

HENRY JACK & ASSOCIATES INC
Form 10-K
September 11, 2015

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

FORM 10-K

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

(Mark One)

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

For the fiscal year ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.
(Exact name of registrant as specified in its charter)
Delaware
(State or Other Jurisdiction of Incorporation)

43-1128385
(I.R.S Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------------------|---|
| Common Stock (\$0.01 par value) | NASDAQ Global Select Market |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

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

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

As of September 9, 2015, the Registrant had 80,219,921 shares of Common Stock outstanding (\$0.01 par value). On December 31, 2014, the aggregate market value of the Common Stock held by persons other than those who may be deemed affiliates of Registrant was \$5,046,822,763 (based on the average of the reported high and low sales prices on NASDAQ on December 31, 2014).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Notice of Annual Meeting of Stockholders and Proxy Statement for its 2015 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part II, Item 5 and into Part III of this Report.

TABLE OF CONTENTS

| | Page Reference |
|--|----------------|
| PART I | |
| ITEM 1. BUSINESS | <u>5</u> |
| ITEM 1A. RISK FACTORS | <u>12</u> |
| ITEM 1B. UNRESOLVED STAFF COMMENTS | <u>16</u> |
| ITEM 2. PROPERTIES | <u>16</u> |
| ITEM 3. LEGAL PROCEEDINGS | <u>16</u> |
| ITEM 4. MINE SAFETY DISCLOSURES | <u>16</u> |
| PART II | |
| ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES | <u>17</u> |
| ITEM 6. SELECTED FINANCIAL DATA | <u>19</u> |
| ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | <u>19</u> |
| ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | <u>33</u> |
| ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA | <u>34</u> |
| ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE | <u>61</u> |
| ITEM 9A. CONTROLS AND PROCEDURES | <u>61</u> |
| ITEM 9B. OTHER INFORMATION | <u>62</u> |
| PART III | |
| ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE | <u>63</u> |
| ITEM 11. EXECUTIVE COMPENSATION | <u>63</u> |
| ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS | <u>63</u> |
| ITEM 13. | <u>63</u> |

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND
DIRECTOR INDEPENDENCE

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES 63

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES 63

3

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. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled “Risk Factors” (Part I, Item 1A of this Form 10-K). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

ITEM 1. BUSINESS

Jack Henry & Associates, Inc. was founded in 1976 as a provider of core information processing solutions for community banks. Today, the Company's extensive array of products and services includes processing transactions, automating business processes, and managing information for nearly 10,900 financial institutions and diverse corporate entities.

JHA provides its products and services through three business brands:

Jack Henry Banking is a leading provider of integrated data processing systems to nearly 1,200 banks ranging from community banks to multi-billion dollar institutions with assets of up to \$30 billion. Our banking solutions support both in-house and outsourced operating environments with three functionally distinct core processing platforms and more than 100 integrated complementary solutions.

Symitar is a leading provider of core data processing solutions for credit unions of all sizes, with almost 800 credit union customers. Symitar markets two functionally distinct core processing platforms and more than 50 integrated complementary solutions that support both in-house and outsourced operating environments.

ProfitStars is a leading provider of highly specialized products and services to financial institutions that are primarily not core customers of the Company. ProfitStars offers highly specialized financial performance, imaging and payments processing, information security and risk management, retail delivery, and online and mobile solutions.

ProfitStars' products and services enhance the performance of financial services organizations of all asset sizes and charters, and diverse corporate entities with approximately 10,500 domestic and international customers.

Our products and services enable our customers to implement technology solutions that can be tailored to support their unique growth, service, operational, and performance goals. Our solutions also enable financial institutions to offer the high-demand products and services required to compete more successfully, and to capitalize on evolving trends shaping the financial services industry.

We are committed to exceeding our customers' service-related expectations. We measure and monitor customer satisfaction using formal annual surveys and online surveys initiated each day randomly by routine support requests. The results of this extensive survey process confirm that our service consistently exceeds our customers' expectations and generates excellent customer retention rates.

We also focus on establishing long-term customer relationships, continually expanding and strengthening those relationships with cross sales of additional products and services, earning new traditional and nontraditional clients, and ensuring each product offering is highly competitive.

The majority of our revenue is derived from recurring transaction processing fees, outsourcing fees that generally have contract terms of five years or greater, and support and service fees. Less predictable software license fees, paid by customers implementing our software solutions in-house, and hardware sales, including all non-software products that we re-market in order to support our software systems, complement our primary revenue sources.

JHA ended fiscal 2015 with \$1,256.2 million gross revenue. This has increased from \$832.8 million at the end of fiscal 2010, representing a compound annual growth rate during this challenging five-year period of 9 percent. Net income from continuing operations has grown from \$116.7 million to \$211.2 million during this same five-year period, representing a compound annual growth rate of 13 percent. Information regarding the classification of our business into separate segments serving the banking and credit union industries is set forth in Note 13 to the Consolidated Financial Statements (see Item 8).

JHA's progress and performance have been guided by the focused work ethic and fundamental ideals fostered by the Company's founders over three decades ago:

Do the right thing,

Do whatever it takes, and

Have fun.

We recognize that our associates and their collective contribution are ultimately responsible for JHA's past, present, and future success. Recruiting and retaining high-quality employees is essential to our ongoing growth and financial performance, and we have established a corporate culture that sustains high levels of employee satisfaction.

Industry Background

Jack Henry Banking primarily serves commercial banks and savings institutions with up to \$30.0 billion in assets. According to the Federal Deposit Insurance Corporation (“FDIC”), there were more than 6,500 commercial banks and savings institutions in this asset range as of December 31, 2014. Jack Henry Banking currently supports nearly 1,200 of these banks with its core information processing platforms and complementary products and services.

Symitar serves credit unions of all asset sizes. According to the Credit Union National Association (“CUNA”), there were over 6,500 domestic credit unions as of December 31, 2014. Symitar currently supports almost 800 of these credit unions with core information processing platforms and complementary products and services.

ProfitStars serves financial services organizations of all asset sizes and charters and other diverse corporate entities. ProfitStars currently supports approximately 10,500 institutions with specialized solutions for generating additional revenue and growth, increasing security, mitigating operational risks, and controlling operating costs.

The FDIC reports the number of commercial banks and savings institutions declined 19 percent from the beginning of calendar year 2010 to the end of calendar year 2014. Although the number of banks declined at a 4 percent compound annual rate during this period, aggregate assets increased at a compound annual rate of 4 percent and totaled \$14.5 trillion as of December 31, 2014. There were no new bank charters issued in calendar year 2014, compared to 2 in calendar 2013. Comparing calendar years 2014 to 2013, mergers increased 18 percent.

CUNA reports the number of credit unions declined 17 percent from the beginning of calendar year 2010 to the end of calendar year 2014. Although the number of credit unions declined at a 4 percent compound annual rate during this period, aggregate assets increased at a compound annual rate of 5 percent and totaled \$1.1 trillion as of December 31, 2014.

Community and mid-tier banks and credit unions are important in the communities and to the consumers they serve. Bank customers and credit union members rely on these institutions to provide personalized, relationship-based service and competitive financial products and services available through the customer’s delivery channel of choice. Institutions are recognizing that attracting and retaining customers/members in today’s highly competitive financial industry and realizing near and long term performance goals are often technology-dependent. Financial institutions must implement technological solutions that enable them to:

- Maximize performance with accessible, accurate, and timely business intelligence information;
- Offer the high-demand products and services needed to successfully compete with traditional competitors and non-traditional competitors created by convergence within the financial services industry;
- Enhance the customer/member experience at varied points of contact;
- Expand existing customer/member relationships and strengthen exit barriers by cross selling additional products and services;
- Capitalize on new revenue and deposit growth opportunities;
- Increase operating efficiencies and reduce operating costs;
- Implement e-commerce and mobile strategies that provide the convenience-driven services required in today’s financial services industry;
- Protect mission-critical information assets and operational infrastructure;
- Protect customers/members from fraud and related financial losses;
- Maximize the day-to-day use of technology and return on technology investments; and
- Ensure full regulatory compliance.

JHA’s extensive product and service offering enables diverse financial institutions to capitalize on these business opportunities and respond to these business challenges. We strive to establish a long-term, value-added technology partnership with each customer, and to continually expand our offering with the specific solutions our customers need to prosper in the evolving financial services industry.

Mission Statement

JHA’s mission is to protect and increase the value of its stockholders' investment by providing quality products and services to our customers. We perform this mission by:

- Concentrating our activities on what we know best - information systems and services for financial institutions;
- Providing outstanding commitment and service to our customers so that the perceived value of our products and services is consistent with the real value; and
- Maintaining a work environment that is personally, professionally, and financially rewarding to our employees.

Business Strategy

Our fundamental business strategy is to generate organic revenue and earnings growth supplemented by strategic acquisitions. We execute this strategy by:

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Providing commercial banks and credit unions with core software systems that provide excellent functionality, and support in-house and outsourced operating environments with identical functionality.

6

Expanding each core customer relationship by cross-selling complementary products and services that enhance the functionality provided by our core information processing systems.

Maintaining a company-wide commitment to customer service that consistently exceeds our customers' expectations and generates high levels of customer retention.

Capitalizing on our focused diversification acquisition strategy.

Acquisition Strategy

We have a disciplined approach to acquisitions and have been successful in supplementing our organic growth with strategic acquisitions, including 29 acquisitions since the end of fiscal 1999. We continue to explore acquisitions that have the potential to:

Expand our suite of complementary products and services;

Provide products and services that can be sold to existing core customers and outside our base; and /or

Provide selective opportunities to sell outside our traditional markets in the financial services industry.

We have completed two acquisitions in the last 3 years. After 39 years in business we have very few gaps in our product line, so it is increasingly difficult to find proven products or services that would enable our clients and prospects to better optimize their business opportunities or solve specific operational issues. In addition, we see few acquisition opportunities that would expand our market or enable our entry into adjacent markets within the financial services industry that are fairly priced or that we could assimilate into our company without material distractions.

We have a solid track record of executing acquisitions from both a financial and operational standpoint and we will continue to pursue acquisition opportunities that support our strategic direction, complement and accelerate our organic growth, and generate long-term profitable growth for our shareholders. Until we identify appropriate acquisition opportunities, we will continue to find alternative ways to leverage our cash position to the benefit of our shareholders, such as repurchases of JKHY stock and payment of dividends.

Our five most recent acquisitions were:

| Fiscal Year | Company or Product Name | Products and Services |
|-------------|------------------------------|--|
| 2016 | Bayside Business Solutions | Portfolio management systems and factoring software |
| 2014 | Banno | Mobile banking, web development and data-enriched marketing technology |
| 2010 | iPay Technologies | Internet and telephone bill payment services |
| 2010 | PEMCO Technology Services | Payment processing solutions for credit unions |
| 2010 | Goldleaf Financial Solutions | Integrated technology and payment processing solutions |

Solutions

Our proprietary solutions are marketed through three business brands:

Jack Henry Banking supports commercial banks with information and transaction processing platforms that provide enterprise-wide automation. We have three functionally distinct core bank processing systems and more than 100 complementary solutions, including business intelligence and bank management, retail and business banking, internet banking and electronic payment services, risk management and protection, and item and document imaging solutions.

Our banking solutions have state-of-the-art functional capabilities, and we can re-market the hardware required by each software system. Our banking solutions can be delivered in-house or through outsourced implementation, and are backed by a company-wide commitment to provide exceptional personal service. Jack Henry Banking is a recognized market leader, currently supporting nearly 1,200 banks with its technology platforms.

Symitar supports credit unions of all sizes with information and transaction processing platforms that provide enterprise-wide automation. Its solutions include two functionally distinct core processing systems and more than 50 complementary solutions, including business intelligence and credit union management, member and member business services, Internet banking and electronic payment services, risk management and protection, and item and document imaging solutions. Our credit union solutions also have state-of-the-art functional capabilities, and we can re-market the hardware required by each software system. Our credit union solutions can be delivered in-house or through outsourced implementation, and are also backed by our company-wide commitment to provide exceptional personal service. Symitar currently supports almost 800 credit union customers.

- ProfitStars is a leading provider of specialized products and services assembled through our focused diversification acquisition strategy. These solutions are compatible with a wide variety of information

technology platforms and operating environments, and include proven solutions for generating additional revenue and growth, increasing

7

security and mitigating operational risks, and/or controlling operating costs. ProfitStars' products and services enhance the performance of financial services organizations of all asset sizes and charters, and diverse corporate entities with approximately 10,500 domestic and international customers. These distinct products and services can be implemented individually or as solution suites to address specific business problems or needs and enable effective responses to dynamic industry trends.

We will continue to develop and maintain functionally robust, integrated solutions that are supported with high service levels; regularly enhancing those solutions using an interactive customer enhancement process; compliant with relevant regulations; updated with proven advances in technology; and consistent with JHA's reputation as a premium product and service provider.

Core Software Systems

Core software systems primarily consist of the integrated applications required to process deposit, loan, and general ledger transactions, and to maintain centralized customer/member information.

Jack Henry Banking markets three core software systems to banks and Symitar markets two core software systems to credit unions. These core systems are available for in-house installation at customer sites, or financial institutions can outsource ongoing information processing to JHA.

Jack Henry Banking's three core banking platforms are:

SilverLake®, a robust IBM® System i™-based system primarily designed for commercial-focused banks with assets ranging from \$500 million to \$30 billion. However, some progressive smaller banks and the occasional start-up banks also select SilverLake. This system has been implemented by over 400 banks, and now automates approximately 6 percent of the domestic banks with assets less than \$30 billion.

CIF 20/20®, a parameter-driven, easy-to-use system that now supports over 570 banks ranging from de novo institutions to those with assets exceeding \$2 billion. CIF 20/20 is the most widely used IBM System i-based core processing system in the community bank market.

Core Director®, a Windows®-based, client/server system that now supports over 200 banks ranging from de novo institutions to those with assets exceeding \$1 billion. Core Director is a cost-efficient operating platform and provides intuitive point-and-click operation.

