

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
June 25, 2015

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, 2014

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 [ ] No [ X ]

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 [ X ]

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 [ ]

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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 June 22, 2015, Registrant had 80,992,682 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/A for the year ended June 30, 2014. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.



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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## JACK HENRY &amp; ASSOCIATES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data)

(Unaudited)

|  | December 31,<br>2014 | June 30,<br>2014<br>As Restated, See<br>Note 11 |
|--|----------------------|---|
| <b>ASSETS</b>  |                      |   |
| <b>CURRENT ASSETS:</b>   |                      |   |
| Cash and cash equivalents  | \$49,332             | \$70,377  |
| Receivables, net   | 147,890              | 224,041   |
| Income tax receivable  | 2,106                | 7,937   |
| Prepaid expenses and other   | 73,691               | 61,074  |
| Deferred costs   | 33,762               | 27,077  |
| Total current assets   | 306,781              | 390,506   |
| PROPERTY AND EQUIPMENT, net  | 295,483              | 291,675   |
| <b>OTHER ASSETS:</b>   |                      |   |
| Non-current deferred costs   | 88,834               | 78,458  |
| Computer software, net of amortization   | 173,694              | 160,391   |
| Other non-current assets   | 46,411               | 44,657  |
| Customer relationships, net of amortization  | 129,183              | 136,602   |
| Other intangible assets, net of amortization   | 30,219               | 25,653  |
| Goodwill   | 550,366              | 552,761   |
| Total other assets   | 1,018,707            | 998,522   |
| Total assets   | \$1,620,971          | \$1,680,703                                     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |   |
| <b>CURRENT LIABILITIES:</b>  |                      |   |
| Accounts payable   | \$7,889              | \$10,516  |
| Accrued expenses   | 63,882               | 63,299  |
| Accrued income taxes   | 438                  | —   |
| Deferred income tax liability  | 20,223               | 30,094  |
| Notes payable and current maturities of long term debt   | 77,888               | 5,407   |
| Deferred revenues  | 234,939              | 337,493   |
| Total current liabilities  | 405,259              | 446,809   |
| <b>LONG TERM LIABILITIES:</b>  |                      |   |
| Non-current deferred revenues  | 178,142              | 155,375   |
| Non-current deferred income tax liability  | 103,066              | 97,720  |
| Debt, net of current maturities  | 923                  | 3,729   |
| Other long-term liabilities  | 11,519               | 9,683   |
| Total long term liabilities  | 293,650              | 266,507   |
| Total liabilities  | 698,909              | 713,316   |
| <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>102,635,606 shares issued at December 31, 2014; | 1,026                | 1,024   |
| 102,429,926 shares issued at June 30, 2014   |                      |   |

|                            |           |           |
|----------------------------|-----------|-----------|
| Additional paid-in capital | 415,982   | 412,512   |
| Retained earnings          | 1,195,638 | 1,131,632 |

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|  |             |   |             |   |
|--|-------------|---|-------------|---|
| Less treasury stock at cost;                             |             |   |             |   |
| 21,692,532 shares at December 31, 2014;                  | (690,584    | ) | (577,781    | ) |
| 19,794,559 shares at June 30, 2014                       |             |   |             |   |
| Total stockholders' equity                               | 922,062     |   | 967,387     |   |
| Total liabilities and equity                             | \$1,620,971 |   | \$1,680,703 |   |
| 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 Share and Per Share Data)

(Unaudited)

|   | Three Months Ended<br>December 31, |                                     | Six Months Ended<br>December 31, |                                     |
|---|------------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
|   | 2014                               | 2013<br>As Restated,<br>See Note 11 | 2014                             | 2013<br>As Restated,<br>See Note 11 |
| <b>REVENUE</b>                              |                                    |                                     |                                  |                                     |
| License                                     | \$491                              | \$246                               | \$994                            | \$1,007                             |
| Support and service                         | 296,905                            | 273,242                             | 585,121                          | 535,872                             |
| Hardware                                    | 13,898                             | 15,356                              | 26,652                           | 29,694                              |
| Total revenue                               | 311,294                            | 288,844                             | 612,767                          | 566,573                             |
| <b>COST OF SALES</b>                        |                                    |                                     |                                  |                                     |
| Cost of license                             | 308                                | 188                                 | 717                              | 533                                 |
| Cost of support and service                 | 170,377                            | 154,769                             | 335,467                          | 303,925                             |
| Cost of hardware                            | 9,574                              | 10,867                              | 18,959                           | 21,808                              |
| Total cost of sales                         | 180,259                            | 165,824                             | 355,143                          | 326,266                             |
| <b>GROSS PROFIT</b>                         | 131,035                            | 123,020                             | 257,624                          | 240,307                             |
| <b>OPERATING EXPENSES</b>                   |                                    |                                     |                                  |                                     |
| Selling and marketing                       | 22,175                             | 20,503                              | 43,838                           | 41,240                              |
| Research and development                    | 17,681                             | 16,142                              | 34,472                           | 31,814                              |
| General and administrative                  | 11,514                             | 12,132                              | 28,025                           | 26,382                              |
| Total operating expenses                    | 51,370                             | 48,777                              | 106,335                          | 99,436                              |
| <b>OPERATING INCOME</b>                     | 79,665                             | 74,243                              | 151,289                          | 140,871                             |
| <b>INTEREST INCOME (EXPENSE)</b>            |                                    |                                     |                                  |                                     |
| Interest income                             | 28                                 | 129                                 | 85                               | 260                                 |
| Interest expense                            | (337)                              | ) (267)                             | ) (603)                          | ) (546)                             |
| Total interest income (expense)             | (309)                              | ) (138)                             | ) (518)                          | ) (286)                             |
| <b>INCOME BEFORE INCOME TAXES</b>           | 79,356                             | 74,105                              | 150,771                          | 140,585                             |
| <b>PROVISION FOR INCOME TAXES</b>           | 25,474                             | 25,744                              | 50,802                           | 49,002                              |
| <b>NET INCOME</b>                           | \$53,882                           | \$48,361                            | \$99,969                         | \$91,583                            |
| Diluted earnings per share                  | \$0.66                             | \$0.56                              | \$1.22                           | \$1.07                              |
| Diluted weighted average shares outstanding | 81,634                             | 85,986                              | 82,112                           | 85,920                              |
| Basic earnings per share                    | \$0.66                             | \$0.57                              | \$1.22                           | \$1.07                              |
| Basic weighted average shares outstanding   | 81,432                             | 85,450                              | 81,813                           | 85,372                              |

