

HENRY JACK & ASSOCIATES INC

Form 10-Q

February 05, 2016

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, 2015

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

(State or Other Jurisdiction of Incorporation)

43-1128385

(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 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 [ X ] 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 [X] 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 ]

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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 2, 2016, the Registrant had 78,861,707 shares of Common Stock outstanding (\$0.01 par value).

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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

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

|  | December 31,<br>2015 | June 30,<br>2015 |
|--|----------------------|------------------|
| <b>ASSETS</b>  |                      |                  |
| <b>CURRENT ASSETS:</b>   |                      |                  |
| Cash and cash equivalents  | \$55,126             | \$148,313        |
| Receivables, net   | 147,091              | 245,387          |
| Income tax receivable  | 3,116                | 2,753            |
| Prepaid expenses and other   | 74,941               | 69,096           |
| Deferred costs   | 39,743               | 27,950           |
| Total current assets   | 320,017              | 493,499          |
| PROPERTY AND EQUIPMENT, net  | 302,091              | 296,332          |
| <b>OTHER ASSETS:</b>   |                      |                  |
| Non-current deferred costs   | 101,276              | 96,423           |
| Computer software, net of amortization   | 214,992              | 191,541          |
| Other non-current assets   | 57,364               | 52,432           |
| Customer relationships, net of amortization  | 118,461              | 122,204          |
| Other intangible assets, net of amortization   | 38,408               | 34,038           |
| Goodwill   | 556,256              | 550,366          |
| Total other assets   | 1,086,757            | 1,047,004        |
| Total assets   | \$1,708,865          | \$1,836,835      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                  |
| <b>CURRENT LIABILITIES:</b>  |                      |                  |
| Accounts payable   | \$5,653              | \$9,933          |
| Accrued expenses   | 74,469               | 78,962           |
| Accrued income taxes   | —                    | 5,543            |
| Deferred income tax liability  | 7,034                | 7,034            |
| Notes payable and current maturities of long term debt   | 323                  | 2,595            |
| Deferred revenues  | 246,272              | 339,544          |
| Total current liabilities  | 333,751              | 443,611          |
| <b>LONG TERM LIABILITIES:</b>  |                      |                  |
| Non-current deferred revenues  | 193,873              | 192,443          |
| Non-current deferred income tax liability  | 158,419              | 150,223          |
| Debt, net of current maturities  | 100,000              | 50,102           |
| Other long-term liabilities  | 10,348               | 8,922            |
| Total long term liabilities  | 462,640              | 401,690          |
| Total liabilities  | 796,391              | 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;<br>102,817,013 shares issued at December 31, 2015; | 1,028                | 1,027            |
| 102,695,214 shares issued at June 30, 2015   |                      |                  |
| Additional paid-in capital   | 429,855              | 424,536          |
| Retained earnings  | 1,337,185            | 1,266,443        |
| Less treasury stock at cost<br>23,962,117 shares at December 31, 2015;   | (855,594             | ) (700,472       |

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21,842,632 shares at June 30, 2015

Total stockholders' equity

912,474

991,534

Total liabilities and equity

\$1,708,865

\$1,836,835

See notes to condensed consolidated financial statements

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

(In Thousands, Except Per Share Data)

(Unaudited)

