for sale are presented in the following tables:

	September 30, 2018	December 31, 2017
Assets of Discontinued Operations		
Cash and cash equivalents	$ 209,148	$ 197,898
Receivables, net	85,298	83,045
Property and equipment, net	637,639	830,408
Goodwill	131,958	159,042
Tradenames	126,292	156,746
Other assets	97,829	122,201
Subtotal: assets of Discontinued Operations	$ 1,288,164	$ 1,549,340
Other assets classified as held for sale: UniNorte Brazil		
Receivables, net	$ 8,311	$ —
Property and equipment, net	15,254	—
Goodwill	21,665	—
Tradenames	7,664	—
Other assets	12,988	—
Subtotal: other assets classified as held for sale	$ 65,882	$ —
Total assets held for sale	$ 1,354,046	$ 1,549,340

	September 30, 2018	December 31, 2017
Liabilities of Discontinued Operations		
Deferred revenue and student deposits	$ 211,086	$ 223,163
Long-term debt, including current portion	275,024	319,473
Other liabilities	243,223	314,680
Subtotal: liabilities of Discontinued Operations	$ 729,333	$ 857,316
Other liabilities classified as held for sale: UniNorte Brazil		
Deferred revenue and student deposits	$ 1,598	$ —
Long-term debt, including current portion	4,973	—
Other liabilities	11,663	—
Subtotal: other liabilities classified as held for sale	$ 18,234	$ —
Total liabilities held for sale	$ 747,567	$ 857,316

Sale Agreements Signed in 2018 and Pending Closure

University of St. Augustine for Health Sciences, LLC (St. Augustine)

On April 24, 2018, the Company and Exeter Street Holdings, LLC (the St. Augustine Seller) and St. Augustine, both of which are wholly owned subsidiaries of the Company, entered into a Membership Interest Purchase Agreement (the St. Augustine Purchase Agreement) with University of St. Augustine Acquisition Corp. (the St. Augustine Purchaser), an affiliate of Altas Partners LP. Pursuant to the St. Augustine Purchase Agreement, the St. Augustine Purchaser will purchase from the St. Augustine Seller all of the issued and outstanding membership interests of St. Augustine. As of September 30, 2018, St. Augustine is included in the Discontinued Operations and has been classified as held for sale on our Consolidated Balance Sheet. The transaction value under the St. Augustine Purchase Agreement is $400,000, subject to customary closing adjustments, and the parties expect that the transaction will close in late 2018, subject to required regulatory approvals, including approvals by the U.S. Department of Education and the WASC Senior College and University Commission, and customary closing conditions.

Monash South Africa

On September 7, 2018, LEI AMEA Investments BV (the Monash Seller), a wholly owned subsidiary of the Company, The Independent Institute of Education Proprietary Limited (the Monash Purchaser), Advtech Limited (the Monash Purchaser Guarantor), Monash South Africa Limited (our majority-owned institution) and Monash University (a noncontrolling interest holder) entered into agreements whereby the Monash Purchaser will acquire the Company's operations in South Africa, including real estate and our institution in South Africa. The total transaction value is approximately 343,000 South African Rand (approximately $23,900 at September 30, 2018), subject to working capital and other adjustments, and closing is expected to occur in late 2018 or early 2019, subject to regulatory approvals and customary closing conditions.

Note 5. Dispositions

Sale of Cyprus and Italy Operations

As previously disclosed in our 2017 Form 10-K, on January 11, 2018, we completed the sale of European University-Cyprus Ltd (EUC) and Laureate Italy S.r.L. (Laureate Italy). Upon closing, we received gross proceeds of approximately 232,000 Euros (EUR) (approximately US $275,500, or approximately US $244,300 net of cash sold and net of the approximately $4,100 working capital settlement between the Company and the buyer that was completed during the second quarter of 2018), and recognized a total gain on sale for the nine months ended September 30, 2018 of approximately $218,000, which is included in Gain on sales of discontinued operations, net of tax, on the Consolidated Statements of Operations. The Company used the proceeds from this transaction, along with borrowings on our revolving credit facility that were subsequently repaid with the China sale proceeds discussed below, to repay $350,000 of principal balance on our syndicated term loan that matures in April 2024 (the 2024 Term Loan), as discussed in Note 9, Debt.

Sale of China Operations

As previously disclosed in our 2017 Form 10-K, on January 25, 2018, we completed the sale of LEI Lie Ying Limited (LEILY). At closing, the Company received initial gross proceeds totaling approximately $128,800 (approximately $110,800 net of cash sold), net of banker transaction fees and certain taxes and duties totaling approximately $16,000. Six months after the closing date, the buyer was required to pay to the Company the Hong Kong Dollar (HKD) equivalent of Chinese Renminbi (RMB) 120,000 (the First Holdback Payment). On July 27, 2018, the Company received the First Holdback Payment from the buyer, net of withholding taxes and agreed-upon legal fees, for a net payment of HKD 142,221 or $18,117 at the date of receipt, prior to banker transaction fees. Twelve months after the closing date, the buyer is required to pay to the Company the HKD equivalent of RMB 60,000 (the Second Holdback Payment, approximately US $9,000 at September 30, 2018). Both the First Holdback Payment and the Second Holdback Payment are subject to deduction of any indemnifiable losses payable by the Company to the buyer pursuant to the sale purchase agreement. The remainder of the transaction value was paid into an escrow account and will be distributed to the Company pursuant to the terms and conditions of the escrow agreement.

As of September 30, 2018, the Company has recorded a receivable for the Second Holdback Payment, as well as a receivable of approximately $25,900 for the portion of the escrowed amount that the Company expects to receive. In addition, the Company has recorded a liability of approximately $15,000 related to loss contingencies for which we have indemnified the buyer. The Company recognized a gain on the sale of LEILY for the nine months ended September 30, 2018 of approximately $99,500, including tax effect, which is included in Gain on sales of discontinued operations, net of tax, on the Consolidated Statements of Operations.