Symitar's two functionally distinct core credit union platforms are:

Episys®, a robust IBM System p™-based system primarily designed for credit unions with more than \$50 million in assets. It has been implemented by over 630 credit unions and is ranked as the system implemented by more credit unions with assets exceeding \$25 million than any other alternative.

Cruise®, a Windows-based, client/server system designed primarily for credit unions with less than \$50 million in assets. It has been implemented by more than 170 credit unions, is cost-efficient, and provides intuitive point-and-click, drag-and-drop operation.

Customers electing to install our solutions in-house license the proprietary software systems based on initial license fees. The large majority of these customers pay ongoing annual software maintenance fees. We also re-market the hardware and peripheral equipment that is required by our software solutions; and we contract to perform software implementation, data conversion, training, ongoing support, and other related services. In-house customers generally license our core software systems under a standard license agreement that provides a fully paid, nonexclusive, nontransferable right to use the software on a single computer at a single location.

Customers can eliminate the significant up-front capital expenditures required by in-house installations and the responsibility for operating information and transaction processing infrastructures by outsourcing these functions to JHA. Our core outsourcing services are provided through a national network of four data centers located in three physical locations. We also provide image item processing services from two host/archive sites and several key entry and balancing locations throughout the country. We print and mail customer statements for financial institutions from three regional printing and rendering centers. Customers electing to outsource their core processing typically sign contracts for five or more years that include transaction-based processing fees and minimum guaranteed payments during the contract period.

We support the dynamic business requirements of our core bank and credit union clients with ongoing enhancements to each core system, the regular introduction of new integrated complementary products, the ongoing integration of practical new technologies, and regulatory compliance initiatives. JHA also serves each core customer as a single

point of contact, support, and accountability.

8

Complementary Products and Services

We provide more than 100 complementary products and services that are sold to our core bank and credit union customers, and selectively sold by our ProfitStars division to financial services organizations that use other core processing systems.

These complementary solutions enable core bank and credit union clients to respond to evolving customer/member demands, expedite speed-to-market with competitive offerings, increase operating efficiency, address specific operational issues, and generate new revenue streams. The highly specialized solutions sold by ProfitStars enable diverse financial services organizations and corporate entities to generate additional revenue and growth opportunities, increase security and mitigate operational risks, and control operating costs.

JHA regularly introduces new products and services based on demand for integrated complementary solutions from our existing core clients, and based on the growing demand among financial services organizations and corporate entities for specialized solutions capable of increasing revenue and growth opportunities, mitigating and controlling operational risks, and containing costs. The Company's Industry Research department solicits customer guidance on the business solutions they need, evaluates available solutions and competitive offerings, and manages the introduction of new product offerings. JHA's new complementary products and services are developed internally, acquired, or provided through strategic alliances.

Hardware Systems

Our software systems operate on a variety of hardware platforms. We have established remarketing agreements with IBM Corporation (fulfilled directly and through IBM distributors), Avnet, Inc., and other hardware providers that allow JHA to purchase hardware and related maintenance services at a discount and resell them directly to our customers. We currently sell the IBM Power Systems; Lenovo servers and workstations; Dell servers and workstations; Burroughs, RDM, Panini, Digital Check, Canon check scanners; and other devices that complement our software solutions.

Implementation and Training

The majority of our core bank and credit union customers contract with us for implementation and training services in connection with their in-house systems.

A complete core system implementation typically includes detailed planning, project management, data conversion, and testing. Our experienced implementation teams travel to customer facilities to help manage the process and ensure that all data is transferred from the legacy system to the JHA system being implemented. Our implementation fees are fixed or hourly based on the core system being installed.

Implementation and training services also are provided in connection with new customers outsourcing their information processing to JHA.

We also provide extensive initial and ongoing education to our customers. Know-It-All Education is a comprehensive training program that supports new customers with basic training and longtime customers with continuing education. The curricula provide the ongoing training financial institutions need to maximize the use of JHA's core and complementary products, to optimize ongoing system enhancements, and to fully understand dynamic year-end legislative and regulatory requirements. Each basic, intermediate, and advanced course is delivered by system experts, supported by professional materials and training tools, and incorporates different educational media in a blended learning approach. Know-It-All Education supports distinct learning preferences with a variety of delivery channels, including classroom-based courses offered in JHA's regional training centers, Internet-based live instruction, eLearning courses, on-site training, and train-the-trainer programs.

Support and Services

We serve our customers as a single point of contact and support for the complex solutions we provide. The Company's comprehensive support infrastructure incorporates:

• Exact service standards;

• Trained support staffs available 24 hours-a-day, 365 days-a-year;

• Assigned account managers;

• Sophisticated support tools, resources, and technology;

• Broad experience converting diverse banks and credit unions to our core platforms from every competitive platform;

•