|   | Three Months Ended<br>December 31, |          | Six Months Ended<br>December 31, |          |
|---|------------------------------------|----------|----------------------------------|----------|
|   | 2015                               | 2014     | 2015                             | 2014     |
| <b>REVENUE</b>                              |                                    |          |                                  |          |
| License                                     | \$634                              | \$491    | \$2,237                          | \$994    |
| Support and service                         | 320,219                            | 296,905  | 627,966                          | 585,121  |
| Hardware                                    | 12,019                             | 13,898   | 24,287                           | 26,652   |
| Total revenue                               | 332,872                            | 311,294  | 654,490                          | 612,767  |
| <b>COST OF SALES</b>                        |                                    |          |                                  |          |
| Cost of license                             | 498                                | 308      | 680                              | 717      |
| Cost of support and service                 | 181,989                            | 170,377  | 356,703                          | 335,467  |
| Cost of hardware                            | 7,958                              | 9,574    | 16,726                           | 18,959   |
| Total cost of sales                         | 190,445                            | 180,259  | 374,109                          | 355,143  |
| <b>GROSS PROFIT</b>                         | 142,427                            | 131,035  | 280,381                          | 257,624  |
| <b>OPERATING EXPENSES</b>                   |                                    |          |                                  |          |
| Selling and marketing                       | 22,231                             | 22,175   | 43,982                           | 43,838   |
| Research and development                    | 18,862                             | 17,681   | 37,416                           | 34,472   |
| General and administrative                  | 16,547                             | 11,514   | 33,659                           | 28,025   |
| Total operating expenses                    | 57,640                             | 51,370   | 115,057                          | 106,335  |
| <b>OPERATING INCOME</b>                     | 84,787                             | 79,665   | 165,324                          | 151,289  |
| <b>INTEREST INCOME (EXPENSE)</b>            |                                    |          |                                  |          |
| Interest income                             | 91                                 | 28       | 204                              | 85       |
| Interest expense                            | (276)                              | ) (337)  | ) (496)                          | ) (603)  |
| Total interest income (expense)             | (185)                              | ) (309)  | ) (292)                          | ) (518)  |
| <b>INCOME BEFORE INCOME TAXES</b>           | 84,602                             | 79,356   | 165,032                          | 150,771  |
| <b>PROVISION FOR INCOME TAXES</b>           | 25,254                             | 25,474   | 54,318                           | 50,802   |
| <b>NET INCOME</b>                           | \$59,348                           | \$53,882 | \$110,714                        | \$99,969 |
| Basic earnings per share                    | \$0.75                             | \$0.66   | \$1.38                           | \$1.22   |
| Basic weighted average shares outstanding   | 79,473                             | 81,432   | 80,009                           | 81,813   |
| Diluted earnings per share                  | \$0.74                             | \$0.66   | \$1.38                           | \$1.22   |
| Diluted weighted average shares outstanding | 79,770                             | 81,634   | 80,252                           | 82,112   |

See notes to condensed consolidated financial statements



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

|   | Six Months Ended<br>December 31, |                   |
|---|----------------------------------|-------------------|
|   | 2015                             | 2014              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                  |                   |
| Net Income  | \$ 110,714                       | \$ 99,969         |
| Adjustments to reconcile net income from operations<br>to net cash from operating activities: |                                  |                   |
| Depreciation  | 25,973                           | 27,471            |
| Amortization  | 37,012                           | 31,945            |
| Change in deferred income taxes   | 6,267                            | (4,527)           |
| Excess tax benefits from stock-based compensation   | (301)                            | (4,006)           |
| Expense for stock-based compensation  | 5,112                            | 4,583             |
| (Gain)/loss on disposal of assets   | (290)                            | (5,315)           |
| Changes in operating assets and liabilities:  |                                  |                   |
| Change in receivables   | 98,487                           | 76,151            |
| Change in prepaid expenses, deferred costs and other  | (27,913)                         | (31,555)          |
| Change in accounts payable  | (4,280)                          | (2,627)           |
| Change in accrued expenses  | (6,687)                          | 1,263             |
| Change in income taxes  | (4,204)                          | 11,878            |
| Change in deferred revenues   | (92,911)                         | (78,332)          |
| Net cash from operating activities  | 146,979                          | 126,898           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                  |                   |
| Payment for acquisitions, net of cash acquired  | (8,275)                          | —                 |
| Capital expenditures  | (31,506)                         | (27,389)          |
| Proceeds from sale of assets  | 2,747                            | 8,242             |
| Internal use software   | (8,183)                          | (7,432)           |
| Computer software developed   | (47,903)                         | (36,820)          |
| Net cash from investing activities  | (93,120)                         | (63,399)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                  |                   |
| Borrowings on credit facilities   | 100,000                          | 70,000            |
| Repayments on credit facilities   | (52,374)                         | (4,669)           |
| Purchase of treasury stock  | (155,122)                        | (112,803)         |
| Dividends paid  | (39,972)                         | (35,961)          |
| Excess tax benefits from stock-based compensation   | 301                              | 4,006             |
| Proceeds from issuance of common stock upon exercise of stock options                         | 1                                | 402               |
| Minimum tax withholding payments related to share based compensation                          | (2,501)                          | (7,680)           |
| Proceeds from sale of common stock, net   | 2,621                            | 2,161             |
| Net cash from financing activities  | (147,046)                        | (84,544)          |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>\$(93,187)</b>                | <b>\$(21,045)</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>\$ 55,126</b>                 | <b>\$ 49,332</b>  |

See notes to condensed consolidated financial statements



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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, 2015 and 2014 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 December 31, 2015, 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 December 31, 2015 is \$855,594. During the first six 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 \$0.25 and \$0.22, for the three months ended December 31, 2015 and 2014, respectively. For the six months ended December 31, 2015 and 2014, dividends declared per share were \$0.50 and \$0.44, 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 December 31, 2015, the results of its operations for the three and six months ending December 31, 2015 and 2014, and its cash flows for the six months ending December 31, 2015 and 2014. 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 December 31, 2015 are not necessarily indicative of the results to be expected for the entire year.