Sale of German Operations

On April 12, 2018, LEI European Investments B.V., a Netherlands private limited liability company (LEI BV), and Laureate International B.V., a Netherlands private limited liability company (Laureate International), both of which are indirect, wholly owned subsidiaries of Laureate Education, Inc., executed and closed a Sale and Purchase Agreement (the Laureate Germany SPA) with Global University Systems Germany B.V., a Netherlands private limited liability company (Global University Systems). Pursuant to the Laureate Germany SPA, Global University Systems purchased from LEI BV all of the issued and outstanding shares of capital stock of Laureate Germany Holding GmbH and its consolidated institutions, including the University of Applied Sciences Europe and Laureate Academies GmbH (collectively, Laureate Germany), and Laureate International guaranteed the obligations of LEI BV under the Laureate Germany SPA. Upon completion of the sale, LEI BV received gross proceeds of EUR 1,000 (approximately US $1,200 at the date of receipt). At the date of sale, Laureate Germany had approximately $12,900 of cash and restricted cash on its balance sheet. In connection with this transaction, the Company contributed capital to Laureate Germany of approximately $3,600, and expects to pay estimated real estate transfer taxes of approximately $400. The Company recognized a loss on the sale of Laureate Germany for the nine months ended September 30, 2018 of approximately $5,500, which is included in Gain on sales of discontinued operations, net of tax, on the Consolidated Statements of Operations.

Sale of Moroccan Operations

As previously reported in our 2017 Form 10-K, on November 29, 2017, Laureate Middle East Holdings B.V., a Netherlands private limited liability company and an indirect, wholly owned subsidiary of the Company (LMEH), and La Société Maroc Emirats Arabes Unis de Développement, a Morocco company (SOMED and, together with LMEH, the Sellers), Laureate I B.V., a Netherlands private limited liability company and an indirect, wholly owned subsidiary of the Company (the Guarantor), and UPM Pédagogique, a Morocco company (the Purchaser), entered into a Share Purchase Agreement (the Laureate Somed SPA), pursuant to which the Purchaser agreed to purchase from the Sellers all of the issued and outstanding capital shares of Laureate Somed Holding, a Morocco company (Laureate Somed), for a total transaction value of 500,000 Moroccan Dirhams, and the Guarantor agreed to guarantee certain obligations of LMEH under the Laureate Somed SPA. The transaction closed on April 13, 2018, and LMEH received net proceeds of 300,000 Moroccan Dirhams (approximately US $32,500 at the date of sale, or approximately $31,100 net of cash sold). The proceeds were used for general debt repayment across the Company rather than repayment of a specific tranche. Prior to the consummation of the sale, LMEH owned approximately 60% of the capital shares of Laureate Somed, while SOMED owned the remaining approximately 40% of the capital shares of Laureate Somed. Laureate Somed is the operator of Université Internationale de Casablanca, a comprehensive campus-based university in Casablanca, Morocco. The Company recognized a gain on the sale of Laureate Somed of approximately $17,400 for the nine months ended September 30, 2018, which is included in Gain on sales of discontinued operations, net of tax, on the Consolidated Statements of Operations.

Sale of Kendall College, LLC

As previously disclosed in our 2017 Form 10-K, on January 15, 2018, Kendall College, LLC (Kendall), an Illinois limited liability company and indirect wholly owned subsidiary of Laureate, The Dining Room at Kendall NFP, an Illinois not for profit corporation, National Louis University, an Illinois not for profit corporation (NLU), and Laureate, solely as guarantor of certain of Kendall’s obligations thereunder, entered into an asset purchase agreement. On August 6, 2018, we closed the transaction and Kendall transferred to NLU certain assets, including all of Kendall's education programs, subject to certain conditions, in exchange for consideration of one dollar. Closing of the transaction was subject to prior receipt of regulatory consents, including those of the U.S. Department of Education and the Higher Learning Commission.

As part of the agreement, at closing Laureate paid to NLU $14,000 to support NLU’s construction of facilities for the acquired culinary program on NLU’s campus, subject to possible partial recoupment under specified conditions during the 10-year post-closing period. In addition, at closing Laureate paid approximately $2,100 to NLU for a working capital adjustment and other items provided for under the agreement. This payment was included in the loss on sale, which totaled approximately $17,000, including tax effect, and is included in gain/loss on sales of discontinued operations, net of tax, on the Consolidated Statements of Operations.

Also, at the closing date of the sale, the cease-use criteria were met for a leased building that was not part of the sale transaction and that has a lease term ending in July 2028. Accordingly, during the third quarter of 2018, the Company recorded a liability of approximately $24,000 for the present value of the remaining lease costs, less estimated sublease income, which was charged to loss from discontinued operations, net of tax, on the Consolidated Statements of Operations.

Note 6. Due to Shareholders of Acquired Companies

The amounts due to shareholders of acquired companies generally arise in connection with Laureate's acquisition of a majority or all of the ownership interest of these companies. Promissory notes payable to the sellers of acquired companies, referred to as "seller notes," are commonly used as a means of payment for business acquisitions. Seller note payments are classified as Payments of deferred purchase price for acquisitions within financing activities in our Consolidated Statements of Cash Flows. The amounts due to shareholders of acquired companies, currencies, and interest rates applied were as follows:

	September 30, 2018	December 31, 2017	Nominal Currency	Interest Rate %
Universidade Anhembi Morumbi (UAM Brazil)	$ 28,577	$ 45,206	BRL	CDI + 2%
University of St. Augustine for Health Sciences, LLC (St. Augustine)	11,550	11,550	USD	7%
Faculdade Porto-Alegrense (FAPA)	1,806	3,084	BRL	IGP-M
IADE Group	1,177	2,374	EUR	3%
Monash South Africa (MSA)	—	9,571	AUD	n/a
Total due to shareholders of acquired companies	43,110	71,785		
Less: Current portion of due to shareholders of acquired companies	23,065	34,745		
Due to shareholders of acquired companies, less current portion	$ 20,045	$ 37,040		

BRL: Brazilian Real	CDI: Certificados de Depósitos Interbancários (Brazil)
USD: United States Dollar	IGP-M: General Index of Market Prices (Brazil)
EUR: European Euro	
AUD: Australian Dollar	

MSA

During the second quarter of 2018, the conditions required for resolution of the MSA earnout were completed and the seller note liability, which was recorded on a corporate entity, was reversed as the criteria for payment was not met.

Note 7. Business and Geographic Segment Information

Laureate's educational services are offered through six operating segments: Brazil, Mexico, Andean, Central America & U.S. Campuses, Rest of World and Online & Partnerships. Laureate determines its operating segments based on information utilized by the chief operating decision maker to allocate resources and assess performance.

