HENRY JACK & ASSOCIATES INC
Form 10-Q
November 08, 2018
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 September 30, 2018
OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ________________
Commission file number 0-14112

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes [X] No [ ]

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

Large accelerated filer	[X]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of November 2, 2018, the Registrant had 77,298,318 shares of Common Stock outstanding ($0.01 par value).

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

FORWARD LOOKING STATEMENTS

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

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

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

	September 30, 2018	June 30, 2018 *As Adjusted
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 114,872	$31,440
Receivables, net	198,564	297,271
Income tax receivable	4,142	21,671
Prepaid expenses and other	102,425	96,141
Deferred costs	37,836	27,069
Total current assets	457,839	473,592
PROPERTY AND EQUIPMENT, net	286,497	286,850
OTHER ASSETS:		
Non-current deferred costs	77,539	74,865
Computer software, net of amortization	294,836	288,172
Other non-current assets	119,500	110,299
Customer relationships, net of amortization	110,812	115,034
Other intangible assets, net of amortization	36,150	38,467
Goodwill	649,929	649,929
Total other assets	1,288,766	1,276,766
Total assets	$ 2,033,102	$2,037,208
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 10,477	$34,510
Accrued expenses	113,074	88,764
Deferred revenues	296,675	352,431
Total current liabilities	420,226	475,705
LONG-TERM LIABILITIES:		
Non-current deferred revenues	21,089	17,484
Non-current deferred income tax liability	209,033	208,303
Other long-term liabilities	14,190	12,872
Total long-term liabilities	244,312	238,659
Total liabilities	664,538	714,364
STOCKHOLDERS' EQUITY		
Preferred stock - $1 par value; 500,000 shares authorized, none issued	—	—
Common stock - $0.01 par value; 250,000,000 shares authorized; 103,398,501 shares issued at September 30, 2018; 103,278,562 shares issued at June 30, 2018	1,034	1,033
Additional paid-in capital	454,869	464,138
Retained earnings	1,967,921	1,912,933
Less treasury stock at cost 26,107,903 shares at September 30, 2018; 26,107,903 shares at June 30, 2018	(1,055,260)	(1,055,260)
Total stockholders' equity	1,368,564	1,322,844

Total liabilities and equity	$ 2,033,102	$ 2,037,208

See notes to condensed consolidated financial statements

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

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

	Three Months Ended September 30, 2018	2017 *As Adjusted
REVENUE	$392,543	$361,284
EXPENSES		
Cost of Revenue	220,112	203,915
Research and Development	24,026	20,929
Selling, General, and Administrative	45,183	41,088
Gain on Disposal of a Business	—	(1,705)
Total Expenses	289,321	264,227
OPERATING INCOME	103,222	97,057
INTEREST INCOME (EXPENSE)		
Interest Income	291	147
Interest Expense	(147)	(189)
Total Interest Income (Expense)	144	(42)
INCOME BEFORE INCOME TAXES	103,366	97,015
PROVISION/ (BENEFIT) FOR INCOME TAXES	19,815	30,145
NET INCOME	$83,551	$66,870
Basic earnings per share	$1.08	$0.87
Basic weighted average shares outstanding	77,188	77,283
Diluted earnings per share	$1.08	$0.86
Diluted weighted average shares outstanding	77,537	77,646

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

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

	Three Months Ended September 30, 2018	2017 *As Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$83,551	$66,870
Adjustments to reconcile net income from operations to net cash from operating activities:		
Depreciation	10,903	12,419
Amortization	27,827	23,856
Change in deferred income taxes	730	3,390
Expense for stock-based compensation	1,771	1,513
(Gain)/loss on disposal of assets and businesses	30	(1,620)
Changes in operating assets and liabilities:		
Change in receivables	98,708	101,933
Change in prepaid expenses, deferred costs and other	(28,926)	(18,069)
Change in accounts payable	(9,932)	2,000
Change in accrued expenses	(4,278)	(6,107)
Change in income taxes	18,501	25,446
Change in deferred revenues	(52,151)	(72,909)
Net cash from operating activities	146,734	138,722
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for acquisitions, net of cash acquired	—	(10,455)
Capital expenditures	(24,001)	(3,708)
Proceeds from the sale of businesses	—	200
Proceeds from the sale of assets	33	106
Internal use software	(1,626)	(3,452)
Computer software developed	(26,669)	(22,976)
Net cash from investing activities	(52,263)	(40,285)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on credit facilities	—	(50,000)
Purchase of treasury stock	—	(30,018)
Dividends paid	—	(23,904)
Proceeds from issuance of common stock upon exercise of stock options	1	1
Tax withholding payments related to share based compensation	(13,257)	(7,033)
Proceeds from sale of common stock	2,217	1,792
Net cash from financing activities	(11,039)	(109,162)
NET CHANGE IN CASH AND CASH EQUIVALENTS	$83,432	$(10,725)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$31,440	$114,765
CASH AND CASH EQUIVALENTS, END OF PERIOD	$114,872	$104,040

See notes to condensed consolidated financial statements

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

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

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

Description of the Company

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

Consolidation

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

Comprehensive Income

Comprehensive income for the three months ended September 30, 2018 and 2017 equals the Company’s net income.

Prior Period Reclassification

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

Revenue Recognition

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

Significant Judgments in Application of the Guidance

Identification of Performance Obligations

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

Determination of Transaction Price

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

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

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

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Allocation of Transaction Price

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

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

Processing

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

Outsourcing and Cloud

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

Product Delivery and Services

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

In-House Support

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

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Disaggregation of Revenue

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

	Three Months Ended September 30,	
	2018	2017
Processing	145,975	134,532
Outsourcing & Cloud	97,359	85,134
Product Delivery & Services	57,964	59,070
In-House Support	91,245	82,548
Services & Support	246,568	226,752
Total Revenue	392,543	361,284

Contract Balances

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

	September 30, 2018	June 30, 2018
Receivables, net	198,564	297,271
Contract Assets- Current	16,484	14,063
Contract Assets- Non-current	41,765	35,630
Contract Liabilities (Deferred Revenue)- Current	296,675	352,431
Contract Liabilities (Deferred Revenue)- Non-current	21,089	17,484

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

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

During the three months ended September 30, 2018 and 2017, the Company recognized revenue of $88,121 and $93,167, respectively, that was included in the corresponding deferred revenue balance at the beginning of the periods. Amounts recognized related to performance obligations satisfied (or partially satisfied) in prior periods were immaterial for each period presented. These adjustments are primarily the result of transaction price re-allocations due to changes in estimates of variable consideration.

Transaction Price Allocated to Remaining Performance Obligations

As of September 30, 2018, estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period totaled $3,783,844. The Company expects to recognize approximately 30% over the next 12 months, 20% in 13-24 months, and the balance thereafter.

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Contract Costs

The Company incurs incremental costs to obtain a contract as well as costs to fulfill contracts with customers that are expected to be recovered. These costs consist primarily of sales commissions incurred only if a contract is obtained and customer conversion or implementation related costs. Capitalized costs totaled $200,870 and $181,032, at September 30, 2018 and June 30, 2018, respectively.

Capitalized costs are amortized based on the transfer of goods or services to which the asset relates, in line with the percentage of revenue recognized for each performance obligation to which the costs are allocated. For the three months ended September 30, 2018 and 2017, amortization of deferred contract costs was $26,821 and $22,508, respectively. There were no impairment losses in relation to capitalized costs for the periods presented.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Accumulated depreciation at September 30, 2018 totaled $372,059 and at June 30, 2018 totaled $364,153.

Intangible Assets

Intangible assets consist of goodwill, customer relationships, computer software, and trade names acquired in business acquisitions in addition to internally developed computer software. The amounts are amortized, with the exception of those intangible assets with an indefinite life (such as goodwill), over an estimated economic benefit period, generally three to twenty years. Accumulated amortization of intangible assets totaled $630,161 and $602,479 at September 30, 2018 and June 30, 2018, respectively.

Common Stock

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or borrowings on its existing line-of-credit. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At September 30, 2018, there were 26,108 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,883 additional shares. The total cost of treasury shares at September 30, 2018 is $1,055,260. During the first three months of fiscal 2019, the Company repurchased no treasury shares. At June 30, 2018, there were 26,108 shares in treasury stock and the Company had authority to repurchase up to 3,883 additional shares.

Dividends declared per share were $0.37 and $0.31, for the three months ended September 30, 2018 and 2017, respectively.

The dividend declared during the first quarter of fiscal 2019 was paid on October 2, 2018, therefore is not reported as a cash outflow for the period ended September 30, 2018. The payment totaled $28,563.

Interim Financial Statements

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

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting of normal recurring adjustments) to state fairly the financial position of the Company as of September 30, 2018, the results of its operations for the three months ending September 30, 2018 and 2017, and its cash flows for the three months ending September 30, 2018 and 2017. The condensed consolidated balance sheet at June 30, 2018 was derived from audited annual financial statements, but does not contain all of the footnote disclosures from the annual financial statements.

The results of operations for the three months ended September 30, 2018 are not necessarily indicative of the results to be expected for the entire year.

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NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Guidance

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

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

Software Revenue Recognition

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

Impacts on Financial Statements

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

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Condensed Consolidated Balance Sheet as of June 30, 2018:

	As Previously Reported	Adjustments	As Adjusted
ASSETS			
CURRENT ASSETS:			