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, |                                     |
|---|----------------------------------|-------------------------------------|
|   | 2014                             | 2013<br>As Restated, See<br>Note 11 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                  |                                     |
| Net Income  | \$99,969                         | \$91,583                            |
| Adjustments to reconcile net income from operations<br>to net cash from operating activities: |                                  |                                     |
| Depreciation  | 27,471                           | 26,153                              |
| Amortization  | 31,945                           | 25,969                              |
| Change in deferred income taxes   | (4,527)                          | (3,889)                             |
| Excess tax benefits from stock-based compensation   | (4,006)                          | (3,152)                             |
| Expense for stock-based compensation  | 4,583                            | 4,541                               |
| (Gain)/loss on disposal of assets   | (5,315)                          | (52)                                |
| Changes in operating assets and liabilities:  |                                  |                                     |
| Change in receivables   | 76,151                           | 94,694                              |
| Change in prepaid expenses, deferred costs and other  | (31,555)                         | (26,340)                            |
| Change in accounts payable  | (2,627)                          | (970)                               |
| Change in accrued expenses  | 1,263                            | (16,200)                            |
| Change in income taxes  | 11,878                           | 11,660                              |
| Change in deferred revenues   | (78,332)                         | (72,681)                            |
| Net cash from operating activities  | 126,898                          | 131,316                             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                  |                                     |
| Capital expenditures  | (27,389)                         | (21,866)                            |
| Proceeds from sale of assets  | 8,242                            | 2,809                               |
| Internal use software   | (7,432)                          | (6,980)                             |
| Computer software developed   | (36,820)                         | (29,015)                            |
| Net cash from investing activities  | (63,399)                         | (55,052)                            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                  |                                     |
| Borrowings on credit facilities   | 70,000                           | —                                   |
| Repayments on credit facilities   | (4,669)                          | (13,630)                            |
| Purchase of treasury stock  | (112,803)                        | —                                   |
| Dividends paid  | (35,961)                         | (34,146)                            |
| Excess tax benefits from stock-based compensation   | 4,006                            | 3,152                               |
| Proceeds from issuance of common stock upon exercise of stock options                         | 402                              | 221                                 |
| Minimum tax withholding payments related to share based compensation                          | (7,680)                          | (6,239)                             |
| Proceeds from sale of common stock, net   | 2,161                            | 1,974                               |
| Net cash from financing activities  | (84,544)                         | (48,668)                            |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>\$ (21,045)</b>               | <b>\$ 27,596</b>                    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>   | <b>\$ 70,377</b>                 | <b>\$ 127,905</b>                   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 49,332</b>                 | <b>\$ 155,501</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 software implementation services for financial institutions to utilize JHA software 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, 2014 and 2013 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, 2014, there were 21,693 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,298 additional shares. The total cost of treasury shares at December 31, 2014 is \$690,584. During the first six months of fiscal 2015, the Company repurchased 1,898 treasury shares for \$112,803. At June 30, 2014, there were 19,795 shares in treasury stock and the Company had authority to repurchase up to 5,196 additional shares.

Dividends declared per share were \$0.22 and \$0.20 for the three months ended December 31, 2014 and 2013, respectively. Dividends declared per share were \$0.44 and \$0.40 for the six months ended December 31, 2014 and 2013, 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/A (“Form 10-K/A”) for the fiscal year ended June 30, 2014. 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/A for the fiscal year ended June 30, 2014.

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 present fairly the financial position of the Company as of December 31, 2014, the results of its operations for the three and six months ended December 31, 2014 and 2013, and its cash flows for the six months ended December 31, 2014 and 2013.

The results of operations for the period ended December 31, 2014 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 May 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

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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, 2015, the PTAB issued decisions holding that all claims of the plaintiff's patents at issue in the lawsuit are unpatentable and invalid. DataTreasury has moved for rehearing of the PTAB decision. 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 or quoted prices in active markets.

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, is as follows:

|                    | Estimated Fair Value Measurements |         |         | Total Fair Value |
|--------------------|-----------------------------------|---------|---------|------------------|
|                    | Level 1                           | Level 2 | Level 3 |                  |
| December 31, 2014  |                                   |         |         |                  |
| Financial Assets:  |                                   |         |         |                  |
| Money market funds | \$20,923                          | \$—     | \$—     | \$20,923         |
| June 30, 2014      |                                   |         |         |                  |
| Financial Assets:  |                                   |         |         |                  |
| Money market funds | \$28,877                          | \$—     | \$—     | \$28,877         |

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENT**

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. On April 1, 2015, the FASB voted to defer the effective date of the new standard by one year. If a final standard is issued and remains consistent with the FASB's April 1, 2015 vote, 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, the FASB also voted to allow 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. 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 also 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 2015-3 is effective for the company in 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 will adopt these changes for the fiscal year ended June 30, 2017.



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## NOTE 4. DEBT

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

|  | December 31,<br>2014 | June 30,<br>2014 |
|--|----------------------|------------------|
| <b>LONG TERM DEBT</b>                                  |                      |                  |
| Capital leases   | \$6,524              | \$7,757          |
|  | 6,524                | 7,757            |
| Less current maturities                                | 5,601                | 4,028            |
| Debt, net of current maturities                        | \$923                | \$3,729          |
| <b>SHORT TERM DEBT</b>                                 |                      |                  |
| Revolving credit facility                              | \$70,000             | \$—              |
| Capital leases   | 2,287                | 1,379            |
| Current maturities of long-term debt                   | 5,601                | 4,028            |
| Notes payable and current maturities of long term debt | \$77,888             | \$5,407          |
| Capital leases   |                      |                  |

The Company has entered into various capital lease obligations for the use of certain computer equipment. \$6,524 of long term capital lease obligations remains outstanding at December 31, 2014, of which \$5,601 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling \$2,287 at December 31, 2014.

**Revolving credit facility**

The revolving credit facility in effect at December 31, 2014 allowed for borrowings of up to \$150,000, which could be increased by the Company at any time until maturity to \$250,000. The credit facility bore interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate or (c) LIBOR plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The credit facility was secured by pledges of capital stock of certain subsidiaries of the Company and also guaranteed by certain subsidiaries of the Company. The credit facility was subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of December 31, 2014, the Company was in compliance with all such covenants. The revolving loan was due to terminate June 4, 2015. At December 31, 2014, the outstanding revolving loan balance was \$70,000.

This revolving credit facility was subsequently replaced by a new revolving credit facility (See Note 10).

**Other lines of credit**

The Company renewed an unsecured bank credit line on March 3, 2014 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1%. The credit line was renewed through April 30, 2017. At December 31, 2014, no amount was outstanding.

**Interest**

The Company paid interest of \$415 and \$301 during the six months ended December 31, 2014 and 2013, respectively.

**Property and Equipment**

Property and equipment included \$3,897 and \$7,198 in accrued liabilities or acquired via capital lease at December 31, 2014 and 2013, respectively. These amounts were excluded from capital expenditures on the statement of cash flows.

## NOTE 5. INCOME TAXES

The effective tax rate of 32.1% of income before income taxes for the quarter ended December 31, 2014 is lower than 34.7% for the same quarter in fiscal 2014 primarily due to the effect of the Research and Experimentation Credit ("R&E Credit") which was retroactively extended in December 2014.

The Company paid income taxes of \$43,450 and \$41,233 in the six months ended December 31, 2014 and 2013, respectively.





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At December 31, 2014, the Company had \$9,099 of gross unrecognized tax benefits, \$6,405 of which, if recognized, would affect our effective tax rate. We had accrued interest and penalties of \$1,652 and \$722 related to uncertain tax positions at December 31, 2014 and 2013, respectively.

The U.S. federal and state income tax returns for June 30, 2011 and all subsequent years remain subject to examination as of December 31, 2014 under statute of limitations rules. We anticipate potential changes could reduce the unrecognized tax benefits balance by \$2,000 - \$3,000 within twelve months of December 31, 2014.

**NOTE 6. STOCK-BASED COMPENSATION**

For the three months ended December 31, 2014 and 2013, there was \$2,516 and \$2,619 of equity-based compensation costs, respectively. Our pre-tax operating income for the six months ended December 31, 2014 and 2013, includes \$4,583 and \$4,541 of equity-based compensation costs, 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 under the 1996 SOP or the 2005 NSOP during the six months ended December 31, 2014.