Our campus-based segments generate revenues by providing an education that emphasizes professional-oriented fields of study with undergraduate and graduate degrees in a wide range of disciplines. Our educational offerings are increasingly utilizing online and hybrid (a combination of online and in-classroom) courses and programs to deliver their curriculum. Many of our largest campus-based operations are in developing markets which are experiencing a growing demand for higher education based on favorable demographics and increasing secondary completion rates, driving increases in participation rates and resulting in continued growth in the number of higher education students. Traditional higher education students (defined as 18-24 year olds) have historically been served by public universities, which have limited capacity and are often underfunded, resulting in an inability to meet the growing student demand and employer requirements. This supply and demand imbalance has created a market opportunity for private sector participants. Most students finance their own education. However, there are some government-sponsored student financing programs which are discussed below. These campus-based segments include Brazil, Mexico, Andean, Central America & U.S. Campuses and Rest of World. Specifics related to each of these campus-based segments and our Online & Partnerships segment are discussed below:

In Brazil, approximately 75% of post-secondary students are enrolled in private higher education institutions. While the federal government defines the national curricular guidelines, institutions are licensed to operate by city. Laureate owns 13 institutions in eight states throughout Brazil, with a particularly strong presence in the competitive São Paulo market. Many students finance their own education while others rely on the government-sponsored programs such as Prouni and FIES.

Public universities in Mexico enroll approximately two thirds of students attending post-secondary education. However, many public institutions are faced with capacity constraints or the quality of the education is considered low. Laureate owns two institutions and is present throughout the country with a footprint of over 40 campuses. Each institution in Mexico has a national license. Students in our Mexican institutions typically finance their own education.

The Andean segment includes institutions in Chile, Peru, Portugal and Spain. In Chile, private universities enroll approximately 80% of post-secondary students. In Peru, the public sector plays a significant role, but private universities are increasingly providing the capacity to meet growing demand. In Spain and Portugal, the high demand for post-secondary education places capacity constraints on the public sector, pushing students to turn to the private sector for high-quality education. Chile has government-sponsored student financing programs, while in the other countries students generally finance their own education. The institutions in Portugal and Spain are included in Discontinued Operations.

The Central America & U.S. Campuses segment includes institutions in Costa Rica, Honduras, Panama and the United States. Students in Central America typically finance their own education while students in the United States finance their education in a variety of ways, including U.S. Department of Education (DOE) Title IV programs. The entire Central America & U.S. Campuses segment is included in Discontinued Operations.

The Rest of World segment includes an institution in the European country of Turkey, as well as locations in the Middle East, Africa and Asia Pacific consisting of campus-based institutions with operations in Australia, India, Malaysia, New Zealand, South Africa and Thailand. Additionally, the Rest of World segment manages eight licensed institutions in the Kingdom of Saudi Arabia and manages one additional institution in China through a joint venture arrangement. The institutions in the Rest of World segment are included in Discontinued Operations, except for Australia, New Zealand and the managed institutions in the Kingdom of Saudi Arabia and China.

The Online & Partnerships segment includes fully online institutions operating globally that offer professionally oriented degree programs in the United States through Walden University (Walden), a U.S.-based accredited institution, and through the University of Liverpool and the University of Roehampton in the United Kingdom. These online institutions primarily serve working adults with undergraduate and graduate degree program offerings. Students in the United States finance their education in a variety of ways, including Title IV programs.

As discussed in Note 1, Description of Business and Note 4, Discontinued Operations and Assets Held for Sale, during the quarter ended September 30, 2018, a number of our subsidiaries met the requirements to be classified as discontinued operations, including the entire Central America & U.S. Campuses segment. As a result, the operations of the Central America & U.S. Campuses segment have been excluded from the segment information for all periods presented. In addition, the portions of the Andean and Rest of World reportable segments that are included in discontinued operations have also been excluded from the segment information for all periods presented.

Intersegment transactions are accounted for in a similar manner as third-party transactions and are eliminated in consolidation. The Corporate amounts presented in the following tables includes corporate charges that were not allocated to our reportable segments and adjustments to eliminate intersegment items.

We evaluate segment performance based on Adjusted EBITDA, which is a non-GAAP performance measure defined as Income (loss) from continuing operations before income taxes and equity in net income of affiliates, adding back the following items: Gain (loss) on sales of subsidiaries, net, Foreign currency exchange loss, net, Other income (expense), net, Gain on derivatives, Loss on debt extinguishment, Interest expense, Interest income, Depreciation and amortization expense, Loss on impairment of assets, Share-based compensation expense and expenses related to our Excellence-in-Process (EiP) initiative. EiP is an enterprise-wide initiative to optimize and standardize Laureate’s processes, creating vertical integration of procurement, information technology, finance, accounting and human resources. It includes the establishment of regional shared services organizations (SSOs) around the world, as well as improvements to the Company's system of internal controls over financial reporting. We have expanded the EiP initiative into other back- and mid-office areas, as well as certain student-facing activities. EiP also includes certain non-recurring costs incurred in connection with the planned dispositions described in Note 4, Discontinued Operations and Assets Held for Sale, and the completed dispositions described in Note 5, Dispositions.

When we review Adjusted EBITDA on a segment basis, we exclude intercompany revenues and expenses, related to network fees and royalties between our segments, which eliminate in consolidation. We use total assets as the measure of assets for reportable segments.

The following tables provide financial information for our reportable segments, including a reconciliation of Adjusted EBITDA to Income from continuing operations before income taxes, as reported in the Consolidated Statements of Operations:

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Revenues				
Brazil	$121,089	$170,497	$469,480	$547,971
Mexico	148,325	141,175	463,868	451,993
Andean	299,613	295,160	844,213	779,135
Rest of World	56,548	49,045	170,164	149,156
Online & Partnerships	165,221	168,375	498,207	520,982
Corporate	(3,694)	(5,651)	(9,418)	(14,550)
Revenues	$787,102	$818,601	$2,436,514	$2,434,687
Adjusted EBITDA of reportable segments				
Brazil	$682	$9,138	$52,600	$61,289
Mexico	23,715	6,465	81,965	78,590
Andean	90,610	90,594	235,376	208,469
Rest of World	5,277	(411)	15,870	10,062
Online & Partnerships	45,725	42,883	136,126	145,753
Total Adjusted EBITDA of reportable segments	166,009	148,669	521,937	504,163
Reconciling items:				
Corporate	(45,544)	(48,731)	(127,539)	(152,676)
Depreciation and amortization expense	(53,475)	(51,936)	(163,329)	(152,509)
Loss on impairment of assets	(10,030)	—	(10,030)	—
Share-based compensation expense	(6,388)	(7,953)	(9,572)	(42,214)
EiP expenses	(24,996)	(15,190)	(60,292)	(54,887)
Operating income	25,576	24,859	151,175	101,877
Interest income	3,502	3,677	9,358	9,702
Interest expense	(58,319)	(69,103)	(181,764)	(256,677)
Loss on debt extinguishment	—	—	(7,481)	(8,425)
(Loss) gain on derivatives	(144)	(19,930)	92,112	19,187
Other income (expense), net	8,312	(778)	10,815	(568)
Foreign currency exchange (loss) gain, net	(26,492)	6,624	(43,942)	(2,221)
(Loss) income from continuing operations before income taxes and equity in net income of affiliates	$(47,565)	$(54,651)	$30,273	$(137,125)

