

EQUIFAX INC
Form 10-Q
October 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

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: 001-06605

EQUIFAX INC.

(Exact name of registrant as specified in its charter)

Georgia 58-0401110

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

1550 Peachtree Street, N.W., Atlanta, Georgia 30309
(Address of principal executive offices) (Zip Code)

404-885-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

On October 12, 2018, there were 120,575,077 shares of the registrant’s common stock outstanding.

EQUIFAX INC.

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED September 30, 2018

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FORWARD-LOOKING STATEMENTS

This report contains information that may constitute “forward-looking statements.” Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will,” “may” and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events, plans or developments that we expect or anticipate will occur in the future, including statements relating to future operating results and statements related to the cybersecurity incident reported in the third quarter of 2017 and impact of the Tax Cuts and Jobs Act of 2017, are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company’s historical experience and our present expectations or projections, including without limitation our expectation regarding the Company’s outlook and expected increases in costs related to the 2017 cybersecurity incident referenced below in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations — “Business Overview—Business Environment and Company Outlook.” These risks and uncertainties include, but are not limited to, those described in Part I, “Item 1A. Risk Factors,” and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2017, in Part II, “Item 1A. Risk Factors” and elsewhere in this report, and those described from time to time in our future reports filed with the Securities and Exchange Commission. As a result of such risks and uncertainties, we urge you not to place undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

EQUIFAX INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,	
	2018	2017
(In millions, except per share amounts)		
Operating revenue	\$834.2	\$834.8
Operating expenses:		
Cost of services (exclusive of depreciation and amortization below)	376.7	297.3
Selling, general and administrative expenses	317.5	310.4
Depreciation and amortization	75.9	72.4
Total operating expenses	770.1	680.1
Operating income	64.1	154.7
Interest expense	(26.7)	(21.4)
Other income, net	1.3	2.7
Consolidated income before income taxes	38.7	136.0
Provision for income taxes	0.9	(35.5)
Consolidated net income	39.6	100.5
Less: Net income attributable to noncontrolling interests including redeemable noncontrolling interests	(1.2)	(4.2)
Net income attributable to Equifax	\$38.4	\$96.3
Basic earnings per common share:		
Net income attributable to Equifax	\$0.32	\$0.80
Weighted-average shares used in computing basic earnings per share	120.5	120.1
Diluted earnings per common share:		
Net income attributable to Equifax	\$0.32	\$0.79
Weighted-average shares used in computing diluted earnings per share	121.6	121.4
Dividends per common share	\$0.39	\$0.39

See Notes to Consolidated Financial Statements.

EQUIFAX INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
(In millions, except per share amounts)		
Operating revenue	\$2,576.8	\$2,523.8
Operating expenses:		
Cost of services (exclusive of depreciation and amortization below)	1,068.2	891.9
Selling, general and administrative expenses	875.4	778.6
Depreciation and amortization	231.3	214.2
Total operating expenses	2,174.9	1,884.7
Operating income	401.9	639.1
Interest expense	(77.0)	(70.1)
Other income, net	6.4	5.3
Consolidated income from operations before income taxes	331.3	574.3
Provision for income taxes	(51.7)	(150.8)
Consolidated net income	279.6	423.5
Less: Net income attributable to noncontrolling interests including redeemable noncontrolling interests	(5.4)	(8.5)
Net income attributable to Equifax	\$274.2	\$415.0
Basic earnings per common share:		
Net income attributable to Equifax	\$2.28	\$3.45
Weighted-average shares used in computing basic earnings per share	120.3	120.1
Diluted earnings per common share:		
Net income attributable to Equifax	\$2.26	\$3.41
Weighted-average shares used in computing diluted earnings per share	121.5	121.6
Dividends per common share	\$1.17	\$1.17

See Notes to Consolidated Financial Statements.