A summary of option plan activity under the plan is as follows:

|                               | Number of Shares | Weighted<br>Average Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|------------------|---------------------------------------|---------------------------------|
| Outstanding July 1, 2014      | 125              | \$22.29                               |                                 |
| Granted                       | —                | —                                     |                                 |
| Forfeited                     | —                | —                                     |                                 |
| Exercised                     | (13              | ) 19.54                               |                                 |
| Outstanding December 31, 2014 | 112              | \$22.62                               | \$4,412                         |
| Vested December 31, 2014      | 112              | \$22.62                               | \$4,412                         |
| Exercisable December 31, 2014 | 112              | \$22.62                               | \$4,412                         |

Compensation cost related to outstanding options has been fully recognized. The weighted average remaining contractual term on options currently exercisable as of December 31, 2014 was 3.36 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, 2014, 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, 2014      | 138    | \$33.56   |
| Granted                       | 9      | 56.06   |
| Vested                        | (58    | ) 35.53   |
| Forfeited                     | (7     | ) 46.39   |
| Outstanding December 31, 2014 | 82     | \$33.56   |

At December 31, 2014, there was \$1,075 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 1.26 years.

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The following table summarizes non-vested unit awards as of December 31, 2014, 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, 2014      | 709    | \$31.66   |
| Granted                       | 178    | 53.52   |
| Vested                        | (277   | ) 19.69   |
| Forfeited                     | (101   | ) 19.69   |
| Outstanding December 31, 2014 | 509    | \$48.13   |

The weighted average assumptions used in this model to estimate fair value at the measurement date and resulting values for 164 unit awards granted are as follows:

|                         |       |   |
|-------------------------|-------|---|
| Volatility              | 17.8  | % |
| Risk free interest rate | 1.06  | % |
| Dividend yield          | 1.5   | % |
| Stock Beta              | 0.765 |   |

The remaining 14 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, 2014, there was \$13,939 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 1.66 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, |          |
|--|------------------------------------|----------|----------------------------------|----------|
|  | 2014                               | 2013     | 2014                             | 2013     |
| Net Income   | \$53,882                           | \$48,361 | \$99,969                         | \$91,583 |
| Common share information:  |                                    |          |                                  |          |
| Weighted average shares outstanding for basic earnings per share   | 81,432                             | 85,450   | 81,813                           | 85,372   |
| Dilutive effect of stock options and restricted stock              | 202                                | 536      | 299                              | 548      |
| Weighted average shares outstanding for diluted earnings per share | 81,634                             | 85,986   | 82,112                           | 85,920   |
| Basic earnings per share   | \$0.66                             | \$0.57   | \$1.22                           | \$1.07   |
| Diluted earnings per share   | \$0.66                             | \$0.56   | \$1.22                           | \$1.07   |

Per share information is based on the weighted average number of common shares outstanding for the three and six months ended December 31, 2014 and 2013. Stock options and restricted stock have been included in the calculation of earnings per share to the extent they are dilutive. There were 170 anti-dilutive stock options or restricted stock excluded for the three month period ended December 31, 2014 (no shares were excluded for the three month period ended December 31, 2013). There were 134 anti-dilutive restricted shares excluded for the six months ended December 31, 2014 (9 restricted shares were excluded for the six months ended December 31, 2013).

**NOTE 8. BUSINESS ACQUISITION****Banno, LLC**

Effective March 1, 2014, the Company acquired all of the equity interests of Banno, an Iowa-based company that provides Web hosting, mobile banking, and transaction marketing services with a focus on the mobile medium, for \$27,910 paid in cash. This acquisition was funded using existing operating cash. The acquisition of Banno expanded the Company's presence in online and mobile technologies within the industry.



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Management has completed a preliminary purchase price allocation of Banno 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 March 1, 2014 are set forth below:

|                                |          |   |
|--------------------------------|----------|---|
| Current assets                 | \$610    |   |
| Long-term assets               | 87       |   |
| Identifiable intangible assets | 9,255    |   |
| Total liabilities assumed      | (1,512   | ) |
| Total identifiable net assets  | 8,440    |   |
| Goodwill                       | 19,470   |   |
| Net assets acquired            | \$27,910 |   |

The amounts shown above may change in the near term as management continues to assess the fair value of acquired assets and liabilities and evaluate the income tax implications of this business combination.

The goodwill of \$19,470 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 Banno, together with the value of Banno's assembled workforce. Goodwill from this acquisition has been allocated to our Banking Systems and Services segment. Approximately 95% of the goodwill is expected to be deductible for income tax purposes.

Identifiable intangible assets from this acquisition consists of customer relationships of \$3,946, \$3,546 of computer software and other intangible assets of \$1,763. The weighted average amortization period for acquired customer relationships, acquired computer software, and other intangible assets is 15 years, 8 years, and 20 years, respectively. Current assets is inclusive of cash acquired of \$16. The fair value of current assets acquired included accounts receivable of \$476. The gross amount receivable is \$501, of which \$25 is expected to be uncollectible.

The accompanying consolidated statements of income for the three and six months ended December 31, 2013 do not include any revenues and expenses related to this acquisition. 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.

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## 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<br>December 31, 2014 |              |          | Three Months Ended<br>December 31, 2013 |              |          |
|-------------------------------|---|--------------|----------|---|--------------|----------|
|                               | Bank                                    | Credit Union | Total    | Bank                                    | Credit Union | Total    |
| REVENUE                       |   |              |          |   |              |          |
| License                       | \$288                                   | \$203        | \$491    | \$143                                   | \$103        | \$246    |
| Support and service           | 229,107                                 | 67,798       | 296,905  | 210,689                                 | 62,553       | 273,242  |
| Hardware                      | 10,130                                  | 3,768        | 13,898   | 11,482                                  | 3,874        | 15,356   |
| Total revenue                 | 239,525                                 | 71,769       | 311,294  | 222,314                                 | 66,530       | 288,844  |
| COST OF SALES                 |   |              |          |   |              |          |
| Cost of license               | 184                                     | 124          | 308      | 108                                     | 80           | 188      |
| Cost of support and service   | 134,034                                 | 36,343       | 170,377  | 119,931                                 | 34,838       | 154,769  |
| Cost of hardware              | 6,887                                   | 2,687        | 9,574    | 7,968                                   | 2,899        | 10,867   |
| Total cost of sales           | 141,105                                 | 39,154       | 180,259  | 128,007                                 | 37,817       | 165,824  |
| GROSS PROFIT                  | \$98,420                                | \$32,615     | 131,035  | \$94,307                                | \$28,713     | 123,020  |
| OPERATING EXPENSES            |   |              | 51,370   |   |              | 48,777   |
| INTEREST INCOME<br>(EXPENSE)  |   |              | (309 )   |   |              | (138 )   |
| INCOME BEFORE INCOME<br>TAXES |   |              | \$79,356 |   |              | \$74,105 |

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|                                       | Six Months Ended<br>December 31, 2014 |                 |                  | Six Months Ended<br>December 31, 2013 |                 |                  |
|---------------------------------------|---------------------------------------|-----------------|------------------|---------------------------------------|-----------------|------------------|
|                                       | Bank                                  | Credit Union    | Total            | Bank                                  | Credit Union    | Total            |
| <b>REVENUE</b>                        |                                       |                 |                  |                                       |                 |                  |
| License                               | \$729                                 | \$265           | \$994            | \$676                                 | \$331           | \$1,007          |
| Support and service                   | 450,322                               | 134,799         | 585,121          | 411,124                               | 124,748         | 535,872          |
| Hardware                              | 19,874                                | 6,778           | 26,652           | 22,066                                | 7,628           | 29,694           |
| Total revenue                         | 470,925                               | 141,842         | 612,767          | 433,866                               | 132,707         | 566,573          |
| <b>COST OF SALES</b>                  |                                       |                 |                  |                                       |                 |                  |
| Cost of license                       | 550                                   | 167             | 717              | 271                                   | 262             | 533              |
| Cost of support and service           | 262,920                               | 72,547          | 335,467          | 235,621                               | 68,304          | 303,925          |
| Cost of hardware                      | 14,058                                | 4,901           | 18,959           | 16,149                                | 5,659           | 21,808           |
| Total cost of sales                   | 277,528                               | 77,615          | 355,143          | 252,041                               | 74,225          | 326,266          |
| <b>GROSS PROFIT</b>                   | <b>\$193,397</b>                      | <b>\$64,227</b> | <b>257,624</b>   | <b>\$181,825</b>                      | <b>\$58,482</b> | <b>240,307</b>   |
| <b>OPERATING EXPENSES</b>             |                                       |                 | <b>106,335</b>   |                                       |                 | <b>99,436</b>    |
| <b>INTEREST INCOME<br/>(EXPENSE)</b>  |                                       |                 | <b>(518 )</b>    |                                       |                 | <b>(286 )</b>    |
| <b>INCOME BEFORE INCOME<br/>TAXES</b> |                                       |                 | <b>\$150,771</b> |                                       |                 | <b>\$140,585</b> |