	September 30, 2018	December 31, 2017
Assets		
Brazil	$ 989,206	$ 1,256,364
Mexico	1,024,731	969,400
Andean	1,737,234	1,714,819
Rest of World	230,780	225,429
Online & Partnerships	1,244,418	1,294,147
Corporate and Discontinued Operations	1,764,167	1,931,126
Total assets	$ 6,990,536	$ 7,391,285

Note 8. Goodwill

The change in the net carrying amount of Goodwill from December 31, 2017 through September 30, 2018 was composed of the following items:

	Brazil	Mexico	Andean	Rest of World	Online & Partnerships	Total
Balance at December 31, 2017	$493,373	$503,373	$272,181	$98,698	$ 460,740	$1,828,365
Acquisitions	—	—	—	—	—	—
Dispositions	—	—	—	—	—	—
Reclassification to Long-term assets held for sale	(21,664)	—	—	—	—	(21,664)
Impairments	—	—	—	—	—	—
Currency translation adjustments	(96,754)	20,955	(15,777)	(5,539)	—	(97,115)
Adjustments to prior acquisitions	—	—	—	—	—	—
Balance at September 30, 2018	$374,955	$524,328	$256,404	$93,159	$ 460,740	$1,709,586

Note 9. Debt

Outstanding long-term debt was as follows:

	September 30, 2018	December 31, 2017
Senior long-term debt:		
Senior Secured Credit Facility (stated maturity dates April 2022 and April 2024), net of discount	$ 1,227,730	$ 1,625,344
Senior Notes (stated maturity dates May 2025)	800,000	800,000
Total senior long-term debt	2,027,730	2,425,344
Other debt:		
Lines of credit	52,226	42,195
Notes payable and other debt	512,537	593,268
Total senior and other debt	2,592,493	3,060,807
Capital lease obligations and sale-leaseback financings	108,691	139,758
Total long-term debt	2,701,184	3,200,565
Less: total unamortized deferred financing costs	91,184	105,299
Less: current portion of long-term debt	104,502	121,870
Long-term debt, less current portion	$ 2,505,498	$ 2,973,396

Estimated Fair Value of Debt

The estimated fair value of our debt was determined using observable market prices, as the majority of our securities, including the Senior Secured Credit Facility and the Senior Notes due 2025, are traded in a brokered market. The fair value of our remaining debt instruments approximates carrying value based on their terms. As of September 30, 2018 and December 31, 2017, our long-term debt was classified as Level 2 within the fair value hierarchy, based on the frequency and volume of trading in the brokered market. The estimated fair value of our debt was as follows:

	September 30, 2018		December 31, 2017	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Total senior and other debt	$2,592,493	$2,654,632	$3,060,807	$3,117,437

Amendment to Senior Secured Credit Facility - 2024 Term Loan

On February 1, 2018, we amended our Senior Secured Credit Facility to reduce the interest rate on our 2024 Term Loan. In connection with this transaction, we also prepaid $350,000 of the principal balance of the 2024 Term Loan in addition to $1,239 of accrued interest using the proceeds from the sale of our Cyprus and Italy operations, along with borrowings on our revolving credit facility that were subsequently repaid with the China sale proceeds. As a result of the $350,000 prepayment, there will be no further quarterly principal payments required and the remaining balance will be due at maturity.

Pursuant to this amendment, the interest rate margins applicable to the 2024 Term Loan were amended to 3.50% for LIBOR term loans and 2.50% for ABR term loans and such interest rate margins will no longer be based upon the Company’s consolidated total debt to consolidated EBITDA ratio. The amendment effectively reduces the current interest rate margins applicable to the outstanding term loans, which prior to the amendment was based on the Company’s consolidated total debt to consolidated EBITDA ratio, by 100 basis points, from 4.50% to 3.50% for LIBOR term loans, and 3.50% to 2.50% for ABR term loans. The amended credit agreement also provided for a prepayment premium with respect to the outstanding term loans. The prepayment premium equaled one percent (1%) of the amount of any term loans that were subject to certain repricing transactions occurring on or prior to August 1, 2018, of which there were none.

Certain Covenants

As of September 30, 2018, our senior long-term debt contained certain negative covenants including, among others: (1) limitations on additional indebtedness; (2) limitations on dividends; (3) limitations on asset sales, including the sale of ownership interests in subsidiaries and sale-leaseback transactions; and (4) limitations on liens, guarantees, loans or investments. The Second Amended and Restated Credit Agreement provides, solely with respect to the Revolving Credit Facility, that the Company shall not permit its Consolidated Senior Secured Debt to Consolidated EBITDA ratio, as defined in the Second Amended and Restated Credit Agreement, to exceed 3.50x as of the last day of each quarter ending June 30, 2018 and thereafter. However, the agreement also provides that if (i) the Company’s Consolidated Total Debt to Consolidated EBITDA ratio, as defined in the Second Amended and Restated Credit Agreement, is not greater than 4.75x as of such date and (ii) less than 25% of the Revolving Credit Facility is utilized as of that date, then such financial covenant shall not apply. As of September 30, 2018, these conditions were satisfied and, therefore, we were not subject to the leverage ratio covenant. In addition, notes payable at some of our locations contain financial maintenance covenants.

Note 10. Commitments and Contingencies

Noncontrolling Interest Holder Put Arrangements

The following section provides a summary table and description of the various noncontrolling interest holder put arrangements, which relate to Discontinued Operations, that Laureate had outstanding as of September 30, 2018. Laureate has elected to accrete changes in the arrangements' redemption values over the period from the date of issuance to the earliest redemption date. The redeemable noncontrolling interests are recorded at the greater of the accreted redemption value or the traditional noncontrolling interest. Until the first exercise date, the put instruments' reported values may be lower than the final amounts that will be required to settle the minority put arrangements. As of September 30, 2018, the carrying value of all noncontrolling interest holder put arrangements was $10,958.