EQUIFAX INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,			2017		
	Equifax Shareholders	Noncontrolling Interests	Total	Equifax Shareholders	Noncontrolling Interests	Total
	(In millions)					
Net income	\$38.4	\$ 1.2	\$39.6	\$96.3	\$ 4.2	\$100.5
Other comprehensive income (loss):						
Foreign currency translation adjustment	(43.2)	(0.7)	(43.9)	91.1	1.2	92.3
Change in unrecognized prior service cost and actuarial losses related to our pension and other postretirement benefit plans, net	3.9	—	3.9	2.6	—	2.6
Comprehensive income (loss)	\$(0.9)	\$ 0.5	\$(0.4)	\$190.0	\$ 5.4	\$195.4
	Nine Months Ended September 30,			2017		
	Equifax Shareholders	Noncontrolling Interests	Total	Equifax Shareholders	Noncontrolling Interests	Total
	(In millions)					
Net income	\$274.2	\$ 5.4	\$279.6	\$415.0	\$ 8.5	\$423.5
Other comprehensive income (loss):						
Foreign currency translation adjustment	(161.3)	6.2	(155.1)	209.7	3.4	213.1
Change in unrecognized prior service cost and actuarial losses related to our pension and other postretirement benefit plans, net	11.9	—	11.9	7.6	—	7.6
Change in cumulative loss from cash flow hedging transactions, net	—	—	—	(0.2)	—	(0.2)
Comprehensive income (loss)	\$124.8	\$ 11.6	\$136.4	\$632.1	\$ 11.9	\$644.0

See Notes to Consolidated Financial Statements.

EQUIFAX INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	December 31, 2017
(In millions, except par values)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 253.4	\$ 336.4
Trade accounts receivable, net of allowance for doubtful accounts of \$11.5 and \$9.1 at September 30, 2018 and December 31, 2017, respectively	467.9	444.8
Prepaid expenses	90.6	94.3
Other current assets	75.6	122.9
Total current assets	887.5	998.4
Property and equipment:		
Capitalized internal-use software and system costs	607.3	427.9
Data processing equipment and furniture	326.3	306.6
Land, buildings and improvements	213.2	212.5
Total property and equipment	1,146.8	947.0
Less accumulated depreciation and amortization	(451.6)	(380.0)
Total property and equipment, net	695.2	567.0
Goodwill	4,162.8	4,184.0
Indefinite-lived intangible assets	94.9	95.0
Purchased intangible assets, net	1,132.8	1,247.0
Other assets, net	160.8	142.0
Total assets	\$ 7,134.0	\$ 7,233.4
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt and current maturities of long-term debt	\$ 3.1	\$ 965.3
Accounts payable	139.6	110.3
Accrued expenses	179.8	160.9
Accrued salaries and bonuses	96.5	119.4
Deferred revenue	104.9	108.4
Other current liabilities	220.3	209.2
Total current liabilities	744.2	1,673.5
Long-term debt	2,629.4	1,739.0
Deferred income tax liabilities, net	298.6	305.1
Long-term pension and other postretirement benefit liabilities	135.7	175.8
Other long-term liabilities	84.6	101.0
Total liabilities	3,892.5	3,994.4
Commitments and Contingencies (see Note 5)		
Equifax shareholders' equity:		
Preferred stock, \$0.01 par value: Authorized shares - 10.0; Issued shares - none	—	—
Common stock, \$1.25 par value: Authorized shares - 300.0; Issued shares - 189.3 at September 30, 2018 and December 31, 2017; Outstanding shares - 120.6 and 120.1 at September 30, 2018 and December 31, 2017, respectively	236.6	236.6
Paid-in capital	1,347.4	1,332.7
Retained earnings	4,740.1	4,600.6

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Accumulated other comprehensive loss	(561.4)	(412.0)
Treasury stock, at cost, 68.1 shares and 68.6 shares at September 30, 2018 and December 31, 2017, respectively	(2,572.3)	(2,577.6)
Stock held by employee benefit trusts, at cost, 0.6 shares at September 30, 2018 and December 31, 2017	(5.9)	(5.9)
Total Equifax shareholders' equity	3,184.5	3,174.4
Noncontrolling interests including redeemable noncontrolling interests	57.0	64.6
Total equity	3,241.5	3,239.0
Total liabilities and equity	\$7,134.0	\$7,233.4

See Notes to Consolidated Financial Statements.

