

HENRY JACK & ASSOCIATES INC

Form 10-Q

May 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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 May 2, 2016, the Registrant had 78,884,710 shares of Common Stock outstanding (\$0.01 par value).

---

## TABLE OF CONTENTS

	Page Reference
<b>PART I FINANCIAL INFORMATION</b>	
<b>ITEM 1.</b>	
Condensed Consolidated Balance Sheets as of March 31, 2016 and June 30, 2015 (Unaudited)	<u>5</u>
Condensed Consolidated Statements of Income for the Three and Nine Months Ended March 31, 2016 and 2015 (Unaudited)	<u>6</u>
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2016 and 2015 (Unaudited)	<u>7</u>
Notes to Condensed Consolidated Financial Statements (Unaudited)	<u>8</u>
<b>ITEM 2.</b>	
Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>17</u>
<b>ITEM 3.</b>	
Quantitative and Qualitative Disclosures about Market Risk	<u>23</u>
<b>ITEM 4.</b>	
Controls and Procedures	<u>24</u>
<b>PART II</b>	
<b>OTHER INFORMATION</b>	<u>24</u>
<b>ITEM 2.</b>	
Unregistered Sales Of Equity Securities And Use Of Proceeds	<u>24</u>
<b>ITEM 6.</b>	
Exhibits	<u>25</u>
Signatures	<u>26</u>

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, 2015. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I. FINANCIAL INFORMATION  
ITEM I. FINANCIAL STATEMENTS

4

---

Table of Contents

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

	March 31, 2016	June 30, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$54,001	\$148,313
Receivables, net	137,406	245,387
Income tax receivable	8,236	2,753
Prepaid expenses and other	70,075	69,096
Deferred costs	40,252	27,950
Total current assets	309,970	493,499
PROPERTY AND EQUIPMENT, net	298,023	296,332
<b>OTHER ASSETS:</b>		
Non-current deferred costs	98,717	96,423
Computer software, net of amortization	228,087	191,541
Other non-current assets	58,944	52,432
Customer relationships, net of amortization	114,901	122,204
Other intangible assets, net of amortization	37,724	34,038
Goodwill	556,256	550,366
Total other assets	1,094,629	1,047,004
Total assets	\$1,702,622	\$1,836,835
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$7,060	\$9,933
Accrued expenses	69,721	78,962
Accrued income taxes	—	5,543
Deferred income tax liability	—	7,034
Notes payable and current maturities of long term debt	213	2,595
Deferred revenues	202,270	339,544
Total current liabilities	279,264	443,611
<b>LONG TERM LIABILITIES:</b>		
Non-current deferred revenues	180,901	192,443
Non-current deferred income tax liability	183,881	150,223
Debt, net of current maturities	100,000	50,102
Other long-term liabilities	9,709	8,922
Total long term liabilities	474,491	401,690
Total liabilities	753,755	845,301
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - \$1 par value; 500,000 shares authorized, none issued	—	—
Common stock - \$0.01 par value; 250,000,000 shares authorized; 102,839,430 shares issued at March 31, 2016;	1,028	1,027
102,695,214 shares issued at June 30, 2015		
Additional paid-in capital	434,430	424,536
Retained earnings	1,369,003	1,266,443
Less treasury stock at cost 23,962,117 shares at March 31, 2016;	(855,594 )	(700,472 )

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

21,842,632 shares at June 30, 2015

Total stockholders' equity

948,867 991,534

Total liabilities and equity

\$1,702,622 \$1,836,835

See notes to condensed consolidated financial statements

5

---



Table of Contents

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
<b>REVENUE</b>				
License	\$292	\$569	\$2,530	\$1,563
Support and service	319,649	296,896	947,615	882,017
Hardware	13,245	12,244	37,532	38,897
Total revenue	333,186	309,709	987,677	922,477
<b>COST OF SALES</b>				
Cost of license	193	285	873	1,002
Cost of support and service	184,527	168,457	541,230	503,925
Cost of hardware	9,553	9,152	26,279	28,111
Total cost of sales	194,273	177,894	568,382	533,038
<b>GROSS PROFIT</b>	138,913	131,815	419,295	389,439
<b>OPERATING EXPENSES</b>				
Selling and marketing	22,732	21,674	66,714	65,512
Research and development	19,854	17,522	57,269	51,995
General and administrative	16,497	15,417	50,157	43,442
Total operating expenses	59,083	54,613	174,140	160,949
<b>OPERATING INCOME</b>	79,830	77,202	245,155	228,490
<b>INTEREST INCOME (EXPENSE)</b>				
Interest income	54	33	258	118
Interest expense	(486 )	(669 )	(983 )	(1,273 )
Total interest income (expense)	(432 )	(636 )	(725 )	(1,155 )
<b>INCOME BEFORE INCOME TAXES</b>	79,398	76,566	244,430	227,335
<b>PROVISION FOR INCOME TAXES</b>	25,515	25,854	79,833	76,656
<b>NET INCOME</b>	\$53,883	\$50,712	\$164,597	\$150,679
Basic earnings per share	\$0.68	\$0.63	\$2.07	\$1.85
Basic weighted average shares outstanding	78,805	80,880	79,608	81,502
Diluted earnings per share	\$0.68	\$0.63	\$2.06	\$1.84
Diluted weighted average shares outstanding	79,167	81,094	79,891	81,773