If the minority put arrangements were all exercised at September 30, 2018, Laureate would be obligated to pay the noncontrolling interest holders an estimated amount of $10,958, as summarized in the following table:

	Nominal Currency	First Exercisable Date	Estimated Value as of September 30, 2018 redeemable within 12-months:	Reported Value
Noncontrolling interest holder put arrangements				
INTI Education Holdings Sdn Bhd (Inti Holdings) - 10.10%	MYR	Current	$ 9,016	$ 9,016
Pearl Retail Solutions Private Limited (Pearl) - 10%	INR	Current	1,880	1,880
Stamford International University (STIU) - Puttable preferred stock of TEDCO	THB	Current	62	62
Total noncontrolling interest holder put arrangements			10,958	10,958
Puttable common stock - not currently redeemable	USD	*	—	1,713
Total redeemable noncontrolling interests and equity			$ 10,958	$ 12,671

* Contingently redeemable

MYR: Malaysian Ringgit
INR: Indian Rupee
THB: Thai Baht

Laureate's noncontrolling interest put arrangements are specified in agreements with each noncontrolling interest holder. The terms of these agreements determine the measurement of the redemption value of the put options based on a non-GAAP measure of earnings before interest, taxes, depreciation and amortization (EBITDA, or recurring EBITDA), the definition of which varies for each particular contract.

Commitments and contingencies are generally denominated in foreign currencies.

Series A Convertible Redeemable Preferred Stock

As disclosed in our 2017 Form 10-K, in December 2016 and January 2017, the Company issued an aggregate of 400 shares of convertible redeemable preferred stock (the Series A Preferred Stock) for total gross proceeds of $400,000. The Series A Preferred Stock included a Beneficial Conversion Feature (BCF) that was contingent on a qualified IPO (as defined in the Certificate of Designations governing the terms of the Series A Preferred Stock), which was consummated on February 6, 2017. Accordingly, during the first quarter of 2017, the Company recorded the BCF at its estimated fair value as a reduction of the carrying value of the Series A Preferred Stock and an increase to Additional paid-in capital. The accretion of this BCF reduced net income available to common stockholders in the calculation of earnings per share, as shown in Note 16, Earnings (Loss) Per Share. The total BCF of $265,368 was accreted using a constant yield approach over a one-year period. For the nine months ended September 30, 2018 and 2017, we recorded total accretion on the Series A Preferred Stock of $61,974 and $185,149, respectively, and paid cash dividends on the Series A Preferred Stock of $11,103 and $5,175, respectively. As of December 31, 2017, the Series A Preferred Stock had a carrying value of $400,276.

On April 23, 2018 all of the issued and outstanding shares of the Series A Preferred Stock were converted into 36,143 shares of the Company’s Class A common stock, par value $0.004 per share. This conversion was treated as a redemption for accounting purposes and resulted in an increase in Additional paid-in capital upon reclassification of the carrying value of the Series A Preferred

Stock. See Note 13, Stockholders' Equity, for further detail. A portion of the fair value of the shares of Class A common stock issued to redeem the Series A Preferred Stock was allocated to the BCF contained in the Series A Preferred Stock. The difference between the remaining fair value of the shares of Class A common stock issued, the carrying value of the Series A Preferred Stock and fair value of the embedded derivatives resulted in a gain of $74,110, which was recorded as Additional paid-in capital but included in income available to common stockholders in the calculation of earnings per share.

Other Loss Contingencies

Laureate is subject to legal actions arising in the ordinary course of its business. In management's opinion, we have adequate legal defenses, insurance coverage and/or accrued liabilities with respect to the eventuality of such actions. We do not believe that any settlement would have a material impact on our Consolidated Financial Statements. Refer to Note 18, Legal and Regulatory Matters, for a discussion of certain matters.

Contingent Liabilities for Taxes

As of September 30, 2018 and December 31, 2017, Laureate has recorded cumulative liabilities totaling $64,997 and $77,258, respectively, for taxes other-than-income tax, principally payroll-tax-related uncertainties recorded at the time of an acquisition, of which $5,072 and $7,240, respectively, was classified as held for sale. The changes in this recorded liability are related to acquisitions, interest and penalty accruals, changes in tax laws, expirations of statutes of limitations, settlements and changes in foreign currency exchange rates. The terms of the statutes of limitations on these contingencies vary but can be up to 10 years. These liabilities were included in current and long-term liabilities on the Consolidated Balance Sheets. Changes in the recorded values of non-income tax contingencies impact operating income and interest expense, while changes in the related indemnification assets impact only operating income. The total increase to operating income for adjustments to non-income tax contingencies and indemnification assets was $857 and $4,905, respectively, for the nine months ended September 30, 2018 and 2017.

In addition, as of September 30, 2018 and December 31, 2017, Laureate has recorded cumulative liabilities for income tax contingencies of $68,404 and $103,189, respectively, of which $8,680 and $9,300, respectively, were classified as held for sale. As of September 30, 2018 and December 31, 2017, indemnification assets primarily related to acquisition contingencies were $95,956 and $98,493, respectively, of which $600 and $935, respectively, were classified as held for sale. These indemnification assets primarily cover contingencies for income taxes and taxes other-than-income taxes. In addition, we have identified certain contingencies, primarily tax-related, that we have assessed as being reasonably possible of loss, but not probable of loss, and could have an adverse effect on the Company’s results of operations if the outcomes are unfavorable. In most cases, Laureate has received indemnifications from the former owners and/or noncontrolling interest holders of the acquired businesses for contingencies, and therefore, we do not believe we will sustain an economic loss even if we are required to pay these additional amounts. In cases where we are not indemnified, the unrecorded contingencies are not individually material and are primarily in Brazil. In the aggregate, we estimate that the reasonably possible loss for these unrecorded contingencies in Brazil could be up to approximately $39,000 if the outcomes were unfavorable in all cases.

Other Loss Contingencies

Laureate has accrued liabilities for certain civil actions against our institutions, a portion of which existed prior to our acquisition of these entities. Laureate intends to vigorously defend against these matters. As of September 30, 2018 and December 31, 2017, approximately $35,000 and $18,000, respectively, of loss contingencies were included in Other long-term liabilities and Other current liabilities on the Consolidated Balance Sheets. In addition, as of September 30, 2018 and December 31, 2017, $18,000 and $4,000, respectively, of loss contingencies for Discontinued

Operations were classified as liabilities held for sale. The increase is primarily due to loss contingencies recorded as a result of the sale of LEILY in China, as discussed in Note 5, Dispositions, as well as loss contingencies in the Brazil segment for which we are indemnified by the former owner and have recorded a corresponding indemnification asset.

