HENRY JACK & ASSOCIATES INC
Form 10-Q
February 07, 2019
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 December 31, 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 0-14112

JACK HENRY & ASSOCIATES, INC.
(Exact name of registrant as specified in its charter)

Delaware	43-1128385
(State or Other Jurisdiction of Incorporation)	(I.R.S Employer Identification No.)

663 Highway 60, P.O. Box 807, Monett, MO 65708
(Address of Principle Executive Offices)
(Zip Code)

417-235-6652
(Registrant’s telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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 [X] No [ ]

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	[X]	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 [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of February 4, 2019, the Registrant had 77,176,611 shares of Common Stock outstanding ($0.01 par value).

TABLE OF CONTENTS

In this report, all references to “JHA”, the “Company”, “we”, “us”, and “our”, refer to Jack Henry & Associates, Inc., and its wholly owned subsidiaries.

FORWARD LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including without limitation, in Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements are identified at “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended June 30, 2018. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

3

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

Table of Contents

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share and Per Share Data)
(Unaudited)

	December 31, 2018	June 30, 2018 *As Adjusted
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,156	$ 31,440
Receivables, net	184,737	297,271
Income tax receivable	9,488	21,671
Prepaid expenses and other	99,053	96,141
Deferred costs	43,205	27,069
Total current assets	362,639	473,592
PROPERTY AND EQUIPMENT, net	283,454	286,850
OTHER ASSETS:		
Non-current deferred costs	82,328	74,865
Computer software, net of amortization	303,516	288,172
Other non-current assets	129,562	110,299
Customer relationships, net of amortization	109,263	115,034
Other intangible assets, net of amortization	34,245	38,467
Goodwill	666,770	649,929
Total other assets	1,325,684	1,276,766
Total assets	$ 1,971,777	$ 2,037,208
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,597	$ 34,510
Accrued expenses	92,614	88,764
Deferred revenues	240,863	352,431
Total current liabilities	340,074	475,705
LONG-TERM LIABILITIES:		
Non-current deferred revenues	14,773	17,484
Non-current deferred income tax liability	210,489	208,303
Other long-term liabilities	14,486	12,872
Total long-term liabilities	239,748	238,659
Total liabilities	579,822	714,364
STOCKHOLDERS' EQUITY		
Preferred stock - $1 par value; 500,000 shares authorized, none issued	—	—
Common stock - $0.01 par value; 250,000,000 shares authorized; 103,428,416 shares issued at December 31, 2018; 103,278,562 shares issued at June 30, 2018	1,034	1,033
Additional paid-in capital	459,988	464,138
Retained earnings	2,007,469	1,912,933
Less treasury stock at cost 26,257,903 shares at December 31, 2018; 26,107,903 shares at June 30, 2018	(1,076,536)	(1,055,260)
Total stockholders' equity	1,391,955	1,322,844

Total liabilities and equity	$ 1,971,777	$ 2,037,208

See notes to condensed consolidated financial statements

*Refer to Note 2 for the impact to previously presented financial statements as a result of the adoption of ASC 606

Table of Contents

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
REVENUE	$386,275	$357,209	$778,818	$718,493
EXPENSES				
Cost of Revenue	227,284	207,100	447,396	411,016
Research and Development	23,990	22,414	48,016	43,343
Selling, General, and Administrative	46,797	43,094	91,979	84,181
Gain on Disposal of a Business	—	(189)	—	(1,894)
Total Expenses	298,071	272,419	587,391	536,646
OPERATING INCOME	88,204	84,790	191,427	181,847
INTEREST INCOME (EXPENSE)				
Interest Income	252	146	542	293
Interest Expense	(148)	(250)	(295)	(439)
Total Interest Income (Expense)	104	(104)	247	(146)
INCOME BEFORE INCOME TAXES	88,308	84,686	191,674	181,701
PROVISION/ (BENEFIT) FOR INCOME TAXES	20,219	(76,557)	40,034	(46,412)
NET INCOME	$68,089	$161,243	$151,640	$228,113
Basic earnings per share	$0.88	$2.09	$1.96	$2.95
Basic weighted average shares outstanding	77,216	77,218	77,202	77,250
Diluted earnings per share	$0.88	$2.08	$1.96	$2.94
Diluted weighted average shares outstanding	77,409	77,565	77,474	77,606

See notes to condensed consolidated financial statements
*Refer to Note 2 for the impact to previously presented financial statements as a result of the adoption of ASC 606

Table of Contents

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Six Months Ended December 31, 2018	2017 *As Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$151,640	$228,113
Adjustments to reconcile net income from operations to net cash from operating activities:		
Depreciation	22,470	24,602
Amortization	56,146	48,711
Change in deferred income taxes	1,256	(87,040)
Expense for stock-based compensation	5,146	4,609
(Gain)/loss on disposal of assets and businesses	(22)	(1,841)
Changes in operating assets and liabilities:		
Change in receivables	113,563	143,914
Change in prepaid expenses, deferred costs and other	(45,768)	(57,214)
Change in accounts payable	(14,685)	5,371
Change in accrued expenses	4,658	(13,236)
Change in income taxes	12,654	1,829
Change in deferred revenues	(115,014)	(120,910)
Net cash from operating activities	192,044	176,908
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for acquisitions, net of cash acquired	(19,981)	(137,654)
Capital expenditures	(32,968)	(12,249)
Proceeds from the sale of businesses	—	350
Proceeds from the sale of assets	76	205
Internal use software	(2,694)	(6,025)
Computer software developed	(54,086)	(46,936)
Net cash from investing activities	(109,653)	(202,309)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facilities	—	100,000
Repayments on credit facilities	—	(50,000)
Purchase of treasury stock	(21,276)	(30,018)
Dividends paid	(57,104)	(47,844)
Proceeds from issuance of common stock upon exercise of stock options	1	1
Tax withholding payments related to share based compensation	(13,485)	(7,144)
Proceeds from sale of common stock	4,189	3,360
Net cash from financing activities	(87,675)	(31,645)
NET CHANGE IN CASH AND CASH EQUIVALENTS	$(5,284)	$(57,046)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$31,440	$114,765
CASH AND CASH EQUIVALENTS, END OF PERIOD	$26,156	$57,719

See notes to condensed consolidated financial statements
*Refer to Note 2 for the impact to previously presented financial statements as a result of the adoption of ASC 606

Table of Contents

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)
(Unaudited)

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Company

Jack Henry & Associates, Inc. and subsidiaries (“JHA” or the “Company”) is a provider of integrated computer systems and services that has developed and acquired a number of banking and credit union software systems. The Company's revenues are predominately earned by marketing those systems to financial institutions nationwide together with computer equipment (hardware), by providing the conversion and implementation services for financial institutions to utilize JHA systems, and by providing other related services. JHA also provides continuing support and services to customers using in-house or outsourced systems.

Consolidation

The condensed consolidated financial statements include the accounts of JHA and all of its subsidiaries, which are wholly-owned, and all intercompany accounts and transactions have been eliminated.

Comprehensive Income

Comprehensive income for the three and six months ended December 31, 2018 and 2017 equals the Company’s net income.

Prior Period Reclassification

The prior year periods have been recast to reflect the Company's retrospective adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, and related amendments, collectively referred to as Accounting Standards Codification ("ASC") 606.

Revenue Recognition

The Company generates revenue from data processing, transaction processing, software licensing and related services, professional services, and hardware sales.

Significant Judgments in Application of the Guidance

Identification of Performance Obligations

The Company enters into contracts with customers that may include multiple types of goods and services. At contract inception, the Company assesses the solutions and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a solution or service (or bundle of solutions or services) that is distinct - that is, if the solution or service is separately identifiable from other items in the arrangement and if the customer can benefit from the solution or service on its own or together with other resources that are readily available. The Company recognizes revenue when or as it satisfies each performance obligation by transferring control of a solution or service to the customer.

Determination of Transaction Price

The amount of revenue recognized is based on the consideration the Company expects to receive in exchange for transferring goods and services to the customer. The Company’s contracts with its customers frequently contain some component of variable consideration. The Company estimates variable consideration in its contracts primarily using the expected value method, based on both historical and current information. Where appropriate, the Company may constrain the estimated variable consideration included in the transaction price in the event of a high degree of uncertainty as to the final consideration amount.

Taxes collected from customers and remitted to governmental authorities are not included in revenue. The Company includes reimbursements from customers for expenses incurred in providing services (such as for postage, travel and telecommunications costs) in revenue, while the related costs are included in cost of revenue.

Technology or service components from third parties are frequently included in or combined with the Company’s applications or service offerings. Whether the Company recognizes revenue based on the gross amount billed to the customer or the net amount retained involves judgment in determining whether the Company controls the good or service before it is transferred to the customer. This assessment is made at the performance obligation level.

Table of Contents

Allocation of Transaction Price

The transaction price, once determined, is allocated between the various performance obligations in the contract based upon their relative standalone selling prices. The standalone selling prices are determined based on the prices at which the Company separately sells each good or service. For items that are not sold separately, the Company estimates the standalone selling prices using all information that is reasonably available, including reference to historical pricing data.