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## 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 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 Measurements |           |         | Total Fair Value |
|---------------------------|-----------------------------------|-----------|---------|------------------|
|                           | Level 1                           | Level 2   | Level 3 |                  |
| December 31, 2015         |                                   |           |         |                  |
| Financial Assets:         |                                   |           |         |                  |
| Money market funds        | \$23,854                          | \$—       | \$—     | \$23,854         |
| 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. The Company is currently evaluating the newly issued

guidance,

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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 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. Management is currently considering options with regard to early adoption but has yet to conclude on an adoption date. Upon adoption, the Company will report all deferred income tax assets and liabilities as non-current.

**NOTE 4. DEBT**

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

|  | December 31,<br>2015 | June 30,<br>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   | \$ 323               | \$ 1,881         |
| Current maturities of long-term debt                   | —                    | 714              |
| Notes payable and current maturities of long term debt | \$ 323               | \$ 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 \$323 at December 31, 2015.

**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, 2015, the Company was in compliance with all such covenants. The revolving loan terminates February 20, 2020 and at December 31, 2015, the outstanding revolving loan balance was \$100,000.

**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 December 31, 2015, no amount was outstanding.

**Interest**

The Company paid interest of \$333 and \$415 during the six months ended December 31, 2015 and 2014, respectively.

**Property and Equipment**

Property and equipment included \$1,940 and \$3,897 in accrued liabilities or acquired via capital lease at December 31, 2015 and 2014, respectively. These amounts were excluded from capital expenditures on the statement of cash flows.

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## NOTE 5. INCOME TAXES

The effective tax rate was 29.9% of income before income taxes for the quarter ended December 31, 2015, compared to 32.1% for the same quarter in fiscal 2015. The decrease in effective tax rate was primarily due to the Research and Experimentation Credit ("R&E Credit"), which was retroactively and permanently extended in December 2015. The Company paid income taxes of \$52,254 and \$43,450 in the six months ended December 31, 2015 and 2014, respectively.

At December 31, 2015, the Company had \$8,438 of gross unrecognized tax benefits, \$6,917 of which, if recognized, would affect our effective tax rate. We had accrued interest and penalties of \$1,415 and \$1,652 related to uncertain tax positions at December 31, 2015 and 2014, respectively.

The U.S. federal and state income tax returns for Fiscal 2012 and all subsequent years remain subject to examination as of December 31, 2015 under statute of limitations rules. We anticipate potential changes could reduce the unrecognized tax benefits balance by \$1,500 - \$2,500 within twelve months of December 31, 2015.

## NOTE 6. STOCK-BASED COMPENSATION

Our pre-tax operating income for the three months ended December 31, 2015 and 2014 includes \$3,142 and \$2,516 of equity-based compensation costs, respectively. For the six months ended December 31, 2015 and 2014, equity-based compensation costs totaled \$5,112 and \$4,583, 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 three months ended December 31, 2015.

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

|                               | Number of Shares | Weighted<br>Average Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|------------------|---------------------------------------|---------------------------------|
| Outstanding July 1, 2015      | 100              | 23.07                                 |                                 |
| Granted                       | —                | —                                     |                                 |
| Forfeited                     | —                | —                                     |                                 |
| Exercised                     | —                | —                                     |                                 |
| Outstanding December 31, 2015 | 100              | \$23.07                               | \$5,499                         |
| Vested December 31, 2015      | 100              | \$23.07                               | \$5,499                         |
| Exercisable December 31, 2015 | 100              | \$23.07                               | \$5,499                         |

Compensation cost related to outstanding options has now been fully recognized. The weighted average remaining contractual term on options currently exercisable as of December 31, 2015 was 2.66 years.

## 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 December 31, 2015, as well as activity for the six months then ended:

| Share awards                  | Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|--------|---|
| Outstanding July 1, 2015      | 72     | 34.28   |
| Granted                       | 22     | 65.77   |
| Vested                        | (21)   | ) 41.89   |
| Forfeited                     | (11)   | ) 22.51   |
| Outstanding December 31, 2015 | 62     | \$44.70   |

At December 31, 2015, there was \$1,505 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 1.12 years.



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The following table summarizes non-vested unit awards as of December 31, 2015, as well as activity for the six months then ended:

| Unit awards                   | Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|--------|---|
| Outstanding July 1, 2015      | 499    | 48.13   |
| Granted                       | 130    | 75.99   |
| Vested                        | (97    | ) 43.74   |
| Forfeited                     | (101   | ) 45.89   |
| Outstanding December 31, 2015 | 431    | \$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 December 31, 2015, there was \$14,838 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 1.58 years.