Material Guarantees – Student Financing

Chile

The accredited Chilean institutions in the Laureate network also participate in a government-sponsored student financing program known as Crédito con Aval del Estado (the CAE Program). The CAE Program was formally implemented by the Chilean government in 2006 to promote higher education in Chile for lower socio-economic level students in good academic standing. The CAE Program involves tuition financing and guarantees that are provided by our institutions and the government. As part of the CAE Program, these institutions provide guarantees which result in contingent liabilities to third-party financing institutions, beginning at 90% of the tuition loans made directly to qualified students enrolled through the CAE Program and declining to 60% over time. The guarantees by these institutions are in effect during the period in which the student is enrolled, and the guarantees are assumed entirely by the government upon the student's graduation. When a student leaves one of Laureate's institutions and enrolls in another CAE-qualified institution, the Laureate institution will remain guarantor of the tuition loans that have been granted up to the date of transfer, and until the student's graduation from a CAE-qualified institution. The maximum potential amount of payments our institutions could be required to make under the CAE Program was approximately $511,000 and $527,000 at September 30, 2018 and December 31, 2017, respectively. This maximum potential amount assumes that all students in the CAE Program do not graduate, so that our guarantee would not be assigned to the government, and that all students default on the full amount of the CAE-qualified loan balances. As of September 30, 2018 and December 31, 2017, we recorded $33,884 and $27,073, respectively, as estimated long-term guarantee liabilities for these obligations.

Material Guarantees – Other

In conjunction with the purchase of UNP Brazil, Laureate pledged all of the acquired shares as a guarantee of our payments of rents as they become due. In the event that we default on any payment, the pledge agreement provides for a forfeiture of the relevant pledged shares. In the event of forfeiture, Laureate may be required to transfer the books and management of UNP to the former owners.

Laureate acquired the remaining 49% ownership interest in UAM Brazil in April 2013. As part of the agreement to purchase the 49% ownership interest, Laureate pledged 49% of its total shares in UAM Brazil as a guarantee of our payment obligations under the purchase agreement. In the event that we default on any payment, the agreement provides for a forfeiture of the pledged shares.

In connection with the purchase of FMU on September 12, 2014, Laureate pledged 75% of the acquired shares to third-party lenders as a guarantee of our payment obligations under the loans that financed a portion of the purchase price. Laureate pledged the remaining 25% of the acquired shares to the sellers as a guarantee of our payment obligations under the purchase agreement for the seller notes. In the event that we default on any payment of the loans or seller notes, the purchase agreement provides for a forfeiture of the relevant pledged shares. After the payment of the seller notes in September 2017, the shares pledged to the sellers were pledged to the third-party lenders until full payment of the loans, which mature in April 2021.

In connection with a loan agreement entered into by a Laureate subsidiary in Peru, all of the shares of UPN Peru, one of our universities, were pledged to the third-party lender as a guarantee of the payment obligations under the loan.

Standby Letters of Credit, Surety Bonds and Other Commitments

As of September 30, 2018 and December 31, 2017, Laureate's outstanding letters of credit (LOCs) and surety bonds primarily consisted of the items discussed below.

As of both September 30, 2018 and December 31, 2017, we had approximately $137,000 posted as LOCs in favor of the DOE. These LOCs were required to allow Walden, Kendall, NewSchool and St. Augustine to continue participating in the DOE Title IV program and are recorded on Walden and a corporate entity. These LOCs are fully collateralized with cash equivalents and certificates of deposit, which are classified as Restricted cash on our September 30, 2018 and December 31, 2017 Consolidated Balance Sheets.

As of December 31, 2017, we had $39,505 posted as cash collateral for LOCs related to the Spain Tax Audits. As discussed in Note 15, Income Taxes, the cash collateral for these LOCs was released during the first quarter of 2018 and used for payments to the Spanish taxing authorities in order to stop additional interest from accruing while the appeals process continues. The cash collateral for these LOCs was recorded in Continuing Operations and was classified as Restricted cash on our December 31, 2017 Consolidated Balance Sheet.

As part of our normal operations, our insurers issue surety bonds on our behalf, as required by various state education authorities in the United States. We are obligated to reimburse our insurers for any payments made by the insurers under the surety bonds. As of September 30, 2018 and December 31, 2017, the total face amount of these surety bonds was $22,410 and $13,980, respectively. These bonds are fully collateralized with cash, which was classified as Restricted cash on our September 30, 2018 and December 31, 2017 Consolidated Balance Sheets.

In November 2016, in order to continue participating in Prouni, a federal program that offers tax benefits designed to increase higher education participation rates in Brazil, UAM Brazil posted a guarantee in the amount of $15,300. In connection with the issuance of the guarantee, UAM Brazil obtained a non-collateralized surety bond from a third party in order to secure the guarantee.

The cost of the surety bond was $1,400, of which half was reimbursed by the former owner of UAM Brazil, and is being amortized over the five-year term. The Company believes that this matter will not have a material impact on our Consolidated Financial Statements.

Note 11. Financing Receivables

Laureate's financing receivables consist primarily of trade receivables related to student tuition financing programs with an initial term in excess of one year. We have offered long-term financing through the execution of note receivable agreements with students at some of our institutions. Our disclosures include financing receivables that are classified in our Consolidated Balance Sheets as both current and long-term, reported in accordance with ASC 310, "Receivables."

Laureate's financing receivables balances were as follows:

	September 30, 2018	December 31, 2017
Financing receivables	$ 31,506	$ 20,380
Allowance for doubtful accounts	(5,876)	(6,472)
Financing receivables, net of allowances	$ 25,630	$ 13,908

We do not purchase financing receivables in the ordinary course of our business. We may sell certain receivables that are significantly past due. No material amounts of financing receivables were sold during the periods reported herein.