|                                   | December 31,<br>2014 | June 30,<br>2014 |
|-----------------------------------|----------------------|------------------|
| Property and equipment, net       |                      |                  |
| Bank systems and services         | \$260,704            | \$258,437        |
| Credit Union systems and services | 34,779               | 33,238           |
| Total                             | \$295,483            | \$291,675        |
| Intangible assets, net            |                      |                  |
| Bank systems and services         | \$652,856            | \$643,972        |
| Credit Union systems and services | 230,606              | 231,435          |
| Total                             | \$883,462            | \$875,407        |

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****Dividends**

On February 17, 2015, the Company's Board of Directors declared a cash dividend of \$0.25 per share on its common stock, payable on March 18, 2015 to shareholders of record on March 3, 2015.

**Revolving credit facility**

On February 20, 2015, the Company replaced its existing revolving credit facility with a new revolving credit facility. Outstanding balances under the previous revolving credit facility were repaid with proceeds from the new facility. The new facility has a borrowing limit of \$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 1.00%, plus an applicable percentage in each case determined by the Company's leverage ratio. The new facility has a termination date of February 20, 2020.





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NOTE 11. RESTATEMENT OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Correction of Accounting Errors

During the current fiscal year, management identified historical accounting errors relating to its accounting for certain software license, maintenance and service agreements. The prior period errors primarily relate to the Company's accounting for its bundled software multi-element arrangements.

More specifically, the Company concluded it had improperly accounted for contracts containing multiple software products delivered at different points in time as separate arrangements within a contract versus as a single arrangement with multiple elements, resulting in revenue being recognized on these contracts before all licenses, for which no vendor-specific objective evidence ("VSOE") of fair value exists, had been delivered. Furthermore, the Company concluded that its mechanisms for tracking and estimating implementation hours was not capable of producing reliable estimates in support of its assertion of VSOE for its implementation services and that its pricing for stand-alone sales of post-contract support ("PCS") was not consistent enough to support its assertion of VSOE for PCS during prior periods.

Our previous accounting resulted in revenue being recognized earlier than would be appropriate for bundled software multi-element arrangements where VSOE does not exist for any of the software elements. Our current conclusions result in the deferral of revenue on such arrangements until the only undelivered element is PCS. The total arrangement revenue is then recognized ratably over the remaining initial bundled PCS period provided all other revenue recognition criteria have been met. Direct and incremental costs, including direct labor and sales commissions, related to obtaining and implementing these contracts have also been deferred until the only undelivered element is PCS and are recognized ratably over the remaining initial bundled PCS period.

Due to the above errors, including the related tax impact, net income for the fiscal quarter ended December 31, 2013 was overstated by \$5,621 and net income for the six months ended December 31, 2013 was overstated by \$12,187. On the balance sheet, total assets as of June 30, 2014 increased \$56,411, total liabilities increased \$127,185, and stockholders' equity decreased \$70,774.

The following tables present the effects of the restatement on each line of the Company's previously issued condensed consolidated financial statements as of June 30, 2014 and for the fiscal quarter and six-month period ended December 31, 2013.

Table of ContentsCondensed Consolidated Statements of Income:  
(In Thousands, Except Per Share Data)

|   | Quarter Ended<br>December 31, 2013 |                          |             |   |
|---|------------------------------------|--------------------------|-------------|---|
|   | As Previously<br>Reported          | Effect of<br>Restatement | As Restated |   |
| <b>REVENUE</b>                              |                                    |                          |             |   |
| License                                     | \$12,893                           | \$(12,647                | ) \$246     |   |
| Support and service                         | 274,276                            | (1,034                   | ) 273,242   |   |
| Hardware                                    | 15,356                             | —                        | 15,356      |   |
| Total revenue                               | 302,525                            | (13,681                  | ) 288,844   |   |
| <b>COST OF SALES</b>                        |                                    |                          |             |   |
| Cost of license                             | 947                                | (759                     | ) 188       |   |
| Cost of support and service                 | 157,893                            | (3,124                   | ) 154,769   |   |
| Cost of hardware                            | 10,867                             | —                        | 10,867      |   |
| Total cost of sales                         | 169,707                            | (3,883                   | ) 165,824   |   |
| <b>GROSS PROFIT</b>                         | 132,818                            | (9,798                   | ) 123,020   |   |
| <b>OPERATING EXPENSES</b>                   |                                    |                          |             |   |
| Selling and marketing                       | 21,071                             | (568                     | ) 20,503    |   |
| Research and development                    | 16,142                             | —                        | 16,142      |   |
| General and administrative                  | 12,132                             | —                        | 12,132      |   |
| Total operating expenses                    | 49,345                             | (568                     | ) 48,777    |   |
| <b>OPERATING INCOME</b>                     | 83,473                             | (9,230                   | ) 74,243    |   |
| <b>INTEREST INCOME (EXPENSE)</b>            |                                    |                          |             |   |
| Interest income                             | 129                                | —                        | 129         |   |
| Interest expense                            | (267                               | ) —                      | (267        | ) |
| Total interest income (expense)             | (138                               | ) —                      | (138        | ) |
| <b>INCOME BEFORE INCOME TAXES</b>           | 83,335                             | (9,230                   | ) 74,105    |   |
| <b>PROVISION FOR INCOME TAXES</b>           | 29,353                             | (3,609                   | ) 25,744    |   |
| <b>NET INCOME</b>                           | \$53,982                           | \$(5,621                 | ) \$48,361  |   |
| Diluted earnings per share                  | \$0.63                             | \$(0.07                  | ) \$0.56    |   |
| Diluted weighted average shares outstanding | 85,986                             | 85,986                   | 85,986      |   |
| Basic earnings per share                    | \$0.63                             | \$(0.06                  | ) \$0.57    |   |
| Basic weighted average shares outstanding   | 85,450                             | 85,450                   | 85,450      |   |