**NOTE 7. EARNINGS PER SHARE**

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

|  | Three Months Ended December<br>31, |          | Six Months Ended December<br>31, |          |
|--|------------------------------------|----------|----------------------------------|----------|
|  | 2015                               | 2014     | 2015                             | 2014     |
| Net Income   | \$59,348                           | \$53,882 | \$110,714                        | \$99,969 |
| Common share information:  |                                    |          |                                  |          |
| Weighted average shares outstanding for basic earnings per share   | 79,473                             | 81,432   | 80,009                           | 81,813   |
| Dilutive effect of stock options and restricted stock              | 297                                | 202      | 243                              | 299      |
| Weighted average shares outstanding for diluted earnings per share | 79,770                             | 81,634   | 80,252                           | 82,112   |
| Basic earnings per share   | \$0.75                             | \$0.66   | \$1.38                           | \$1.22   |
| Diluted earnings per share   | \$0.74                             | \$0.66   | \$1.38                           | \$1.22   |

Per share information is based on the weighted average number of common shares outstanding for the three and six months ended December 31, 2015 and 2014. 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 December 31, 2015 (170 shares were excluded for the three month period ended December 31, 2014). For the six months ended December 31, 2015, there were no anti-dilutive stock options and restricted stock shares excluded, and there were 134 excluded for the six months ended December 31, 2014.

Table of Contents**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 Banking 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. 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 included within general and administrative expenses.

The results of Bayside Business Solutions' operations included in the Company's consolidated statement of operations for the six months ended December 31, 2015 included revenue of \$1,730 and after-tax net loss of \$310.

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.

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|                               | Three Months Ended<br>December 31, 2015 |              |           | Three Months Ended<br>December 31, 2014 |              |           |
|-------------------------------|---|--------------|-----------|---|--------------|-----------|
|                               | Bank                                    | Credit Union | Total     | Bank                                    | Credit Union | Total     |
| REVENUE                       |   |              |           |   |              |           |
| License                       | \$563                                   | \$71         | \$634     | \$288                                   | \$203        | \$491     |
| Support and service           | 232,731                                 | 87,488       | 320,219   | 229,107                                 | 67,798       | 296,905   |
| Hardware                      | 7,735                                   | 4,284        | 12,019    | 10,130                                  | 3,768        | 13,898    |
| Total revenue                 | 241,029                                 | 91,843       | 332,872   | 239,525                                 | 71,769       | 311,294   |
| COST OF SALES                 |   |              |           |   |              |           |
| Cost of license               | 448                                     | 50           | 498       | 184                                     | 124          | 308       |
| Cost of support and service   | 137,787                                 | 44,202       | 181,989   | 134,034                                 | 36,343       | 170,377   |
| Cost of hardware              | 4,979                                   | 2,979        | 7,958     | 6,887                                   | 2,687        | 9,574     |
| Total cost of sales           | 143,214                                 | 47,231       | 190,445   | 141,105                                 | 39,154       | 180,259   |
| GROSS PROFIT                  | \$97,815                                | \$44,612     | 142,427   | 98,420                                  | 32,615       | 131,035   |
| OPERATING EXPENSES            |   |              | 57,640    |   |              | 51,370    |
| INTEREST INCOME<br>(EXPENSE)  |   |              | (185 )    |   |              | (309 )    |
| INCOME BEFORE INCOME<br>TAXES |   |              | \$84,602  |   |              | \$79,356  |
|                               |   |              |           |   |              |           |
|                               | Six Months Ended<br>December 31, 2015   |              |           | Six Months Ended<br>December 31, 2014   |              |           |
|                               | Bank                                    | Credit Union | Total     | Bank                                    | Credit Union | Total     |
| REVENUE                       |   |              |           |   |              |           |
| License                       | \$1,809                                 | \$428        | \$2,237   | \$729                                   | \$265        | \$994     |
| Support and service           | 460,354                                 | 167,612      | 627,966   | 450,322                                 | 134,799      | 585,121   |
| Hardware                      | 15,579                                  | 8,708        | 24,287    | 19,874                                  | 6,778        | 26,652    |
| Total revenue                 | 477,742                                 | 176,748      | 654,490   | 470,925                                 | 141,842      | 612,767   |
| COST OF SALES                 |   |              |           |   |              |           |
| Cost of license               | 562                                     | 118          | 680       | 550                                     | 167          | 717       |
| Cost of support and service   | 273,153                                 | 83,550       | 356,703   | 262,920                                 | 72,547       | 335,467   |
| Cost of hardware              | 10,532                                  | 6,194        | 16,726    | 14,058                                  | 4,901        | 18,959    |
| Total cost of sales           | 284,247                                 | 89,862       | 374,109   | 277,528                                 | 77,615       | 355,143   |
| GROSS PROFIT                  | \$193,495                               | \$86,886     | \$280,381 | \$193,397                               | \$64,227     | 257,624   |
| OPERATING EXPENSES            |   |              | 115,057   |   |              | 106,335   |
| INTEREST INCOME<br>(EXPENSE)  |   |              | (292 )    |   |              | (518 )    |
| INCOME BEFORE INCOME<br>TAXES |   |              | \$165,032 |   |              | \$150,771 |