The following describes the nature of the Company's primary types of revenue:

Processing

Processing revenue is generated from transaction-based fees for electronic deposit and payment services, electronic funds transfers and debit and credit card processing. The Company's arrangements for these services typically require the Company to "stand-ready" to provide specific services on a when and if needed basis by processing an unspecified number of transactions over the contractual term. The fees for these services may be fixed or variable (based upon performing an unspecified quantity of services), and pricing may include tiered pricing structures. Amounts of revenue allocated to these services are recognized as those services are performed. Customers are typically billed monthly for transactions processed during the month. The Company evaluates tiered pricing to determine if a material right exists. If, after that evaluation, we determine a material right does exist, we assign value to the material right based upon standalone selling price after estimation of breakage associated with the material right.

Outsourcing and Cloud

Outsourcing and cloud revenue is generated from data and item processing services and hosting fees. The Company's arrangements for these services typically require the Company to "stand-ready" to provide specific services on a when and if needed basis. The fees for these services may be fixed or variable (based upon performing an unspecified quantity of services), and pricing may include tiered pricing structures. Amounts of revenue allocated to these services are recognized as those services are performed. Data and item processing services are typically billed monthly. The Company evaluates tiered pricing to determine if a material right exists. If, after that evaluation, we determine a material right does exist, we assign value to the material right based upon standalone selling price.

Product Delivery and Services

Product delivery and services revenue is generated primarily from software licensing and related professional services and hardware delivery. Software licenses, along with any professional services from which they are not considered distinct, are recognized as they are delivered to the customer. Hardware revenue is recognized upon delivery. Professional services that are distinct are recognized as the services are performed. Deconversion fees are also included within product delivery and services, and are considered a contract modification. Therefore, the Company recognizes these fees over the remaining modified contract term.

In-House Support

In-house support revenue is generated from software maintenance for ongoing client support and software usage, which includes a license and ongoing client support. The Company's arrangements for these services typically require the Company to "stand-ready" to provide specific services on a when and if needed basis. The fees for these services may be fixed or variable (based upon performing an unspecified quantity of services). Software maintenance fees are typically billed to the customer annually in advance and recognized ratably over the maintenance term. Software usage is typically billed annually in advance, with the license delivered and recognized at the outset, and the maintenance fee recognized ratably over the maintenance term. Accordingly, the Company utilizes the practical expedient which allows entities to disregard the effects of a financing component when the contract period is one year or less.

Table of Contents

Disaggregation of Revenue

The tables below present the Company's revenue disaggregated by type of revenue. Refer to Note 9, Reportable Segment Information, for disaggregated revenue by type and reportable segment. The majority of the Company’s revenue is earned domestically, with revenue from customers outside the United States comprising less than 1% of total revenue.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Processing	$148,953	$134,191	$294,928	$268,723
Outsourcing & Cloud	100,066	88,253	197,425	173,387
Product Delivery & Services	58,794	59,392	116,758	118,462
In-House Support	78,462	75,373	169,707	157,921
Services & Support	237,322	223,018	483,890	449,770
Total Revenue	$386,275	$357,209	$778,818	$718,493

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with customers.

	December 31, 2018	June 30, 2018
Receivables, net	$ 184,737	$297,271
Contract Assets- Current	16,697	14,063
Contract Assets- Non-current	44,465	35,630
Contract Liabilities (Deferred Revenue)- Current	240,863	352,431
Contract Liabilities (Deferred Revenue)- Non-current	$ 14,773	$17,484

Contract assets primarily result from revenue being recognized when or as control of a solution or service is transferred to the customer, but where invoicing is contingent upon the completion of other performance obligations or payment terms differ from the provisioning of services. The current portion of contract assets is reported within prepaid expenses and other in the condensed consolidated balance sheet, and the non-current portion is included in other non-current assets. Contract Liabilities (deferred revenue) primarily relate to consideration received from customers in advance of delivery of the related goods and services to the customer. Contract balances are reported in a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period.

The Company analyzes contract language to identify if a significant financing component does exist, and would adjust the transaction price for any material effects of the time value of money if the timing of payments provides either party to the contract with a significant benefit of financing the transaction.

During the three months ended December 31, 2018 and 2017, the Company recognized revenue of $93,656 and $82,410, respectively, that was included in the corresponding deferred revenue balance at the beginning of the periods. During the six months ended December 31, 2018 and 2017, the Company recognized revenue of $164,051 and $154,585, respectively, that was included in the corresponding deferred revenue balance at the beginning of the periods.

Amounts recognized that relate to performance obligations satisfied (or partially satisfied) in prior periods were immaterial for each period presented. These adjustments are primarily the result of transaction price re-allocations due to changes in estimates of variable consideration.

Table of Contents

Transaction Price Allocated to Remaining Performance Obligations

As of December 31, 2018, estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period totaled $3,647,526. The Company expects to recognize approximately 28% over the next 12 months, 20% in 13-24 months, and the balance thereafter.

Contract Costs

The Company incurs incremental costs to obtain a contract as well as costs to fulfill contracts with customers that are expected to be recovered. These costs consist primarily of sales commissions, which are incurred only if a contract is obtained, and customer conversion or implementation related costs. Capitalized costs totaled $222,027 and $181,032, at December 31, 2018 and June 30, 2018, respectively.

Capitalized costs are amortized based on the transfer of goods or services to which the asset relates, in line with the percentage of revenue recognized for each performance obligation to which the costs are allocated. For the three months ended December 31, 2018 and 2017, amortization of deferred contract costs was $25,435 and $22,863, respectively. For the six months ended December 31, 2018 and 2017, amortization of deferred contract costs totaled $52,257 and $45,371, respectively. There were no impairment losses in relation to capitalized costs for the periods presented.

Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Accumulated depreciation at December 31, 2018 totaled $387,261 and at June 30, 2018 totaled $364,153.

Intangible Assets

Intangible assets consist of goodwill, customer relationships, computer software, and trade names acquired in business acquisitions in addition to internally developed computer software. The amounts are amortized, with the exception of those intangible assets with an indefinite life (such as goodwill), over an estimated economic benefit period, generally three to twenty years. Accumulated amortization of intangible assets totaled $658,480 and $602,479 at December 31, 2018 and June 30, 2018, respectively.

Common Stock

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or borrowings on its existing line-of-credit. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At December 31, 2018, there were 26,258 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,733 additional shares. The total cost of treasury shares at December 31, 2018 is $1,076,536. During the first six months of fiscal 2019, the Company repurchased 150 treasury shares. At June 30, 2018, there were 26,108 shares in treasury stock and the Company had authority to repurchase up to 3,883 additional shares.

Dividends declared per share were $0.37 and $0.31, for the three months ended December 31, 2018 and 2017, respectively. For the six months ended December 31, 2018 and 2017, dividends declared totaled $0.74 and $0.62, respectively.

Interim Financial Statements

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission ("SEC") and in accordance with accounting principles generally accepted in the United States of America applicable to interim condensed consolidated financial statements, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes, which are included in its Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended June 30, 2018. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Form 10-K for the fiscal year ended June 30, 2018, with updates to certain policies included in this Note 1.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting of normal recurring adjustments) to state fairly the financial position of the Company as of December 31, 2018, the results of its operations for the three and six months ending

Table of Contents

December 31, 2018 and 2017, and its cash flows for the six months ending December 31, 2018 and 2017. The condensed consolidated balance sheet at June 30, 2018 was derived from audited annual financial statements, but does not contain all of the footnote disclosures from the annual financial statements.

The results of operations for the three and six months ended December 31, 2018 are not necessarily indicative of the results to be expected for the entire year.

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Guidance

The Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, in May 2014. This standard (and related amendments collectively referred to as "ASC 606") is part of an effort to create a common revenue standard for U.S. generally accepted accounting principles ("U.S. GAAP") and International Financial Reporting Standards ("IFRS"). The new standard has superseded much of the authoritative literature for revenue recognition. The new model enacts a five-step process for achieving the core principle, which is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard was effective for the Company on July 1, 2018. Entities are allowed to transition to the new standard by either recasting prior periods (full retrospective) or recognizing the cumulative effect as of the beginning of the period of adoption (modified retrospective).

The Company adopted the new standard using the full retrospective transition approach, using certain practical expedients. The Company has not disclosed the amount of transaction price allocated to remaining performance obligations for reporting periods presented before the date of initial application. Also, the Company did not separately consider the effects of contract modifications that occurred before the beginning of the earliest reporting period presented, but reflects the aggregate effect of all modifications that occurred before the beginning of the earliest period presented. As a result, all fiscal 2018 financial information has been adjusted for the effects of applying ASC 606. The details of the significant changes are disclosed below:

Software Revenue Recognition

The Company previously recognized software license and related services within the scope of ASC Topic 985-605, which required the establishment of vendor-specific objective evidence ("VSOE") of fair value in order to separately recognize revenue for each software-related good or service. Due to the inability to establish VSOE, the Company had previously deferred all revenue on software-related goods and services on a master contract until all the goods and services had been delivered. Under ASC 606, VSOE is no longer required for separation of otherwise distinct performance obligations within a revenue arrangement. This change has resulted in earlier recognition of revenue for the Company's software-related goods and services, leading to a decrease in deferred revenue balances within our adjusted condensed consolidated balance sheets.