Delinquency is the primary indicator of credit quality for our financing receivables. Receivable balances are considered delinquent when contractual payments on the loan become past due. Delinquent financing receivables are placed on non-accrual status for interest income. The accrual of interest is resumed when the financing receivable becomes contractually current and when collection of all remaining amounts due is reasonably assured. We record an Allowance for doubtful accounts to reduce our financing receivables to their net realizable value. The Allowance for doubtful accounts is based on the age of the receivables, the status of past-due amounts, historical collection trends, current economic conditions, and student enrollment status. Each of our institutions evaluates its balances for potential impairment. We consider impaired loans to be those that are past due one year or greater, and those that are modified as a troubled debt restructuring (TDR). The aging of financing receivables grouped by country portfolio was as follows:

	Chile	Other	Total
As of September 30, 2018			
Amounts past due less than one year	$11,327	$305	$11,632
Amounts past due one year or greater	3,484	192	3,676
Total past due (on non-accrual status)	14,811	497	15,308
Not past due	15,333	865	16,198
Total financing receivables	$30,144	$1,362	$31,506
As of December 31, 2017			
Amounts past due less than one year	$6,800	$921	$7,721
Amounts past due one year or greater	3,551	201	3,752
Total past due (on non-accrual status)	10,351	1,122	11,473
Not past due	8,494	413	8,907
Total financing receivables	$18,845	$1,535	$20,380

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The following is a rollforward of the Allowance for doubtful accounts related to financing receivables for the nine months ended September 30, 2018 and 2017, grouped by country portfolio:

	Chile	Other	Total
Balance at December 31, 2017	$(6,107)	$(365)	$(6,472)
Charge-offs	1,338	37	1,375
Recoveries	—	—	—
Reclassifications	—	—	—
Provision	(1,233)	18	(1,215)
Currency adjustments	434	2	436
Balance at September 30, 2018	$(5,568)	$(308)	$(5,876)
Balance at December 31, 2016	$(6,209)	$(877)	$(7,086)
Charge-offs	2,798	330	3,128
Recoveries	—	—	—
Reclassifications	—	—	—
Provision	(2,089)	225	(1,864)
Currency adjustments	(360)	(47)	(407)
Balance at September 30, 2017	$(5,860)	$(369)	$(6,229)

Restructured Receivables

A TDR is a financing receivable in which the borrower is experiencing financial difficulty and Laureate has granted an economic concession to the student debtor that we would not otherwise consider. When we modify financing receivables in a TDR, Laureate typically offers the student debtor an extension of the loan maturity and/or a reduction in the accrued interest balance. In certain situations, we may offer to restructure a financing receivable in a manner that ultimately results in the forgiveness of contractually specified principal balances. Our only TDRs are in Chile.

The number of financing receivable accounts and the pre- and post-modification account balances modified under the terms of a TDR during the nine months ended September 30, 2018 and 2017 were as follows:

	Number of Financing Receivable Accounts	Pre-Modification Balance Outstanding	Post-Modification Balance Outstanding
2018	435	$ 1,345	$ 1,262
2017	355	$ 1,838	$ 1,655

The preceding table represents accounts modified under the terms of a TDR during the nine months ended September 30, 2018, whereas the following table represents accounts modified as a TDR between January 1, 2017 and September 30, 2018 that subsequently defaulted during the nine months ended September 30, 2018:

	Number of Financing Receivable Accounts	Balance at Default
Total	128	$ 455

The following table represents accounts modified as a TDR between January 1, 2016 and September 30, 2017 that subsequently defaulted during the nine months ended September 30, 2017:

	Number of Financing Receivable Accounts	Balance at Default
Total	156	$ 721

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Note 12. Share-based Compensation

Share-based compensation expense was as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Continuing operations				
Stock options, net of estimated forfeitures	$1,932	$4,315	$(3,333)	$32,142
Restricted stock awards	4,456	3,638	12,905	10,072
Total continuing operations	$6,388	$7,953	$9,572	$42,214
Discontinued operations				
Share-based compensation expense for discontinued operations	173	679	920	1,755
Total continuing and discontinued operations	$6,561	$8,632	$10,492	$43,969

The negative stock options expense for the nine months ended September 30, 2018 relates to the correction of an immaterial error recorded in the prior year.

Note 13. Stockholders' Equity

The components of net changes in stockholders' equity for the nine months ended September 30, 2018 were as follows:

	Laureate Education, Inc. Stockholders								
	Class A Common Stock		Class B Common Stock		Additional paid-in capital	(Accumulated deficit) retained earnings	Accumulated other comprehensive (loss) income	Non-controlling interests	Total stockholders' equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2017	55,052	$ 220	132,443	$ 530	$3,446,206	$(946,236)	$(925,556)	$ 12,118	$1,587,282
Adoption of accounting standards	—	—	—	—	—	4,330	—	—	4,330
Balance at January 1, 2018	55,052	220	132,443	530	3,446,206	(941,906)	(925,556)	12,118	1,591,612
Non-cash stock compensation	—	—	—	—	10,492	—	—	—	10,492
Conversion of Class B shares to Class A shares	115	—	(115)	—	—	—	—	—	—
Vesting of restricted stock, net of shares withheld to satisfy tax withholding	344	2	59	—	(1,746)	—	—	—	(1,744)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	(892)	(892)
	—	—	—	—	(468)	—	—	(23,305)	(23,773)

Change in noncontrolling interests									
Accretion of redeemable noncontrolling interests and equity	—	—	—	—	1,130	—	—	—	1,130
Accretion of Series A Preferred Stock	—	—	—	—	(61,974)	—	—	—	(61,974)
Gain upon conversion of Series A Preferred Stock	—	—	—	—	74,110	—	—	—	74,110
Reclassification of Series A Preferred Stock upon conversion	36,143	144	—	—	237,957	—	—	—	238,101
Reclassification of redeemable noncontrolling interests and equity	—	—	—	—	—	—	—	(309)	(309)
Net income	—	—	—	—	—	298,499	—	315	298,814
Foreign currency translation adjustment, net of tax of $0	—	—	—	—	—	—	(166,456)	404	(166,052)
Unrealized gain on derivatives, net of tax of $0	—	—	—	—	—	—	11,776	—	11,776
Minimum pension liability adjustment, net of tax of $0	—	—	—	—	—	—	376	—	376
Balance at September 30, 2018	91,654	$ 366	132,387	$ 530	$ 3,705,707	$ (643,407)	$ (1,079,860)	$ (11,669)	$ 1,971,667

As described in Note 2, Significant Accounting Policies, the change in opening retained earnings from the adoption of accounting standards comprises an increase of approximately $1,400 from the cumulative impact of adopting Topic 606 and an increase of approximately $2,900 from the cumulative impact of adopting ASU 2016-16.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (AOCI) in our Consolidated Balance Sheets includes the accumulated translation adjustments arising from translation of foreign subsidiaries' financial statements, the unrealized gains on derivatives designated as cash flow hedges, and the accumulated net gains or losses that are not recognized as components of net periodic benefit cost for our minimum pension liability. The components of these balances were as follows:

	September 30, 2018			December 31, 2017		
	Laureate Education, Inc.	Noncontrolling Interests	Total	Laureate Education, Inc.	Noncontrolling Interests	Total
Foreign currency translation loss	$(1,093,677)	$ 371	$(1,093,306)	$(927,221)	$ (33)	$(927,254)
Unrealized gain on derivatives	16,433	—	16,433	4,657	—	4,657
Minimum pension liability adjustment	(2,616)	—	(2,616)	(2,992)	—	(2,992)
Accumulated other comprehensive loss	$(1,079,860)	$ 371	$(1,079,489)	$(925,556)	$ (33)	$(925,589)

Note 14. Derivative Instruments

In the normal course of business, our operations are exposed to fluctuations in foreign currency values and interest rate changes. We may seek to control a portion of these risks through a risk management program that includes the use of derivative instruments.