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|                                   | December 31,<br>2015 | June 30,<br>2015 |
|-----------------------------------|----------------------|------------------|
| Property and equipment, net       |                      |                  |
| Bank systems and services         | \$269,682            | \$263,231        |
| Credit Union systems and services | 32,409               | 33,101           |
| Total                             | \$302,091            | \$296,332        |
| Intangible assets, net            |                      |                  |
| Bank systems and services         | \$699,015            | \$664,231        |
| Credit Union systems and services | 229,102              | 233,918          |
| Total                             | \$928,117            | \$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.

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 December 31, 2015.

**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 second quarter of fiscal 2016, revenues increased 7% or \$21,578 compared to the same period in the prior year, with strong growth continuing in our support and service revenues, particularly our electronic payment services and our bundled services revenue. Cost of sales increased 6%, as the Company continues to focus on cost management, which contributed to a 9% increase in gross margin. Operating expenses increased 12% compared to the second quarter of fiscal 2015. Operating expenses in the prior year quarter were lower due mainly to the gain on sale of the TeleWeb suite of products in the prior year quarter, resulting in the increase this year. The provision for income taxes decreased 1% compared to the prior quarter. The increased revenue and above changes resulted in a combined 10% increase in net income for the second quarter of fiscal 2016.

In the six months ended December 31, 2015, revenues increased 7% or \$41,723 compared to the same six months last year, with strong growth continuing in our support & service revenue, particularly electronic payment services and outsourcing services. Cost of sales increased 5% and operating expenses increased 8% for the six month period ended December 31, 2015. Provision for income taxes increased 7% compared to the prior year-to-date period. The increased revenue and above changes resulted in an 11% increase in net income for the six month period.

We move into the third quarter of fiscal 2016 following strong performance in the second 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 six months ending December 31, 2015 follows. All dollar amounts are in thousands and discussions compare the current three and six months ending December 31, 2015 to the prior year three and six months ending December 31, 2014.

**REVENUE**

| License Revenue             | Three Months Ended |       | %      | % | Six Months Ended |       | %   | % |
|-----------------------------|--------------------|-------|--------|---|------------------|-------|-----|---|
|                             | December 31,       |       |        |   | December 31,     |       |     |   |
|                             | 2015               | 2014  | Change |   | 2015             | 2014  |     |   |
| License                     | \$634              | \$491 | 29     | % | \$2,237          | \$994 | 125 | % |
| Percentage of total revenue | <1%                | <1%   |        |   | <1%              | <1%   |     |   |

Non-bundled license revenue increased for both the quarter-to-date and year-to-date periods due mainly to an increase in standalone license sales in both our Banking and Credit Union segments. Such license fees will fluctuate as non-bundled license sales are sporadic in nature.

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| Support and Service Revenue       | Three Months Ended |           |    | % Change       | Six Months Ended December |    |   | % Change |
|-----------------------------------|--------------------|-----------|----|----------------|---------------------------|----|---|----------|
|                                   | December 31,       |           |    |                | 31,                       |    |   |          |
|                                   | 2015               | 2014      |    | 2015           | 2014                      |    |   |          |
| Support and service               | \$320,219          | \$296,905 | 8  | % \$627,966    | \$585,121                 | 7  | % |          |
| Percentage of total revenue       | 96                 | % 95      | %  | 96             | % 95                      | %  |   |          |
|                                   | Qtr over Qtr       |           |    | Year over Year |                           |    |   |          |
|                                   | \$ Change          | % Change  |    | \$ Change      | % Change                  |    |   |          |
| In-House Support & Other Services | \$3,792            | 5         | %  | \$8,047        | 5                         | %  |   |          |
| Electronic Payment Services       | 8,975              | 7         | %  | 16,141         | 7                         | %  |   |          |
| Outsourcing Services              | 5,005              | 7         | %  | 12,691         | 10                        | %  |   |          |
| Implementation Services           | (3,524 )           | (18 )     | )% | (5,001 )       | (13 )                     | )% |   |          |
| Bundled Products & Services       | 9,066              | 97        | %  | 10,967         | 67                        | %  |   |          |
| Total Increase                    | \$23,314           |           |    | \$42,845       |                           |    |   |          |

There was growth in most support and service revenue components in the second quarter of fiscal 2016 compared to the same quarter last year, as well as in the year-to-date period ended December 31, 2015.

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.

Electronic payment services continue to experience significant dollar growth. The revenue increase in both the quarter and year-to-date periods is attributable to strong performance across debit/credit card transaction processing services, online bill payment services and ACH processing. There has also been an increase in termination revenues, which are fees charged on agreements canceled prior to the end of the contracted term.

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. We expect the trend towards outsourced product delivery to benefit outsourcing services revenue for the foreseeable future. Revenues from outsourcing services are typically earned under multi-year service contracts and therefore provide a long-term stream of recurring revenues.

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 given increases in implementation services related to our bundled arrangements.

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 and year-to-date over last year mainly due to increased revenues from our core and complementary credit union arrangements.

| Hardware Revenue            | Three Months Ended |          |       | % Change   | Six Months Ended |      |    | % Change |
|-----------------------------|--------------------|----------|-------|------------|------------------|------|----|----------|
|                             | December 31,       |          |       |            | December 31,     |      |    |          |
|                             | 2015               | 2014     |       | 2015       | 2014             |      |    |          |
| Hardware                    | \$12,019           | \$13,898 | (14 ) | % \$24,287 | \$26,652         | (9 ) | )% |          |
| Percentage of total revenue | 4                  | % 4      | %     | 4          | % 4              | %    |    |          |

Hardware revenue decreased over both time frames due to a decrease in complementary hardware products delivered. 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.

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## COST OF SALES AND GROSS PROFIT

|                                  | Three Months Ended |           | %<br>Change | Six Months Ended |           | %<br>Change |      |    |
|----------------------------------|--------------------|-----------|-------------|------------------|-----------|-------------|------|----|
|                                  | December 31,       |           |             | December 31,     |           |             |      |    |
|                                  | 2015               | 2014      |             | 2015             | 2014      |             |      |    |
| Cost of License                  | \$498              | \$308     | 62          | % \$680          | \$717     | (5)         | )%   |    |
| Percentage of total revenue      | <1%                | <1%       |             | <1%              | <1%       |             |      |    |
| License Gross Profit             | \$136              | \$183     | (26)        | )%               | \$1,557   | \$277       | 462  | %  |
| Gross Profit Margin              | 21                 | % 37      | %           | 70               | % 28      | %           |      |    |
| Cost of support and service      | \$181,989          | \$170,377 | 7           | % \$356,703      | \$335,467 | 6           | %    |    |
| Percentage of total revenue      | 55                 | % 55      | %           | 55               | % 55      | %           |      |    |
| Support and Service Gross Profit | \$138,230          | \$126,528 | 9           | % \$271,263      | \$249,654 | 9           | %    |    |
| Gross Profit Margin              | 43                 | % 43      | %           | 43               | % 43      | %           |      |    |
| Cost of hardware                 | \$7,958            | \$9,574   | (17)        | )%               | \$16,726  | \$18,959    | (12) | )% |
| Percentage of total revenue      | 2                  | % 3       | %           | 3                | % 3       | %           |      |    |
| Hardware Gross Profit            | \$4,061            | \$4,324   | (6)         | )%               | \$7,561   | \$7,693     | (2)  | )% |
| Gross Profit Margin              | 34                 | % 31      | %           | 31               | % 29      | %           |      |    |
| TOTAL COST OF SALES              | \$190,445          | \$180,259 | 6           | % \$374,109      | \$355,143 | 5           | %    |    |
| Percentage of total revenue      | 57                 | % 58      | %           | 57               | % 58      | %           |      |    |
| TOTAL GROSS PROFIT               | \$142,427          | \$131,035 | 9           | % \$280,381      | \$257,624 | 9           | %    |    |
| Gross Profit Margin              | 43                 | % 42      | %           | 43               | % 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 remained consistent with the prior year in both the quarter and year-to-date periods.