EQUIFAX INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2018 2017 (In millions)	
Operating activities:		
Consolidated net income	\$279.6	\$423.5
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	235.3	216.7
Stock-based compensation expense	32.8	34.6
Deferred income taxes	(13.4)	(40.6)
Changes in assets and liabilities, excluding effects of acquisitions:		
Accounts receivable, net	(32.1)	(14.9)
Other assets, current and long-term	33.7	(24.4)
Current and long term liabilities, excluding debt	(28.5)	13.8
Cash provided by operating activities	507.4	608.7
Investing activities:		
Capital expenditures	(208.1)	(157.5)
Acquisitions, net of cash acquired	(115.8)	(77.3)
Cash received from sale of asset	5.6	8.6
Investment in unconsolidated affiliates, net	(6.9)	—
Cash used in investing activities	(325.2)	(226.2)
Financing activities:		
Net short-term (repayments) borrowings	(960.9)	354.9
Payments on long-term debt	(100.0)	(322.5)
Borrowings on long-term debt	994.5	—
Treasury stock purchases	—	(77.1)
Dividends paid to Equifax shareholders	(140.8)	(140.7)
Dividends paid to noncontrolling interests	(8.7)	(8.2)
Proceeds from exercise of stock options	11.3	18.8
Payment of taxes related to settlement of equity awards	(18.8)	(28.0)
Purchase of redeemable noncontrolling interests	(23.5)	—
Debt issuance costs	(7.6)	—
Payment of contingent consideration	(1.5)	—
Cash used in financing activities	(256.0)	(202.8)
Effect of foreign currency exchange rates on cash and cash equivalents	(9.2)	6.4
(Decrease) increase in cash and cash equivalents	(83.0)	186.1
Cash and cash equivalents, beginning of period	336.4	129.3
Cash and cash equivalents, end of period	\$253.4	\$315.4

See Notes to Consolidated Financial Statements.

EQUIFAX INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND OTHER COMPREHENSIVE INCOME

For the Nine Months Ended September 30, 2018

(Unaudited)

	Equifax Shareholders								
	Common Stock Shares Outstanding (In millions, except per share amounts)	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Stock Held By Employee Benefits Trusts	Noncontrolling Interests	Total Equity
Balance, December 31, 2017	120.1	\$ 236.6	\$ 1,332.7	\$ 4,600.6	\$ (412.0)	\$ (2,577.6)	\$ (5.9)	\$ 64.6	\$ 3,239.0
Net income	—	—	—	274.2	—	—	—	5.4	279.6
Other comprehensive (loss) income	—	—	—	—	(141.4)	—	—	6.2	(135.2)
Shares issued under stock and benefit plans, net of minimum tax withholdings	0.5	—	(12.5)	—	—	5.3	—	—	(7.2)
Cash dividends (\$1.17 per share)	—	—	—	(141.5)	—	—	—	—	(141.5)
Dividends paid to employee benefits trusts	—	—	0.7	—	—	—	—	—	0.7
Stock-based compensation expense	—	—	32.8	—	—	—	—	—	32.8
Purchases of redeemable noncontrolling interests	—	—	(6.3)	—	(8.0)	—	—	(7.9)	(22.2)
Redeemable noncontrolling interest adjustment	—	—	—	2.6	—	—	—	(2.6)	—
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	(8.7)	(8.7)
Cumulative adjustment from change in accounting principle (Note 2)	—	—	—	4.2	—	—	—	—	4.2
Balance, September 30, 2018	120.6	\$ 236.6	\$ 1,347.4	\$ 4,740.1	\$ (561.4)	\$ (2,572.3)	\$ (5.9)	\$ 57.0	\$ 3,241.5

At September 30, 2018, \$590.1 million was available for future purchases of common stock under our share repurchase authorization.

Accumulated Other Comprehensive Loss consists of the following components:

	September 30, 2018	December 31, 2017
	(In millions)	
Foreign currency translation	\$(264.6)	\$(103.3)
Unrecognized actuarial losses and prior service cost related to our pension and other postretirement benefit plans, net of accumulated tax of \$91.8 and \$95.6 at September 30, 2018 and December 31, 2017, respectively	(295.6)	(257.5)
Cash flow hedging transactions, net of accumulated tax of \$0.7 at September 30, 2018 and December 31, 2017, respectively	(1.2)	(1.2)
Impact of Tax Cuts and Jobs Act of 2017	—	(50.0)
Accumulated other comprehensive loss	\$(561.4)	\$(412.0)

See Notes to Consolidated Financial Statements.

EQUIFAX INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As used herein, the terms Equifax, the Company, we, our and us refer to Equifax Inc., a Georgia corporation, and its consolidated subsidiaries as a combined entity, except where it is clear that the terms mean only Equifax Inc.