The interest and principal payments for Laureate’s senior long-term debt arrangements are to be paid primarily in USD. Our ability to make debt payments is subject to fluctuations in the value of the USD against foreign currencies, since a majority of our operating cash used to make these payments is generated by subsidiaries with functional currencies other than USD. As part of our overall risk management policies, Laureate has at times entered into foreign currency swap contracts and floating-to-fixed interest rate swap contracts. In addition, we occasionally enter into foreign exchange forward contracts to reduce the impact of other non-functional currency-denominated receivables and payables.

We do not enter into speculative or leveraged transactions, nor do we hold or issue derivatives for trading purposes. We generally intend to hold our derivatives until maturity.

Laureate reports all derivatives at fair value. These contracts are recognized as either assets or liabilities, depending upon the derivative’s fair value. Gains or losses associated with the change in the fair value of these swaps are recognized in our Consolidated Statements of Operations on a current basis over the term of the contracts, unless designated and effective as a hedge. For swaps that are designated and effective as cash flow hedges, gains or losses associated with the change in fair value of the swaps are recognized in our Consolidated Balance Sheets as a component of AOCI and amortized into earnings as a component of Interest expense over the term of the related hedged items. Upon early termination of an effective interest rate swap designated as a cash flow hedge, unrealized gains or losses are deferred in our Consolidated Balance Sheets as a component of AOCI and are amortized as an adjustment to Interest expense over the period during which the hedged forecasted transaction affects earnings. For derivatives that are both designated and effective as net investment hedges, gains or losses associated with the change in fair value of the derivatives are recognized on our Consolidated Balance Sheets as a component of AOCI.

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The reported fair values of our derivatives, which are classified in Derivative instruments on our Consolidated Balance Sheets, were as follows:

	September 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:		
Long-term assets:		
Interest rate swaps	$ —	$ 6,046
Net investment cross currency swaps	682	—
Long-term liabilities:		
Net investment cross currency swaps	—	1,451
Derivatives not designated as hedging instruments:		
Long-term assets:		
Contingent redemption features - Series A Preferred Stock	—	42,140
Current liabilities:		
Interest rate swaps	35	179
Cross currency and interest rate swaps	—	4,279
Long-term liabilities:		
Cross currency and interest rate swaps	7,258	7,939
Total derivative instrument assets	$ 682	$ 48,186
Total derivative instrument liabilities	$ 7,293	$ 13,848

Derivatives Designated as Hedging Instruments

Cash Flow Hedge - 2024 Term Loan Interest Rate Swaps

In May 2017, Laureate entered into, and designated as cash flow hedges, four pay-fixed, receive-floating amortizing interest rate swaps with notional amounts of $100,000, $100,000, $200,000 and $300,000, respectively. These notional amounts match the corresponding principal of the 2024 Term Loan borrowings of which these swaps are effectively hedging the interest payments. As such, the notional values amortize annually based on the terms of the agreements to match the principal borrowings as they are repaid. These swaps effectively fix the floating interest rate on the term loan to reduce exposure to variability in cash flows attributable to changes in the USD-LIBOR-BBA swap rate. All four swaps had an effective date of May 31, 2017 and would have matured on May 31, 2022; however, on August 21, 2018 Laureate fully settled these swaps. The cash received at settlement from the swap counterparties was $14,117. The decrease of $1,172 from the derivative asset's recorded fair value at June 30, 2018 and the fair value at settlement was also deferred into AOCI and will be ratably reclassified into income through Interest expense over the remaining maturity period of the 2024 Term Loans. Prior to settlement of the swaps, they were determined to be 100% effective; therefore, the amount of gain or loss recognized in income on the ineffective portion was $0. During the next 12 months, approximately $5,209 is expected to be reclassified from AOCI into income. The unamortized balance at September 30, 2018 is $13,352. As of December 31, 2017, these swaps had an estimated fair value of $6,046 which was recorded in Derivative instruments as a long-term asset.

Net Investment Hedge - Cross Currency Swaps

In December 2017, Laureate entered into two EUR-USD cross currency swaps (net investment hedges) to hedge the foreign currency exchange volatility on operations of our Euro functional currency subsidiaries and better match our cash flows with the currencies in which our debt obligations are denominated. Both swaps have an effective date of December 22, 2017 and a maturity date of November 2, 2020, and were designated at inception as effective net investment hedges. At maturity on the first swap Laureate will deliver the notional amount of EUR 50,000 and receive USD $59,210 at an implied exchange rate of 1.1842. At maturity on the second swap Laureate will deliver the notional amount of EUR 50,000 and receive USD $59,360 at an implied exchange rate of 1.1872. Semiannually until maturity, Laureate is obligated to pay 5.63% and receive 8.25% on EUR 50,000 and USD $59,210, respectively, on the first swap and pay 5.6675% and receive 8.25% on EUR 50,000 and USD $59,360, respectively, on the second swap. The swaps are determined to be 100% effective; therefore, the amount of gain or loss recognized in income on the ineffective portion of derivative instruments designated as hedging instruments was $0. As of September 30, 2018 and December 31, 2017, these swaps had an estimated fair value of $682 and $1,451, respectively, which was recorded in Derivative Instruments as a long-term asset at September 30, 2018 and a long-term liability at December 31, 2017.

The table below shows the total recorded unrealized (loss) gain in Comprehensive income for the derivatives designated as hedging instruments. The impact of these derivative instruments on Comprehensive income, Interest expense and AOCI were as follows:

For the three months ended September 30:

	(Loss) Gain Recognized in Comprehensive Income (Effective Portion)		Income Statement Location	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)	
	2018	2017		2018	2017
Interest rate swaps	$(1,938)	$525	Interest expense	$950	$(972)
Net investment cross currency swaps	1,378	—	N/A	—	—
Total	$(560)	$525		$	