Impacts on Financial Statements

The following tables summarize the impacts of ASC 606 adoption on the Company's Condensed Consolidated Financial Statements:

Table of Contents

Condensed Consolidated Balance Sheet as of June 30, 2018:

	As Previously Reported	Adjustments	As Adjusted
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$31,440	$ —	$31,440
Receivables, net	291,630	5,641	297,271
Income tax receivable	21,671	—	21,671
Prepaid expenses and other	84,810	11,331	96,141
Deferred costs	38,985	(11,916)	27,069
Total current assets	468,536	5,056	473,592
PROPERTY AND EQUIPMENT, net	286,850	—	286,850
OTHER ASSETS:			
Non-current deferred costs	95,540	(20,675)	74,865
Computer software, net of amortization	288,172	—	288,172
Other non-current assets	107,775	2,524	110,299
Customer relationships, net of amortization	115,034	—	115,034
Other intangible assets, net of amortization	38,467	—	38,467
Goodwill	649,929	—	649,929
Total other assets	1,294,917	(18,151)	1,276,766
Total assets	$2,050,303	$ (13,095)	$2,037,208
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$34,510	$ —	$34,510
Accrued expenses	97,848	(9,084)	88,764
Deferred revenues	355,538	(3,107)	352,431
Total current liabilities	487,896	(12,191)	475,705
LONG-TERM LIABILITIES:			
Non-current deferred revenues	93,094	(75,610)	17,484
Non-current deferred income tax liability	189,613	18,690	208,303
Other long-term liabilities	12,872	—	12,872
Total long-term liabilities	295,579	(56,920)	238,659
Total liabilities	783,475	(69,111)	714,364
STOCKHOLDERS' EQUITY			
Preferred stock - $1 par value; 500,000 shares authorized, none issued	—	—	—
Common stock - $0.01 par value; 250,000,000 shares authorized; 103,278,562 shares issued at June 30, 2018	1,033	—	1,033
Additional paid-in capital	464,138	—	464,138
Retained earnings	1,856,917	56,016	1,912,933
Less treasury stock at cost 26,107,903 shares at June 30, 2018	(1,055,260)	—	(1,055,260)
Total stockholders' equity	1,266,828	56,016	1,322,844
Total liabilities and equity	$2,050,303	$ (13,095)	$2,037,208

Table of Contents

Condensed Consolidated Statement of Income for the three and six months ended December 31, 2017:

	Three Months Ended December 31, 2017			Six Months Ended December 31, 2017		
	As Previously Reported	Adjustments	As Adjusted	As Previously Reported	Adjustments	As Adjusted
REVENUE	$374,756	$(17,547)	$357,209	$734,690	$(16,197)	$718,493
EXPENSES						
Cost of Revenue	211,653	(4,553)	207,100	416,368	(5,352)	411,016
Research and Development	22,414	—	22,414	43,343	—	43,343
Selling, General, and Administrative	45,613	(2,519)	43,094	89,346	(5,165)	84,181
Gain on Disposal of a Business	(189)	—	(189)	(1,894)	—	(1,894)
Total Expenses	279,491	(7,072)	272,419	547,163	(10,517)	536,646
OPERATING INCOME	95,265	(10,475)	84,790	187,527	(5,680)	181,847
INTEREST INCOME (EXPENSE)						
Interest Income	146	—	146	293	—	293
Interest Expense	(250)	—	(250)	(439)	—	(439)
Total Interest Income (Expense)	(104)	—	(104)	(146)	—	(146)
INCOME BEFORE INCOME TAXES	95,161	(10,475)	84,686	187,381	(5,680)	181,701
PROVISION/ (BENEFIT) FOR INCOME TAXES	(60,413)	(16,144)	(76,557)	(31,604)	(14,808)	(46,412)
NET INCOME	$155,574	$5,669	$161,243	$218,985	$9,128	$228,113
Basic earnings per share	$2.01		$2.09	$2.83		$2.95
Basic weighted average shares outstanding	77,218		77,218	77,250		77,250
Diluted earnings per share	$2.01		$2.08	$2.82		$2.94
Diluted weighted average shares outstanding	77,565		77,565	77,606		77,606

Table of Contents

Condensed Consolidated Statement of Cash Flows for the six months ended December 31, 2017:

	Six Months Ended December 31, 2017		
	As Previously Reported	Adjustments	As Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$218,985	$ 9,128	$228,113
Adjustments to reconcile net income from operations to net cash from operating activities:			
Depreciation	24,602	—	24,602
Amortization	48,711	—	48,711
Change in deferred income taxes	(72,721)	(14,319)	(87,040)
Expense for stock-based compensation	4,609	—	4,609
(Gain)/loss on disposal of assets and businesses	(1,841)	—	(1,841)
Changes in operating assets and liabilities:			
Change in receivables	115,572	28,342	143,914
Change in prepaid expenses, deferred costs and other	(17,105)	(40,109)	(57,214)
Change in accounts payable	5,371	—	5,371
Change in accrued expenses	(15,386)	2,150	(13,236)
Change in income taxes	2,317	(488)	1,829
Change in deferred revenues	(136,206)	15,296	(120,910)
Net cash from operating activities	176,908	—	176,908
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for acquisitions, net of cash acquired	(137,654)	—	(137,654)
Capital expenditures	(12,249)	—	(12,249)
Proceeds from the sale of businesses	350	—	350
Proceeds from the sale of assets	205	—	205
Internal use software	(6,025)	—	(6,025)
Computer software developed	(46,936)	—	(46,936)
Net cash from investing activities	(202,309)	—	(202,309)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on credit facilities	100,000	—	100,000
Repayments on credit facilities	(50,000)	—	(50,000)
Purchase of treasury stock	(30,018)	—	(30,018)
Dividends paid	(47,844)	—	(47,844)
Proceeds from issuance of common stock upon exercise of stock options	1	—	1
Tax withholding payments related to share based compensation	(7,144)	—	(7,144)
Proceeds from sale of common stock	3,360	—	3,360
Net cash from financing activities	(31,645)	—	(31,645)
NET CHANGE IN CASH AND CASH EQUIVALENTS	$(57,046)	$ —	$(57,046)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$114,765	$ —	$114,765
CASH AND CASH EQUIVALENTS, END OF PERIOD	$57,719	$ —	$57,719

Table of Contents

ASU 2016-15 issued by the FASB in August 2016 clarifies cash flow classification of eight specific cash flow issues and is effective for our annual reporting period beginning July 1, 2018. The adoption of this standard did not have any impact on our financial statements.

Not Yet Adopted

The FASB issued ASU No. 2016-02, Leases, in February 2016. This ASU aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and requiring disclosure of key information regarding leasing arrangements. Specifically, the standard requires operating lease commitments to be recorded on the balance sheet as operating lease liabilities and right-of-use assets, and the cost of those operating leases to be amortized on a straight-line basis. ASU No. 2016-02 will be effective for JHA's annual reporting period beginning July 1, 2019 and early adoption is permitted. We will take advantage of the transition package of practical expedients permitted within the new standard, which among other things, allows us to carryforward the historical lease classification. In addition, we will make an accounting policy election that will keep leases with an initial term of twelve months or less off of the balance sheet. Adoption of the standard will add right of use assets and lease obligations to our balance sheet and is not expected to significantly impact income before income taxes.

In August of 2018, the FASB issued ASU No. 2018-15, Intangibles, Goodwill and Other - Internal-Use Software (Subtopic 350-40), which broadens the scope of Subtopic 350-40 to include costs incurred to implement a hosting arrangement that is a service contract. The costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred, consistent with costs for internal-use software. The amendments in this update can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The ASU will be effective for the Company on July 1, 2020, with early adoption permitted. The Company is currently evaluating the impact that the guidance will have on our financial statements.

NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

For cash equivalents, amounts receivable or payable and short-term borrowings, fair values approximate carrying value, based on the short-term nature of the assets and liabilities.

The Company's estimates of the fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The three levels of the hierarchy are as follows:

Level 1: inputs to the valuation are quoted prices in an active market for identical assets

Level 2: inputs to the valuation include quoted prices for similar assets in active markets that are observable either directly or indirectly

Level 3: valuation is based on significant inputs that are unobservable in the market and the Company's own estimates of assumptions that we believe market participants would use in pricing the asset

Fair value of financial assets, included in cash and cash equivalents, and financial liabilities is as follows:

	Estimated Fair Value Measurements			Total Fair
	Level 1	Level 2	Level 3	Value
December 31, 2018				
Financial Assets:				
Money market funds	$ 9,033	$ —	$ —	$ 9,033
June 30, 2018				
Financial Assets:				
Money market funds	$ 14,918	$ —	$ —	$ 14,918
Non-Recurring Fair Value Measurements				
December 31, 2018				
Long-lived assets held for sale		$ —	$ 1,300	$ — $ 1,300

June 30, 2018				
Long-lived assets held for sale [a]	$—	$1,300	$—	$1,300

Table of Contents

[a] In accordance with ASC Subtopic 360-10, long-lived assets held for sale with a carrying value of $4,575 were written down to their fair value of $1,300, resulting in an impairment totaling $3,275, which was included in earnings for the period ended June 30, 2017. These assets are expected to be disposed of by sale in the fourth quarter of fiscal 2019.

NOTE 4. DEBT

Revolving credit facility

The revolving credit facility allows for borrowings of up to $300,000, which may be increased by the Company at any time until maturity to $600,000. The credit facility bears interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the highest of (i) the Prime Rate for such day, (ii) the sum of the Federal Funds Effective Rate for such day plus 0.50% and (iii) the Eurocurrency Rate for a one-month Interest Period on such day for dollars plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The credit facility is guaranteed by certain subsidiaries of the Company. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of December 31, 2018, the Company was in compliance with all such covenants. The revolving loan terminates February 20, 2020. At December 31, 2018, there was no outstanding revolving loan balance. There was also no outstanding balance at June 30, 2018.