Nature of Operations. We collect, organize and manage various types of financial, demographic, employment and marketing information. Our products and services enable businesses to make credit and service decisions, manage their portfolio risk, automate or outsource certain payroll-related tax and human resources business processes, and develop marketing strategies concerning consumers and commercial enterprises. We serve customers across a wide range of industries, including the financial services, mortgage, retail, telecommunications, utilities, automotive, brokerage, healthcare and insurance industries, as well as government agencies. We also enable consumers to manage and protect their financial health through a portfolio of products offered directly to consumers. As of September 30, 2018, we operated in the following countries: Argentina, Australia, Canada, Chile, Costa Rica, Ecuador, El Salvador, Honduras, India, Ireland, Mexico, New Zealand, Paraguay, Peru, Portugal, Spain, the United Kingdom, or U.K., Uruguay and the United States of America, or U.S. We also offer Equifax branded credit services in India and Russia through joint ventures, we have investments in consumer and/or commercial credit information companies through joint ventures in Cambodia, Malaysia, Singapore and Dubai, and have an investment in a consumer and commercial credit information company in Brazil.

We develop, maintain and enhance secured proprietary information databases through the compilation of consumer specific data, including credit, income, employment, asset, liquidity, net worth and spending activity, and business data, including credit and business demographics, that we obtain from a variety of sources, such as credit granting institutions, and income and tax information primarily from large to mid-sized companies in the U.S. We process this information utilizing our proprietary information management systems. We also provide information, technology and services to support debt collections and recovery management.

Basis of Presentation. The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, the instructions to Form 10-Q and applicable sections of SEC Regulation S-X. To understand our complete financial position and results, as defined by GAAP, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K”).

Our unaudited Consolidated Financial Statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the periods presented and are of a normal recurring nature.

Earnings Per Share. Our basic earnings per share, or EPS, is calculated as net income attributable to Equifax divided by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated to reflect the potential dilution that would occur if stock options or other contracts to issue common stock were exercised and resulted in additional common shares outstanding. The net income amounts used in both our basic and diluted EPS calculations are the same. A reconciliation of the weighted-average outstanding shares used in the two calculations is as follows:

Three	Nine
Months	Months
Ended	Ended

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	September		September	
	30,		30,	
	2018	2017	2018	2017
	(In millions)			
Weighted-average shares outstanding (basic)	120.5	120.1	120.3	120.1
Effect of dilutive securities:				
Stock options and restricted stock units	1.1	1.3	1.2	1.5
Weighted-average shares outstanding (diluted)	121.6	121.4	121.5	121.6

For the three and nine months ended September 30, 2018 and 2017, stock options that were anti-dilutive were not material.

Financial Instruments. Our financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts payable and short- and long-term debt. The carrying amounts of these items, other than long-term debt, approximate their fair market values due to the short-term nature of these instruments. The fair value of our fixed-rate debt is determined using Level 2 inputs such as quoted market prices for similar publicly traded instruments, and for non-publicly traded instruments through valuation techniques involving observable inputs based on the specific characteristics of the debt instrument. As of September 30, 2018 and December 31, 2017, the fair value of our long-term debt, including the current portion, was \$2.7 billion and \$2.1 billion, respectively, compared to its carrying value of \$2.7 billion and \$2.1 billion, respectively.

Derivatives and Hedging Activities. Although derivative financial instruments are not utilized for speculative purposes or as the Company's primary risk management tool, derivatives have been used as a risk management tool to hedge the Company's exposure to changes in interest rates and foreign exchange rates. We have used interest rate swaps and interest rate lock agreements to manage interest rate risk associated with our fixed and floating-rate borrowings. Forward contracts on various foreign currencies have been used to manage the foreign currency exchange rate risk of certain firm commitments denominated in foreign currencies. We recognize all derivatives on the balance sheet at fair value. Derivative valuations reflect the value of the instrument including the value associated with any material counterparty risk.

Fair Value Measurements. Fair value is determined based on the assumptions marketplace participants use in pricing the asset or liability. We use a three level fair value hierarchy to prioritize the inputs used in valuation techniques between observable inputs that reflect quoted prices in active markets, inputs other than quoted prices with observable market data and unobservable data (e.g., a company's own data).