Table of ContentsCondensed Consolidated Statements of Income:  
(In Thousands, Except Per Share Data)

|   | Six-Month Period Ended<br>December 31, 2013 |                          |             |   |
|---|---|--------------------------|-------------|---|
|   | As Previously<br>Reported                   | Effect of<br>Restatement | As Restated |   |
| <b>REVENUE</b>                              |   |                          |             |   |
| License                                     | \$24,671                                    | \$(23,664                | ) \$1,007   |   |
| Support and service                         | 543,820                                     | (7,948                   | ) 535,872   |   |
| Hardware                                    | 29,694                                      | —                        | 29,694      |   |
| Total revenue                               | 598,185                                     | (31,612                  | ) 566,573   |   |
| <b>COST OF SALES</b>                        |   |                          |             |   |
| Cost of license                             | 2,359                                       | (1,826                   | ) 533       |   |
| Cost of support and service                 | 312,477                                     | (8,552                   | ) 303,925   |   |
| Cost of hardware                            | 21,808                                      | —                        | 21,808      |   |
| Total cost of sales                         | 336,644                                     | (10,378                  | ) 326,266   |   |
| <b>GROSS PROFIT</b>                         | 261,541                                     | (21,234                  | ) 240,307   |   |
| <b>OPERATING EXPENSES</b>                   |   |                          |             |   |
| Selling and marketing                       | 42,529                                      | (1,289                   | ) 41,240    |   |
| Research and development                    | 31,814                                      | —                        | 31,814      |   |
| General and administrative                  | 26,382                                      | —                        | 26,382      |   |
| Total operating expenses                    | 100,725                                     | (1,289                   | ) 99,436    |   |
| <b>OPERATING INCOME</b>                     | 160,816                                     | (19,945                  | ) 140,871   |   |
| <b>INTEREST INCOME (EXPENSE)</b>            |   |                          |             |   |
| Interest income                             | 260   | —                        | 260         |   |
| Interest expense                            | (546  | ) —                      | (546        | ) |
| Total interest income (expense)             | (286  | ) —                      | (286        | ) |
| <b>INCOME BEFORE INCOME TAXES</b>           | 160,530                                     | (19,945                  | ) 140,585   |   |
| <b>PROVISION FOR INCOME TAXES</b>           | 56,760                                      | (7,758                   | ) 49,002    |   |
| <b>NET INCOME</b>                           | \$103,770                                   | \$(12,187                | ) \$91,583  |   |
| Diluted earnings per share                  | \$1.21                                      | \$(0.14                  | ) \$1.07    |   |
| Diluted weighted average shares outstanding | 85,920                                      | 85,920                   | 85,920      |   |
| Basic earnings per share                    | \$1.22                                      | \$(0.15                  | ) \$1.07    |   |
| Basic weighted average shares outstanding   | 85,372                                      | —                        | 85,372      |   |

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Condensed Consolidated Balance Sheets:  
(In Thousands, Except Share and Per Share Data)

|  | June 30, 2014<br>As Previously<br>Reported | Effect of<br>Restatement | As Restated |
|--|--|--------------------------|-------------|
| <b>ASSETS</b>  |  |                          |             |
| <b>CURRENT ASSETS:</b>   |  |                          |             |
| Cash and cash equivalents  | \$70,377                                   | \$—                      | \$70,377    |
| Receivables, net   | 224,041                                    | —                        | 224,041     |
| Income tax receivable  | 7,937                                      | —                        | 7,937       |
| Prepaid expenses and other   | 59,824                                     | 1,250                    | 61,074      |
| Deferred costs   | 22,202                                     | 4,875                    | 27,077      |
| Total current assets   | 384,381                                    | 6,125                    | 390,506     |
| PROPERTY AND EQUIPMENT, net  | 291,675                                    | —                        | 291,675     |
| <b>OTHER ASSETS:</b>   |  |                          |             |
| Non-current deferred costs   | 34,708                                     | 43,750                   | 78,458      |
| Computer software, net of amortization   | 160,391                                    | —                        | 160,391     |
| Other non-current assets   | 38,121                                     | 6,536                    | 44,657      |
| Customer relationships, net of amortization  | 136,602                                    | —                        | 136,602     |
| Other intangible assets, net of amortization   | 25,653                                     | —                        | 25,653      |
| Goodwill   | 552,761                                    | —                        | 552,761     |
| Total other assets   | 948,236                                    | 50,286                   | 998,522     |
| Total assets   | \$1,624,292                                | \$56,411                 | \$1,680,703 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |                          |             |
| <b>CURRENT LIABILITIES:</b>  |  |                          |             |
| Accounts payable   | \$10,516                                   | \$—                      | \$10,516    |
| Accrued expenses   | 63,299                                     | —                        | 63,299      |
| Deferred income tax liability  | 37,592                                     | (7,498                   | ) 30,094    |
| Notes payable and current maturities of long term debt   | 5,407                                      | —                        | 5,407       |
| Deferred revenues  | 312,002                                    | 25,491                   | 337,493     |
| Total current liabilities  | 428,816                                    | 17,993                   | 446,809     |
| <b>LONG TERM LIABILITIES:</b>  |  |                          |             |
| Non-current deferred revenues  | 8,985                                      | 146,390                  | 155,375     |
| Non-current deferred income tax liability  | 134,918                                    | (37,198                  | ) 97,720    |
| Debt, net of current maturities  | 3,729                                      | —                        | 3,729       |
| Other long-term liabilities  | 9,683                                      | —                        | 9,683       |
| Total long term liabilities  | 157,315                                    | 109,192                  | 266,507     |
| Total liabilities  | 586,131                                    | 127,185                  | 713,316     |
| <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; 102,429,926 shares issued at June 30, 2014 | 1,024                                      | —                        | 1,024       |
| Additional paid-in capital   | 412,512                                    | —                        | 412,512     |
| Retained earnings  | 1,202,406                                  | (70,774                  | ) 1,131,632 |
| Less treasury stock at cost; 19,794,559 shares at June 30, 2014  | (577,781                                   | ) —                      | (577,781    |
| Total stockholders' equity   | 1,038,161                                  | (70,774                  | ) 967,387   |
| Total liabilities and equity   | \$1,624,292                                | \$56,411                 | \$1,680,703 |



Table of ContentsCondensed Consolidated Statements of Cash Flows:  
(In Thousands)

|   | Six-Month Period Ended<br>December 31, 2013 |                          |                   |
|---|---|--------------------------|-------------------|
|   | As Previously<br>Reported                   | Effect of<br>Restatement | As Restated       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |                          |                   |
| Net Income  | \$ 103,770                                  | \$(12,187                | ) \$91,583        |
| Adjustments to reconcile net income from operations<br>to net cash from operating activities: |   |                          |                   |
| Depreciation  | 26,153                                      | —                        | 26,153            |
| Amortization  | 25,969                                      | —                        | 25,969            |
| Change in deferred income taxes   | 3,868                                       | (7,757                   | ) (3,889          |
| Excess tax benefits from stock-based compensation   | (3,152                                      | ) —                      | (3,152            |
| Expense for stock-based compensation  | 4,541                                       | —                        | 4,541             |
| (Gain)/loss on disposal of assets   | (52   | ) —                      | (52               |
| Changes in operating assets and liabilities:  |   |                          |                   |
| Change in receivables   | 94,694                                      | —                        | 94,694            |
| Change in prepaid expenses, deferred costs and other  | (14,672                                     | ) (11,668                | ) (26,340         |
| Change in accounts payable  | (970  | ) —                      | (970              |
| Change in accrued expenses  | (16,200                                     | ) —                      | (16,200           |
| Change in income taxes  | 11,660                                      | —                        | 11,660            |
| Change in deferred revenues   | (104,293                                    | ) 31,612                 | (72,681           |
| Net cash from operating activities  | 131,316                                     | —                        | 131,316           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |                          |                   |
| Capital expenditures  | (21,866                                     | ) —                      | (21,866           |
| Proceeds from sale of assets  | 2,809                                       | —                        | 2,809             |
| Internal use software   | (6,980                                      | ) —                      | (6,980            |
| Computer software developed   | (29,015                                     | ) —                      | (29,015           |
| Net cash from investing activities  | (55,052                                     | ) —                      | (55,052           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |   |                          |                   |
| Borrowings on credit facilities   | —   | —                        | —                 |
| Repayments on credit facilities   | (13,630                                     | ) —                      | (13,630           |
| Purchase of treasury stock  | —   | —                        | —                 |
| Dividends paid  | (34,146                                     | ) —                      | (34,146           |
| Excess tax benefits from stock-based compensation   | 3,152                                       | —                        | 3,152             |
| Proceeds from issuance of common stock upon exercise of<br>stock options                      | 221   | —                        | 221               |
| Minimum tax withholding payments related to share based<br>compensation                       | (6,239                                      | ) —                      | (6,239            |
| Proceeds from sale of common stock, net   | 1,974                                       | —                        | 1,974             |
| Net cash from financing activities  | (48,668                                     | ) —                      | (48,668           |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>27,596</b>                               | <b>—</b>                 | <b>27,596</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF<br/>PERIOD</b>                                     | <b>127,905</b>                              | <b>—</b>                 | <b>127,905</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 155,501</b>                           | <b>\$—</b>               | <b>\$ 155,501</b> |