Other lines of credit

The Company has an unsecured bank credit line which provides for funding of up to $5,000 and bears interest at the prime rate less 1%. The credit line was renewed in April 2017 and expires on April 30, 2019. At December 31, 2018, no amount was outstanding. There was also no balance outstanding at June 30, 2018.

Interest

The Company paid interest of $192 and $355 during the six months ended December 31, 2018 and 2017, respectively.

NOTE 5. INCOME TAXES

The effective tax rate was 22.9% of income before income taxes for the quarter ended December 31, 2018, compared to (90.4)% for the same quarter of the prior fiscal year. For the six months ended December 31, 2018, the effective tax rate was 20.9%, compared to (25.5)% for the six months ended December 31, 2017. The significant increase in the Company's effective tax rate for both the quarter and year-to-date periods was primarily due to $97,516 of tax benefits recorded in the prior fiscal year for the re-measurement of the net deferred tax liabilities due to the Tax Cuts and Jobs Act ("TCJA") enacted December 22, 2017. This increase is partially offset by the enacted lower corporate income tax rate that became effective January 1, 2018, which resulted in a U.S. statutory rate of approximately 28% for the fiscal year 2018, and 21% for fiscal 2019. The increase was further offset by increased excess tax benefits from share-based payments in the first six months of fiscal 2019.

The Company has relied on Staff Accounting Bulletin 118 ("SAB 118") and has recognized provisional amounts for tax reform items in its annual and interim financial statements for each prior reporting period since the enactment of the TCJA. The staff of the U.S. SEC has recognized the complexity of reflecting the impacts of the TCJA and on December 22, 2017, issued guidance in SAB 118. The guidance clarifies accounting for income taxes under ASC 740 if information is not available or complete and provides for up to a one-year period in which to complete the required analyses and accounting. The Company considers its accounting for the income tax effects of the TCJA to be complete. No significant adjustments to the provisional amounts previously reported were recorded during the six months ended December 31, 2018.

The Company paid income taxes, net of refunds, of $25,211 and $38,163 in the six months ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the Company had $10,719 of gross unrecognized tax benefits, $9,967 of which, if recognized, would affect our effective tax rate. We had accrued interest and penalties of $1,431 and $1,318 related to uncertain tax positions at December 31, 2018 and 2017, respectively.

The U.S. federal and state income tax returns for fiscal year 2015 and all subsequent years remain subject to examination as of December 31, 2018 under statute of limitations rules. We anticipate potential changes due to lapsing statutes of limitations and examination closures could reduce the unrecognized tax benefits balance by $500 - $1,500 within twelve months of December 31, 2018.

Table of Contents

NOTE 6. STOCK-BASED COMPENSATION

Our operating income for the three months ended December 31, 2018 and 2017 included $3,374 and $3,096 of stock-based compensation costs, respectively. For the six months ended December 31, 2018 and 2017, stock-based compensation costs included in operating income totaled $5,146 and $4,609, respectively.

Stock Options

On November 10, 2015, the Company adopted the 2015 Equity Incentive Plan ("2015 EIP") for its employees and non-employee directors. The plan allows for grants of stock options, stock appreciation rights, restricted stock shares or units, and performance shares or units. The maximum number of shares authorized for issuance under the plan is 3,000. For stock options, terms and vesting periods of the options are determined by the Compensation Committee of the Board of Directors when granted. The option period must expire not more than ten years from the option grant date. The options granted under this plan are exercisable beginning three years after the grant date at an exercise price equal to 100% of the fair market value of the stock at the grant date. The options terminate upon surrender of the option, ninety days after termination of employment, upon the expiration of one year following notification of a deceased optionee, or ten years after grant.

The Company previously issued options to outside directors under the 2005 Non-Qualified Stock Option Plan (“2005 NSOP”). No additional stock options may be issued under this plan.

A summary of option plan activity under these plans is as follows:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2018	52	$ 62.65	
Granted	—	—	
Forfeited	—	—	
Exercised	—	—	
Outstanding December 31, 2018	52	$ 62.65	$ 3,301
Vested and Expected to Vest December 31, 2018	52	$ 62.65	$ 3,301
Exercisable December 31, 2018	20	$ 23.65	$ 2,057

At December 31, 2018, there was $83 of compensation cost yet to be recognized related to outstanding options. The weighted average remaining contractual term on options currently exercisable as of December 31, 2018 was 0.50 years.

Restricted Stock Awards

The Company issues both share awards and unit awards under the 2015 EIP, and previously issued these awards through the 2005 Restricted Stock Plan. The following table summarizes non-vested share awards as of December 31, 2018, as well as activity for the six months then ended:

Share awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2018	23	$ 81.33
Granted	—	—
Vested	(17)	79.48
Forfeited	—	—
Outstanding December 31, 2018	6	$ 86.74

At December 31, 2018, there was $83 of compensation expense that has yet to be recognized related to non-vested restricted stock share awards, which will be recognized over a weighted average period of 0.48 years.

18

Table of Contents

The following table summarizes non-vested unit awards as of December 31, 2018, as well as activity for the six months then ended:

Unit awards	Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding July 1, 2018	351	$ 83.37	
Granted	65	176.95	
Vested	(117)	79.51	
Forfeited	(4)	86.89	
Outstanding December 31, 2018	295	$ 105.38	$ 37,305

The Company utilized a Monte Carlo pricing model customized to the specific provisions of the Company's plan design to value unit awards subject to performance targets on the grant dates. The weighted average assumptions used in this model to estimate fair value at the measurement date and resulting values for 39 unit awards granted in fiscal 2019 are as follows:

Volatility	15.30 %
Risk free interest rate	2.89 %
Dividend yield	0.90 %
Stock Beta	0.669

The remaining 26 unit awards granted in fiscal 2019 are not subject to performance targets, and therefore the estimated fair value at measurement date is valued in the same manner as restricted stock share award grants.

At December 31, 2018, there was $17,684 of compensation expense that has yet to be recognized related to non-vested restricted stock unit awards, which will be recognized over a weighted average period of 1.44 years.

NOTE 7. EARNINGS PER SHARE

The following table reflects the reconciliation between basic and diluted earnings per share.

(In Thousands, Except Per Share Data)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net Income	$68,089	$161,243	$151,640	$228,113
Common share information:				
Weighted average shares outstanding for basic earnings per share	77,216	77,218	77,202	77,250
Dilutive effect of stock options and restricted stock	193	347	272	356
Weighted average shares outstanding for diluted earnings per share	77,409	77,565	77,474	77,606
Basic earnings per share	$0.88	$2.09	$1.96	$2.95
Diluted earnings per share	$0.88	$2.08	$1.96	$2.94

Per share information is based on the weighted average number of common shares outstanding for the three and six months ended December 31, 2018 and 2017. Stock options and restricted stock have been included in the calculation of earnings per share to the extent they are dilutive. There were 5 anti-dilutive stock options or restricted stock shares excluded for the quarter ended December 31, 2018 and no anti-dilutive stock options or restricted stock shares excluded for the quarter ended December 31, 2017. There were 1 anti-dilutive stock options or restricted stock shares excluded for the six months ended December 31, 2018 compared to none for the six months ended December 31, 2017.

Table of Contents

NOTE 8. BUSINESS ACQUISITIONS

BOLTS Technologies, Inc

On October 5, 2018, the Company acquired all of the equity interest of BOLTS Technologies, Inc. for $15,046 paid in cash. The acquisition was funded by cash generated from operations. BOLTS Technologies is the developer of boltsOPEN, a next-generation digital account opening solution.

Management has completed a preliminary purchase price allocation and its assessment of the fair value of acquired assets and liabilities assumed. The recognized amounts of identifiable assets acquired and liabilities assumed, based on their preliminary fair values as of October 5, 2018 are set forth below:

Current assets	$1,384
Identifiable intangible assets	2,274
Total other liabilities assumed	(1,418)
Total identifiable net assets	2,240
Goodwill	12,806
Net assets acquired	$15,046

The amounts shown above may change as management finalizes its assessment of the fair value of acquired assets and liabilities and continues to evaluate the income tax implications of this business combination.

The goodwill of $12,806 arising from this acquisition consists largely of the growth potential, synergies and economies of scale expected from combining the operations of the Company with those of BOLTS, together with the value of BOLTS' assembled workforce. The goodwill from this acquisition has been allocated to our Complementary segment and is not expected to be deductible for income tax purposes.

Identifiable intangible assets from this acquisition consist of customer relationships of $567, computer software of $1,409, and other intangible assets of $298. The weighted average amortization period for acquired customer relationships, computer software, and other intangible assets is 15 years, 10 years, and 10 years, respectively.

Current assets were inclusive of cash acquired of $1,365. The fair value of current assets acquired included accounts receivable of $14, none of which were expected to be uncollectible.

Costs incurred related to the acquisition of BOLTS in fiscal 2019 totaled $23 for legal, valuation, and other fees, and were expensed as incurred within selling, general, and administrative expense.

The Company's consolidated statements of income for the second quarter of fiscal 2019 included revenue of $35 and after-tax net loss of $246 resulting from BOLTS' operations.

The accompanying consolidated statements of income for the three and six months ended December 31, 2018 and 2017 do not include any revenues and expenses related to this acquisition prior to the acquisition date. The impact of this acquisition was considered immaterial to both the current and prior periods of our consolidated financial statements and pro forma financial information has not been provided.

Agiletics, Inc.

On October 1, 2018, the Company acquired all of the equity interest of Agiletics, Inc. for $7,649 paid in cash. The acquisition was funded by cash generated from operations. Agiletics is a provider of escrow, investment, and liquidity management solutions for banks serving commercial customers.

Management has completed a preliminary purchase price allocation and its assessment of the fair value of acquired assets and liabilities assumed. The recognized amounts of identifiable assets acquired and liabilities assumed, based on their preliminary fair values as of October 1, 2018 are set forth below:

Current assets	$2,170
Long-term assets	—
Identifiable intangible assets	3,090
Non-current deferred income tax liability	(787)
Total other liabilities assumed	(738)
Total identifiable net assets	3,735
Goodwill	3,914
Net assets acquired	$7,649

20

Table of Contents

The amounts shown above may change as management finalizes its assessment of the fair value of acquired assets and liabilities and continues to evaluate the income tax implications of this business combination.

The goodwill of $3,914 arising from this acquisition consists largely of the growth potential, synergies and economies of scale expected from combining the operations of the Company with those of Agiletics. The goodwill from this acquisition has been allocated to our Core segment and is not expected to be deductible for income tax purposes.

Identifiable intangible assets from this acquisition consist of customer relationships of $2,198, computer software of $701, and other intangible assets of $191. The weighted average amortization period for acquired customer relationships, computer software, and other intangible assets is 15 years, 10 years, and 10 years, respectively.

Current assets were inclusive of cash acquired of $1,349. The fair value of current assets acquired included accounts receivable of $299, none of which were expected to be uncollectible.

Costs incurred related to the acquisition of Agiletics in fiscal 2019 totaled $25 for legal, valuation, and other fees, and were expensed as incurred within selling, general, and administrative expense.

The Company's consolidated statements of income for the second quarter of fiscal 2019 included revenue of $193 and after-tax net loss of $111 resulting from Agiletics' operations.

The accompanying consolidated statements of income for the three and six months ended December 31, 2018 and 2017 do not include any revenues and expenses related to this acquisition prior to the acquisition date. The impact of this acquisition was considered immaterial to both the current and prior periods of our consolidated financial statements and pro forma financial information has not been provided.

Ensenta Corporation

On December 21, 2017, the Company acquired all of the equity interest of EST Holdings, Inc. and its wholly-owned subsidiary, EST Interco, Inc., for $134,381 paid in cash. EST Holdings, Inc. and EST Interco, Inc. jointly own all of the outstanding equity of Ensenta Corporation ("Ensenta"), a California-based provider of real-time, cloud-based solutions for mobile and online payments and deposits. This acquisition was partially funded by a draw on the Company's revolving credit facility, with the remaining amount funded by existing operating cash. The addition of Ensenta Corporation to the JHA Payment Solutions Group expands the Company’s ability to conduct real-time transactions with third-party platforms, extending its presence in the credit union market through shared branching technology.

Management has completed a purchase price allocation of Ensenta and its assessment of the fair value of acquired assets and liabilities assumed. The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of December 21, 2017 are set forth below:

Current assets	$14,125
Long-term assets	586
Identifiable intangible assets	58,806
Non-current deferred income tax liability	(21,859)
Total other liabilities assumed	(8,496)
Total identifiable net assets	43,162
Goodwill	91,219
Net assets acquired	$134,381

The amounts shown above include measurement period adjustments made during the third and fourth quarters of fiscal 2018, and the second quarter of fiscal 2019, related to income tax adjustments and a fair value assessment.

The goodwill of $91,219 arising from this acquisition consists largely of the growth potential, synergies and economies of scale expected from combining the operations of the Company with those of Ensenta, together with the value of Ensenta's assembled workforce. The goodwill from this acquisition has been allocated to our Payments segment and is not expected to be deductible for income tax purposes.

Identifiable intangible assets from this acquisition consist of customer relationships of $37,800, computer software of $16,505, and other intangible assets of $4,501. The weighted average amortization period for acquired customer relationships, computer software, and other intangible assets is 15 years, 10 years, and 10 years, respectively.

Current assets were inclusive of cash acquired of $7,274. The fair value of current assets acquired included accounts receivable of $4,668, none of which were expected to be uncollectible.

Costs incurred related to the acquisition of Ensenta in fiscal 2018 totaled $339 for legal, valuation, and other fees, and were expensed as incurred within selling, general, and administrative expense.

Table of Contents

The Company's consolidated statements of income for the second quarter of fiscal 2019 included revenue of $9,059 and after-tax net income of $2,919 resulting from Ensenta's operations. For the second quarter of fiscal 2018, Ensenta contributed revenue of $928 and after-tax net income of $6,366. The after-tax net income for the second quarter of fiscal 2018 included a large tax benefit recorded as a result of the TCJA. Excluding that benefit, the Company's after tax net income resulting from Ensenta's operations totaled $26.

For the six months ended December 31, 2018, the Company's consolidated statements of income included revenue of $17,231 and after-tax net income of $4,963. The results for the six months ended December 31, 2017 are the same as given above for the second quarter of fiscal 2018.

The accompanying consolidated statements of income for the three and six months ended December 31, 2018 and 2017 do not include any revenues and expenses related to this acquisition prior to the acquisition date. The following unaudited pro forma consolidated financial information for the period ended December 31, 2017 is presented as if this acquisition had occurred at the beginning of the earliest period presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the acquisition had actually occurred during those periods, or the results that may be obtained in the future as a result of the acquisition.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	Actual	Proforma	Actual	Proforma
Revenue	$386,275	$363,563	$778,818	$731,611
Net Income	68,089	167,714	151,640	229,623
Basic Earnings Per Share	$0.88	$2.17	$1.96	$2.97
Diluted Earnings Per Share	$0.88	$2.16	$1.96	$2.96

Vanguard Software Group

On August 31, 2017, the Company acquired all of the equity interest of Vanguard Software Group, a Florida-based company specializing in the underwriting, spreading, and online decisioning of commercial loans, for $10,744 paid in cash. This acquisition was funded using existing operating cash. The addition of Vanguard Software Group to the Company's ProfitStars® Lending Solutions Group expands functionality offered to clients, allowing for near-real-time communication with JHA's core processing and ancillary solutions, and also enhances cross-sell opportunities.

Management has completed a purchase price allocation of Vanguard Software Group and its assessment of the fair value of acquired assets and liabilities assumed. The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of August 31, 2017 are set forth below:

Current assets	$1,153
Long-term assets	9
Identifiable intangible assets	4,200
Total liabilities assumed	(1,117)
Total identifiable net assets	4,245
Goodwill	6,499
Net assets acquired	$10,744

The goodwill of $6,499 arising from this acquisition consists largely of the growth potential, synergies and economies of scale expected from combining the operations of the Company with those of Vanguard Software Group, together with the value of Vanguard Software Group's assembled workforce. The goodwill from this acquisition has been allocated to our Complementary segment and is expected to be deductible for income tax purposes.

Identifiable intangible assets from this acquisition consist of customer relationships of $2,234, computer software of $1,426, and other intangible assets of $540. The weighted average amortization periods for acquired customer relationships, computer software, and other intangible assets are 15 years, 10 years, and 10 years, respectively.

Current assets were inclusive of cash acquired of $289. The fair value of current assets acquired included accounts receivable of $847, none of which were expected to be uncollectible.

Costs incurred related to the acquisition of Vanguard Software Group were immaterial for the periods presented.

The Company's consolidated statements of income for the second quarter of fiscal 2019 included revenue of $741 and an after-tax net loss of $86 resulting from Vanguard Software Group's operations. For the second quarter of fiscal 2018, Vanguard Software Group contributed revenue of $557 and an after-tax net loss of $178 to the Company's consolidated statements of income.

The Company's consolidated statements of income for the first six months of fiscal 2019 included revenue of $1,266 and an after-tax net loss of $254 resulting from Vanguard Software Group's operations. For the first six months of fiscal 2018, Vanguard Software Group contributed revenue of $656 and an after-tax net loss of $301 to the Company's consolidated statements of income.

The accompanying consolidated statements of income for the three and six months ended December 31, 2018 and 2017 do not include any revenues and expenses related to this acquisition prior to the acquisition date. The impact of this acquisition was considered immaterial to both the current and prior periods of our consolidated financial statements and pro forma financial information has not been provided.

NOTE 9. REPORTABLE SEGMENT INFORMATION

The Company is a provider of integrated computer systems that perform data processing (available for in-house installations or outsourced services) for banks and credit unions.

The Company’s operations are classified into four reportable segments: Core, Payments, Complementary, and Corporate & Other. The Core segment provides core information processing platforms to banks and credit unions, which consist of integrated applications required to process deposit, loan, and general ledger transactions, and maintain centralized customer/member information. The Payments segment provides secure payment processing tools and services, including: ATM, debit, and credit card transaction processing services; online and mobile bill pay solutions; ACH origination and remote deposit capture processing; and risk management products and services. The Complementary segment provides additional software and services that can be integrated with our Core solutions or used independently. The Corporate & Other segment includes hardware revenue and costs, as well as operating costs not directly attributable to the other three segments.

The Company evaluates the performance of its segments and allocates resources to them based on various factors, including performance against trend, budget, and forecast. Only revenue and costs of revenue are considered in the evaluation for each segment.

An immaterial adjustment was made to reclassify revenue recognized in fiscal 2018 from the Core to the Corporate and Other Segment. For the three and six months ended December 31, 2017, the amount reclassified totaled $744 and $1,482, respectively.

Table of Contents

	Three Months Ending December 31, 2018				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	$122,721	$13,108	$ 86,386	$15,107	$237,322
Processing	7,008	124,911	16,864	170	148,953
Total Revenue	129,729	138,019	103,250	15,277	386,275
Cost of Revenue	60,288	65,100	44,167	57,729	227,284
Research and Development					23,990
Selling, General, and Administrative					46,797
Total Expenses					298,071
SEGMENT INCOME	$69,441	$72,919	$ 59,083	$(42,452)	
OPERATING INCOME					88,204
INTEREST INCOME (EXPENSE)					104
INCOME BEFORE INCOME TAXES					$88,308

	Three Months Ending December 31, 2017				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	$116,614	$9,212	$ 81,329	$15,863	$223,018
Processing	6,682	112,168	15,327	14	134,191
Total Revenue	123,296	121,380	96,656	15,877	357,209
Cost of Revenue	55,364	59,304	40,209	52,223	207,100
Research and Development					22,414
Selling, General, and Administrative					43,094
Gain on Disposal of Businesses					(189)
Total Expenses					272,419
SEGMENT INCOME	$67,932	$62,076	$ 56,447	$(36,346)	
OPERATING INCOME					84,790
INTEREST INCOME (EXPENSE)					(104)
INCOME BEFORE INCOME TAXES					$84,686

Table of Contents

	Six Months Ended December 31, 2018				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	$253,109	$25,878	$ 176,449	$28,454	$483,890
Processing	14,172	246,338	34,109	309	294,928
Total Revenue	267,281	272,216	210,558	28,763	778,818
Cost of Revenue	119,504	130,807	85,998	111,087	447,396
Research and Development					48,016
Selling, General, and Administrative					91,979
Total Expenses					587,391
SEGMENT INCOME	$147,777	$141,409	$ 124,560	$(82,324)	
OPERATING INCOME					191,427
INTEREST INCOME (EXPENSE)					247
INCOME BEFORE INCOME TAXES					$191,674

	Six Months Ended December 31, 2017				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	$237,091	$ 19,176	$ 161,626	$ 31,877	$449,770
Processing	13,550	225,098	30,057	18	268,723
Total Revenue	250,641	244,274	191,683	31,895	

Other. In addition to our seven segments, the manufacturing and product-packaging companies that we acquired during the first quarter of 2018 generated $26.0 million of reported revenue in the third quarter and $65.9 million in the first nine months of 2018. These companies provide products and services both to our company and to external customers. Reported revenue includes only the revenue generated by sales to external customers.

As a result of these acquisitions, we incurred $2.4 million of expense associated with the amortization of acquired intangible assets under acquisition accounting in the third quarter and $7.1 million in the first nine months of 2018. We currently expect that we will incur $2.1 million of these charges in the fourth quarter of 2018, after which we expect they will decrease to less than $1.0 million per quarter. For information about these acquisitions, see Note 15 to the consolidated financial statements contained in this report.

Table of Contents

Consolidated Results

Revenue

Revenue for the three-month period ended September 30, 2018 increased 20% to $675.3 million, compared to $563.7 million in the prior-year period. Revenue for the nine-month period ended September 30, 2018 increased 24% to $2.0 billion, compared to $1.6 billion in the prior-year period. For a discussion and analysis of these increases in revenue, see "Overview" and "Segment Results," above.

Gross profit

Gross profit as a percentage of revenue was 76.7% for the third quarter of 2018 compared to 78.6% for the prior-year period, and 76.3% for the first nine months of 2018 compared to 78.1% for the prior-year period. These year-over-year decreases were driven by negative impacts of 2.0 percentage points in the third quarter of 2018 and 1.8 percentage points in the first nine months of 2018 from the businesses we acquired in the first quarter of 2018. As previously disclosed, these businesses have lower gross margins than that of our core business, and therefore, we would expect to report a lower gross margin than we reported prior to the acquisitions. The gross margin of our core business remained relatively even with the prior year, as changes in product mix and other savings offset the impact on our gross margin caused by LumiSpa, which we launched during the fourth quarter of 2017 and which has a lower gross margin than other products. Our gross profit in the third quarter of 2018 also was negatively impacted by foreign-currency fluctuations.

Selling expenses

Selling expenses as a percentage of revenue decreased to 40.2% for both the third quarter and the first nine months of 2018 compared to 41.7% for both prior-year periods. The revenue from our acquired companies does not carry significant selling expenses; the acquisition of these companies lowered selling expenses as a percentage of revenue by 1.6 percentage points in the third quarter and by 1.3 percentage points in the first nine months.

General and administrative expenses

General and administrative expenses as a percentage of revenue decreased to 24.5% for the third quarter of 2018 from 25.4% for the prior-year period, and to 25.0% for the first nine months of 2018 from 25.5% for the prior-year period, reflecting the fixed nature of certain of our general and administrative expenses as revenue increased. General and administrative expenses increased to $165.7 million in the third quarter of 2018 and $499.0 million in the first nine months of 2018 compared to $143.2 million and $411.3 million in the respective prior-year periods, primarily reflecting an increase in labor expenses of $16.9 million for the third quarter of 2018 and $55.7 million for the first nine months of 2018 due to increased employee headcount and the payment of increased employee incentive compensation upon achievement of performance goals.

In October 2018, we hired a chief transformation officer. He has been charged with reviewing and evaluating our information technology infrastructure and organization and our social selling and digital initiatives. The results of this review could alter our strategic direction with respect to some of our systems and tools and could result in impairment or other charges. We expect that this review will conclude in late 2018 or early 2019. At this time, we have not identified any change in strategy or approach that would be construed as an indicator of impairment.

Other income (expense), net

Other income (expense), net was $(7.0 million) of expense for the third quarter of 2018 compared to $(1.2 million) of expense for the prior-year period, and $(16.9 million) of expense for the first nine months of 2018 compared to $(8.5

million) of expense for the prior-year period. These increases in expense primarily reflect foreign-currency losses resulting from the strengthening of the U.S. dollar against the China yuan and Argentina peso. We are taking steps to reduce our exposure in Argentina, including decreasing our intercompany balances in this market.

The increase in expense for the nine-month period additionally reflects a non-cash charge of $7.2 million in the first quarter of 2018 related to the conversion of our then-outstanding convertible notes, offset by a non-cash gain of $13.6 million on our step acquisitions in the first quarter of 2018, as the fair value of our pre-acquisition interests in these companies exceeded the book value at the time of the acquisitions. For more information on these items, see Notes 11 and 15 to the consolidated financial statements contained in this report.

Table of Contents

Provision for income taxes

Provision for income taxes for the three- and nine-month periods ended September 30, 2018 was $20.5 million and $65.8 million, compared to $21.5 million and $55.7 million for the same periods in 2017. The effective tax rate was 27.9% and 32.0% of pre-tax income during the three- and nine-month periods ended September 30, 2018, respectively, compared to 34.1% and 33.4%, respectively, in the prior-year periods. The decreased rates primarily reflect an 8.2 percentage-point benefit in the third quarter and a 4.3 percentage-point benefit in the nine-month period from a change in accounting method related to capitalization of research and development costs for income tax purposes. This change allowed us to utilize foreign tax credits that previously had a valuation allowance. In addition, in the second quarter of 2018 we designated $60 million of our earnings in Mainland China as permanently reinvested, which allows us to remove a withholding tax liability on those earnings. The year-over-year changes in our tax rates also reflect a benefit that was recorded in the prior year due to a new accounting standard for stock-based compensation in 2017.

In addition to the foregoing factors, our tax rate for the first nine months of 2018 also reflects the impact of two items that occurred during the first quarter of 2018: an increase in our income tax reserves following an assessment we received from the Indonesia tax authorities during the first quarter of 2018, and a benefit from a deduction in Japan related to Japan customs assessments that were affirmed by the Tokyo District Court in 2011; in the first quarter of 2018, the Japan and U.S. tax authorities reached resolution as to the amount that would be deductible in each jurisdiction.

Net income

As a result of the foregoing factors, net income for the third quarter of 2018 was $53.1 million compared to $41.7 million in the prior-year period. Net income for the first nine months of 2018 was $139.6 million, compared to $111.2 million for the first nine months of 2017.

Liquidity and Capital Resources

Historically, our principal uses of cash have included operating expenses (particularly selling expenses) and working capital (principally inventory purchases), as well as capital expenditures, stock repurchases, dividends, debt repayment and the development of operations in new markets. We have at times incurred long-term debt to fund strategic transactions and stock repurchases. We typically generate positive cash flow from operations due to favorable margins and have generally relied on cash from operations to fund operating activities. In the first nine months of 2018, we generated $113.9 million in cash from operations compared to generating $155.8 million in cash from operations during the prior-year period. This decrease in cash flow from operations primarily reflects (1) the payment of significant accruals as of the end of 2017, particularly commissions based on the initial LumiSpa offerings in the fourth quarter of 2017 and taxes; and (2) payments to build up inventory for our increased sales, including of LumiSpa, in 2018. Cash and cash equivalents, including current investments, as of September 30, 2018 and December 31, 2017 were $401.5 million and $438.2 million, respectively.

Working capital. As of September 30, 2018, working capital was $398.1 million, compared to $330.4 million as of December 31, 2017. The increase in working capital reflects the inventory and accounts receivable of the companies we acquired during the first quarter of 2018. It also reflects payments on (1) liabilities that were accrued as of December 31, 2017 for commissions and taxes related to LumiSpa sales in the fourth quarter of 2017; and (2) corporate income taxes and distributor events that are treated as prepaid assets as of September 30, 2018.

Table of Contents

Capital expenditures. Capital expenditures in the first nine months of 2018 were $42.3 million. Our 2018 capital expenditures include the following:

- the expansion and upgrade of facilities in our various markets; and

- purchases and expenditures for computer systems and equipment, software and application development, including for digital experience, social selling and technology modernization initiatives.

We estimate that capital expenditures for the uses listed above will total approximately $15-20 million for the remainder of 2018. In addition, we are also in the planning phase for a new manufacturing plant in Mainland China. We currently expect that our expenditures for this project will be approximately $55 million over the next 2-3 years, with approximately $9–10 million in the fourth quarter of 2018.

Conversion and satisfaction of convertible notes. In June 2016, we issued $210.0 million principal amount of convertible 4.75% senior notes due 2020 (the "Convertible Notes") to Ping An ZQ China Growth Opportunity Limited ("Ping An ZQ") at face value. During the first quarter of 2018, Ping An ZQ elected to convert the Convertible Notes pursuant to their terms. In connection with such conversion and pursuant to the terms of the indenture governing the Convertible Notes, we became obligated to deliver shares of Class A common stock and cash to Ping An ZQ. We satisfied our obligation to deliver shares of Class A common stock to Ping An ZQ during the first quarter of 2018 and, in April 2018, satisfied our obligations under the Convertible Notes by paying Ping An ZQ $213.4 million.

New credit agreement. In April 2018, we entered into a Credit Agreement (the "New Credit Agreement") with several financial institutions as lenders and Bank of America, N.A., as administrative agent. The New Credit Agreement provides for a $400 million term loan facility and a $350 million revolving credit facility, each with a term of five years. Concurrently with the closing of the New Credit Agreement, we drew the full amount of the term loan facility and $78.5 million of the revolving facility, each of which initially bear interest at the London Interbank Offered Rate ("LIBOR") plus 2.25%. We used the proceeds of the term loan and the draw on the revolving facility to pay off the Previous Credit Agreement, as defined below, and the outstanding balance on the Convertible Notes. The interest rate applicable to the facilities is subject to adjustment based on our consolidated leverage ratio. The term loan facility will amortize in quarterly installments in amounts resulting in an annual amortization of 5.0% during the first and second years, 7.5% during the third and fourth years and 10.0% during the fifth year after the closing date of the New Credit Agreement, with the remainder payable at final maturity. The New Credit Agreement requires us to maintain a consolidated leverage ratio not exceeding 2.25 to 1.00 and a consolidated interest coverage ratio of no less than 3.00 to 1.00. We are currently in compliance with these debt covenants.

Modification of previous credit agreement. In April 2018, we repaid debt that was outstanding under our credit agreement, dated as of October 9, 2014, with several financial institutions as lenders and Bank of America, N.A., as administrative agent (the "Previous Credit Agreement"). We had indebtedness of $257.6 million in principal amount outstanding under the Previous Credit Agreement as of both March 31, 2018 and the repayment date of April 18, 2018. See Note 11 to the consolidated financial statements contained in this report for further information regarding the New Credit Agreement, Convertible Notes and other debt.

Stock repurchase plan. In 2015, our board of directors approved a stock repurchase plan authorizing us to repurchase up to $500 million of our outstanding shares of Class A common stock on the open market or in private transactions, and in July 2018, our board of directors terminated the 2015 stock repurchase plan and approved a new repurchase plan with an initial authorization amount of $500 million. During the first nine months of 2018, we repurchased approximately 0.5 million shares of our Class A common stock under the 2015 plan for $40.6 million and approximately 0.1 million shares under the 2018 plan for $7.6 million. At September 30, 2018, $492.4 million was available for repurchases under the 2018 plan. Our stock repurchases are used primarily to offset dilution from our equity incentive plans and for strategic initiatives.

- 29 -

Table of Contents

Dividends. In February, April and July 2018, our board of directors declared a quarterly cash dividend of $0.365 per share. These quarterly cash dividends of $19.8 million, $20.3 million and $20.3 million were paid March 14, 2018, June 13, 2018 and September 12, 2018 to stockholders of record on February 26, 2018, May 25, 2018 and August 31, 2018. In October 2018, our board of directors declared a quarterly cash dividend of $0.365 per share to be paid on December 12, 2018 to stockholders of record on November 30, 2018. Currently, we anticipate that our board of directors will continue to declare quarterly cash dividends and that the cash flows from operations will be sufficient to fund our future dividend payments. However, the continued declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other relevant factors.

Cash from foreign subsidiaries. As of September 30, 2018 and December 31, 2017, we held $401.5 million and $438.2 million, respectively, in cash and cash equivalents, including current investments. These amounts include $370.3 million and $413.8 million as of September 30, 2018 and December 31, 2017, respectively, held in our operations outside of the U.S. Substantially all of our non-U.S. cash and cash equivalents are readily convertible into U.S. dollars or other currencies, subject to procedural or other requirements in certain markets, as well as an indefinite-reinvestment designation, as described below.

We typically fund the cash requirements of our operations in the U.S. through intercompany dividends and intercompany charges for products, use of intangible property, and corporate services. Some markets impose government-approval or other requirements for the repatriation of dividends. For example, in Mainland China, we are unable to repatriate cash from current operations in the form of dividends until we file the necessary statutory financial statements for the relevant period. As of September 30, 2018, we had $127.9 million in cash denominated in Chinese RMB. We also have intercompany loan arrangements with some of our markets, including Mainland China, that allow us to access available cash, subject to certain limits in Mainland China and other jurisdictions. We also have drawn on our revolving line of credit to address cash needs until we can repatriate cash from Mainland China or other markets, and we may continue to do so. Except for $60 million of earnings in Mainland China that we designated as indefinitely reinvested during the second quarter of 2018, we currently plan to repatriate undistributed earnings from our non-U.S. operations as necessary, considering the cash needs of our non-U.S. operations and the cash needs of our U.S. operations for dividends, stock repurchases, capital investments, debt repayment and strategic transactions. Repatriation of non-U.S. earnings is subject to withholding taxes in certain foreign jurisdictions. Accordingly, we have accrued the necessary withholding taxes related to the non-U.S. earnings.

We currently believe that existing cash balances, future cash flows from operations and existing lines of credit will be adequate to fund our cash needs on both a short- and long-term basis. The majority of our historical expenses have been variable in nature, and as such, a potential reduction in the level of revenue would reduce our cash flow needs. In the event that our current cash balances, future cash flow from operations and current lines of credit are not sufficient to meet our obligations or strategic needs, we would consider raising additional funds in the debt or equity markets or restructuring our current debt obligations. Additionally, we would consider realigning our strategic plans, including a reduction in capital spending, stock repurchases or dividend payments.

Contingent Liabilities

Please refer to Note 10 to the consolidated financial statements contained in this report for information regarding our contingent liabilities.

Table of Contents

Critical Accounting Policies

There were no significant changes in our critical accounting policies during the third quarter of 2018.

Seasonality and Cyclicality

In addition to general economic factors, we are impacted by seasonal factors and trends such as major cultural events and vacation patterns. For example, most Asian markets celebrate their respective local New Year in the first quarter, which generally has a negative impact on that quarter. We believe that direct selling is also generally negatively impacted during the third quarter, when many individuals, including our sales force, traditionally take vacations.

Prior to making a product generally available for purchase, we often do one or more introductory offerings of the product, such as a preview of the product to our Sales Leaders, a limited-time offer, or other product introduction or promotion. These offerings may generate significant activity and a high level of purchasing, which can result in a higher-than-normal increase in revenue, Sales Leaders and/or Customers during the quarter and can skew year-over-year and sequential comparisons.

Currency Risk and Exchange Rate Information

A majority of our revenue and many of our expenses are recognized outside of the United States, except for inventory purchases, a significant portion of which are primarily transacted in U.S. dollars from vendors in the United States. The local currency of each of our Subsidiaries' primary markets is considered the functional currency with the exception of our Asia product-distribution subsidiary in Singapore and, as discussed below, our subsidiary in Argentina. All revenue and expenses are translated at weighted-average exchange rates for the periods reported. Therefore, our reported revenue and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar. These impacts may be significant because a large portion of our business is derived from outside of the United States. Given the uncertainty of exchange rate fluctuations, it is difficult to predict the effect of these fluctuations on our future business, product pricing and results of operations or financial condition.

In the second quarter of 2018, published inflation indices indicated that the three-year cumulative inflation in Argentina exceeded 100 percent, and as of July 1, 2018, we elected to adopt highly inflationary accounting for our subsidiaries in Argentina. Under highly inflationary accounting, Argentina's functional currency became the U.S. dollar, and its income statement and balance sheet have been measured in U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on peso-denominated monetary assets and liabilities has been reflected in earnings in Other income (expense), net and was not material. As of September 30, 2018, Argentina had a small net peso monetary position. Net sales of Argentina were less than 2 percent of our consolidated net sales for the nine months ended September 30, 2018 and 2017.

We may seek to reduce our exposure to fluctuations in foreign currency exchange rates through the use of foreign currency exchange contracts and through intercompany loans of foreign currency. We do not use derivative financial instruments for trading or speculative purposes. We regularly monitor our foreign currency risks and periodically take measures to reduce the impact of foreign exchange fluctuations on our operating results. As of September 30, 2018 and 2017, we did not hold non-designated mark-to-market forward derivative contracts to hedge foreign denominated intercompany positions or third party foreign debt. As of September 30, 2018 we did not hold any forward contracts designated as foreign currency cash flow hedges, compared to 1.4 billion Japanese yen ($12.4 million) as of September 30, 2017, to hedge forecasted foreign-currency-denominated intercompany transactions. We continue to evaluate our foreign currency hedging policy.

Table of Contents

Non-GAAP Financial Measures

Constant-currency revenue growth is a non-GAAP financial measure that removes the impact of fluctuations in foreign-currency exchange rates, thereby facilitating period-to-period comparisons of the company's performance. It is calculated by translating the current period's revenue at the same average exchange rates in effect during the applicable prior-year period and then comparing this amount to the prior-year period's revenue.

Available Information

Our website address is www.nuskin.com. We make available, free of charge on the Investor Relations portion of our website, ir.nuskin.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

We also use the Investor Relations portion of our website, ir.nuskin.com, as a channel of distribution of additional Company information that may be deemed material. Accordingly, investors should monitor this channel, in addition to following our press releases, Securities and Exchange Commission filings and public conference calls and webcasts. The contents of our website shall not be deemed to be incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 3 of Part I of Form 10-Q is incorporated herein by reference from the section entitled "Currency Risk and Exchange Rate Information" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I and also from Note 4 to the consolidated financial statements contained in this report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective as of September 30, 2018.

Changes in Internal Controls Over Financial Reporting.

We made no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments concerning the matters discussed in the "Legal Proceedings" sections of our Annual Report on Form 10-K for the 2017 fiscal year and our Quarterly Report on Form 10-Q for the second quarter of 2018. Please refer to Notes 10 and 14 to the consolidated financial statements contained in this report for certain information regarding our legal proceedings.

Table of Contents

ITEM 1A. RISK FACTORS

The information presented below supplements and should be read in conjunction with the detailed discussion of risks associated with our business in our recent SEC filings, including our Annual Report on Form 10-K for the 2017 fiscal year.

System failures and capacity constraints could harm our business.

With global operations and a complex sales compensation plan, our business is highly dependent on efficiently functioning information technology systems, including websites, mobile applications, data centers, databases, networks and other systems. We rely on these systems for accepting and processing sales orders, operating our sales force and customer support operations, tracking and compensating our sales force, conducting our corporate and regional operations, and other aspects of our business. Accordingly, the performance, reliability and availability of our systems are critical to our business, reputation, and ability to attract and retain our sales force and customers.

Our systems may be damaged or disrupted by fires, floods, earthquakes or other natural disasters, human error, telecommunications failures, power loss, physical or electronic break-ins, computer viruses, cyber attacks, changes in our IT systems or organization, and other events. We have, and may in the future, experienced system failures and outages. We have adopted and implemented a Business Continuity/Disaster Recovery Plan under which our data is archived and stored at third-party secure sites, and we have recovery sites for certain critical data and operations. However, we cannot guarantee that these backup systems, security protocols, network protection mechanisms and other procedures currently in place, or that may be in place in the future, will be adequate to prevent or remedy system failure or interruption, data loss, security breaches or other data security incidents. Furthermore, any mitigation process could take several days or more, thus resulting in a loss of revenue, loss of confidence of our sales force and harm to our reputation.

In addition, we make significant expenditures on our IT infrastructure and other technology initiatives, and these items could become obsolete or impaired. In October 2018, we hired a chief transformation officer, who has been charged with reviewing and evaluating our information technology infrastructure and organization and our social selling and digital initiatives. The results of this review, which are expected in late 2018 or early 2019, could alter our strategic direction with respect to some of our systems and tools and could result in impairment or other charges as well as additional cash outlay for execution on new plans and strategy.

Our systems could also be strained by growth in our business. Although we work to expand and enhance our ecommerce features, network infrastructure and other technologies to accommodate increases in the volume of traffic to our ecommerce channels, we may be unsuccessful in these efforts. Our failure, or our suppliers' failure, to achieve or maintain system capacity could significantly reduce our ability to fulfill orders and could harm our business, reputation, revenue and financial condition.

Foreign-currency fluctuations and inflation in foreign markets could impact our financial position and results of operations.

In 2017, approximately 90% of our sales occurred in markets outside of the United States in each market's respective local currency. We purchase inventory primarily in the United States in U.S. dollars. In preparing our financial statements, we translate revenue and expenses in our markets outside the United States from their local currencies into U.S. dollars using weighted-average exchange rates. If the U.S. dollar strengthens relative to local currencies, our reported revenue, gross profit and net income will likely be reduced. For example, foreign-currency fluctuations negatively impacted our reported revenue by approximately 8% in 2015 compared to 2014. Foreign-currency fluctuations can also cause losses and gains resulting from translation of foreign-currency-denominated balances on our balance sheet.

- 33 -

Table of Contents

In addition, high levels of inflation and currency devaluations in any of our markets could negatively impact our balance sheet and results of operations. Gains and losses resulting from the remeasurement of non-U.S. dollar monetary assets and liabilities of our subsidiaries operating in highly inflationary economies are recorded in our net earnings. For example, during 2014 and 2015, we recorded $46.3 million and $10.2 million, respectively, of non-cash foreign-currency charges related to the devaluation of the Venezuela currency after Venezuela was designated as a highly inflationary economy under U.S. generally accepted accounting principles. During the third quarter of 2016, we ceased business operations in Venezuela. Argentina also was recently designated as a highly inflationary economy; accordingly, beginning with the third quarter of 2018, we will apply highly inflationary accounting for our Argentina operations, which could result in additional foreign-currency charges. Other markets, including Ukraine, have experienced weakening currencies, and it is possible that this and other markets may be so designated in the future. Our Venezuela, Argentina and Ukraine subsidiaries' net sales revenue each represented less than 1.5% of consolidated net sales revenue during each of the periods ended December 31, 2015, 2016 and 2017.

Although we may engage in transactions intended to reduce our exposure to foreign-currency fluctuations, there can be no assurance that these transactions will be effective. Complex global political and economic dynamics can affect exchange rate fluctuations. For example, significant foreign-currency fluctuations occurred as a result of the June 2016 referendum in the United Kingdom in which voters approved an exit from the European Union. The recent U.S. Tax Cuts and Jobs Act also could affect foreign-currency fluctuations. In addition, members of the current U.S. presidential administration have expressed antipathy toward some international trade agreements and have begun to implement or have suggested the implementation of tariffs, border taxes or other measures that could impact the level of trade between the U.S. and other markets. Any such proposal or measure could impact the value of the U.S. dollar. It is difficult to predict future fluctuations and the effect these fluctuations may have upon future reported results or our overall financial condition.

Recently enacted tariffs, other potential changes to tariff and import/export regulations, and ongoing trade disputes between the United States and other jurisdictions may have a negative effect on global economic conditions and our business, financial results and financial condition.

The United States recently proposed and enacted additional tariffs on certain items. Further, there have been ongoing discussions and activities regarding changes to other U.S. trade policies and treaties. In response, a number of our markets, including Mainland China, are threatening to impose tariffs on U.S. imports, or have already implemented tariffs on U.S. imports, or to take other measures in response to these U.S. actions. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between Mainland China and the United States. Any of these factors could depress economic activity, create anti-American consumer sentiment, restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations. In addition, any actions by foreign markets to implement further trade policy changes, including limiting foreign investment or trade, increasing regulatory scrutiny or taking other actions which impact U.S. companies' ability to obtain necessary licenses or approvals could negatively impact our business.

These tariffs have just recently been announced, and they are subject to a number of uncertainties as they are implemented, including future adjustments and changes to the products covered by additional tariffs and to the countries included or excluded from such tariffs. The ultimate reaction of other countries, and the individuals in each of these countries, and the impact of these tariffs or other actions on the United States, Mainland China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, nor can we predict the impact of any other developments with respect to global trade.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)[(1)]
July 1 – 31, 2018	68,819	$ 76.25	68,819	$ 499.6
August 1 – 31, 2018	54,997	79.20	54,997	$ 495.2
September 1 – 30, 2018	34,230	81.67	34,230	$ 492.4
Total	158,046	$ 78.45	158,046	

(1) In October 2015, we announced that our board of directors approved a stock repurchase plan. Under this plan, our board of directors authorized the repurchase of up to $500 million of our outstanding Class A common stock on the open market or in privately negotiated transactions. In July 2018, our board terminated the 2015 stock repurchase plan and approved a new repurchase plan with an initial authorization amount of $500 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits Regulation S-K Number	Description
31.1	Certification by Ritch N. Wood, Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Mark H. Lawrence, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Ritch N. Wood, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Certification by Mark H. Lawrence, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 7, 2018

NU SKIN
ENTERPRISES, INC.

By: /s/ Mark H. Lawrence
Mark H. Lawrence
Chief Financial Officer
(Duly Authorized
Officer and Principal
Financial and
Accounting Officer)