The following table presents items measured at fair value on a recurring basis:

Description	Fair Value Measurements at Reporting Date Using:				
	Fair Value of Assets (Liabilities) at September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		(In millions)			
Deferred Compensation Plan Assets ⁽¹⁾	\$37.7	\$37.7	\$ —	\$ —	—
Deferred Compensation Plan Liability ⁽¹⁾	(37.7)	—	(37.7)	—	—
Total	\$—	\$37.7	\$ (37.7)	\$ —	—

(1) We maintain deferred compensation plans that allow for certain management employees to defer the receipt of compensation (such as salary, incentive compensation and commissions) until a later date based on the terms of the plan. The liability representing benefits accrued for plan participants is valued at the quoted market prices of the participants' investment elections. The asset consists of mutual funds reflective of the participants' investment selections and is valued at daily quoted market prices.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. We completed various acquisitions during the nine months ended September 30, 2018 and the year ended December 31, 2017. The values of net assets acquired and the resulting goodwill were recorded at fair value using Level 3 inputs. The majority of the related current assets acquired and liabilities assumed were recorded at their carrying values as of the date of acquisition, as their carrying values approximated their fair values due to their short-term nature. The fair values of goodwill and definite-lived intangible assets acquired in these acquisitions were internally estimated primarily based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets are expected to generate in the future. We developed internal estimates for the expected cash flows and discount rates in the present value calculations.

Trade Accounts Receivable and Allowance for Doubtful Accounts. Accounts receivable are stated at cost. Significant payment terms for customers are identified in the contract. We do not recognize interest income on our trade accounts receivable. Additionally, we generally do not require collateral from our customers related to our trade accounts receivable. The allowance for doubtful accounts for estimated losses on trade accounts receivable is based on historical write-off experience, an analysis of the aging of outstanding receivables, customer payment patterns and the establishment of specific reserves for customers in an adverse financial condition. We reassess the adequacy of the allowance for doubtful accounts each reporting period. Increases to the allowance for doubtful accounts are recorded as bad debt expense, which are included in selling, general and administrative expenses on the accompanying Consolidated Statements of Income.

Other Current Assets. Other current assets on our Consolidated Balance Sheets represent amounts receivable from tax authorities, insurance recoveries receivable, and the current portion of the Company's right to consideration in exchange for goods or services that the entity has transferred to a customer (contract assets). Other current assets also include amounts in specifically designated accounts that hold the funds that are due to customers from our debt collection and recovery management services. As of September 30, 2018, these assets were approximately \$19.7 million, with a corresponding balance in other current liabilities. These amounts are restricted as to their current use, and will be released according to the specific customer agreements.

Other Assets. Other assets on our Consolidated Balance Sheets primarily represent our investment in unconsolidated affiliates, our equity investment in Brazil, the long-term portion of the Company's right to consideration in exchange for goods or services that the entity has transferred to a customer (contract assets), assets related to life insurance policies covering certain officers of the Company, and employee benefit trust assets.

Other Current Liabilities. Other current liabilities on our Consolidated Balance Sheets consist of various accrued liabilities such as costs related to the 2017 cybersecurity incident as described more fully in Note 5, interest expense, accrued employee benefits, accrued payroll and other taxes, and accrued legal expenses. Other current liabilities also include corresponding amounts of other current assets, related to amounts in specifically designated accounts that hold the funds that are due to customers from our debt collection and recovery management services. As of September 30, 2018, these funds were approximately \$19.7 million. These amounts are restricted as to their current use and will be released according to the specific customer agreements.

Change in Accounting Principle. In February 2018, the FASB issued Accounting Standards Update ("ASU") 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220)." The guidance provides companies the option to eliminate the stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017. The guidance is effective for annual periods beginning after December 31, 2018, with early adoption permitted for reporting periods for which financial statements have not been issued and can be applied retrospectively. As such, we have adopted this guidance as of December 31, 2017 resulting in the reclassification of \$50.0 million from accumulated other comprehensive income to retained earnings related to the change in tax rate, as prescribed in the guidance.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718) Scope of Modification Accounting." The amendments in ASU 2017-09 require entities to apply modification accounting in Topic 718 only when changes to the terms or conditions of a share-based payment award result in changes to fair value, vesting conditions or the classification of the award as equity or liability. The adoption of this guidance did not have an impact on our financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)." This new guidance changes how employers that sponsor defined benefit pension plans and other postretirement plans present the net periodic benefit cost in the income statement. An employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendment also allows only the service cost component to be eligible for capitalization, when applicable. The retrospective adoption of this guidance resulted in the reclassification of \$1.8 million and \$5.4 million from selling, general and administrative expenses to other income, net in the Consolidated Statements of Income for the three and nine months ended September 30, 2017, respectively, and the recognition of \$1.0 million and \$3.0 million in selling, general, and administrative expenses and \$2.2 million and \$6.6 million in other income, net in the Consolidated Statements of Income for the three and nine months ended

September 30, 2018, respectively. We do not capitalize any components of pension costs.