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

|                             | Three Months Ended |          | %<br>Change | Six Months Ended |          | %<br>Change |   |
|-----------------------------|--------------------|----------|-------------|------------------|----------|-------------|---|
|                             | December 31,       |          |             | December 31,     |          |             |   |
|                             | 2015               | 2014     |             | 2015             | 2014     |             |   |
| Selling and marketing       | \$22,231           | \$22,175 | —           | % \$43,982       | \$43,838 | —           | % |
| Percentage of total revenue | 7                  | % 7      | %           | 7                | % 7      | %           |   |

Selling and marketing expenses for fiscal 2016 remained consistent compared to the same periods in fiscal 2015 and remained a consistent percentage of total revenue in both periods.

|                             | Three Months Ended |          | %<br>Change | Six Months Ended |          | %<br>Change |   |
|-----------------------------|--------------------|----------|-------------|------------------|----------|-------------|---|
|                             | December 31,       |          |             | December 31,     |          |             |   |
|                             | 2015               | 2014     |             | 2015             | 2014     |             |   |
| Research and development    | \$18,862           | \$17,681 | 7           | % \$37,416       | \$34,472 | 9           | % |
| 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.



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| General and Administrative  | Three Months Ended |          | % Change | Six Months Ended |          | % Change |
|-----------------------------|--------------------|----------|----------|------------------|----------|----------|
|                             | December 31,       |          |          | December 31,     |          |          |
|                             | 2015               | 2014     |          | 2015             | 2014     |          |
| General and administrative  | \$16,547           | \$11,514 | 44       | \$33,659         | \$28,025 | 20       |
| Percentage of total revenue | 5                  | % 4      | %        | 5                | % 5      | %        |

General and administrative expenses in the current quarter were higher than in the same quarter of fiscal 2015.

General and administrative expenses in the prior year quarter were lower due mainly to the gain on sale of the TeleWeb suite of Internet and mobile banking software products to Data Center, Inc in the prior year quarter, resulting in the increase this year. Increased headcount and related personnel costs also contributed to the quarter-to-date and year-to-date increases.

| INTEREST INCOME AND EXPENSE | Three Months Ended |         | % Change | Six Months Ended |         | % Change |
|-----------------------------|--------------------|---------|----------|------------------|---------|----------|
|                             | December 31,       |         |          | December 31,     |         |          |
|                             | 2015               | 2014    |          | 2015             | 2014    |          |
| Interest Income             | \$91               | \$28    | 225      | \$204            | \$85    | 140      |
| Interest Expense            | \$(276)            | \$(337) | (18)     | \$(496)          | \$(603) | (18)     |

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 | Six Months Ended |          | % Change |
|----------------------------|--------------------|----------|----------|------------------|----------|----------|
|                            | December 31,       |          |          | December 31,     |          |          |
|                            | 2015               | 2014     |          | 2015             | 2014     |          |
| Provision For Income Taxes | \$25,254           | \$25,474 | (1)      | \$54,318         | \$50,802 | 7        |
| Effective Rate             | 29.9               | % 32.1   | %        | 32.9             | % 33.7   | %        |

The decrease in effective tax rate was 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 10% to \$59,348 for the second quarter of fiscal 2016, compared to \$53,882 in the same period of fiscal 2015. Year-to-date net income increased from \$99,969, or \$1.22 per diluted share, in fiscal 2015 to \$110,714, or \$1.38 per diluted share, in fiscal 2016 through the second quarter. This translates to an increase of 11% 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.

**Bank Systems and Services**

|                     | Three Months Ended |           | % Change | Six Months Ended |           | % Change |
|---------------------|--------------------|-----------|----------|------------------|-----------|----------|
|                     | December 31,       |           |          | December 31,     |           |          |
|                     | 2015               | 2014      |          | 2015             | 2014      |          |
| Revenue             | \$241,029          | \$239,525 | 1        | \$477,742        | \$470,925 | 1        |
| Gross profit        | \$97,815           | \$98,420  | (1)      | \$193,495        | \$193,397 | —        |
| Gross profit margin | 41                 | % 41      | %        | 41               | % 41      | %        |

Revenue in the Bank segment increased 1% compared to the equivalent quarter last fiscal year, with increased support & services revenues being partially offset by reduced hardware and implementation revenue. The increase in support & service revenue was driven by a 6% increase in outsourcing services.

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Year-to-date revenue also increased 1% over the same six 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 in hardware revenues compared to the prior year-to-date period.

Gross profit margins remained consistent in both the quarter-to-date and year-to-date periods.

## Credit Union Systems and Services

|                     | Three Months Ended |          | % Change | Six Months Ended |           | % Change |   |
|---------------------|--------------------|----------|----------|------------------|-----------|----------|---|
|                     | December 31,       |          |          | December 31,     |           |          |   |
|                     | 2015               | 2014     |          | 2015             | 2014      |          |   |
| Revenue             | \$91,843           | \$71,769 | 28       | % \$176,748      | \$141,842 | 25       | % |
| Gross profit        | \$44,612           | \$32,615 | 37       | % \$86,886       | \$64,227  | 35       | % |
| Gross profit margin | 49                 | % 45     | %        | 49               | % 45      | %        |   |

Revenue in the Credit Union segment for the three months ended December 31, 2015 increased 28% due mainly to increases in support & service revenue. Support & service revenues grew 29% through increases in electronic payment services and bundled services.