Prior Period Reclassification

Certain amounts included within the condensed consolidated statement of cash flows for the six months ended December 31, 2013 have been restated to correct an error related to the presentation of excess tax benefits from stock based compensation within cash flows from operating activities. Such correction adjusted the cash flow statement for the six months ended December 31, 2013 by presenting excess tax benefits from stock based compensation as a

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separate line item and increasing the change in income taxes by \$3,152. There was no change in total cash flows from operating, investing or financing activities.

**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, 2014.

All of the financial information presented in this Item 2 has been revised to reflect the restatement of our condensed consolidated financial statements more fully described in Note 11 - Restatement of Consolidated Financial Statements which is included in "Financial Statements" in Item 1 of this Form 10-Q.

**OVERVIEW**

Jack Henry & Associates, Inc. (JHA) is a leading provider of technology solutions and payment processing services primarily for financial services organizations. Our 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, outsourced services and hosted delivery.

A significant proportion 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 2015, revenues increased 8% or \$22,450 compared to the same period in the prior year, with strong growth continuing in our support & service revenue component. Cost of sales increased 9%, in line with revenue, and operating expenses increased 5% for the quarter due mainly to increased headcount and related salaries. Provision for income taxes decreased slightly compared to the prior year second quarter. The increased revenue and above changes resulted in a 11% increase in net income for the quarter.

In the six months ending December 31, 2014, revenues increased 8% or \$46,194 compared to the same six months last year, with strong growth continuing in all components of our support & service revenues, particularly electronic payment services. Cost of sales increased 9%, in line with revenue, and operating expenses increased 7% for the six month period ended December 31, 2014. Provision for income taxes increased 4% compared to the prior year-to-date period. The increased revenue and above changes resulted in an 9% increase in net income for the six months ending December 31, 2014.

We move into the third quarter of fiscal 2015 following strong performance in the first half of the fiscal year. 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, efficiency and security. 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 ended December 31, 2014 follows. All dollar amounts are in thousands and discussions compare the current three and six months ended December 31, 2014 to the prior year three and six months ended December 31, 2013.





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## REVENUE

| License Revenue             | Three Months Ended<br>December 31, |       | %<br>Change | Six Months Ended<br>December 31, |         | %<br>Change |
|-----------------------------|------------------------------------|-------|-------------|----------------------------------|---------|-------------|
|                             | 2014                               | 2013  |             | 2014                             | 2013    |             |
| License                     | \$491                              | \$246 | 100 %       | \$994                            | \$1,007 | (1) %       |
| Percentage of total revenue | <1%                                | <1%   |             | <1%                              | <1%     |             |

License revenue represents the sale and delivery of application software systems contracted with us by the customer, that are not part of a bundled arrangement. Non-bundled license revenue increased for the quarter due mainly to small increases 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.

| Support and Service Revenue | Three Months Ended<br>December 31, |           | %<br>Change | Six Months Ended<br>December 31, |           | %<br>Change |
|-----------------------------|------------------------------------|-----------|-------------|----------------------------------|-----------|-------------|
|                             | 2014                               | 2013      |             | 2014                             | 2013      |             |
| Support and service         | \$296,905                          | \$273,242 | 9 %         | \$585,121                        | \$535,872 | 9 %         |
| Percentage of total revenue | 95 %                               | 95 %      |             | 95 %                             | 95 %      |             |

|                                   | Qtr over Qtr |          |  | Year over Year |          |  |
|-----------------------------------|--------------|----------|--|----------------|----------|--|
|                                   | \$ Change    | % Change |  | \$ Change      | % Change |  |
| In-House Support & Other Services | \$508        | 1 %      |  | \$1,781        | 1 %      |  |
| Electronic Payment Services       | 10,889       | 10 %     |  | 20,809         | 9 %      |  |
| Outsourcing Services              | 8,927        | 15 %     |  | 16,171         | 14 %     |  |
| Implementation Services           | 3,561        | 23 %     |  | 8,026          | 27 %     |  |
| Bundled Products & Services       | (223 )       | (2) %    |  | 2,461          | 18 %     |  |
| Total Increase                    | \$23,662     |          |  | \$49,248       |          |  |

There was growth in nearly all support and service revenue components in the both the quarterly and year-to-date periods of fiscal 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 the largest dollar growth in both the quarter and year-to-date periods. The revenue increases are attributable to strong performance across debit/credit card transaction processing services, online bill payment services and ACH processing.

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 outsourcing and electronic payment services customers as well as standalone customization services, merger conversion services, image conversion services and network monitoring services. Implementation services revenue increased in both the quarter and year-to-date periods, with increasing implementations across our core, online banking, imaging solutions and payments products.

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 remained level compared to last year's quarter and increased year-to-date mainly due to increased installations of our Alogent suite of products in the first quarter.

| Hardware Revenue | Three Months Ended<br>December 31, |          | %<br>Change | Six Months Ended<br>December 31, |          | %<br>Change |
|------------------|------------------------------------|----------|-------------|----------------------------------|----------|-------------|
|                  | 2014                               | 2013     |             | 2014                             | 2013     |             |
| Hardware         | \$13,898                           | \$15,356 | (9) %       | \$26,652                         | \$29,694 | (10) %      |

Percentage of total revenue      4            % 5            %            4            % 5            %

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Hardware revenue decreased for both the quarter and year-to-date periods due to a decrease in complementary hardware products delivered.

Although there will be continuing quarterly fluctuations, we expect there to be an overall decreasing trend in hardware sales 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 |           | %<br>Change | Six Months Ended |           | %<br>Change |      |    |
|----------------------------------|--------------------|-----------|-------------|------------------|-----------|-------------|------|----|
|                                  | December 31,       |           |             | December 31,     |           |             |      |    |
|                                  | 2014               | 2013      |             | 2014             | 2013      |             |      |    |
| Cost of License                  | \$308              | \$188     | 64          | %                | \$717     | \$533       | 35   | %  |
| Percentage of total revenue      | <1%                | <1%       |             |                  | <1%       | <1%         |      |    |
| License Gross Profit             | \$183              | \$58      | 216         | %                | \$277     | \$474       | (42) | )% |
| Gross Profit Margin              | 37                 | % 24      | %           |                  | 28        | % 47        | %    |    |
| Cost of support and service      | \$170,377          | \$154,769 | 10          | %                | \$335,467 | \$303,925   | 10   | %  |
| Percentage of total revenue      | 55                 | % 54      | %           |                  | 55        | % 54        | %    |    |
| Support and Service Gross Profit | \$126,528          | \$118,473 | 7           | %                | \$249,654 | \$231,947   | 8    | %  |
| Gross Profit Margin              | 43                 | % 43      | %           |                  | 43        | % 43        | %    |    |
| Cost of hardware                 | \$9,574            | \$10,867  | (12)        | )%               | \$18,959  | \$21,808    | (13) | )% |
| Percentage of total revenue      | 3                  | % 4       | %           |                  | 3         | % 4         | %    |    |
| Hardware Gross Profit            | \$4,324            | \$4,489   | (4)         | )%               | \$7,693   | \$7,886     | (2)  | )% |
| Gross Profit Margin              | 31                 | % 29      | %           |                  | 29        | % 27        | %    |    |
| TOTAL COST OF SALES              | \$180,259          | \$165,824 | 9           | %                | \$355,143 | \$326,266   | 9    | %  |
| Percentage of total revenue      | 58                 | % 57      | %           |                  | 58        | % 58        | %    |    |
| TOTAL GROSS PROFIT               | \$131,035          | \$123,020 | 7           | %                | \$257,624 | \$240,307   | 7    | %  |
| 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. Sales of these third party software products remained fairly level compared to last year; however, shifts in sales mix between the products that make up these costs cause fluctuations in the margins from period to period.

Gross profit margins in support and service remained consistent for the quarter and year-to-date periods.

In general, changes in cost of hardware trend consistently with hardware revenue. For the fiscal quarter and year, margins are slightly higher due to increased sales of higher margin hardware upgrade products.

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## OPERATING EXPENSES

| Selling and Marketing       | Three Months Ended |          | % | Change | Six Months Ended |          | % | Change |
|-----------------------------|--------------------|----------|---|--------|------------------|----------|---|--------|
|                             | December 31,       |          |   |        | December 31,     |          |   |        |
|                             | 2014               | 2013     |   |        | 2014             | 2013     |   |        |
| Selling and marketing       | \$22,175           | \$20,503 | 8 | %      | \$43,838         | \$41,240 | 6 | %      |
| Percentage of total revenue | 7                  | % 7      | % |        | 7                | % 7      | % |        |

Selling and marketing expenses for the year increased mainly due to higher commission expenses and a general increase in sales headcount and related personnel costs, remaining at 7% of total revenue.

| Research and Development    | Three Months Ended |          | %  | Change | Six Months Ended |          | % | Change |
|-----------------------------|--------------------|----------|----|--------|------------------|----------|---|--------|
|                             | December 31,       |          |    |        | December 31,     |          |   |        |
|                             | 2014               | 2013     |    |        | 2014             | 2013     |   |        |
| Research and development    | \$17,681           | \$16,142 | 10 | %      | \$34,472         | \$31,814 | 8 | %      |
| Percentage of total revenue | 6                  | % 6      | %  |        | 6                | % 6      | % |        |

Research and development expenses increased both for the quarter and year-to-date primarily due to increased headcount and related personnel costs, remaining at 6% of total revenue.

| General and Administrative  | Three Months Ended |          | %   | Change | Six Months Ended |          | % | Change |
|-----------------------------|--------------------|----------|-----|--------|------------------|----------|---|--------|
|                             | December 31,       |          |     |        | December 31,     |          |   |        |
|                             | 2014               | 2013     |     |        | 2014             | 2013     |   |        |
| General and administrative  | \$11,514           | \$12,132 | (5) | )%     | \$28,025         | \$26,382 | 6 | %      |
| Percentage of total revenue | 4                  | % 4      | %   |        | 5                | % 5      | % |        |

General and administrative expenses decreased for the quarter mainly due to the gain on disposal of the TeleWeb suite of Internet and mobile banking software products to Data Center Inc. (DCI). The year-to-date expense is higher due to the impact of a Lyndhurst related insurance recovery in the prior year quarter coupled with increased headcount and related personnel costs. The increase was partially offset by the Teleweb gain.

| INTEREST INCOME AND EXPENSE | Three Months Ended |         | %    | Change | Six Months Ended |         | %    | Change |
|-----------------------------|--------------------|---------|------|--------|------------------|---------|------|--------|
|                             | December 31,       |         |      |        | December 31,     |         |      |        |
|                             | 2014               | 2013    |      |        | 2014             | 2013    |      |        |
| Interest Income             | \$28               | \$129   | (78) | )%     | \$85             | \$260   | (67) | )%     |
| Interest Expense            | \$(337)            | \$(267) | 26   | %      | \$(603)          | \$(546) | 10   | %      |

Interest income fluctuated due to changes in invested balances and yields on invested balances. Interest expense increased slightly for both the quarter and year-to-date due to interest on the borrowing from our revolving credit facility in the second quarter.

| PROVISION FOR INCOME TAXES | Three Months Ended |          | %   | Change | Six Months Ended |          | % | Change |
|----------------------------|--------------------|----------|-----|--------|------------------|----------|---|--------|
|                            | December 31,       |          |     |        | December 31,     |          |   |        |
|                            | 2014               | 2013     |     |        | 2014             | 2013     |   |        |
| Provision For Income Taxes | \$25,474           | \$25,744 | (1) | )%     | \$50,802         | \$49,002 | 4 | %      |
| Effective Rate             | 32.1               | % 34.7   | %   |        | 33.7             | % 34.9   | % |        |

The current year income tax rate was slightly lower for both the quarter and year-to-date periods primarily due to the effect of the Research and Experimentation Credit ("R&E Credit"), which was retroactively extended in December 2014.

## NET INCOME

Net income increased 11% for the three months ended December 31, 2014. For the second quarter of fiscal 2015, it was \$53,882 or \$0.66 per diluted share compared to \$48,361, or \$0.56 per diluted share in the same period last year. Net income also increased 9% for the six month period ended December 31, 2014 to \$99,969 or \$1.22 per diluted share compared to \$91,583 or \$1.07 per diluted share, for the same six month period last year.

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## 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,     |           |   |        |
|                           | 2014               | 2013      |   |        | 2014             | 2013      |   |        |
| Revenue                   | \$239,525          | \$222,314 | 8 | %      | \$470,925        | \$433,866 | 9 | %      |
| Gross profit              | \$98,420           | \$94,307  | 4 | %      | \$193,397        | \$181,825 | 6 | %      |
| Gross profit margin       | 41                 | % 42      | % |        | 41               | % 42      | % |        |

Revenue in the Bank segment increased 8% compared to the equivalent quarter last fiscal year. This was primarily due to growth support & service revenue, particularly electronic payment transaction processing services revenue which grew 11% and outsourcing services revenue which grew 16% over the prior year quarter.

Year-to-date revenue increased 9% for the six month period due mainly to increased support and service revenue.

Within support and service revenue, the increase was driven by 11% year-over-year growth in electronic payment services revenues from transaction processing and a 13% increase in outsourcing services revenue.

Gross profit margins decreased for both the quarter and year-to-date due primarily to increased personnel costs and increased depreciation and amortization.

| Credit Union Systems and Services | Three Months Ended |          | %  | Change | Six Months Ended |           | %  | Change |
|-----------------------------------|--------------------|----------|----|--------|------------------|-----------|----|--------|
|                                   | December 31,       |          |    |        | December 31,     |           |    |        |
|                                   | 2014               | 2013     |    |        | 2014             | 2013      |    |        |
| Revenue                           | \$71,769           | \$66,530 | 8  | %      | \$141,842        | \$132,707 | 7  | %      |
| Gross profit                      | \$32,615           | \$28,713 | 14 | %      | \$64,227         | \$58,482  | 10 | %      |
| Gross profit margin               | 45                 | % 43     | %  |        | 45               | % 44      | %  |        |

Revenue in the Credit Union segment increased 8% from the same quarter last year driven mainly by an 8% increase in support & service, particularly from electronic payments and in-house maintenance renewals.

Year-to-date revenue in the Credit Union segment increased 7% over the prior year, as Credit Union continues to grow in in-house maintenance renewals, outsourcing and electronic payments.