In January 2017, the FASB issued ASU 2017-01 "Clarifying the Definition of a Business (Topic 805)." This standard provides criteria to determine when an asset acquired or group of assets acquired is not a business. When substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This reduces the number of transactions that need to be further evaluated to determine if what is being acquired meets the definition of a business. The prospective adoption of this guidance did not have an impact on our financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This new guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair

value with changes in fair value recognized in net income. However, an entity may choose to measure the equity investments that do not have readily determinable fair values at a new measurement alternative. Entities may choose to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The amendments in this update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet and require these entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. This guidance also changes the presentation and disclosure requirements for financial instruments as well as clarifying the guidance related to valuation allowance assessments when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The adoption of this guidance did not have an impact on our financial position, results of operations, or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 was originally effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 and early adoption was not permitted. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09.

As of January 1, 2018, we adopted the standard using the modified retrospective method. The new standard impacted our contracts that have a known quantity over a defined term with price increases or decreases over the contract life. Under the standard applicable during the period ended December 31, 2017, revenue related to these contracts were limited by billings in a period. Under the new standard applicable for the period beginning January 1, 2018, the total contract value is recognized ratably over the defined term or by using a transactional standalone selling price resulting in the creation of a contract asset or contract liability as transactions are delivered. Additionally, the changes to the cost capitalization practices did not materially impact our Consolidated Financial Statements. See Note 2 for further details.

Recent Accounting Pronouncements. Derivatives and Hedging. In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities (Topic 815)." The amendments in ASU 2017-12 provide targeted improvements to the accounting for hedging activities to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The adoption of ASU 2017-12 will become effective for annual periods beginning after December 15, 2018, although early adoption is permitted. This guidance must be applied on a prospective basis. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or cash flows.

Goodwill. In January 2017, the FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment (Topic 350)." This standard eliminates Step 2 from the current goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning

after December 15, 2019 with early adoption permitted. This guidance must be applied on a prospective basis. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or cash flows.

Leases. In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842).” This standard requires lessees to record most leases on their balance sheets and expenses on their income statements in a manner similar to current lease accounting. The guidance also eliminates current real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognize lease-related revenue and expense. The guidance becomes effective for fiscal years and interim reporting periods beginning after December 15, 2018.

In July 2018, the FASB approved an additional optional transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We will be adopting the standard using this optional transition method. At our current point in the adoption of the standard, we do not expect the adoption to have a material impact on our consolidated financial

statements. While we are continuing to assess potential impacts of the standard, we currently expect the most significant impact will be the recognition of right-of-use assets and lease liabilities for operating leases. We expect our accounting for capital leases to remain substantially unchanged.

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13 "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. We do not expect the adoption of the standard to have a material impact on our consolidated financial statements.

Fair Value Measurements. In August 2018, the FASB issued ASU No. 2018-13 "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement" which eliminates, adds, and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods therein, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The adoption of this standard will have an impact on our disclosures and will not materially impact our consolidated financial statements.

Retirement Benefits. In August 2018, the FASB issued ASU No. 2018-14 "Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans" which requires minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. The adoption of this standard will have an impact on our disclosures and will not materially impact our consolidated financial statements.

Cloud Computing Arrangements. In August 2018, the FASB issued ASU No. 2018-15 "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract." ASU 2018-15 requires that issuers follow the internal-use software guidance in Accounting Standards Codification (ASC) 350-40 to determine which costs to capitalize as assets or expense as incurred. The ASC 350-40 guidance requires that certain costs incurred during the application development stage be capitalized and other costs incurred during the preliminary project and post-implementation stages be expensed as they are incurred. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods therein. We are evaluating the impact of the adoption of the standard on our consolidated financial statements.