UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 79650 / December 21, 2016

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3835 / December 21, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17742

In the Matter of

JACK HENRY & ASSOCIATES, INC.

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Jack Henry & Associates, Inc. ("Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

SUMMARY

During the time period from fiscal year ended June 30, 2012 through fiscal year ended June 30, 2014, Jack Henry & Associates, Inc. ("JKHY"), a banking software company, materially misstated its revenue, net income, and other financial metrics in certain of its annual and quarterly reports filed with the Commission and in certain of its earnings releases. In particular, JKHY failed to properly record and report revenue from its software license sales in the correct accounting periods because it: (1) improperly separated contracts so closely related that they should have been considered to be parts of a single arrangement; and (2) prematurely recognized revenue from sales of software given its lack of vendor-specific objective evidence ("VSOE") of the fair value of undelivered services related to implementation and post-contract support. JKHY's failures in these areas were caused by inadequate internal control surrounding revenue recognition.

Ultimately, in June 2015, JKHY restated its financial statements for fiscal years June 30, 2012 through June 30, 2014, and in its restatement acknowledged, among other things, material weaknesses in its internal control over financial reporting. By engaging in the foregoing conduct, JKHY violated the reporting, books and records, and internal control provisions of the federal securities laws, namely Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

RESPONDENT

Jack Henry & Associates, Inc., a Delaware corporation headquartered in Monett, Missouri, is a provider of core and complementary information processing solutions for banks and credit unions, including internal and consumer banking software. JKHY's restated 2014 revenue was approximately $1.17 billion, and its current market capitalization is approximately $6.4 billion. At all relevant times, JKHY's common stock has been registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the NASDAQ Global Select Market. Because JKHY had stock registered under Section 12, it was required to file reports with the Commission pursuant to Section 13(a) of the Exchange Act.

BACKGROUND

1. During the relevant period, JKHY sold a variety of software to banks and credit unions. JKHY also offered two key services typically purchased alongside the software licenses: implementation services and post-contract support. Most contracts signed with customers included all three of these items, each with their own contracted prices: (1) the software licenses for the various products purchased; (2) implementation services; and (3) post-contract support. Some contracts included different products installed over a number of months or even years.

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

2. The software products offered by JKHY included core processing platforms ("core software") used internally by financial institutions to maintain information relating to customer accounts. JKHY also offered various software products that integrated with the core software, such as software for bank tellers, ATM software and online banking software (known as "complementary software"). These different categories of complementary software were commonly referred to as "families" of software products, and each family had its own operating group within JKHY that was responsible for tasks such as sales, installation and support for that family of products.

3. Implementation services consisted of JKHY software technicians for each product family who would install, implement, and integrate the software products into the customer's existing software and hardware systems.

4. Post-contract support consisted of ongoing software patches, tech support, user support, and other post-installation maintenance of the software programs. The post-contract support in a customer's initial contract was effective from the software implementation date through the next June 30th (JKHY's fiscal year end). As a result, post-contract support in the initial contracts was almost always provided for less than one year. Customers would then renew their post-contract support on an annual or multi-year basis as part of a separate contract. These later contracts for post-contract support were recorded properly and revenue earned from these contracts was not restated.

5. Many contracts included licenses for both core software and various complementary software products. Each software license was accompanied by its own implementation services and post-contract support, tailored for the particular product and negotiated and priced separately within an exhibit to the contract form.

6. When a contract included both core software and complementary software, the core software was often installed first. Once the core software was fully installed and implemented, then the other complementary software products would be installed according to a schedule agreed upon by JKHY and the customer.

7. In some instances in which the contract included complementary software, the customer already had a license for a JKHY competitor's version of contracted-for complementary software that would not expire for a year or more. In such instances, the customer typically would still enter into a contract with JKHY for that complementary software. Although the core software would be installed promptly, the complementary software would not be scheduled for installation until it was needed, which could be several months or even years after the core software installation.

JKHY'S ACCOUNTING ERRORS

8. In 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 97-2, Software – Revenue Recognition ("SOP 97-2"), the first industry specific GAAP guidance on revenue recognition for software and software-related products. Following the issuance of SOP 97-2, the AICPA also released numerous standards and

Technical Practice Aids ("TPAs") clarifying specific aspects of software revenue recognition. In June 2009, all existing GAAP pronouncements were codified into the Accounting Standards Codification, effective for periods ending after September 15, 2009. SOP 97-2, its related amendments and related TPAs were codified at ASC 985-605 (hereinafter "ASC 985-605").

9. ASC 985-605 refers to arrangements in which software vendors bundle their software products with myriad services or other products as "multiple-element arrangements." The provisions for license, implementation, and post-contract support in JKHY's contracts constituted the elements in these multiple-element arrangements.

10. Due to the separate negotiation, pricing, and operational support provided for each product family, JKHY treated the contractual provisions governing the sale and support of each such family as a separate and distinct arrangement for license revenue recognition purposes. For example, if a contract included licenses for core software and three complementary software products, each in a different family, then JKHY treated this as four separate arrangements. As a result, when the core software was fully installed, JKHY would recognize revenue for that software license during that quarter. JKHY would then wait to recognize the license revenue for the other three software products as they were installed.

11. JKHY's revenue recognition policy described in the prior paragraph was inconsistent with ASC 985-605, which requires that all elements of a contract be treated as a "single arrangement." JKHY was thus required to wait until all elements of the arrangement were delivered before recognizing any of the revenue. As a result, in many instances during the relevant period, JKHY's revenue recognition policy caused JKHY to recognize revenue from license sales one or more quarters before it was appropriate to do so.