See notes to condensed consolidated financial statements



Table of Contents

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

	Nine Months Ended March 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 164,597	\$ 150,679
Adjustments to reconcile net income from operations to net cash from operating activities:		
Depreciation	38,106	41,023
Amortization	57,013	48,063
Change in deferred income taxes	24,695	(382 )
Excess tax benefits from stock-based compensation	(338 )	(4,156 )
Expense for stock-based compensation	8,213	7,342
(Gain)/loss on disposal of assets	(48 )	(5,045 )
Changes in operating assets and liabilities:		
Change in receivables	108,172	86,626
Change in prepaid expenses, deferred costs and other	(22,578 )	(34,386 )
Change in accounts payable	(2,873 )	(3,877 )
Change in accrued expenses	(8,114 )	666
Change in income taxes	(9,927 )	16,875
Change in deferred revenues	(149,885 )	(120,941 )
Net cash from operating activities	207,033	182,487
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payment for acquisitions, net of cash acquired	(8,275 )	—
Capital expenditures	(43,300 )	(35,867 )
Proceeds from sale of assets	2,797	8,266
Internal use software	(10,157 )	(10,266 )
Computer software developed	(74,662 )	(56,465 )
Net cash from investing activities	(133,597 )	(94,332 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on credit facilities	100,000	70,000
Repayments on credit facilities	(52,484 )	(6,033 )
Debt acquisition costs	—	(901 )
Purchase of treasury stock	(155,122 )	(112,803 )
Dividends paid	(62,037 )	(56,183 )
Excess tax benefits from stock-based compensation	338	4,156
Proceeds from issuance of common stock upon exercise of stock options	1	456
Minimum tax withholding payments related to share based compensation	(2,561 )	(7,948 )
Proceeds from sale of common stock, net	4,117	3,524
Net cash from financing activities	(167,748 )	(105,732 )
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$(94,312 )</b>	<b>\$(17,577 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>\$ 148,313</b>	<b>\$ 70,377</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 54,001</b>	<b>\$ 52,800</b>

See notes to condensed consolidated financial statements

7

---

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 nine months ended March 31, 2016 and 2015 equals the Company's net income.

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 short-term borrowings on its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At March 31, 2016, there were 23,962 shares in treasury stock and the Company had the remaining authority to repurchase up to 6,028 additional shares. The total cost of treasury shares at March 31, 2016 is \$855,594. During the first nine months of fiscal 2016, the Company repurchased 2,120 treasury shares for \$155,122. At June 30, 2015, there were 21,843 shares in treasury stock and the Company had authority to repurchase up to 8,148 additional shares.

Dividends declared per share were \$0.28 and \$0.25, for the three months ended March 31, 2016 and 2015, respectively. For the nine months ended March 31, 2016 and 2015, dividends declared per share were \$0.78 and \$0.69, 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 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, 2015. 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, 2015.

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 March 31, 2016, the results of its operations for the three and nine months ending March 31, 2016 and 2015, and its cash flows for the nine months ending March 31, 2016 and 2015. The condensed consolidated balance sheet at June 30, 2015 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 period ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire year.

Litigation

We are subject to various routine legal proceedings and claims, including the following:

In 2013 a patent infringement lawsuit entitled DataTreasury Corporation v. Jack Henry & Associates, Inc. et. al. was filed against the Company, several subsidiaries and a number of customer financial institutions in the US District Court

8

---

Table of Contents

for the Eastern District of Texas. The complaint seeks damages, interest, injunctive relief, and attorneys' fees for the alleged infringement of two patents, as well as trebling of damage awards for alleged willful infringement. We believe we have strong defenses and have defended the lawsuit vigorously. A part of that defense has been the filing of challenges to the validity of plaintiff's patents in post-grant proceedings at the Patent Trial and Appeal Board ("PTAB") of the U.S. Patent and Trademark Office. On April 29, July 8, and September 1 2015, the PTAB issued decisions holding that all relevant claims of the plaintiff's patents are unpatentable and invalid. DataTreasury has appealed the PTAB decisions to the U.S. Court of Appeals for the Federal Circuit. At this stage, we cannot make a reasonable estimate of possible loss or range of loss, if any, arising from this lawsuit.

**NOTE 2. 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 fair value of long term debt also approximates carrying value as estimated using discounted cash flows based on the Company's current incremental borrowing rates. 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		Level	Total
	Level 1	Level 2		
				Value
March 31, 2016				
Financial Assets:				
Money market funds	\$23,878	\$—	\$	—\$23,878
Financial Liabilities:				
Revolving credit facility	\$—	\$100,000	\$	—\$100,000
June 30, 2015				
Financial Assets:				
Money market funds	\$98,888	\$—	\$	—\$98,888
Financial Liabilities:				
Revolving credit facility	\$—	\$50,000	\$	—\$50,000

**NOTE 3: RECENT ACCOUNTING PRONOUNCEMENTS**

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers in May 2014. The new standard will supersede much of the existing authoritative literature for revenue recognition. In August 2015, the FASB also issued ASU No. 2015-14 which deferred the effective date of the new standard by one year. The standard and related amendments will be effective for the Company for its annual reporting period beginning July 1, 2018, including interim periods within that reporting period. Along with the deferral of the effective date, ASU No. 2015-14 allows early application as of the original effective date. Entities are allowed to transition to the new standard by either recasting prior periods or recognizing the cumulative effect as of the beginning of the period of adoption. In March 2016, the FASB issued ASU No. 2016-08, which addresses principal versus agent considerations under the new revenue standard. The Company is currently evaluating the newly issued guidance, including which transition approach will be applied and the estimated impact it

will have on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs be presented in the balance sheet

9

---



Table of Contents

as a direct deduction from the carrying amount of the related debt liability (same treatment as debt discounts). ASU No. 2015-03 will be effective for the Company in its fiscal year ended June 30, 2017. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company currently classifies debt issuance costs as an asset, and will adopt these changes beginning July 1, 2016.

ASU No. 2015-17 was issued by the FASB in November 2015 as part of the Simplification Initiative. This ASU eliminates the requirement to separate deferred income tax liabilities and assets into non-current and current amounts. ASU No. 2015-17 is effective for the Company for its annual reporting period beginning July 1, 2017 and early adoption is permitted. In the third quarter of fiscal 2016, management elected to early adopt and all deferred income tax assets and liabilities are reported as non-current. At March 31, 2016, the current portion of our deferred income tax liability was \$7,034. Prior periods were not retrospectively adjusted.

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. ASU No. 2016-02 will be effective for Jack Henry's annual reporting period beginning July 1, 2019 and early adoption is permitted. The Company is currently assessing the impact this new standard will have on our consolidated financial statements.

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting in March 2016. The new standard will simplify several aspects of the accounting for share-based payment transactions, including reporting of excess tax benefits and shortfalls, application of forfeiture rates, statutory minimum withholding considerations, and classification within the statement of cash flows. ASU No. 2016-09 is effective for the Company's annual reporting period beginning July 1, 2017 and early adoption is permitted. The Company is currently evaluating the newly issued guidance, including the estimated impact it will have on our consolidated financial statements. The Company has not yet determined when the changes will be adopted.

## NOTE 4. DEBT

The Company's outstanding long and short term debt is as follows:

	March 31, June 30,	
	2016	2015
<b>LONG TERM DEBT</b>		
Revolving credit facility	\$ 100,000	\$ 50,000
Capital leases	—	816
	100,000	50,816
Less current maturities	—	714
Debt, net of current maturities	\$ 100,000	\$ 50,102
<b>SHORT TERM DEBT</b>		
Capital leases		\$ 213 \$ 1,881
Current maturities of long-term debt		— 714
Notes payable and current maturities of long term debt	\$ 213	\$ 2,595
Capital leases		

The Company has entered into various capital lease obligations for the use of certain computer equipment. The Company currently has short term capital lease obligations totaling \$213 at March 31, 2016.

## 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 March 31, 2016, the

Company was in compliance with all such covenants. The revolving loan terminates February 20, 2020 and at March 31, 2016, the outstanding revolving loan balance was \$100,000.

Table of Contents

## 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 expires April 30, 2017. At March 31, 2016, no amount was outstanding.

## Interest

The Company paid interest of \$748 and \$415 during the nine months ended March 31, 2016 and 2015, respectively.

## Property and Equipment

Property and equipment included \$(1,379) and \$5,444 of net change in assets acquired via accrued liabilities or capital lease at March 31, 2016 and 2015, respectively. These amounts were excluded from capital expenditures on the statement of cash flows.

## NOTE 5. INCOME TAXES

The effective tax rate was 32.1% of income before income taxes for the quarter ended March 31, 2016, compared to 33.8% for the same quarter in fiscal 2015. The decrease in effective tax rate was primarily due to the recognition of additional federal Research and Experimentation Credit ("R&E Credit") tax benefits in the current period compared to the prior year quarter.

The Company paid income taxes of \$65,064 and \$60,164 in the nine months ended March 31, 2016 and 2015, respectively.

At March 31, 2016, the Company had \$7,644 of gross unrecognized tax benefits, \$6,147 of which, if recognized, would affect our effective tax rate. We had accrued interest and penalties of \$1,249 and \$1,388 related to uncertain tax positions at March 31, 2016 and 2015, respectively.

During the period ended March 31, 2016, the Internal Revenue Service commenced an examination of the Company's U.S. federal income tax returns for fiscal year ended June 30, 2014. The examination is expected to be completed in December 2016. At this time, it is anticipated that the examination will not result in a material change to the Company's consolidated financial statements.

The U.S. federal and state income tax returns for fiscal 2012 and all subsequent years remain subject to examination as of March 31, 2016 under statute of limitations rules. We anticipate potential changes due to expiring statutes could reduce the unrecognized tax benefits balance by \$1,500 - \$3,000 within twelve months of March 31, 2016.

## NOTE 6. STOCK-BASED COMPENSATION

Our operating income for the three months ended March 31, 2016 and 2015 includes \$3,101 and \$2,759 of stock-based compensation costs, respectively. For the nine months ended March 31, 2016 and 2015, stock-based compensation costs totaled \$8,213 and \$7,342, respectively.

## 2005 NSOP and 1996 SOP

The Company previously issued options to employees under the 1996 Stock Option Plan ("1996 SOP") and to outside directors under the 2005 Non-Qualified Stock Option Plan ("2005 NSOP"). No stock options were issued by the Company during the nine months ended March 31, 2016.

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

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2015	100	23.07	
Granted	—	—	
Forfeited	—	—	
Exercised	—	—	
Outstanding March 31, 2016	100	\$ 23.07	\$ 6,151
Vested March 31, 2016	100	\$ 23.07	\$ 6,151
Exercisable March 31, 2016	100	\$ 23.07	\$ 6,151

Compensation cost related to outstanding options has now been fully recognized. The weighted average remaining contractual term on options currently exercisable as of March 31, 2016 was 2.41 years.

Table of Contents

## Restricted Stock Plan

The Company issues both share awards and unit awards under the Restricted Stock Plan. The following table summarizes non-vested share awards as of March 31, 2016, as well as activity for the nine months then ended:

Share awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2015	72	34.28
Granted	22	66.13
Vested	(23 )	42.55
Forfeited	(11 )	22.51
Outstanding March 31, 2016	60	\$ 44.92

At March 31, 2016, there was \$1,233 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 0.92 years.

The following table summarizes non-vested unit awards as of March 31, 2016, as well as activity for the nine months then ended:

Unit awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2015	499	48.13
Granted	130	75.99
Vested	(99 )	44.09
Forfeited	(101 )	45.89
Outstanding March 31, 2016	429	\$ 58.06

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 118 unit awards granted in fiscal 2016 are as follows:

Volatility	15.6 %
Risk free interest rate	1.06 %
Dividend yield	1.5 %
Stock Beta	0.741

The remaining 12 unit awards granted are not subject to performance targets, and therefore the estimated fair value at measurement date is valued in the same manner as restricted stock award grants.

At March 31, 2016, there was \$12,330 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 1.34 years.

Table of Contents

## NOTE 7. EARNINGS PER SHARE

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net Income	\$53,883	\$50,712	\$164,597	\$150,679
Common share information:				
Weighted average shares outstanding for basic earnings per share	78,805	80,880	79,608	81,502
Dilutive effect of stock options and restricted stock	362	214	283	271
Weighted average shares outstanding for diluted earnings per share	79,167	81,094	79,891	81,773
Basic earnings per share	\$0.68	\$0.63	\$2.07	\$1.85
Diluted earnings per share	\$0.68	\$0.63	\$2.06	\$1.84

Per share information is based on the weighted average number of common shares outstanding for the three and nine months ended March 31, 2016 and 2015. Stock options and restricted stock have been included in the calculation of earnings per share to the extent they are dilutive. There were no anti-dilutive stock options and restricted stock shares excluded for the three month period ended March 31, 2016. 112 shares were excluded for the three month period ended March 31, 2015. For the nine months ended March 31, 2016, there were no anti-dilutive stock options and restricted stock shares excluded, and there were 83 excluded for the nine months ended March 31, 2015.

## NOTE 8. BUSINESS ACQUISITION

Bayside Business Solutions, Inc.

Effective July 1, 2015, the Company acquired all of the equity interests of Bayside Business Solutions, an Alabama-based company that provides technology solutions and payment processing services primarily for the financial services industry, for \$10,000 paid in cash. This acquisition was funded using existing operating cash. The acquisition of Bayside Business Solutions expanded the Company's presence in commercial lending within the industry.

Management has completed a preliminary purchase price allocation of Bayside Business Solutions 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 preliminary fair values as of July 1, 2015 are set forth below:

Current assets	\$1,922
Long-term assets	253
Identifiable intangible assets	5,005
Total liabilities assumed	(3,064 )
Total identifiable net assets	4,116
Goodwill	5,884
Net assets acquired	\$10,000

The amounts shown above may change in the near term as management continues to evaluate the income tax implications of this business combination.

The goodwill of \$5,884 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 Bayside Business Solutions, together with the value of Bayside Business Solutions' assembled workforce. Goodwill from this acquisition, none of which is expected to be deductible for income tax purposes, has been allocated in our Bank Systems and Services segment, as we have commenced our integration of this company within that reporting unit.

Identifiable intangible assets from this acquisition consist of customer relationships of \$3,402, \$659 of computer software and other intangible assets of \$944. The weighted average amortization period for acquired customer relationships, acquired computer software, and other intangible assets is 15 years, 5 years, and 20 years, respectively. Current assets were inclusive of cash acquired of \$1,725. The fair value of current assets acquired included accounts receivable of \$178. The gross amount of receivables was \$178, none of which was expected to be uncollectible.



Table of Contents

During fiscal year 2016, the Company incurred \$55 in costs related to the acquisition of Bayside Business Solutions. These costs included fees for legal, valuation and other fees. These costs were expensed as incurred and were included within general and administrative expenses.

The results of Bayside Business Solutions' operations included in the Company's consolidated statement of operations for the nine months ended March 31, 2016 included revenue of \$2,921 and after-tax net loss of \$277.

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 two reportable segments: bank systems and services ("Bank") and credit union systems and services ("Credit Union"). The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue.

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
	Bank	Credit Union	Total	Bank	Credit Union	Total
<b>REVENUE</b>						
License	\$292	\$—	\$292	\$333	\$236	\$569
Support and service	236,337	83,312	319,649	228,668	68,230	296,896
Hardware	9,574	3,671	13,245	9,112	3,132	12,244
Total revenue	246,203	86,983	333,186	238,117	71,598	309,709
<b>COST OF SALES</b>						
Cost of license	193	—	193	141	144	285
Cost of support and service	141,995	42,532	184,527	132,545	45,909	168,457
Cost of hardware	6,923	2,630	9,553	6,791	2,361	9,152
Total cost of sales	149,111	45,162	194,273	139,488	48,414	177,894
<b>GROSS PROFIT</b>	\$97,092	\$41,821	138,913	98,633	23,184	131,815
<b>OPERATING EXPENSES</b>			59,083			54,613
<b>INTEREST INCOME (EXPENSE)</b>			(432 )			(636 )
<b>INCOME BEFORE INCOME TAXES</b>			\$79,398			\$76,566



Table of Contents

	Nine Months Ended March 31, 2016			Nine Months Ended March 31, 2015		
	Bank	Credit Union	Total	Bank	Credit Union	Total
REVENUE						
License	\$2,102	\$428	\$2,530	\$1,062	\$501	\$1,563
Support and service	696,691	250,924	947,615	678,989	203,028	882,017
Hardware	25,153	12,379	37,532	28,987	9,910	38,897
Total revenue	723,946	263,731	987,677	709,038	213,439	922,477
COST OF SALES						
Cost of license	755	118	873	691	311	1,002
Cost of support and service	415,148	126,082	541,230	395,469	108,456	503,925
Cost of hardware	17,455	8,824	26,279	20,849	7,262	28,111
Total cost of sales	433,358	135,024	568,382	417,009	116,029	533,038
GROSS PROFIT	\$290,588	\$128,707	419,295	\$292,029	\$97,410	389,439
OPERATING EXPENSES			174,140			160,949
INTEREST INCOME (EXPENSE)			(725 )			(1,155 )
INCOME BEFORE INCOME TAXES			\$244,430			\$227,335

	March 31, 2016	June 30, 2015
Property and equipment, net		
Bank systems and services	\$265,843	\$263,231
Credit Union systems and services	32,180	33,101
Total	\$298,023	\$296,332
Intangible assets, net		
Bank systems and services	\$705,632	\$664,231
Credit Union systems and services	231,335	233,918
Total	\$936,967	\$898,149

The Company has not disclosed any additional asset information by segment, as the information is not produced internally and its preparation is impracticable.

**NOTE 10: SUBSEQUENT EVENTS****Sale of business**

On April 19, 2016, the Company announced that it has entered into a definitive agreement to sell its Alogent division ("Alogent") to Antelope Acquisition Co., an affiliate of Battery Ventures. Alogent, which is included in our banking segment, provides branch deposit automation and remote deposition solutions to large financial institutions. The closing of the transaction is expected to occur by May 31, 2016. The final purchase price is subject to change based upon certain conditions present at closing, therefore the final purchase price and net gain or loss has not yet been finalized. The following table presents the aggregate carrying values of the respective asset and liability classes related to the Alogent sale:

Table of Contents

	March 31, 2016
Carrying amounts of assets held for sale:	
Receivables, net	4,770
Prepaid expenses and other	1,578
Deferred costs	3,795
Property and Equipment, Net	280
Non-current deferred costs	782
Computer software, net of amortization	9,741
Other non-current assets	4,489
Customer relationships, net of amortization	7,477
Other intangible assets, net of amortization	601
Goodwill	3,618
Total assets	\$37,131
Carrying amounts of liabilities related to assets held for sale:	
Accrued expenses	2,203
Deferred revenues	16,762
Non-current deferred revenues	1,899
Non-current deferred income tax liability	7,025
Debt, net of current maturities	68
Total liabilities	27,957

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and the accompanying notes to the condensed consolidated financial statements included in this Form 10-Q for the quarter ended March 31, 2016.

**OVERVIEW**

Jack Henry & Associates, Inc. (JHA) is a leading provider of technology solutions and payment processing services primarily for financial services organizations. Its solutions are marketed and supported through three primary brands. Jack Henry Banking® supports banks ranging from community to multi-billion dollar institutions with information and transaction processing solutions. Symitar® is a leading provider of information and transaction processing solutions for credit unions of all sizes. ProfitStars® provides specialized products and services that enable financial institutions of every asset size and charter, and diverse corporate entities outside the financial services industry, to mitigate and control risks, optimize revenue and growth opportunities, and contain costs. JHA's integrated solutions are available for in-house installation and outsourced and hosted delivery.

A significant portion of our revenue is derived from recurring outsourcing fees and transaction processing fees that predominantly have contract terms of five years or greater at inception. Support and service fees also include in-house maintenance fees on primarily annual contract terms. Less predictable software license fees and hardware sales complement our primary revenue sources. We continually seek opportunities to increase revenue while at the same time containing costs to expand margins.

**RESULTS OF OPERATIONS**

In the third quarter of fiscal 2016, revenues increased 8% or \$23,477 compared to the same period in the prior year, with strong growth continuing in our support and service revenues, particularly in our bundled services and Outlink revenue streams. Cost of sales increased 9% and gross margin increased 5%. The Company continues to focus on cost management. Operating expenses increased 8% compared to the third quarter of fiscal 2015, mainly due to increased headcount and related salaries. The provision for income taxes decreased 1% compared to the prior quarter. The increased revenue and above changes resulted in a 6% increase in net income for the third quarter of fiscal 2016. There was a significant decrease of \$4,188 in one-time deconversion fees during the third quarter compared to the prior year third quarter's total of \$9,335. These are fees charged on agreements that are canceled prior to the end of their contracted term.

In the nine months ended March 31, 2016, revenues increased 7% or \$65,200 compared to the same six months last year, with strong growth continuing in our support & service revenue, particularly bundled services and outsourcing services. Cost of sales increased 7% and operating expenses increased 8% for the nine month period ended March 31, 2016. Provision for income taxes increased 4% compared to the prior year-to-date period. The increased revenue and above changes resulted in a 9% increase in net income for the nine month period. Deconversion fees for the year-to-date period were relatively flat with last year, with an overall increase of \$734.

We move into the fourth quarter of fiscal 2016 following strong performance in the third quarter. Significant portions of our business continue to come from recurring revenue and our healthy sales pipeline is also encouraging. Our customers continue to face regulatory and operational challenges which our products and services address, and in these times they have an even greater need for our solutions that directly address institutional profitability and efficiency. Our strong balance sheet, access to extensive lines of credit, the strength of our existing product line and an unwavering commitment to superior customer service position us well to address current and future opportunities. A detailed discussion of the major components of the results of operations for the three and nine months ending March 31, 2016 follows. All dollar amounts are in thousands and discussions compare the current three and nine months ending March 31, 2016 to the prior year three and nine months ending March 31, 2015.

**REVENUE**

	Three Months Ended March 31,	% Change	Nine Months Ended March 31,	% Change
License Revenue				

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

	2016	2015		2016	2015	
License	\$292	\$569	(49 )%	\$2,530	\$1,563	62 %
Percentage of total revenue	<1%	<1%		<1%	<1%	

Non-bundled license revenue for the third quarter of fiscal 2016 was lower than the same quarter of the prior year due mainly to a reduction of standalone license sales in both our Banking and Credit Union segments. Conversely, non-

17

---

Table of Contents

bundled license revenue for the year-to-date period increased due to heightened standalone license sales in our Banking segment in fiscal 2016. Such license fees will fluctuate as non-bundled license sales are sporadic in nature.

Support and Service Revenue	Three Months Ended			% Change	Nine Months Ended		
	March 31,				March 31,		
	2016	2015		2016	2015		Change
Support and service	\$319,649	\$296,896	8 %	\$947,615	\$882,017	7 %	
Percentage of total revenue	96	% 96	%	96	% 96	%	

	Qtr over Qtr			Year over Year		
	\$ Change	% Change		\$ Change	% Change	
In-House Support & Other Services	\$4,580	6 %		\$12,627	5 %	
Electronic Payment Services	2,139	2 %		18,279	5 %	
Outsourcing Services	6,804	10 %		19,496	10 %	
Implementation Services	(3,036 )	(16 )%		(8,037 )	(14 )%	
Bundled Products & Services	12,266	94 %		23,233	79 %	
Total Increase	\$22,753			\$65,598		

There was growth in most support and service revenue components in the third quarter of fiscal 2016 compared to the same quarter last year, as well as in the year-to-date period ended March 31, 2016.

In-house support and other services revenue increased due to annual maintenance renewal fee increases for both core and complementary products as our customers' assets grow and increased software usage revenue due to mobile deposit revenue increases.

Electronic payment services revenue continues to show growth over the prior year, although that growth is slowing due to some of our large customers being acquired and price compression in our card services offerings. The revenue increase in both the quarter and year-to-date periods is attributable to increased revenue across debit/credit card transaction processing services, online bill payment services and ACH processing. Deconversion fees for electronic payment services decreased \$1,791 for the third quarter compared to the prior year same quarter, and without this reduction electronic payment services would have grown 3%. For the year-to-date period, deconversion revenue has increased \$5,417 and excluding those fees, the year-over-year increase in electronic payment services would be 4%. Outsourcing services for banks and credit unions continue to drive revenue growth as customers continue to show a preference for outsourced delivery of our solutions. Revenues from outsourcing services are typically earned under multi-year service contracts and therefore provide a long-term stream of recurring revenues. We expect the trend towards outsourced product delivery to benefit outsourcing services revenue for the foreseeable future. The quarter-over-quarter and year-over-year increases in outsourcing revenue were both tapered by a significant decrease in deconversion fees included in this category. For the quarter, this decrease totaled \$2,219, and year-to-date it totaled \$4,556. Excluding the impact of deconversion fees, outsourcing revenue grew 14% in the third quarter compared to the prior year third quarter, and 13% in the year-to-date period.

Implementation services include implementation services for our electronic payment services customers as well as standalone customization services, merger conversion services, image conversion services and network monitoring services. Implementation services revenue decreased due to a decrease in both banking and credit union standalone implementations compared to the prior year. Revenue from these standalone services has decreased as implementation services related to our bundled arrangements have increased.

Bundled products and services revenue is combined revenue from the multiple elements in our bundled arrangements, including license, implementation services and maintenance, which cannot be recognized separately due to a lack of vendor-specific objective evidence of fair value. Bundled products and services revenue increased quarter-to-date due to terminations of pending products and services on certain contracts that have allowed for the release of revenue that was being deferred until contract completion in both our credit union and banking core and complementary arrangements. The year-to-date increase over fiscal 2015 is mainly due to increased revenues from our core and complementary credit union arrangements, which is also in part due to these terminations.



Table of Contents

Hardware Revenue	Three Months Ended			% Change	Nine Months Ended		
	March 31,				March 31,		
	2016	2015		2016	2015		
Hardware	\$13,245	\$12,244	8 %	\$37,532	\$38,897	(4 )%	
Percentage of total revenue	4 %	4 %		4 %	4 %		

Hardware revenue increased in the third quarter of fiscal 2016 compared to the same quarter a year ago due to an increase in complementary hardware products delivered. Year-to-date hardware sales were lower than fiscal 2015. Although there will be quarterly fluctuations, we expect an overall decreasing trend in hardware sales to continue due to the change in sales mix towards outsourcing contracts, which typically do not include hardware, and the general deflationary trend of computer prices.

**COST OF SALES AND GROSS PROFIT**

	Three Months Ended			% Change	Nine Months Ended		
	March 31,				March 31,		
	2016	2015		2016	2015		
Cost of License	\$193	\$285	(32 )%	\$873	\$1,002	(13 )%	
Percentage of total revenue	<1%	<1%		<1%	<1%		
License Gross Profit	\$99	\$284	(65 )%	\$1,657	\$561	195 %	
Gross Profit Margin	34 %	50 %		65 %	36 %		
Cost of support and service	\$184,527	\$168,457	10 %	\$541,230	\$503,925	7 %	
Percentage of total revenue	55 %	54 %		55 %	55 %		
Support and Service Gross Profit	\$135,122	\$128,439	5 %	\$406,385	\$378,092	7 %	
Gross Profit Margin	42 %	43 %		43 %	43 %		
Cost of hardware	\$9,553	\$9,152	4 %	\$26,279	\$28,111	(7 )%	
Percentage of total revenue	3 %	3 %		3 %	3 %		
Hardware Gross Profit	\$3,692	\$3,092	19 %	\$11,253	\$10,786	4 %	
Gross Profit Margin	28 %	25 %		30 %	28 %		
TOTAL COST OF SALES	\$194,273	\$177,894	9 %	\$568,382	\$533,038	7 %	
Percentage of total revenue	58 %	57 %		58 %	58 %		
TOTAL GROSS PROFIT	\$138,913	\$131,815	5 %	\$419,295	\$389,439	8 %	
Gross Profit Margin	42 %	43 %		42 %	42 %		

Cost of license consists of the direct costs of third party software that are a part of a non-bundled arrangement. Non-bundled license sales are sporadic in nature, and shifts in the sales mix between the products that make up the associated costs cause fluctuations in the margins from period to period.

Gross profit margins in support and service declined slightly in the current quarter due mainly to decreased deconversion fee revenue in our banking segment. Year-to-date gross profit margin remains consistent with the prior year.

In general, changes in cost of hardware trend consistently with hardware revenue. For the current period, margins were slightly higher due to increased sales of higher margin hardware upgrade products.

**OPERATING EXPENSES**

Selling and Marketing	Three Months Ended			% Change	Nine Months Ended		
	March 31,				March 31,		
	2016	2015		2016	2015		
Selling and marketing	\$22,732	\$21,674	5 %	\$66,714	\$65,512	2 %	
Percentage of total revenue	7 %	7 %		7 %	7 %		





Table of Contents

Selling and marketing expenses for the third quarter of fiscal 2016 increased over the prior year quarter due mainly to an 8% increase in commission expense, which is proportionate with our increased revenue. Selling and marketing expense remained a consistent percentage of total revenue in both periods.

Research and Development	Three Months Ended		%	Change	Nine Months Ended		%	Change
	March 31,				March 31,			
	2016	2015			2016	2015		
Research and development	\$19,854	\$17,522	13	%	\$57,269	\$51,995	10	%
Percentage of total revenue	6	%	6	%	6	%	6	%

Research and development expenses have increased for both the quarter and year-to-date, primarily due to increased headcount and related personnel costs, however remained consistent with the prior year as a percentage of total revenue.

General and Administrative	Three Months Ended		%	Change	Nine Months Ended		%	Change
	March 31,				March 31,			
	2016	2015			2016	2015		
General and administrative	\$16,497	\$15,417	7	%	\$50,157	\$43,442	15	%
Percentage of total revenue	5	%	5	%	5	%	5	%

General and administrative expenses in the current quarter were higher than in the same quarter of fiscal 2015, but remained at a consistent percentage of total revenue. Increased headcount and related personnel costs contributed to the quarter-to-date and year-to-date increases. General and administrative expenses in the prior year-to-date period were also partially offset by the gain on the sale of the TeleWeb suite of Internet and mobile banking software products to Data Center, Inc, resulting in the increase year-over-year.

INTEREST INCOME AND EXPENSE	Three Months Ended		%	Change	Nine Months Ended		%	Change
	March 31,				March 31,			
	2016	2015			2016	2015		
Interest Income	\$54	\$33	64	%	\$258	\$118	119	%
Interest Expense	\$(486)	\$(669)	(27)	%	\$(983)	\$(1,273)	(23)	%

Interest income fluctuated due to changes in invested balances and yields on invested balances. Interest expense remained low for both the current and prior periods.

PROVISION FOR INCOME TAXES	Three Months Ended		%	Change	Nine Months Ended		%	Change
	March 31,				March 31,			
	2016	2015			2016	2015		
Provision For Income Taxes	\$25,515	\$25,854	(1)	%	\$79,833	\$76,656	4	%
Effective Rate	32.1	%	33.8	%	32.7	%	33.7	%

The decreases in effective tax rate in both the quarter and year-to-date periods were primarily due to the Research and Experimentation Credit ("R&E Credit"), which was retroactively and permanently extended in December 2015.

**NET INCOME**

Net income increased 6% to \$53,883, or \$0.68 per diluted share for the third quarter of fiscal 2016, compared to \$50,712, or \$0.63 per diluted share, in the same period of fiscal 2015. Year-to-date net income increased from \$150,679, or \$1.84 per diluted share, in fiscal 2015 to \$164,597, or \$2.06 per diluted share, in fiscal 2016 through the third quarter. This translates to an increase of 9% in net income year-to-date over the last fiscal year.

**REPORTABLE SEGMENT DISCUSSION**

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 two reportable segments: bank systems and services ("Bank") and credit union systems and services ("Credit Union"). The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue.



Table of Contents

## Bank Systems and Services

	Three Months Ended			% Change	Nine Months Ended		
	March 31,		2015		March 31,		2015
	2016	2015			2016	2015	
Revenue	\$246,203	\$238,111	3 %	\$723,946	\$709,038	2 %	
Gross profit	\$97,092	\$98,631	(2) %	\$290,588	\$292,029	— %	
Gross profit margin	39	% 41	%	40	% 41	%	

Revenue in the Bank segment increased 3% compared to the equivalent quarter last fiscal year, mainly due to increased support & services revenues. This increase in support & service revenue was driven by a 7% increase in outsourcing services along with increased recognition of bundled revenue being driven by terminations, and was partially offset by decreased stand-alone implementation revenue.

Year-to-date revenue increased 2% over the same nine month period in the prior fiscal year, due mainly to growth in the support and services category, driven by a 9% increase in outsourcing revenue. The increase was partially offset by a decrease stand-alone implementation and hardware revenues compared to the prior year-to-date period.

The decrease in deconversion fees, impact of the loss of two large customers in the first two fiscal quarters, and on-going price compression on renewals of long-term contracts in both the quarter and year-to-date periods led to a slight decrease in gross profit and gross profit margins compared to the same prior year periods.

## Credit Union Systems and Services

	Three Months Ended			% Change	Nine Months Ended		
	March 31,		2015		March 31,		2015
	2016	2015			2016	2015	
Revenue	\$86,983	\$71,598	21 %	\$263,731	\$213,439	24 %	
Gross profit	\$41,821	\$33,184	26 %	\$128,707	\$97,410	32 %	
Gross profit margin	48	% 46	%	49	% 46	%	

Revenue in the Credit Union segment for the three months ended March 31, 2016 increased 21% due mainly to increases in support & service revenue. Support & service revenues grew 22%, mainly through increases in electronic payment services and bundled services recognition.

Revenue also grew 24% in the Credit Union segment for the nine months of fiscal 2016 compared to the same period in fiscal 2015. This was driven by a 24% increase in support and service revenue, which was achieved through increases in electronic payment services, in-house maintenance renewals, and bundled services revenue. The increase in bundled services was mainly due to an increase in terminations of pending products and services on certain contracts allowing for earlier recognition of revenue on our bundled arrangements.

Gross profit margins for the Credit Union segment increased mainly due to economies of scale realized from growing transaction volume in our payment processing services.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased to \$54,001 at March 31, 2016 from \$148,313 at June 30, 2015. The decrease from June 30, 2015 is primarily due to repurchases of treasury stock during the first half of fiscal 2016. The following table summarizes net cash from operating activities in the statement of cash flows:

	Nine Months Ended	
	March 31,	
	2016	2015
Net income	\$164,597	\$150,679
Non-cash expenses	127,641	86,845
Change in receivables	108,172	86,626
Change in deferred revenue	(149,885 )	(120,941 )
Change in other assets and liabilities	(43,492 )	(20,722 )
Net cash provided by operating activities	\$207,033	\$182,487



## Table of Contents

Cash provided by operating activities increased 13% compared to the same period last year. Cash from operations is primarily used to repay debt, pay dividends, repurchase stock, and for capital expenditures.

Cash used in investing activities for the first nine months of fiscal 2016 totaled \$133,597 and included capital expenditures on facilities and equipment of \$43,300, mainly for the purchase of computer equipment and aircraft, \$74,662 for the ongoing enhancements and development of existing and new product service offerings, \$8,275, net of cash acquired, for the acquisition of Bayside Business Solutions, and \$10,157 for the purchase and development of internal use software. This was partially offset by \$2,797 proceeds from the sale of assets. Cash used in investing activities for the first nine months of fiscal 2015 totaled \$94,332 and included capital expenditures of \$35,867, \$56,465 for the development of software and \$10,266 for the purchase and development of internal use software, partially offset by \$8,266 proceeds from the sale of assets, mainly related to the TeleWeb suite of Internet and mobile banking software products to Data Center Inc. (DCI).

Financing activities used cash of \$167,748 for the first nine months of fiscal 2016. Cash used was \$155,122 for the purchase of treasury shares, repayment of the revolving credit facility and capital leases of \$52,484, and dividends paid to stockholders of \$62,037. This was partially offset by borrowings of \$100,000 against our revolving credit facility and \$1,895 net cash inflow from the issuance of stock and tax related to stock-based compensation. Financing activities used cash in the first nine months of fiscal 2015 of \$105,732. Cash used was \$112,803 for the purchase of treasury shares, dividends paid to stockholders of \$56,183, and repayments of capital leases of \$6,033. Cash used was offset by \$70,000 of borrowings on our revolving credit facility.

### Capital Requirements and Resources

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$43,300 and \$35,867 for the nine months ending March 31, 2016 and March 31, 2015, respectively, were made primarily for additional equipment and the improvement of existing facilities. These additions were funded from cash generated by operations. Total consolidated capital expenditures on facilities and equipment for the Company for fiscal year 2016 are not expected to exceed \$60,000 and will be funded from cash generated by operations.

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 short-term borrowings on its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At March 31, 2016, there were 23,962 shares in treasury stock and the Company had the remaining authority to repurchase up to 6,028 additional shares. The total cost of treasury shares at March 31, 2016 is \$855,594. During the first nine months of fiscal 2016, the Company repurchased 2,120 treasury shares for \$155,122. At June 30, 2015, there were 21,843 shares in treasury stock and the Company had authority to repurchase up to 8,148 additional shares.

### Capital leases

The Company has entered into various capital lease obligations for the use of certain computer equipment. The Company currently has short term capital lease obligations totaling \$213 at March 31, 2016.

### 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 March 31, 2016, the Company was in compliance with all such covenants. The revolving loan terminates February 20, 2020 and at March 31, 2016, the outstanding revolving loan balance was \$100,000.

### Other lines of credit

The Company has an unsecured bank credit line on which provides for funding of up to \$5,000 and bears interest at the prime rate less 1%. The credit line expires April 30, 2017. At March 31, 2016, no amount was outstanding.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, indices, volatilities, correlations or other market factors such as liquidity, will result in losses for a certain financial instrument or group of financial instruments. We are currently exposed to credit risk on credit extended to customers and interest risk on outstanding debt. We do not currently use any derivative financial instruments. We actively monitor these risks through a variety of controlled procedures involving senior management.

Based on the controls in place and the credit worthiness of the customer base, we believe the credit risk associated with the extension of credit to our customers will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Based on our outstanding debt with variable interest rates as of March 31, 2016, a 1% increase in our borrowing rate would increase our annual interest expense by \$1,000.

#### ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of our management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the CEO and CFO concluded that, due to the material weakness discussed in Management's Annual Report on Internal Control over Financial Reporting related to our accounting for multiple element software arrangements, our disclosure controls and procedures were not effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms. For this purpose, disclosure controls and procedures include controls and procedures designed to ensure that information that is required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

For additional information regarding the restatements of certain of the company's historical financial results and the material weakness identified by management, see "Item 9A. Controls and Procedures" and Management's Annual Report on Internal Control over Financial Reporting in the Company's Amendment No. 1 to its Annual Report on Form 10-K/A for the year ended June 30, 2014, filed on June 2, 2015 with the SEC. Notwithstanding the material weakness identified by Company management, each of the Company's CEO and CFO has concluded, based on his knowledge, that the consolidated financial statements included in this Form 10-Q fairly present in all material respects the Company's financial condition, results of operations and cash flows of the Company as of, and for the periods presented in this report, in conformity with accounting principles generally accepted in the United States.

##### Changes in Internal Control over Financial Reporting

During the fiscal quarter ending March 31, 2016, there was no change in internal control over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting. However, the Company is continuing its implementation of a number of remediation steps to address the material weakness discussed in Management's Annual Report on Internal Control over Financial Reporting. With respect to the control deficiencies discussed therein, the following steps have been initiated.

- i. Improve our risk assessment processes to identify inherent risks and complexities in accounting that could have financial reporting implications.
  - ii. Increase training and knowledge development for the individuals tasked with understanding various technical accounting matters associated with the Company's multiple element arrangement revenue recognition policies. Additionally, engage and retain experienced external advisors for technical assistance.
  - iii. Review and update our revenue recognition policies on a regular basis to incorporate changes in our business and accounting standards.
  - iv. Redesign of our contract review controls, focusing on key areas that may significantly impact revenue recognition.
  - v. Enhance the functionality of our systems and controls over reporting from the systems to account for bundled software arrangements properly.
  - vi. Develop improved internal audit programs and training for individuals tasked with monitoring our accounting for revenue recognition for multiple element software arrangements.

The Company expects that the measures described above should remediate the material weakness identified and strengthen our internal control over financial reporting. Management is committed to improving the Company's internal control processes. As the Company continues to evaluate and improve its internal controls, additional measures to address the material weakness or modifications to certain of the remediation procedures described above may be identified, which will be subject to audit procedures. The Company expects to complete the required remedial actions during fiscal 2016.

#### PART II. OTHER INFORMATION

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

###### Issuer Purchases of Equity Securities

The following shares of the Company were repurchased during the quarter ended March 31, 2016:





Table of Contents

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price of Share	Total Number of Shares Purchased as Part of Publicly Announced Plans <sup>(1)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans <sup>(2)</sup>
January 1- January 31, 2016	—		—	6,028,499
February 1- February 29, 2016	737	79.98	—	6,028,499
March 1- March 31, 2016	—		—	6,028,499
Total	737	79.98	—	6,028,499

<sup>(1)</sup> No shares were purchased through a publicly announced repurchase plan. There were 737 shares surrendered to the Company to satisfy tax withholding obligations in connection with employee restricted stock awards.

<sup>(2)</sup> Total stock repurchase authorizations approved by the Company's Board of Directors as of February 17, 2015 were for 30.0 million shares. These authorizations have no specific dollar or share price targets and no expiration dates.

## ITEM 6. EXHIBITS

31.1 Certification of the Chief Executive Officer.

31.2 Certification of the Chief Financial Officer.

32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

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

\* Furnished with this quarterly report on Form 10-Q are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at March 31, 2016 and June 30, 2015, (ii) the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2016 and 2015, (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2016 and 2015, and (iv) Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report of Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

JACK HENRY & ASSOCIATES, INC.

Date: May 6, 2016 /s/ John F. Prim  
John F. Prim  
Chief Executive Officer and Chairman

Date: May 6, 2016 /s/ Kevin D. Williams  
Kevin D. Williams  
Chief Financial Officer and Treasurer