Gross profit margins for the Credit Union segment increased for both the three and six month periods 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 \$49,332 at December 31, 2014 from \$70,377 at June 30, 2014, primarily due to ongoing purchases of treasury stock.

The following table summarizes net cash from operating activities in the statement of cash flows:

|   | Six Months Ended |            |
|---|------------------|------------|
|   | December 31,     |            |
|   | 2014             | 2013       |
| Net income                                | \$99,969         | \$91,583   |
| Non-cash expenses                         | 50,151           | 49,570     |
| Change in receivables                     | 76,151           | 94,694     |
| Change in deferred revenue                | (78,332)         | ) (72,681) |
| Change in other assets and liabilities    | (21,041)         | ) (31,850) |
| Net cash provided by operating activities | \$126,898        | \$131,316  |

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Cash provided by operating activities decreased 3% compared to last year. Cash from operations is primarily used to repay debt, pay dividends, repurchase stock and other capital expenditures.

Cash used in investing activities for the six months of fiscal 2015 totaled \$63,399 and included capital expenditures on facilities and equipment of \$27,389, which mainly included the purchase of aircraft and computer equipment, \$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). Cash used in investing activities for the first six months of fiscal year 2014 totaled \$55,052 and included capital expenditures on facilities and equipment of \$21,866, which included spending on our outsourcing data center infrastructure, and purchase of an aircraft and computer equipment. Other uses of cash included \$29,015 for the development of software and \$6,980 for the purchase and development of internal use software. These expenditures have been partially offset by \$2,809 proceeds received primarily from sale of an aircraft.

Financing activities used cash of \$84,544 during the first six months of the current fiscal year. Cash used was mainly \$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. Financing activities in the first six months of last year used cash of \$48,668. Cash used was mainly dividends paid to stockholders of \$34,146, repayments of capital leases of \$13,630, and \$892 related to stock-based compensation.

At December 31, 2014, the Company had negative working capital of \$98,478; however, the largest component of current liabilities was deferred revenue of \$234,939, 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 \$80,000. 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 \$27,389 and \$21,866 for the six months ended December 31, 2014 and 2013, 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 for the Company for fiscal year 2015 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 December 31, 2014, there were 21,693 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,298 additional shares. The total cost of treasury shares at December 31, 2014 is \$690,584. During the first six months of fiscal 2015, the Company repurchased 1,898 treasury shares for \$112,803. At June 30, 2014, there were 19,795 shares in treasury stock and the Company had authority to repurchase up to 5,196 additional shares.

#### Capital leases

The Company has entered into various capital lease obligations for the use of certain computer equipment. \$6,524 of long term capital lease obligations remains outstanding at December 31, 2014, of which \$5,601 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling \$2,287 at December 31, 2014.

#### Revolving credit facility

The revolving credit facility in effect at December 31, 2014 allowed for borrowings of up to \$150,000, which could be increased by the Company at any time until maturity to \$250,000. The credit facility bore interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate or (c) LIBOR plus 1.0%), plus an applicable percentage in each case determined by the Company's

leverage ratio. The credit facility was secured by pledges of capital stock of certain subsidiaries of the Company and also guaranteed by certain subsidiaries of the Company. The credit facility was subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of December 31, 2014, the Company was in compliance with all such covenants. The revolving loan was due to terminate June 4, 2015. At December 31, 2014, the outstanding revolving loan balance was \$70,000.



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On February 20, 2015, the Company replaced its existing revolving credit facility with a new revolving credit facility. Outstanding balances under the previous revolving credit facility were repaid with proceeds from the new facility. The new facility has a borrowing limit of \$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 1.00%, plus an applicable percentage in each case determined by the Company's leverage ratio. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. Among those covenants is a requirement to provide unaudited, quarterly financial statements within 45 days of the end of the quarter, the Company has received an extension on this requirement related to the first and second quarters of fiscal 2015 until June 30, 2015. The new facility has a termination date of February 20, 2020.

### Other lines of credit

The Company renewed an unsecured bank credit line on March 3, 2014 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1%. The credit line was renewed through April 30, 2017. At December 31, 2014, 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, 2014 a 1% increase in our borrowing rate would increase annual interest expense in fiscal 2015 by less than \$700.

## ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of our management, including our 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 a material weakness discussed below, the Company's disclosure controls and procedures were not effective as of June 30, 2014 and had not been remediated as of December 31, 2014 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.

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.

There are a number of deficiencies in the design and operating effectiveness of internal control over financial reporting that, in the aggregate, constitute a material weakness. The identified deficiencies noted below stem from a failure in the Company's risk assessment process wherein the risk assessment process did not identify or evaluate the inherent risks and complexities associated with accounting for revenue arrangements with software elements.

The lack of training and continuing education related to multiple element software arrangements led to a lack of knowledge of the individuals tasked with understanding various technical accounting matters associated with the Company's multiple element arrangement revenue recognition policies.

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• Appropriate accounting and reporting policies and procedures related to bundled multiple element arrangements were not designed and implemented.

• Appropriate internal controls over financial reporting for bundled multiple element arrangements were not designed and implemented.

• Monitoring, including use of internal audit, was not appropriately designed to identify errors in accounting for revenue recognition for multiple element software arrangements.

These deficiencies in internal controls over financial reporting resulted in accounting errors in revenue recognition and delayed regulatory filings.

### Changes in Internal Control over Financial Reporting

There were no changes in the company's internal control over financial reporting that occurred during fiscal quarter ending December 31, 2014, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, as the material weakness discussed above had not yet been identified by management.

### Remediation

The Company has implemented a number of remediation steps to address the material weakness discussed above and to improve its internal controls. With respect to the control deficiencies discussed in the Management's Report on Internal Control over Financial Reporting (Revised) 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.  
Increase training and knowledge development for the individuals tasked with understanding various technical
- ii. 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.



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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Information with respect to our legal proceedings may be found at “Litigation” in Note 1 to the financial Statements in Part I, Item 1, which is incorporated herein by reference.

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

## (c) Issuer Purchases of Equity Securities

The following shares of the Company were repurchased during the quarter ended December 31, 2014:

|                                | Total Number<br>of Shares<br>Purchased <sup>(1)</sup> | Average<br>Price of<br>Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced<br>Plans <sup>(1)</sup> | Maximum Number of<br>Shares that May Yet<br>Be Purchased Under<br>the Plans <sup>(2)</sup> |
|--------------------------------|---|------------------------------|---|--|
| October 1 - October 31, 2014   | 91  | \$57.59                      | —   | 4,147,384  |
| November 1 - November 30, 2014 | 250,165   | 60.97                        | 250,000   | 3,897,384  |
| December 1 - December 31, 2014 | 599,534   | 61.77                        | 599,300   | 3,298,084  |
| Total                          | 849,790   | 61.53                        | 849,300   | 3,298,084  |

<sup>(1)</sup> 849,300 shares were purchased through a publicly announced repurchase plan. There were 490 shares surrendered to the Company to satisfy tax withholding obligations in connection with employee restricted stock awards.

<sup>(2)</sup> Stock repurchase authorizations approved by the Company's Board of Directors as of May 3, 2013 was 25.0 million shares. These authorizations have no specific dollar or share price targets and no expiration dates.

## ITEM 6. EXHIBITS

10.52 Form of Restricted Stock Unit Agreement under Jack Henry & Associates, Inc. Restricted Stock 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, 2014 and June 30,

2014, (ii) the Condensed Consolidated Statements of Income for the three and six months ended December 31, 2014 and 2013, (iii) the Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2014 and 2013, and (iv) Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

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

JACK HENRY & ASSOCIATES, INC.

Date: June 25, 2015

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

Date: June 25, 2015

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