Revenue also grew 25% in the Credit Union segment for the six months of fiscal 2016 compared to the same period in fiscal 2015. This was driven by a 24% increase in support and service revenue through increases in electronic payment services, in-house maintenance renewals, and bundled services.

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 \$55,126 at December 31, 2015 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:

|   | Six Months Ended |           |
|---|------------------|-----------|
|   | December 31,     |           |
|   | 2015             | 2014      |
| Net income                                | \$110,714        | \$99,969  |
| Non-cash expenses                         | 73,773           | 50,151    |
| Change in receivables                     | 98,487           | 76,151    |
| Change in deferred revenue                | (92,911)         | (78,332)  |
| Change in other assets and liabilities    | (43,084)         | (21,041)  |
| Net cash provided by operating activities | \$146,979        | \$126,898 |

Cash provided by operating activities increased 16% 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 six months of fiscal 2016 totaled \$93,120 and included capital expenditures on facilities and equipment of \$31,506, mainly for the purchase of computer equipment and aircraft, \$47,903 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 \$8,183 for the purchase and development of internal use software. This was partially offset by \$2,747 proceeds from the sale of assets. Cash used in investing activities for the first six months of fiscal 2015 totaled \$63,399 and included capital expenditures of \$27,389, \$36,820 for the development of software and \$7,432 for the purchase and development of internal use software, partially offset by \$8,242 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 \$147,046 for the first six 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 \$52,374, and dividends paid to stockholders of \$39,972. This was partially offset by borrowings of \$100,000 against our revolving credit



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and \$422 net cash inflow from the issuance of stock and tax related to stock-based compensation. Financing activities used cash in the first six months of fiscal 2015 of \$84,544. Cash used was \$112,803 for the purchase of treasury shares, dividends paid to stockholders of \$35,961, repayments of capital leases of \$4,669, and \$1,111 net cash outflow from the issuance of stock and tax related to stock-based compensation. Cash used was offset by \$70,000 of borrowings on our revolving credit facility.

At December 31, 2015, the Company had negative working capital of \$13,734, however, the largest component of current liabilities was deferred revenue of \$246,272, which primarily relates to our annual in-house maintenance agreements and deferred bundled product and service arrangements. The cash outlay necessary to provide the services related to these deferred revenues is significantly less than this recorded balance. In addition, we have not experienced any significant issues with our current collection efforts and we have access to remaining lines of credit in excess of \$200,000. We continue to generate substantial cash inflows from operations. Therefore, we do not anticipate any liquidity problems arising from this condition.

Capital Requirements and Resources

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$31,506 and \$27,389 for the six months ending December 31, 2015 and December 31, 2014, 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 \$50,000 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 December 31, 2015, 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 December 31, 2015 is \$855,594. During the first six 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 \$323 at December 31, 2015.

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, 2015, the Company was in compliance with all such covenants. The revolving loan terminates February 20, 2020 and at December 31, 2015, 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 December 31, 2015, 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 December 31, 2015, 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 December 31, 2015, 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 implementing 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 December 31, 2015:



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|                                | 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> |
|--------------------------------|---|------------------------|---|---|
| October 1 - October 31, 2015   | 83  | \$76.10                | —   | 7,129,765   |
| November 1 - November 30, 2015 | 508,413   | 78.01                  | 508,252   | 6,621,513   |
| December 1 - December 31, 2015 | 593,552   | 77.96                  | 593,014   | 6,028,499   |
| Total                          | 1,102,048                                       | 77.98                  | 1,101,266   | 6,028,499   |

<sup>(1)</sup> 1,101,266 shares were purchased through a publicly announced repurchase plan. There were 782 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

10.57 Form of Restricted Stock Unit Agreement under Jack Henry & Associates, Inc. 2015 Equity Incentive Plan(Non-Employee Directors).

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 December 31, 2015 and June 30, 2015, (ii) the Condensed Consolidated Statements of Income for the three and six months ended December 31, 2015 and 2014, (iii) the Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2015 and 2014, and (iv) Notes to Condensed Consolidated Financial Statements.

## 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.



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JACK HENRY & ASSOCIATES, INC.

Date: February 5, 2016

/s/ John F. Prim  
John F. Prim  
Chief Executive Officer and Chairman

Date: February 5, 2016

/s/ Kevin D. Williams  
Kevin D. Williams  
Chief Financial Officer and Treasurer