12. Further, under ASC 985-605, in order to recognize the residual amount of revenue from the sale of a software license in the quarter in which the software was delivered, JKHY had to establish that it had VSOE of fair value to establish market pricing for all undelivered elements of the bundled services, i.e. both implementation and post-contract support. If JKHY was unable to establish VSOE of fair value for either undelivered element, it would lack any objective way to allocate total contract revenues amongst the various elements and would thus be required to defer recognizing revenue from delivered elements until the last item was delivered. In this case, the last item to be delivered was generally post-contract support, which was delivered ratably over the term of the contract. As such, absent VSOE of fair value for post-contract support, JKHY was required to recognize revenue from the software license ratably over the term of the services agreement as post-contract support was ultimately delivered.

13. According to its revenue recognition policies, JKHY claimed VSOE of fair value for the pricing of its implementation and post-contract support services. Because JKHY claimed VSOE of fair value, it could recognize the VSOE-supported price of its license sale as revenue once the software was delivered, even if the implementation and post-contract support services were not yet delivered. For example, if software was installed in October of a given year, the post-contract support would be provided through June 30th of the following year. In such a scenario, JKHY, claiming VSOE of fair value, could recognize the license and implementation

services revenue as each element was delivered. This is in fact how JKHY recognized its revenue.

14. In reality, JKHY could not produce sufficient data to establish that VSOE of fair value existed for either implementation or post-contract support services. As a result, for fiscal years 2012 through 2014, JKHY improperly recognized license revenue before it was appropriate to do so for many of its contracts. For these contracts, JKHY should have instead recognized revenue for license sales ratably over the period between the time of delivery and when the last element was delivered, often the end of the post-contract support services under the contract, but sometimes when complementary software was installed months or years later.

15. As a result of the three above accounting errors (incorrect "single arrangement" contract treatment, insufficient VSOE of fair value for implementation, and insufficient VSOE of fair value for post-contract support services), JKHY's revenue was materially misstated for the fiscal years ending June 30, 2013 and June 30, 2014. None of the revenue recognized by JKHY during that timeframe was illegitimate – only the timing of recognizing that revenue was incorrect.

THE RESTATEMENT

16. On June 25, 2015, JKHY restated its financial statements for fiscal years 2012 through 2014. JKHY originally misstated its revenues, gross profit, net income, and other financial metrics in these reporting periods. Because the accounting errors caused revenue to be prematurely recognized, this decreased reported revenue and increased deferred revenue during the reported periods. The chart below summarizes JKHY's misstatements on its Income Statement:

Table 1: Changes to Financials from Restatement

	Fiscal year (ending June 30)		
in $000s	**2012**	**2013**	**2014**
Revenue Originally Reported	1,027,109	1,129,386	1,210,053
Revenue Restated	1,017,667	1,107,524	1,173,173
Revenue Over Statement	9,442	21,862	36,880
Percentage Over Statement	0.92%	1.94%	3.05%
Gross Profit Originally Reported	423,730	476,992	518,629
Gross Profit Restated	418,823	461,394	493,801
Gross Profit Over Statement	4,907	15,598	24,828
Percentage Over Statement	1.16%	3.27%	4.79%
Net Income Originally Reported	154,984	176,645	201,136
Net Income Restated	152,040	167,610	186,715
Net Income Over Statement	2,944	9,035	14,421
Percentage Over Statement	1.90%	5.11%	7.17%

Diluted EPS Originally Reported	$ 1.78	$ 2.04	$ 2.36
Diluted EPS Restated	$ 1.74	$ 1.94	$ 2.19
Diluted EPS Over Statement	$ 0.04	$ 0.10	$ 0.17
Percentage Over Statement	2.30%	5.15%	7.76%

17. In its restatement, JKHY identified the following deficiencies in the design and operating effectiveness of internal control over financial reporting that JKHY concluded constituted a material weakness taken together, which resulted in the misstatements:

A. 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 JKHY's multiple element arrangement revenue recognition policies;
B. Appropriate accounting and reporting policies and procedures related to bundled multiple element arrangements were not designed and implemented;
C. Appropriate internal accounting controls over financial reporting for bundled multiple element arrangements were not designed and implemented; and
D. Monitoring, including use of internal audit, was not appropriately designed to identify errors in accounting for revenue recognition for multiple element software arrangements.

VIOLATIONS

18. Under Section 21C of the Exchange Act, the Commission may impose a cease-and-desist order upon any person who is violating, has violated, or is about to violate any provision of the Act and upon any other person that is, was, or would be a cause of the violation, due to an act or omission the person knew or should have known would contribute to such violation.

19. Section 13(a) of the Exchange Act requires issuers to file such periodic and other reports as the Commission may prescribe and in conformity with such rules as the Commission may promulgate. Exchange Act Rules 13a-1, 13a-11, and 13a-13 require the filing of annual, current, and quarterly reports, respectively. In addition to the information expressly required to be included in such reports, Rule 12b-20 of the Exchange Act requires issuers to add such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading.

20. Section 13(b)(2)(A) of the Exchange Act requires issuers to "make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer."

21. Section 13(b)(2)(B) of the Exchange Act requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles.

22. By engaging in the conduct above, Respondent violated Section 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

23. In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent, including its enhancement of internal accounting controls, retention of additional accounting personnel, and cooperation with the staff's investigation.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Section 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

B. Respondent shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of $780,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Jack Henry & Associates, Inc. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Robert J. Burson, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd. Suite 900, Chicago, IL 60604.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To

preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary